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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Titan Petrochemicals Group Limited (Provisional Liquidators appointed), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee, or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or any securities of Titan Petrochemicals Group Limited (Provisional Liquidators appointed).

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## Titan Petrochemicals Group Limited

(Provisional Liquidators appointed)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

- (1) UPDATE ON DEBT RESTRUCTURING  
AND REMAINING INDEBTEDNESS ARRANGEMENTS
- (2) INTERIM FINANCING ARRANGEMENTS
- (3) PROPOSED OPEN OFFER
- (4) SUBSCRIPTION OF SHARES
- (5) UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT
- (6) APPLICATION FOR WHITEWASH WAIVER
- (7) SPECIAL DEAL  
AND
- (8) NOTICE OF THE SGM

Financial adviser to Titan Petrochemicals Group Limited



Independent Financial Adviser to the LR Independent Board Committee,  
the TC Independent Board Committee and the Independent Shareholders



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 21 to 168 of this circular.

A letter of recommendation from the LR Independent Board Committee and TC Independent Board Committee to Independent Shareholders is set out on pages 169 to 170 and pages 171 to 172 in this circular respectively.

A letter from the Independent Financial Adviser containing its advice to the LR Independent Board Committee, TC Independent Board Committee and the Independent Shareholders is set out on pages 173 to 234 of this circular.

A notice convening the SGM to be held at Suite 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong at 11:00 a.m. on Monday, 30 May 2016 is set out on pages SGM-1 to SGM-8 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at Suite 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

13 May 2016

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“2012 Senior Notes”	up to US\$400 million 8.5% fixed rate guaranteed senior notes due 18 March 2012 issued by the Company
“2015 Loan Agreement”	the loan agreement entered into between the Company and Fame Dragon dated 27 February 2015 (as supplemented and amended on 16 October 2015, 15 January 2016 and 29 April 2016) in relation to the provision of an unsecured loan of US\$15 million by Fame Dragon to the Company
“Act”	the Bermuda Companies Act 1981
“Announcement”	the announcement of the Company dated 8 April 2016 in relation to, among other things, (1) update on Debt Restructuring and Remaining Indebtedness Arrangements; (2) Interim Financing Arrangements; (3) proposed Open Offer; (4) Subscription of Shares; (5) update on business strategies and development; (6) application for Whitewash Waiver; (7) Special Deal; and (8) appointment of Independent Financial Adviser
“Application Form”	the application form to be used by the Qualifying Shareholders to apply for the Offer Shares
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Assumption Agreement”	the assumption agreement dated 20 August 2014 entered into among Fame Dragon, the Company and TQS (as supplemented and amended on 15 September 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) pursuant to which Fame Dragon agrees to assume certain payable by TQS in consideration for the Company agreeing to allot and issue new Shares to Fame Dragon, subject to the compliance with any applicable requirements under the Listing Rules, at the issue price of HK\$0.1 per Share
“Assumption Consideration Shares”	the Shares (subject to adjustment on any consolidation or sub-division of Shares) to be issued to Fame Dragon on the Assumption Date in consideration of the assumption of the indebtedness to be assumed by Fame Dragon under the Assumption Agreement
“Assumption Date”	the business day immediately following the satisfaction of the conditions precedent of the Assumption Agreement

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## DEFINITIONS

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“Bermuda Court”	the Supreme Court of Bermuda
“Bermuda Proceedings”	the liquidation proceeding commenced pursuant to the winding up petition issued on 9 July 2012 by Saturn Petrochemical against the Company in Bermuda
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are open for general banking business, other than (i) a Saturday, Sunday or a public holiday; or (ii) a day on which a tropical cyclone warning signal 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.
“BVI”	British Virgin Islands
“BVI Court”	Eastern Caribbean Supreme Court in the High Court of Justice, BVI
“BVI Court of Appeal”	Court of Appeal of the Eastern Caribbean Supreme Court
“Bye-Laws”	the bye-laws of the Company
“Camden”	KTL Camden Inc., a company incorporated in the Republic of Liberia
“Clearing Systems”	any or all of The Depository Trust Company, Euroclear Bank, S.A./N.V. and Clearstream Banking, société anonyme as the case may be, and each of their respective nominees and successors, and any other system designed for similar or analogous purposes as appropriate
“Companies Ordinance”	the Companies Ordinance (Cap 622) of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company”	Titan Petrochemicals Group Limited (Provisional Liquidators appointed), a company incorporated with limited liability in Bermuda whose shares are listed on the main board of the Stock Exchange (stock code: 1192)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	the new Shares to be issued to Lego or its nominee to partially settle its professional fee

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## DEFINITIONS

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“Creditors’ Scheme”	the scheme of arrangement under section 99 of the Act entered into between the Company and the Scheme Creditors
“DBIL”	Docile Bright Investments Limited, a wholly-owned subsidiary of GZE and became entitled to the benefit of all interests arising under or in connection with the Listco Preferred Shares
“Debt Restructuring”	the restructuring of the indebtedness of the Company by way of the Creditors’ Scheme
“Debt Rescheduling Agreements”	collectively, (i) the Shipyard Debt Rescheduling Agreement; (ii) the TPG Debt Rescheduling Agreement; and (iii) the Haixin Debt Rescheduling Agreement
“Deed of Undertaking”	the deed of undertaking dated 9 April 2014 (as supplemented and amended on 29 October 2015 and 22 March 2016) executed by GZE in favour of FELS and all members of FELS and all of its related corporations, pursuant to which GZE, <i>inter alia</i> , provides certain undertaking and guarantees to and for the benefit of FELS and all members of FELS and all of its related corporations
“Director(s)”	director(s) of the Company from time to time
“DWT”	deadweight tonnage
“EAF”	the excess application form for the Qualifying Shareholders to apply for additional Offer Shares in accordance with the terms of the Open Offer
“Edinburgh”	Edinburgh Navigation S.A., a company incorporated in the Republic of Liberia
“Excluded Liability Threshold”	US\$25,000 or its equivalent in any other currency in which the relevant claim or liability arises converted at the scheme rate
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Notes”	collectively, (i) PIK Notes Due 2015; (ii) 2012 Senior Notes; and (iii) the Listco Convertible Notes

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## DEFINITIONS

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“Existing Notes Creditors”	persons with a beneficial interest as principal in the Existing Notes held in global form through the Clearing Systems of 17 October 2014
“Fame Dragon”	Fame Dragon International Investment Limited, the controlling Shareholder and a company incorporated in Hong Kong with limited liability which Fame Dragon has confirmed it is wholly-owned by Guangdong Zhenrong (Hongkong) Company Limited which in turn is wholly-owned by GZE
“FEG”	Falcon Energy Group Limited, a company incorporated with limited liability in Singapore whose shares are listed on the Singapore Exchange
“FELS”	FELS Offshore Pte Ltd, a company incorporated with limited liability in Singapore, a subsidiary of Keppel and the party to the Management Services Agreement
“FELS CBs”	convertible bonds offered by the Company to FELS in accordance with the terms of the Management Services Agreement to which FELS did not elect to be granted
“FELS Warrants”	warrants to subscribe for 9.9% of the total issued share capital of the Company after the completion of the Restructuring to be issued by the Company pursuant to the Management Services Agreement
“FELS Warrant Shares”	the new Shares to be allotted and issued by the Company upon the exercise of the subscription rights attaching to the FELS Warrants
“First Loan Agreement”	the loan agreement entered into between the Company and Fame Dragon on 12 March 2013 in relation to the provision of an interim financing of up to approximately HK\$62.24 million by Fame Dragon to the Company (as supplemented and amended on 16 October 2015 and 29 April 2016)
“FLNG”	floating liquefied natural gas vessel
“FPSO”	floating production, storage and offloading unit
“Frontline Settlement Agreement”	the agreement dated 2 May 2014 entered into among the Company, TSL (both as obligors) and Camden, Edinburgh and Mayfair (all as creditors) (as supplemented and amended on 29 October 2014)

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## DEFINITIONS

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“FSO”	floating, storage and offloading vessel
“FSRU”	floating, storage and regasification unit
“FTSD”	FTS Derricks Pte. Ltd., a company incorporated in Singapore and a subsidiary of FEG
“FTSD Purchase Order Framework Agreement”	the framework agreement dated 5 May 2014 entered into between the Company and FTSD (as supplemented and amended on 29 July 2015, 16 October 2015 and 31 March 2016) in relation to the purchase orders FTSD conditionally agreed that it will or will procure to place with TQS
“Fujian Wonderful”	福建旺得福能源有限公司 (Fujian Wonderful Energy Co., Ltd.*), a company incorporated in the PRC, an Independent Third Party
“GCL Subscription Agreement”	the subscription agreement dated 11 December 2010 and entered into between the Company and Grand China Logistics in relation to the subscription by Grand China Logistics in cash of 500 million new Shares at the issue price of HK\$0.61 per Share
“Grand China Logistics”	大新華物流控股(集團)有限公司 (Grand China Logistics Holding (Group) Company Limited*), a company incorporated under the laws of PRC with limited liability
“Group”	the Company and its subsidiaries
“GZE”	廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd*), a company incorporated in the PRC and the controlling Shareholder
“GZE Excess Liabilities Undertaking”	the deed poll dated 5 May 2014 executed by GZE in favour of the Company (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016)
“GZE Purchase Order MOU”	the memorandum of understanding dated 5 May 2014 (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) entered into between the Company and GZE in relation to the purchase order GZE conditionally agreed that it will or will procure to place with TQS

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## DEFINITIONS

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“GZE Standby Working Capital Facility Agreement”	the agreement entered into between GZE and the Company dated 16 October 2015 in relation to provision of working capital facility by GZE to the Company for an aggregate amount of not less than HK\$180 million
“GZE Subscription Agreement”	the subscription agreement dated 16 October 2015 entered into by the Company and GZE, in relation to the subscription by GZE of 2,600,000,000 Shares to be issued by the Company, which has been terminated by the parties to it
“Haixin Debt”	the total amount of debt obligations under the Haixin Debt Rescheduling Agreement
“Haixin Debt Rescheduling Agreement”	the debt rescheduling agreement dated 5 May 2014 entered into between Shengsi Haixin and GZE (as supplemented and amended on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong High Court”	the High Court of Hong Kong
“Independent Financial Adviser” or “Asian Capital”	Asian Capital (Corporate Finance) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Shareholders as well as the LR Independent Board Committee and the TC Independent Board Committee on, among other things, the Open Offer (including the Underwriting Agreement), the Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, the Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special Deal



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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than (i) GZE and parties acting in concert with it; (ii) the Scheme Creditors; and (iii) those who are interested in, or involved in, the Open Offer (including the Underwriting Agreement), the Debt Rescheduling Agreements, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, the Working Capital Loan Agreement, the Interim Financing Agreements, the Specific Mandate, the Whitewash Waiver or the Special Deal
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Information Agent”	Lynchpin Bondholder Management of Room 402, Wellington Plaza, 56-58 Wellington Street, Central, Hong Kong
“Interim Financing Agreements”	collectively the First Loan Agreement, the Second Loan Agreement and the 2015 Loan Agreement, further details of which are set out in the section headed “Interim Financing Arrangements”
“Keppel”	Keppel Corporation Limited, a company incorporated with limited liability in Singapore and whose shares are listed on the Singapore Exchange
“Keppel Group”	Keppel and its subsidiaries
“K-Line”	Kawasaki Kisen Kaisha Ltd., a company incorporated in Japan
“K-Line Notes”	the guaranteed exchangeable notes due 2013, issued by TSHL and guaranteed by the Company
“K-Line Settlement Agreement”	an agreement dated 8 October 2014 and entered into by the Company, TSHL and K-Line
“K-Line Support Agreement”	the agreement dated 17 April 2014 entered into between the Company, TSHL and K-Line
“Last Acceptance Date”	23 June 2016, being the last date for acceptance of and payment for the Offer Shares
“Last Trading Day”	18 June 2012, being the last trading day of the Shares prior to its suspension on 19 June 2012

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## DEFINITIONS

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“Latest Practicable Date”	10 May 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Lego”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to the Company in respect of the Restructuring
“Listco Convertible Notes”	up to US\$118,575,360 guaranteed senior convertible notes due 13 July 2015 issued by the Company
“Listco Preferred Shares”	the 555,000,000 convertible redeemable preferred shares of HK\$0.01 each at the initial conversion price of HK\$0.56 issued by the Company
“Listco Preferred Shares Modification Deed”	the deed dated 22 August 2014 entered into between the Company and DBIL, a wholly owned subsidiary of GZE, (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) in relation to, among others, the extension of the redemption period of the Listco Preferred Shares
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Division”	the Listing Division of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Rescheduling Agreements”	the loan rescheduling agreements (i) dated 24 July 2014 (as supplemented and amended on 6 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016), (ii) dated 21 August 2014 (as supplemented and amended on 6 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) and (iii) dated 21 August 2014 (as supplemented and amended on 6 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) entered into between TQS and Fujian Wonderful pursuant to which Fujian Wonderful agreed to reschedule certain bank loans of TQS assigned to it so that the first repayment date of the bank loans will be postponed until 3 years from the date of the respective Loan Rescheduling Agreement

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## DEFINITIONS

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“LR Independent Board Committee”	the independent board committee comprising Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders on the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed
“Management Services Agreement”	the management services agreement dated 9 April 2014 entered into among FELS, TQS and the Company (as supplemented and amended on 30 December 2014, 28 May 2015, 30 July 2015, 22 September 2015 and 22 March 2016) pursuant to which FELS has conditionally agreed to provide management services for the operations of the Quanzhou Shipyard
“Mayfair”	KTL Mayfair Inc., a company incorporated in the Republic of Liberia
“MODU”	a mobile offshore drilling unit
“Non-Note Creditor”	any Scheme Creditor who is not an Existing Notes Creditor and whose claim arises in respect of non-note debt which is in excess of the Excluded Liability Threshold
“Non-Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are outside Hong Kong where the Directors, based on the legal opinions to be provided by legal advisers, consider it necessary or expedient not to offer the Offer Shares to such Shareholders on account either of legal restrictions under the laws of the relevant place or requirements of the relevant regulatory body or stock exchange in that place
“Offer Shares”	the new Shares to be allotted and issued under the Open Offer
“Open Offer”	the open offer proposed to be put forward by the Company on the basis of one Offer Share for every three existing Shares held by the Qualifying Shareholders on the Record Date as further described in the section headed “Proposed Open Offer”

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## DEFINITIONS

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“Open Offer Documents”	the Open Offer Prospectus, the Application Form and the EAF
“Open Offer Prospectus”	the prospectus to be issued by the Company to the Shareholders containing details of the Open Offer
“PBOC”	The People’s Bank of China
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Listing Rules
“Petition Date”	9 July 2012, being the date that Saturn Petrochemical presented a winding-up petition against the Company in Bermuda
“PIK Notes Due 2015”	up to US\$21,444,480 8.5% guaranteed senior payment-in-kind notes due 13 July 2015 issued by the Company
“Posting Date”	the date as agreed between the Company and the Underwriter for the despatch of the Open Offer Documents
“PRC” or “China”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“Properties”	collectively (i) lands and various buildings located at No. 1 Shipyard Road, Jingfeng Town, Hui’an County, Quanzhou City, Fujian Province, the PRC and (ii) a parcel at Western side of Houzhu Port and Southern side of Beixing Community in Donghai Street, Fengze District, Quanzhou City, Fujian Province, the PRC held by the Group
“Provisional Liquidators”	Mr. Garth Calow and Ms. Alison Tomb, both of PricewaterhouseCoopers, the joint provisional liquidators of the Company
“Qualifying Shareholders”	Shareholders, other than the Non-Qualifying Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Quanzhou Shipyard”	a multi-functional shipbuilding and ship repair yard located in Quanzhou, Fujian Province, the PRC and owned by TQS
“Record Date”	the date by reference to which entitlements to the Open Offer are to be determined

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## DEFINITIONS

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“Release Date”	Subject to the relevant clause of the Creditors’ Scheme, the earlier of: (i) the date on which scheme consideration is actually received by a Scheme Creditor; and (ii) the date 10 business days after the distribution date under the Creditors’ Scheme, provided that the relevant Scheme Creditor has not given notice to the Company in writing within that period of time (in accordance with the relevant clause of the Creditors’ Scheme) to advise that scheme consideration has not been received by that Scheme Creditor
“Remaining Indebtedness Arrangements”	the arrangements proposed to be adopted by the Company with respect to the outstanding indebtedness of the Group other than those that form part of the Scheme Claims to be restructured under the Creditors’ Scheme as further described in the section headed “Remaining Indebtedness Arrangements”
“Restructured Group”	the Company and its subsidiaries that will constitute the restructured group immediately after completion of the Restructuring
“Restructuring Documents”	all documents, agreements and instruments necessary and/or desirable to implement and consummate the Restructuring in accordance with its terms of the Resumption Proposal, including, without limitation, the composite scheme of arrangement document setting out the terms of the Creditors’ Scheme (including the explanatory statement in respect of the Creditors’ Scheme)
“Resumption”	the resumption of trading in Shares on the Stock Exchange
“Restructuring” or “Resumption Proposal”	the resumption proposal of the Company (as amended from time to time), <i>inter alia</i> , (i) the Debt Restructuring; (ii) the Remaining Indebtedness Arrangements; (iii) the Interim Financing Agreements; (iv) the Open Offer; (v) the Subscription; (vi) GZE Standby Working Capital Facility; and (vii) business strategies of the Restructured Group
“RMB”	Renminbi, the lawful currency of the PRC
“S\$”	Singapore dollars, the lawful currency of the Republic of Singapore

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## DEFINITIONS

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“Saturn Petrochemical”	Saturn Petrochemical Holdings Limited, a company incorporated in the BVI and the registered holder of the Listco Preferred Shares as at the Latest Practicable Date
“Saturn Storage”	Saturn Storage Limited, a company incorporated in the BVI
“Scheme Claim(s)”	all indebtedness arising out of the Existing Notes (including principal and accrued interest) and the Unsecured Claims, which shall be compromised and discharged under the Creditors’ Scheme
“Scheme Creditor(s)”	all creditor(s) of the Company bound by the Creditors’ Scheme
“Scheme Liabilities”	<p>Any liability (other than an excluded liability under the Creditors’ Scheme) or right in respect of the indebtedness or any other liability of the Company to any person arising directly or indirectly out of, in relation to or in connection with:</p> <ul style="list-style-type: none"><li>(a) the note documentation and/or the Existing Notes; and/or</li><li>(b) the non-note debt which exceeds the Excluded Liability Threshold</li></ul> <p>including any claim against the Company in respect of any loss or damage suffered or incurred as a result of, or in connection with, such liability, whether arising before, at or after the Petition Date by reason of a liability of the Company incurred on or before that time, and including, for the avoidance of doubt, any and all interest, default interest, premium, principal, additional amounts, make whole amounts, fees and commissions accruing on, or payable in respect of, or any other accretions whatsoever arising in respect of, such claims or rights up to the Petition Date</p>
“Scheme Lodgment Date”	5 November 2014, being the date on which a copy of the order from the Bermuda Court sanctioning the Creditors’ Scheme has been lodged with the Bermuda Registrar of Companies
“Seconded Employee(s)”	the employees of FELS and its related corporations who will be made available to hold various management positions at TQS pursuant to the Management Services Agreement

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## DEFINITIONS

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“Second Loan Agreement”	the loan agreement entered into between the Company and Fame Dragon on 13 March 2014 (as supplemented and amended on 10 July 2014, 16 October 2015 and 29 April 2016) in relation to the provision of an unsecured loan of HK\$62.24 million by Fame Dragon to the Company
“Settlement Date”	the second business day following the date for application and payment for the Offer Shares under the Open Offer as the Underwriter may agree in writing with the Company (or such other date as the Underwriter and the Company may agree in writing)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened at 11:00 a.m. on Monday, 30 May 2016 at Suite 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong to approve, among other things, the Open Offer (including the Underwriting Agreement), the Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, the Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special Deal and the Specific Mandate to issue Shares
“Shanghai Intermediate Court”	上海市第一中級人民法院 (Shanghai No.1 Intermediate People’s Court)
“Share(s)”	ordinary shares of nominal value HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares in issue
“Share Options”	the share options granted under share option scheme adopted by the Company dated 31 May 2002 (as amended on 24 June 2010)
“Shengsi Haixin”	嵯泗海鑫石油有限公司 (Shengsi Haixin Petroleum Co., Ltd*) a company incorporated with limited liability in the PRC and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Shipyard Debt Rescheduling Agreement”	the debt rescheduling agreement dated 5 May 2014 and entered into between GZE and TQS (as supplemented and amended on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016)
“Shipyard Sale and Purchase Agreement”	the sale and purchase agreement dated 11 December 2010 and entered into among TPFL, TQSL Holding and Grand China Logistics (as amended by supplemental agreements) in relation to the sale by TPFL and TQSL Holding of, in aggregate, a 95% equity interest in TQS to Grand China Logistics
“Shipyard Termination Agreement”	the agreement dated 5 May 2014 and entered into among GZE, the Company, TQSL Holding and TPFL (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) in relation to, among other things, the termination of the Shipyard Sale and Purchase Agreement
“Shipyard Termination Shares”	9,382,164,000 Shares to be issued to GZE at the issue price of HK\$0.10 in lieu of repayment of RMB 740 million under the Shipyard Termination Agreement
“Singapore”	the Republic of Singapore
“Singapore Exchange”	Singapore Exchange Securities Trading Limited
“Special Deal”	the repayment of the outstanding indebtedness of the Group to the Scheme Creditors (among which Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua are existing Shareholders) out of the proceeds from the Open Offer and Subscription, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Specific Mandate”	the specific mandate to be seek from the Independent Shareholders for the allotment and issue of the new Shares to be issued under the Creditors’ Scheme, the Offer Shares, the Subscription Shares, the Assumption Consideration Shares, the Shipyard Termination Shares, the Consideration Shares, the FELS Warrant Shares and the new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



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## DEFINITIONS

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“Subscriber” or “Chang Xin”	Chang Xin Asset Management Corporation Limited, a company incorporated in the PRC
“Subscription”	the subscription by the Subscriber of 2,600,000,000 Shares to be issued by the Company pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 24 December 2015 (as supplemented and amended on 29 April 2016) entered into by the Company and the Subscriber in relation to the Subscription
“Subscription Share(s)”	the new Share(s) to be subscribed for by the Subscriber pursuant to the Subscription
“Suspension”	the suspension of trading of the Shares on the Stock Exchange since 19 June 2012
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“TC Independent Board Committee”	the independent board committee comprising Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being all the independent non-executive Directors who have no direct or indirect interest in the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements, the Whitewash Waiver and the Special Deal, has been formed to advise the Independent Shareholders on the aforesaid transaction. Mr. Fan Qinghua, a non-executive Director, who is a director and a deputy general manager of GZE and a director of DBIL and thus may have conflict of interest in the Whitewash Waiver and is not a member of the TC Independent Board Committee
“TGIL”	Titan Group Investment Limited (in liquidation), a company incorporated with limited liability in the BVI and was a former jointly-controlled entity of the Company
“TGIL Convertible Notes”	the convertible unsecured notes due 2014 issued by TGIL pursuant to the option agreement dated 14 July 2009 and entered into between the Company, TOSIL, Saturn Storage and TGIL
“TGIL Group”	TGIL and its subsidiaries and associates

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## DEFINITIONS

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“TGIL Preferred Shares”	the convertible redeemable preferred shares issued by TGIL on 22 June 2007 convertible into the shares of TGIL
“Titan Petrochemical (Guangzhou)”	廣州泰山石化有限公司 (Guangzhou Titan Petrochemical Co., Ltd.*), a company incorporated with limited liability in the PRC and an indirect wholly-owned subsidiary of the Company
“TOSIL”	Titan Oil Storage Investment Limited, a company incorporated with limited liability in the BVI and a direct wholly-owned subsidiary of the Company
“TPFL”	泰山石化(福建)有限公司 (Titan Petrochemicals (Fujian) Ltd*), a company incorporated with limited liability in the PRC and a direct wholly-owned subsidiary of the Company
“TPG Debt”	the total amount of debt obligations under the TPG Debt Rescheduling Agreement
“TPG Debt Rescheduling Agreement”	the debt rescheduling agreement dated 5 May 2014 (as supplemented and amended on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) and entered into among Titan Petrochemical (Guangzhou), TQS and GZE
“TQS”	泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co Ltd.), a sino-foreign equity joint venture established in the PRC and an indirect wholly-owned subsidiary of the Company
“TQS Debt”	the total amount of debt obligations under the Shipyard Debt Rescheduling Agreement
“TQS Employee(s)”	the employees of TQS other than the Seconded Employees
“TQSL Holding”	Titan TQSL Holding Company Limited, a company incorporated with limited liability in the BVI and an indirect wholly-owned subsidiary of the Company
“TRML”	Titan Resources Management Limited, a company incorporated with limited liability in the BVI and an indirect wholly-owned subsidiary of the Company
“TRML Scheme”	the sanctioned scheme of arrangement to be entered into between TRML and the scheme creditors pursuant to section 179A of the BVI Business Companies Act, 2004

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## DEFINITIONS

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“TSHL”	Titan Shipyard Holdings Limited, a company incorporated with limited liability in the BVI and a direct wholly-owned subsidiary of the Company
“TSL”	Titan Storage Limited, a company incorporated in the BVI and a former subsidiary of the Company which has been put into liquidation and deconsolidated in April 2014
“TSL Creditors”	collectively Camden, Edinburgh and Mayfair
“Trading Day(s)”	a day or days on which trading of the Shares is conducted on the Stock Exchange in accordance with the rules and regulations of the Stock Exchange promulgated from time to time
“Underwriter”	GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares)
“Underwriting Agreement”	the underwriting agreement dated 16 October 2015 (as supplemented and amended on 29 April 2016) entered into between the Company and GZE in relation to the underwriting and other arrangements of the Open Offer
“Unsecured Claims”	any non-note debt owed by the Company to a Scheme Creditor exceeding the Excluded Liability Threshold
“Unsecured Creditors”	persons with an Unsecured Claim at 17 October 2014
“US\$”	United States dollars, the lawful currency of the United States of America
“Whitewash Waiver”	a waiver in respect of the obligation of GZE and Fame Dragon to make a mandatory offer to other holders of the Shares in respect of those Shares as a result of the underwriting of the Offer Shares under the Underwriting Agreement, 3,595,420,415 new Shares to be issued to Fame Dragon under the Assumption Agreement, the issue of 9,382,164,000 Shares under the Shipyard Termination Agreement to GZE and the issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE and the parties acting in concert with it in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code

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## DEFINITIONS

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“Working Capital Loan Agreement”                      the loan agreement dated 22 August 2014 entered into between TQS and GZE (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) in relation to the provision of a loan of not less than RMB60 million by GZE to TQS for its working capital

“%”    per cent

\* *for identification purpose only*

*Unless the content states otherwise, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1 to HK\$1.2072, conversion of US\$ into HK\$ is calculated at the approximately exchange rate of US\$1 to HK\$7.8 and conversion of S\$ into HK\$ is calculated at the approximately exchange rate of S\$1 into HK\$5.7654.*

*Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

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## EXPECTED TIMETABLE

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*The expected timetable for the Open Offer set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Open Offer will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.*

2016

Latest time for lodging transfer of shares in order to qualify for attendance and voting at the SGM . . . . .	4:30 p.m. on Monday, 23 May
Closure of register of members to ascertain the Shareholders who can vote at the SGM (both dates inclusive) . . . . .	Tuesday, 24 May to Monday, 30 May
Latest time for lodging proxy forms for the SGM . . . . .	11:00 a.m. on Saturday, 28 May
Time and date of the SGM . . . . .	11:00 a.m. on Monday, 30 May
Announcement of results of the SGM . . . . .	Monday, 30 May
<b>The following events are conditional on the results of the SGM. The dates are therefore tentative</b>	
Last day of cum-entitlements of the Open Offer . . . . .	Tuesday, 31 May
First day of ex-entitlements of the Open Offer . . . . .	Wednesday, 1 June
Latest time for lodging transfer of shares in order to qualify for the Open Offer . . . . .	4:30 p.m. on Thursday, 2 June
Closure of register of members to determine the eligibility of the Open Offer (both dates inclusive) . . . . .	Friday, 3 June to Tuesday, 7 June
Record Date for the Open Offer . . . . .	Tuesday, 7 June
Despatch of the Open Offer Documents . . . . .	Wednesday, 8 June
Latest time for acceptance of and payment for Offer Shares . . . . .	4:00 p.m. on Thursday, 23 June

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## EXPECTED TIMETABLE

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2016

Latest time for termination of the Underwriting Agreement . . . . .	4:00 p.m. on Monday, 27 June
Announcement of results of the Open Offer . . . . .	Wednesday, 29 June
Despatch of certificates for Offer Shares . . . . .	Thursday, 30 June
Despatch of refund cheques in respect of wholly or partly unsuccessful excess applications or if the Open Offer is terminated . . . . .	Thursday, 30 June
Resumption of trading in the Shares and dealings in Offer Shares commence . . . . .	9:00 a.m. on Tuesday, 19 July

*Note:* All references to time in this document are reference to Hong Kong time.

### **Effect of bad weather on the latest time for acceptance of and payment for the Open Offer**

If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the latest date for acceptance of the Offer Shares and/or, as the case may be, the Last Acceptance Date, the latest time for the acceptance of and payment for the Offer Shares will not take place at 4:00 p.m., but will be extended to 5:00 p.m. on the same day instead;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer Shares and/or, as the case may be, the Last Acceptance Date, the latest time for the acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Last Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. Any changes to the anticipated timetable will be announced as and when appropriate.

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LETTER FROM THE BOARD

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**Titan Petrochemicals Group Limited**

(Provisional Liquidators appointed)  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 1192)

*Executive Directors:*

Mr. Tang Chao Zhang (*Chief Executive*)  
Dr. Zhang Weibing

*Non-executive Director:*

Mr. Fan Qinghua (*Chairman*)

*Independent non-executive Directors:*

Mr. Lau Fai Lawrence  
Ms. Xiang Siying  
Mr. Hu Hongwei  
Ms. Hsu Wai Man Helen

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business  
in Hong Kong:*

4902 Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

13 May 2016

*To the Shareholders,*

Dear Sir or Madam,

**(1) UPDATE ON DEBT RESTRUCTURING  
AND REMAINING INDEBTEDNESS ARRANGEMENTS  
(2) INTERIM FINANCING ARRANGEMENTS  
(3) PROPOSED OPEN OFFER  
(4) SUBSCRIPTION OF SHARES  
(5) UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT  
(6) APPLICATION FOR WHITEWASH WAIVER  
AND  
(7) SPECIAL DEAL**

**A. BACKGROUND**

**Introduction**

The Company was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Bermuda Companies Act 1981 and the Shares were listed on the main board of the Stock Exchange on 17 June 1998.

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## LETTER FROM THE BOARD

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Before Suspension on 19 June 2012, the Group was engaged in the operation of onshore and offshore oil storage facilities, transportation, supply and distribution of oil and chemical products, and shipbuilding and ship repair.

The Group then had four onshore oil storage facilities located in Nansha in Guangdong Province, Quanzhou in Fujian Province, Yangshan in Shanghai and Yantai in Shandong Province in the PRC, respectively. Its offshore oil storage facilities comprised of five floating storage units moored at Tanjung Pelapas Anchorage in Malaysia.

The Group operated a fleet of 12 tankers in connection with its business of transportation, supply and distribution of oil and chemical products.

The Group's shipbuilding and ship repair operations principally involved the construction and repair of tankers at its Quanzhou Shipyard.

At the time of Suspension, the Company had the following principal subsidiaries, associates and jointly-controlled entities:

Name of entities	Principal activities
Titan Oil (Asia) Ltd.	Investment holding
Titan FSU Investment Limited	
TOSIL	
Titan Oil Trading (Asia) Limited	
Titan Bunkering Investment Limited	
Harbour Sky Investments Limited	
TSHL	
TPFL	
Titan Orient Lines Pte. Ltd. (Note 7)	
石獅市益泰潤滑油脂貿易 有限責任公司	
TQSL Holding	
TGIL (Note 1)	
Titan WP Storage Ltd. (Note 2)	
Titan Group Yangshan Investment Limited (Note 2)	
Sky Sharp Investments Limited (Note 2)	
Forever Fortune Holdings Limited (Note 2)	
Titan Group Nansha Investment Limited (Note 2)	
Titan Group Yantai Investment Limited (Note 2)	
Titan Investment Group Limited (Note 2)	



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## LETTER FROM THE BOARD

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Name of entities	Principal activities
Titan Bunkering Pte. Ltd. <i>(Note 3)</i>	Provision of bunker refueling services
Estonia Capital Ltd. <i>(Note 5)</i> TSL <i>(Note 5)</i>	Provision of floating storage services
Titan Libra Pte. Ltd <i>(Note 6)</i> Ascend Success Investments Limited	Provision of financing services
Sino Venus Pte. Ltd. <i>(Note 7)</i> Wynham Pacific Ltd. <i>(Note 5)</i> Sino Ocean Development Limited <i>(Note 5)</i>	Provision of oil transportation services
Titan Ocean Pte Ltd <i>(Note 4)</i>	Provision of ship management and agency services
Titan Mars Limited <i>(Note 5)</i>	Holding a floating storage license
TRML Titan Resources Management (S) Pte. Ltd. <i>(Note 3)</i>	Provision of consultancy services
Shengxi Haixin Titan Petrochemical (Guangzhou)	Supply of oil products
TQS	Shipbuilding and ship repair
Yangshan Shen Gang International Oil Logistics Co., Ltd. <i>(Note 2)</i>	Operation of oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd. <i>(Note 2)</i>	Terminal facilities services
Guangzhou Nansha Titan Petrochemical Development Company Limited <i>(Note 2)</i> Fujian Titan Petrochemical Storage Development Co., Ltd. <i>(Note 2)</i> Quanzhou Titan Petrochemical Terminal Development Co., Ltd <i>(Note 2)</i> Yantai Titan Petrochemical Port Development Company Limited <i>(Note 2)</i>	Provision of onshore storage services

*Note:*

- (1) On 17 July 2012 (BVI time), the BVI Court ordered the liquidation of TGIL, a jointly-controlled entity. This resulted to a loss of joint control over TGIL Group upon occurrence of the external restrictions and events during the year ended 2012.
- (2) These were all subsidiaries, associates or jointly-controlled entity of TGIL.
- (3) The companies were put into voluntary liquidation on 6 June 2013.

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## LETTER FROM THE BOARD

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- (4) The company was ordered to be wound up by the High Court of the Republic of Singapore under the provisions of the Company Act (Cap 50).
- (5) The companies were placed into voluntary liquidation on 25 April 2014.
- (6) The company was put into voluntary liquidation on 19 July 2013.
- (7) The company was put into voluntary liquidation on 13 August 2013.

### **Suspension of trading**

On 11 December 2010, the Company, TPFL and TQSL Holding (both TPFL and TQSL Holding are wholly-owned subsidiaries of the Company), entered into the Shipyard Sale and Purchase Agreement with Grand China Logistics in relation to the sale by TPFL and TQSL Holding of, in aggregate, a 95% equity interest in TQS to Grand China Logistics at a cash consideration of RMB1,865,670,000 or a maximum reduced consideration of RMB1,465,670,000 (if TQS's net profit targets for the two years ended 31 December 2012 were not met) to be paid by instalments on specified dates. Pursuant to a supplemental agreement signed in 2011, such net profit targets were cancelled and the consideration for the proposed disposal was fixed at RMB1,665,670,000.

On the same date, the Company entered into the GCL Subscription Agreement with Grand China Logistics in relation to the subscription by Grand China Logistics in cash of 500 million new subscription Shares to Grand China Logistics at the issue price of HK\$0.61 per Share.

On 18 March 2012, the Company announced that, among other things, (i) Grand China Logistics, after making instalment payments totalling RMB740,000,000, had failed to make further instalment payments as and when they fell due under the Shipyard Sale and Purchase Agreement; and (ii) the GCL Subscription Agreement, completion of which was conditional upon the registration of the transfer of the 95% equity interest in TQS being sold by TPFL and TQSL Holding to Grand China Logistics, had lapsed.

As a result, the Company was unable to repay the 2012 Senior Notes when they became due on 19 March 2012. As disclosed in the announcement of the Company dated 18 March 2012, the repayment default with respect to the 2012 Senior Notes triggered the cross default of a bilateral loan between a member of the Group and a financial institution in the outstanding principal amount of US\$1.3 million and constituted an early redemption event in respect of the Listco Preferred Shares and the TGIL Convertible Notes and the TGIL Preferred Shares.

As the Group had been experiencing severe financial difficulties to meet its immediate debt obligations, Shares have been suspended from trading since 19 June 2012.

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## LETTER FROM THE BOARD

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### Legal proceedings

#### *Proceedings in Bermuda and related arbitration proceedings*

On 4 July 2012, the Company received from Saturn Petrochemical a notice to redeem all of the outstanding Listco Preferred Shares held by it and the redemption monies are payable within 30 business days after the date of the redemption notice.

Saturn Petrochemical then filed a petition for the winding-up of the Company on 9 July 2012 (Bermuda time) (the “**SPHL Petition**”). The SPHL Petition was subsequently struck out by the Bermuda Court, and Camden (the petitioner in the winding up proceedings) was substituted as the petitioner in place of Saturn Petrochemical upon its application to the Bermuda Court.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of the Provisional Liquidators to the Company to, among other powers and duties, consider the terms of any scheme of arrangements proposed by the Company and to assess the feasibility of any restructuring proposal of the Company.

The hearing of the winding up petition by Camden has been adjourned to 3 June 2016 (Bermuda time) and the long-stop date of the Creditors’ Scheme will be extended to 15 July 2016 (Bermuda time).

Upon the successful resumption of trading of the Shares and completion of the restructuring, the Provisional Liquidators will be discharged and the winding up petition will be dismissed or withdrawn by Camden.

#### *Proceedings in Hong Kong*

On 19 July 2012, Saturn Storage initiated proceedings in the Hong Kong High Court against the Company and other parties including TOSIL and two former directors of the Company in respect of, among other things, (i) alleged breach of the amended and restated investor rights agreement in respect of TGIL dated 17 July 2009; and (ii) alleged misrepresentations regarding the financial position of TGIL, and its subsidiaries.

The Hong Kong High Court fixed a second case management conference for hearing on 21 November 2014 and subsequently vacated and adjourned the case management conference on a number of occasions to 13 March 2015, 7 July 2015, 17 November 2015, 23 February 2016 and, most recently, to 12 April 2016, to allow the parties to continue settlement discussions. On 8 April 2016, settlement has been reached in respect of Saturn Storage’s claims against the Company and TOSIL in the Hong Kong proceedings, pursuant to which Saturn Storage’s afore-said claims were dismissed by the Hong Kong Court of First Instance on 8 April 2016, with Saturn Storage, the Company and TOSIL each bearing its own costs, save for HK\$70,000 to be paid by Saturn Storage to the Company and TOSIL pursuant to an order for security for costs made on 15 November 2013.

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## LETTER FROM THE BOARD

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On 31 December 2015, Mr. Wong Siu Hung Patrick (the “**Plaintiff**”) filed a claim in the Labour Tribunal in Hong Kong against TRML for the sum of HK\$1,046,551.15 allegedly due to the termination of the employment contract between the Plaintiff and the TRML (the “**Claim**”). The Plaintiff was a former executive director of the Company. He resigned as an executive director of the Company and also ceased to act as the Company’s authorised representative and the directors of the wholly-owned subsidiaries of the Company on 30 September 2015. The Claim was subsequently transferred to the Hong Kong High Court and the Company was joined as second defendant.

Pursuant to the directions of Hong Kong High Court dated 13 April 2016, the Plaintiff filed and served the Statement of Claim on 25 April 2016, in which the Claim amount was revised to HK\$1,069,251.28. TRML and the Company will defend the Claim and will file and serve the Defence and Counterclaim (if any) accordingly.

### ***Proceedings in BVI***

On 18 June 2012 (BVI time), Saturn Storage filed an application with the BVI Court to liquidate TGIL.

On 17 July 2012 (BVI time), the BVI Court ordered the liquidation of TGIL and that Russell Crumpler of KPMG (BVI) Limited, Edward Middleton and Patrick Cowley of KPMG be appointed as joint and several liquidators of TGIL with standard powers under the BVI Insolvency Act 2003. The fourth liquidator, Stuart Mackellar of Zolfo Cooper (BVI) Limited, was appointed with limited powers.

On 18 July 2012 (BVI time), TOSIL, a wholly-owned subsidiary of the Company and a shareholder of TGIL, filed a notice of appeal at the BVI Court of Appeal against the liquidation order.

The liquidation procedure of TGIL has commenced and the liquidation is not completed as at the Latest Practicable Date.

The Company, TGIL, TOSIL and Saturn Storage have been in negotiations which is in advance stages. TOSIL will withdraw the appeal against the liquidation order and accept the appointment of liquidators over TGIL before the BVI Court of Appeal.

### ***Proceedings in the PRC***

On 30 May 2012, TPFL received a summons issued by the Shanghai Intermediate Court with Grand China Logistics as plaintiff and the Company, TQSL Holding and TPFL as defendants, that sought an order for, among other things, termination of the Shipyard Sale and Purchase Agreement and repayment to Grand China Logistics of an aggregate of RMB740 million together with accrued interest or for the Company to fulfil its obligation under its guarantee to repay such amount.

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## LETTER FROM THE BOARD

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On 23 August 2012, TPFL filed a statement of counterclaim against Grand China Logistics with the Shanghai Intermediate Court to seek, among other remedies, specific performance by Grand China Logistics of the Shipyard Sale and Purchase Agreement.

On 10 June 2013, the Company received a notification from Grand China Logistics dated 7 June 2013 informing the Company that it had entered into an assignment with GZE pursuant to which it would assign to GZE all of its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement.

On 23 December 2013, the Shanghai Intermediate Court ordered the discontinuation of the proceedings in relation to the counterclaim lodged by TPFL against Grand China Logistics on the grounds that, following such assignment, Grand China Logistics was no longer the appropriate defendant for the counterclaim as it had transferred all its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement to GZE. On 26 December 2013, the Shanghai Intermediate Court approved the application by Grand China Logistics to the withdrawal of the claim initiated by Grand China Logistics against the Company, TQSL Holding and TPFL in relation to the Shipyard Sale and Purchase Agreement.

On 5 May 2014, the Company entered into the Shipyard Termination Agreement with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated and with respect to the amount of RMB740,000,000 that was originally paid by Grand China Logistics to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares to GZE in lieu of repayment of such amount. The Shipyard Termination Agreement will only be effective upon the satisfaction of the certain conditions. None of the conditions can be waived, and if such conditions are not fulfilled on or before 31 August 2016 (or such later date as may be agreed among the parties in writing), the Shipyard Termination Agreement will lapse and become null and void and the parties will be released from all obligations under the agreement, save for any liability arising out of any antecedent breaches.

### **Listing status**

On 18 September 2015, the Listing Division issued a letter to the Company informing the Company that they have decided to place the Company in the third stage of delisting under Practice Note 17 to the Listing Rules and that the Company is required to submit a viable resumption proposal to the Stock Exchange at least 10 business days before the third stage of delisting expires (i.e. 15 March 2016).

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## LETTER FROM THE BOARD

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The Company has submitted the Resumption Proposal on 16 October 2015 (as supplemented and amended on 17 November 2015, 31 December 2015 and 25 January 2016). As disclosed in the Company's announcement dated 16 March 2016, on 14 March 2016, the Stock Exchange has decided to allow the Company to proceed with the Resumption Proposal subject to satisfying of certain conditions by 15 July 2016, including among others:

- (i) completion of all transactions contemplated under the Resumption Proposal; and
- (ii) the Company must have the winding up petition withdrawn or dismissed and the provisional liquidators discharged.

The Stock Exchange may raise further comments or impose additional conditions on the Resumption Proposal.

None of the Company, the controlling Shareholders (including GZE) or the Directors has any agreement, arrangement, intention, negotiation and/or plan to carry out a principal business other than the existing business of the Company within 24 months after Resumption. None of the controlling Shareholders (including GZE) has any intention or plans to dispose of its controlling interests in the Company within 24 months after Resumption.

### **B. UPDATE ON DEBT RESTRUCTURING**

#### **Creditors' Scheme**

##### ***Scheme consideration***

Pursuant to the Creditors' Scheme, all Scheme Liabilities will be compromised and released on the Release Date in exchange for the receipt of scheme consideration by those Scheme Creditors who lodged a valid account holder letter or notice of claim with the Information Agent on or before the bar date, i.e. 5 February 2015. The long-stop date of the Creditors' Scheme has most recently been extended to 15 July 2016 (Bermuda time).

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## LETTER FROM THE BOARD

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### *Existing Notes Creditors*

Existing Notes Creditors which lodged a valid account holder letter with the Information Agent on or before the bar date shall receive scheme consideration in the form of either:

- (i) US\$0.10 in cash and US\$0.30 in new Shares to be issued by the Company at the price of US\$0.10 per Share (“**Equity Option**”); or
- (ii) US\$0.20 in cash and US\$0.10 in new Shares to be issued by the Company at the price of US\$0.10 per Share (“**Cash Option**”);

for every US\$1.00 of the amount of their accepted claims.

For those Existing Notes Creditors who fail to submit the completed account holder letter to the Information Agent prior to the Bar Time (5 February 2015) will not be entitled to receive any scheme consideration and will have its liabilities compromised and discharged fully.

If an Existing Notes Creditor submitted the completed account holder letter but failed to elect either the Equity Option or the Cash Option in its account holder letter, that Existing Notes Creditor shall receive scheme consideration in the form of the Equity Option.

As at the Latest Practicable Date, out of the total liabilities of Existing Notes Creditors of approximately HK\$1,412.7 million, approximately HK\$1,239.3 million of such have lodged a valid account holder letter, in which approximately 27.7% have elected Equity Option whereas the remaining approximately 72.3% have elected Cash Option. The amount of cash to be utilised in settling the liabilities owed to the Existing Notes Creditors (based on their indicated intention) would be approximately HK\$211.1 million and the number of shares to be issued by the Company for such purpose would be approximately 1,920,886,282 shares.

### *Non-Note Creditors*

Out of the total liabilities of Non-Note Creditors of approximately HK\$366.6 million, approximately HK\$334.3 million of such have lodged a valid notice of claim with the Information Agent on or before the bar date, i.e. 5 February 2015, shall receive scheme consideration in the form of US\$0.10 in cash for every US\$1.00 of the amount of their accepted claim, which amounted to a total of approximately HK\$33.6 million which will be settled in cash.

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## LETTER FROM THE BOARD

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### ***Funding of cash consideration***

The cash consideration to be distributed to the Existing Notes Creditors and the Non-Note Creditors and creditors under separate settlement agreements will be approximately HK\$265.6 million and will be funded by the proceeds of (i) the Open Offer and (ii) the Subscription.

### ***Conditionality***

The Creditors' Scheme became effective and binding on the Company and all Scheme Creditors on 5 November 2014, being the date on which an office copy of the order of the Bermuda Court sanctioning the Creditors' Scheme was delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act.

Pursuant to the terms of the Creditors' Scheme (subject to any necessary revisions, amendments and/or modifications having been approved), the distribution of scheme consideration to Scheme Creditors shall only occur after satisfaction or waiver of the following conditions:

- (i) all authorisations (whether arising as a matter of applicable law or by reason of the terms of existing documentation) having been obtained and remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any one or more governmental entities which is not expressly provided for (or is in addition to requirements expressly provided for) in relevant laws, rules, regulations or codes in connection with the Creditors' Scheme or any matters, documents or things relating thereto, in each aforesaid case up to and at the time when the Creditors' Scheme becomes effective;
- (ii) no governmental entity in any jurisdiction having taken or instituted any proceeding (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Creditors' Scheme void, unenforceable or illegal (or which would impose any material and adverse conditions or obligations on or with respect to the Creditors' Scheme);
- (iii) payment or provision in full and without deduction of all Creditors' Scheme costs;
- (iv) the satisfaction (or waiver) of each of the Resumption conditions including, without limitation, conditional approval having been obtained from the Stock Exchange for (1) the resumption of trading in Shares on the main board of the Stock Exchange and (2) the additional offering;



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## LETTER FROM THE BOARD

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- (v) the satisfaction or waiver of each of the specific conditions precedent contained in the Underwriting Agreement and the Subscription such that the Creditors' Scheme may be effected fully in accordance with its terms as soon as practicable;
- (vi) the satisfaction or waiver of each of the specific conditions precedent contained in each of the GZE Excess Liabilities Undertaking, the Debt Rescheduling Agreements and the Shipyard Termination Agreement provided that each of these agreements shall have been duly amended by the relevant parties so that the condition precedent relating to resumption of trading of the new Shares shall be deleted and replaced with a condition that the Stock Exchange shall have granted permission to deal in the new Shares (and any Offer Shares) prior to the date of issue of the completion notice;
- (vii) the satisfaction or waiver of each of the specific conditions precedent contained in any other documents in relation to the restructuring contemplated under the Resumption Proposal (not otherwise expressly stated in the relevant clause of the Creditors' Scheme) provided that such conditions precedent shall have been duly amended prior to the date of the issue of the completion notice by the relevant parties such that all those conditions which are only capable of being satisfied following the Release Date (or any other condition which would prevent the Creditors' Scheme being effected fully in accordance with its terms) shall be deleted or otherwise amended consistent with the terms of the other Restructuring Documents;
- (viii) the filing of an application seeking the conditional dismissal or withdrawal of the Bermuda Proceedings, any injunction or other relief over the assets of the Company and the discharge of the Provisional Liquidators, in each case upon or immediately after the Release Date;
- (ix) receipt of all funds to be raised by the additional offering and the Subscription by the Company (or its nominee), sufficient for the Company (or its nominee) to meet its cash payment obligations in respect of the Creditors' Scheme consideration;
- (x) withdrawal by DBIL of the previously issued redemption notice in respect of the Listco Preferred Shares in accordance with the Listco Preferred Shares Modification Deed; and
- (xi) the due execution of the deeds of release by the Company on behalf of Scheme Creditors in accordance with the terms of the Creditors' Scheme.

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## LETTER FROM THE BOARD

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The Company is not aware of any additional authorisations other than the resolutions and the sanction of the Creditors' Scheme. As disclosed in the announcement of the Company dated 22 October 2014, separate meetings of the Existing Notes Creditors and of Non-Note Creditors (the "**Scheme Meetings**") were held on the same date to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), have voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. As disclosed in the announcement of the Company dated 5 November 2014, the Creditors' Scheme was sanctioned by the Bermuda Court on the same date and became effective and binding on all Scheme Creditors upon a copy of the Order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on the same date. Except for Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua which holds approximately 0.004%, 0.82% and 0.26% of the total issued shares of the Company as at Latest Practicable Date, the Existing Notes Creditors and Non-Note Creditors are not existing Shareholders of the Company.

### **K-Line Support Agreement**

On 17 April 2014, the holder of the K-Line Notes, K-Line (being one of the creditors of Unsecured Claim and not an existing Shareholder), TSHL as issuer of the K-Line Notes and the Company entered into a support agreement, pursuant to which K-Line agreed to support the Debt Restructuring and the Creditors' Scheme and agreed to effect the compromise of its claims in respect of the K-Line Notes either within the Creditors' Scheme or pursuant to a separate settlement agreement conditional upon the Creditors' Scheme becoming effective.

On 8 October 2014, the same parties entered into a settlement agreement whereby K-Line agreed to accept a payment equivalent to US\$0.10 in cash in respect of every US\$1.00 of the principal outstanding under the K-Line Notes and interest as at 9 July 2012 with an aggregate amount of approximately HK\$202.9 million. K-Line shall receive a total of HK\$20.3 million which will be settled in cash.

### **Frontline Settlement Agreement**

The Company, TSL and the TSL Creditors are parties to the respective arbitration proceedings in relation to the claims by the TSL Creditors against TSL and the Company arising out of certain bareboat charters entered into between the TSL Creditors and TSL in 2010 and the related guarantees or alleged guarantees entered into by the Company.

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## LETTER FROM THE BOARD

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On 2 May 2014, the Frontline Settlement Agreement was entered into by the Company, TSL and the TSL Creditors (being one of the Creditors of Unsecured Claim and not an existing Shareholder), pursuant to which the TSL Creditors agreed the amounts of the claims of the TSL Creditors to be recognised as the Unsecured Claims in the proposed Debt Restructuring of the Company by way of one or more Creditors' Scheme and that the TSL Creditors would take all reasonable steps necessary to vote in favour of the Creditors' Scheme. On 29 October 2014, the parties entered into an agreement amending and restating the Frontline Settlement Agreement.

### C. REMAINING INDEBTEDNESS ARRANGEMENTS

As part of the Group's continued efforts to restructure its indebtedness, members of the Group entered into the Listco Preferred Shares Modification Deed, the Debt Rescheduling Agreements, the Assumption Agreement and the Loan Rescheduling Agreements and the TRML Scheme has been sanctioned by the BVI Court and compromise agreement will be executed to settle certain of the outstanding amounts due to the deconsolidated subsidiaries. GZE also executed the GZE Excess Liabilities Undertaking in favour of the Company.

#### **Listco Preferred Shares Modification Deed**

##### ***Acquisition of Listco Preferred Shares by GZE***

As mentioned in the section headed "Background – Legal proceedings" above, on 4 July 2012, the Company received from Saturn Petrochemical a notice to redeem all of the outstanding Listco Preferred Shares held by it and the redemption monies are payable within 30 business days after the date of the redemption notice. On 9 July 2012, Saturn Petrochemical filed a petition for the winding-up of the Company and made an application to the Bermuda Court for the appointment of joint provisional liquidators on 27 August 2012. The petition filed by Saturn Petrochemical was subsequently struck out by the Bermuda Court on 10 May 2013 and Camden, one of the Unsecured Creditors of the Company, was substituted as the petitioner in place of Saturn Petrochemical upon its application to the Bermuda Court.

To the best knowledge of the Directors, there is no relationship between Camden and Saturn. Camden is a creditor of a deconsolidated subsidiary of the Group (the "**Deconsolidated Subsidiary**"), which is in progress of liquidation since April 2014. The Deconsolidated Subsidiary failed to pay certain hiring charges to Camden and the Company become responsible to Camden for such hiring charges plus interest thereon pursuant to the deed of guarantee issued by the Company in favor of the Deconsolidated Subsidiary.

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## LETTER FROM THE BOARD

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On 10 October 2013, Saturn Petrochemical entered into the preferred shares sale and purchase agreement with DBIL, a wholly owned subsidiary of GZE, with a consideration of approximately US\$25 million, whereby DBIL became entitled to the benefit of all interests arising under or in connection with the Listco Preferred Shares.

The Company and DBIL (as the lawful attorney of Saturn Petrochemical) subsequently entered into the Listco Preferred Shares Modification Deed in relation to, among others, the extension of the redemption period of the Listco Preferred Shares and the restriction of the conversion of the Listco Preferred Shares. Pursuant to the Listco Preferred Shares Modification Deed, DBIL and the Company have agreed that, among other things, (i) the purported redemption notice relating to the Listco Preferred Shares as issued by Saturn Petrochemical on 4 July 2012 cannot be completed as a matter of applicable law and shall, for all purposes, be treated as being withdrawn, ab initio and of no legal effect; (ii) the terms of the Bye-Laws shall be amended so that the earliest date of a notice of redemption of the Listco Preferred Shares may be served on the Company is the 3rd anniversary of the actual date when the Restructuring becoming effective and the Release Date having occurred; (iii) the conversion price of the Listco Preferred Shares are subject to adjustment except that no adjustment will be made to the conversion price of the Listco Preferred Shares when Shares or other securities are issued, offered or granted pursuant to the conversion of the Listco Preferred Shares or the Restructuring; and (iv) no conversion of the Listco Preferred Shares shall occur until the date falling six months after the date on which trading in Shares have resumed on the Stock Exchange provided always that if the Company considers that it would no longer satisfy minimum public shareholding requirement under Rule 8.08 of the Listing Rules immediately following a conversion of the Listco Preferred Shares.

The Listco Preferred Shares Modification Deed is conditional upon the fulfillment of the following conditions on or before 31 August 2016 or such later date as may be agreed between the parties to the Listco Preferred Shares Modification Deed: (i) the due execution of the written resolutions and all other authorisations necessary for the implementation of the transactions contemplated by the Listco Preferred Shares Modification Deed having been obtained or complied with including without limitation any applicable requirements of the Stock Exchange, the Act and the Bye-Laws; (ii) the passing of each of the resolutions to be passed by the Shareholders at the SGM approving the terms of the restructuring contemplated under this circular; (iii) the approval and sanction of the Creditors' Scheme by the Bermuda Court in accordance with section 99 of the Act; (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (a) the FTSD Purchase Order Framework Agreement; (b) the Management Services Agreement and (c) the Listco Preferred Shares Modification Deed) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms; (v) the Company having obtained the approval of the Independent Shareholders in the SGM in respect of the Whitewash Waiver; and (vi) the grant of Whitewash Waiver by the Executive. As at the Latest Practicable Date, condition (iii) set out above has been satisfied.

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## LETTER FROM THE BOARD

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### **Reasons of the Listco Preferred Shares Modification Deed**

Given that the extension of the redemption period of the Listco Preferred Shares will setback the pressing need for the repayment liability given the net liabilities position of the Group as at 31 December 2015, the Directors consider the terms of the Listco Preferred Shares Modification Deed is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **Debt Rescheduling Agreements**

As at 31 March 2016, certain subsidiaries of the Company were indebted to GZE as follows: (a) TQS was indebted to GZE for amounts which are related to loans that were originally made by Shanghai Pudong Development Bank Co. Ltd. Fuzhou Branch to TQS over the period from 2009 to 2011. The bank subsequently assigned its rights and interests with respect to those loans and related security interests to China Cinda Asset Management Co., Ltd. which then further assigned those rights and interests to GZE. TQS has defaulted in its repayment obligations and these amounts have become immediately due and payable; (b) Titan Petrochemical (Guangzhou) was indebted to GZE for amounts which are related to loans that were originally made by Ping An Bank Co., Ltd. to Titan Petrochemical (Guangzhou) in March 2012, all of which were jointly guaranteed by TQS, Quanzhou Zhenrong Petrochemical Terminal Co. Ltd and Guangzhou Nansha Zhenrong Storage Co. Ltd.. The bank subsequently assigned its rights and interests with respect to those loans and guarantee to GZE on 31 December 2013. Titan Petrochemical (Guangzhou) has defaulted in its repayment obligations and these amounts have jointly become immediately due and payable; and (c) Shengsi Haixin was indebted to GZE for an amount which is related to a loan made available by GZE to Shengsi Haixin pursuant to a loan agreement dated 25 November 2013. Shengsi Haixin has defaulted in its repayment obligations and this amount has become immediately due and payable.

On 5 May 2014, TQS entered into the Shipyard Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (a) above, TQS and Titan Petrochemical (Guangzhou) entered into the TPG Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (b) above and Shengsi Haixin entered into the Haixin Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (c) above. Pursuant to the Debt Rescheduling Agreements, GZE has agreed, among other things, to reschedule the repayment of the Group's indebtedness due to GZE postponing the first repayment date until 5 May 2017.

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## LETTER FROM THE BOARD

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### *Shipyard Debt Rescheduling Agreement*

Further details of the Shipyard Debt Rescheduling Agreement are as follows:

- (1) Total amount of the TQS Debt: RMB1,526,741,949.33, being the aggregate of the original principal of RMB1,429,497,482.80 and the accrued interest of RMB97,244,466.53 as of the date of the Shipyard Debt Rescheduling Agreement;
- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the Shipyard Debt Rescheduling Agreement, the maturity of the TQS Debt shall be extended to the date falling 264 months from the date of the Shipyard Debt Rescheduling Agreement and TQS shall repay the principal of the TQS Debt in instalments on each repayment date (repay 5% for each 12 months until 264 months from the date of the Shipyard Debt Rescheduling Agreement), the first one of which shall fall on 5 May 2017;
- (3) Interest: the interest rate from the date of the Shipyard Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the Shipyard Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the Shipyard Debt Rescheduling Agreement and including the final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash;
- (4) Security: each security provided under the original loan and pledge agreements between TQS and Shanghai Pudong Development Bank Co. Ltd. Fuzhou Branch shall continue in full force and effect in securing the repayment of the TQS Debt; and

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## LETTER FROM THE BOARD

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- (5) Effective date of the agreement means the date on which all of the following conditions have been satisfied or otherwise waived by GZE (except (v), (vi) and (vii) which are not waivable): (i) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the Shipyard Debt Rescheduling Agreement and the transactions contemplated thereunder; (ii) the Debt Restructuring having become effective in accordance with its terms; (iii) a resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange; (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (a) the FTSD Purchase Order Framework Agreement; (b) the Management Services Agreement; and (c) the Shipyard Debt Rescheduling Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms; (v) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; (vi) the grant of Whitewash Waiver by the Executive; and (vii) the Shipyard Debt Rescheduling Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM. If the conditions above are not satisfied on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), any party thereto may terminate the Shipyard Debt Rescheduling Agreement by giving each other party thereto not less than 30 days' written notice and, upon termination of the Shipyard Debt Rescheduling Agreement, all the obligations of the parties thereto shall immediately cease and none of the parties thereto shall have any claim against any other party thereto in respect of any matter arising out of or in connection with the Shipyard Debt Rescheduling Agreement, save for any antecedent breaches.

As at 31 March 2016, being the latest practicable date for ascertaining this information prior to the printing of this circular, the total amount of TQS Debt is RMB1,708,532,385.56, being the aggregate of the principal of RMB 1,526,741,949.33 and the accrued interest of RMB181,790,436.23.

### ***TPG Debt Rescheduling Agreement***

Details of the TPG Debt Rescheduling Agreement are as follows:

- (1) Total amount of the TPG Debt: RMB43,880,272.00, being the aggregate of the original principal of RMB42,600,000.00 and the accrued interest of RMB1,280,272.00 as of the date of the TPG Debt Rescheduling Agreement;

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## LETTER FROM THE BOARD

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- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the agreement, the maturity of the TPG Debt shall be extended to the date falling 96 months from the date of the TPG Debt Rescheduling Agreement and Titan Petrochemical (Guangzhou) shall repay the principal of the TPG Debt in instalments on each repayment date, the first one of which shall fall on 5 May 2017;
- (3) Interest: the interest rate from the date of the TPG Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the TPG Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the agreement and including the final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash;
- (4) Guarantee: the guarantee TQS provided under the original finance agreements between, among others, Titan Petrochemical (Guangzhou) and Ping An Bank Co., Ltd. (formerly known as Shenzhen Development Bank Co., Ltd) shall remain in full force and effect in guaranteeing the repayment of the TPG Debt. Such guarantee in respect of the TPG Debt was jointly provided by TQS, Quanzhou Zhenrong Petrochemical Terminal Co. Ltd and Guangzhou Nansha Zhenrong Storage Co. Ltd., the wholly-owned subsidiaries of GZE; and
- (5) Effective date of this agreement means the date on which all of the following conditions have been satisfied or otherwise waived by GZE (except (v), (vi) and (vii) which are not waivable): (i) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the TPG Debt Rescheduling Agreement and the transactions contemplated thereunder; (ii) the Debt Restructuring having become effective in accordance with its terms; (iii) a resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange; (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (a) the FTSD Purchase Order Framework Agreement; (b) the Management Services



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## LETTER FROM THE BOARD

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Agreement; and (c) the TPG Debt Rescheduling Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms; (v) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; (vi) the grant of Whitewash Waiver by the Executive; and (vii) the TPG Debt Rescheduling Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM. If the conditions above are not satisfied on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), any party thereto may terminate the TPG Debt Rescheduling Agreement by giving each other party thereto not less than 30 days' written notice and, upon termination of the TPG Debt Rescheduling Agreement, certain obligations of the parties thereto shall in accordance with its terms immediately cease and none of the parties thereto shall have any claim against any other party thereto in respect of any matter arising out of or in connection with the TPG Debt Rescheduling Agreement, save for any antecedent breaches.

As at 31 March 2016, being the latest practicable date for ascertaining this information prior to the printing of this circular, the total amount of TPG Debt is RMB49,105,132.57, being the aggregate of the principal of RMB 43,880,272.00 and the accrued interest of RMB5,224,860.57.

### ***Haixin Debt Rescheduling Agreement***

Details of the Haixin Debt Rescheduling Agreement are as follows:

- (1) Total amount of the Haixin Debt: RMB36,367,173.72, being the aggregate of the original principal of RMB35,478,631.11 and the accrued interest of RMB888,542.61 as of the date of the Haixin Debt Rescheduling Agreement;
- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the agreement, the maturity of the Haixin Debt shall be extended to the date falling 96 months from the date of the Haixin Debt Rescheduling Agreement and Shengsi Haixin shall repay the Haixin Debt in instalments on each repayment date, the first one of which shall fall on 5 May 2017;
- (3) Interest: the interest rate from the date of the Haixin Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the Haixin Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the agreement and including the

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## LETTER FROM THE BOARD

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final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash; and

- (4) Effective date of Haixin Debt Rescheduling Agreement means the date on which all of the following conditions have been satisfied or otherwise waived by GZE (except (v), (vi) and (vii) which are not waivable): (i) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the Haixin Debt Rescheduling Agreement and the transactions contemplated thereunder; (ii) the Debt Restructuring having become effective in accordance with its terms; (iii) a resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange; (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (a) the FTSD Purchase Order Framework Agreement; (b) the Management Services Agreement; and (c) the Haixin Debt Rescheduling Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms; (v) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; (vi) the grant of the Whitewash Waiver by the Executive; and (vii) the Haixin Debt Rescheduling Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM. If the conditions above are not satisfied on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), any party thereto may terminate the Haixin Debt Rescheduling Agreement by giving each other party thereto not less than 30 days' written notice and, upon termination of the Haixin Debt Rescheduling Agreement, all the obligations of the parties thereto shall immediately cease and none of the parties thereto shall have any claim against any other party thereto in respect of any matter arising out of or in connection with the Haixin Debt Rescheduling Agreement, save for any antecedent breaches.

As at 31 March 2016, being the latest practicable date for ascertaining this information prior to the printing of this circular, the total amount of Haixin Debt is RMB40,697,443.42, being the aggregate of the principal of RMB 36,367,173.72 and the accrued interest of RMB4,330,269.70.

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## LETTER FROM THE BOARD

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### **Shares to be allotted and issued in respect of the Debt Rescheduling Agreements**

Based on the terms of the Debt Rescheduling Agreements and on the assumption that the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$7.2 million, HK\$6.0 million and HK\$251.0 million under TPG Debt Rescheduling Agreement, Haixin Debt Rescheduling Agreement and Shipyard Debt Rescheduling Agreement respectively, and thus a maximum of 2,642,391,624 Shares in aggregate will be allotted and issued to GZE (or its wholly-owned subsidiary) accordingly.

For the avoidance of doubt, the new Shares to be issued and allotted to GZE (or its wholly-owned subsidiary) in respect of the Debt Rescheduling Agreements will only cover the interest payment of the relevant agreements up to the date on which the transactions contemplated under the Resumption Proposal are completed. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.

### **Reasons for and benefits of the Debt Rescheduling Agreements**

TQS, an indirect wholly-owned subsidiary of the Company, was principally engaged in shipbuilding and ship repair business at the Quanzhou Shipyard before suspension of its business in around 2013. The Debt Rescheduling Agreement, when effective, will release TQS, Titan Petrochemical (Guangzhou) and Shengsi Haixin from its liabilities arising from its default on payment under the Debt Rescheduling Agreement and enable them to focus their resources on own business.

The terms of the Debt Rescheduling Agreements were arrived at based on arm's length negotiations between TQS, Titan Petrochemical (Guangzhou) and Shengsi Haixin and/or GZE. The Directors are of the opinion that the terms of the Debt Rescheduling Agreements are fair and reasonable and the transactions contemplated under the Debt Rescheduling Agreements are in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **GZE Excess Liabilities Undertaking**

To provide cover for any potentially unidentified liability of the Restructured Group, described in any of the scope of limitations listed in the auditors' opinions on the financial statements of the Group for the year ended 31 December 2014, GZE has executed the GZE Excess Liabilities Undertaking on 5 May 2014 in favour of the Company. The GZE Excess Liabilities Undertaking shall become effective when the following conditions have been satisfied or waived by GZE (except (v) and (vi) which are not waivable):

- (i) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the GZE Excess Liabilities Undertaking and the transactions contemplated thereunder;
- (ii) the Debt Restructuring having become effective;
- (iii) a resumption of trading in the Shares having been unconditionally or conditionally in principle or otherwise approved by the Stock Exchange;
- (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement and (iii) the GZE Excess Liabilities Undertaking) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms;
- (v) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; and
- (vi) the grant of the Whitewash Waiver by the Executive.

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## LETTER FROM THE BOARD

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If the total indebtedness of the Restructured Group as at 31 January 2015 exceeds the amount set forth in the indebtedness statement of the Restructured Group as at 31 January 2015, GZE shall, subject to certain conditions and upon demand by the Company, pay to the Company (or such other person as the Company may specify) the full amount of such excess liabilities. As at the Latest Practicable Date, there is no excess liabilities claimed.

If the conditions above are not satisfied on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), either party thereto may terminate the GZE Excess Liabilities Undertaking by giving the other party thereto not less than 30 days' written notice and, upon termination of the GZE Excess Liabilities Undertaking, all the obligations of the parties shall immediately cease and neither party shall have any claim against the other party in respect of any matter arising out of or in connection with the GZE Excess Liabilities Undertaking. As at the Latest Practicable Date, the conditions (ii) and (iii) set out above have been satisfied.

### **Assumption Agreement**

TQS entered into the Assumption Agreement with Fame Dragon and the Company in respect of the indebtedness arising from certain accounts payables and other payables of TQS, pursuant to which Fame Dragon agrees to assume certain payable by TQS in consideration for the Company agreeing to allot and issue new Shares, subject to the verification by auditors appointed by Fame Dragon and the compliance with any applicable requirements under the Listing Rules at the issue price of HK\$0.1 per Share to the extent that immediately after the issue of any such Assumption Consideration Shares from time to time at least 25% of the Company's total issued share capital shall be held by the members of the public. Under the Assumption Agreement, no further Assumption Consideration Shares shall be issued after the 5th anniversary of the date of the resumption of trading in the Shares, and Fame Dragon will assume liabilities up to a maximum amount of RMB282,056,122.05 (equivalent to HK\$359,542,041.5 based on the exchange rate of RMB1.00 to HK\$1.274718091). Accordingly, the number of Assumption Consideration Shares to be issued to Fame Dragon shall be 3,595,420,415 Shares upon the date of the resumption of trading in the Shares. For the avoidance of doubt, the Whitewash Waiver will only cover the Assumption Consideration Shares to be issued upon resumption of trading of Shares and will not cover any Assumption Consideration Shares to be issued throughout five years from the date of the resumption of trading in the Shares, if any.

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## LETTER FROM THE BOARD

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The completion of the Assumption Agreement is conditional upon:

- (i) the Stock Exchange having granted the listing of, and permission to deal in, the Assumption Consideration Shares;
- (ii) the Debt Restructuring having become effective in accordance with its terms;
- (iii) all authorisations necessary for the implementation of the transactions contemplated by the Assumption Agreement having been obtained or compiled with including any applicable requirements under the Listing Rules;
- (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement and (iii) the Assumption Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms;
- (v) resumption of trading in the Share of the Company having been unconditionally or conditionally in principle or otherwise approved by the Stock Exchange;
- (vi) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver;
- (vii) the grant of the Whitewash Waiver by the Executive; and
- (viii) the Assumption Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions precedent may be waived. As at the Latest Practicable Date, the conditions (ii) and (v) set out above have been satisfied. In the event that the conditions precedent above are not fulfilled on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), any parties to the Assumption Agreement may terminate the Assumption Agreement by giving each other party not less than 30 days' written notice and, upon termination of the Assumption Agreement, all the obligations of the parties shall immediately cease and none of the parties shall have any claims against any other party in respect of any matter arising out of or in connection with the Assumption Agreement, save for any claims arising out of any antecedent breaches thereof.

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## LETTER FROM THE BOARD

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### ***Reasons for and benefits of the Assumption Agreement***

Pursuant to the Assumption Agreement, Fame Dragon has agreed to assume certain payable by TQS in consideration of the Company agreeing to allot and issue new Shares, subject to the verification by auditors appointed by Fame Dragon and compliance with any applicable requirements under the Listing Rules, at the issue price of HK\$0.1 per Share. The Directors consider that the arrangement to settle such indebtedness of the Group by way of issue of new Shares to Fame Dragon could reduce the cash outlay of the Group, which would be beneficial to the Group's financial condition and development.

The terms for the Assumption Agreement was arrived at based on arm's length negotiations between the Company and Fame Dragon. The Directors are of the opinion that the terms of the Assumption Agreement are fair and reasonable and the transactions contemplated under the Assumption Agreement are in the interests of the Company and the Shareholders as a whole.

### **Loan Rescheduling Agreements**

Certain bank loans of TQS were assigned to Fujian Wonderful in 2014, an Independent Third Party. The outstanding principal amount as at 31 March 2016 is approximately RMB208.4 million. In this connection, TQS entered into the Loan Rescheduling Agreements with Fujian Wonderful, pursuant to which Fujian Wonderful has agreed, among other things, to postpone the first repayment date of the loan assigned to Fujian Wonderful until 3 years from the date of the respective Loan Rescheduling Agreements and shall repay the respective bank loans in a total of 8 instalments in each repayment date (repay 12.5% for each 12 months until 120 months from the date of the respective Loan Rescheduling Agreement).

The Loan Rescheduling Agreements will only be effective upon the satisfaction of the following conditions:

- (i) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed by the Stock Exchange, the SFC, the Bermuda Court or other government authority in any competent jurisdiction in relation to the Loan Rescheduling Agreement and the transactions contemplated hereunder;
- (ii) the Debt Restructuring having become effective in accordance with its terms;
- (iii) trading in the ordinary shares of the Company having resumed on the Stock Exchange having been unconditionally or conditionally approved by the Stock Exchange;

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## LETTER FROM THE BOARD

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- (iv) each condition precedent required to be satisfied pursuant to the terms of each other Restructuring Document (other than all conditions precedent in (i) FTSD Purchase Order Framework Agreement; (ii) Management Services Agreement and the Loan Rescheduling Agreements) having been satisfied or waived for the purpose of making each respective Restructuring Document effective in accordance with its terms;
- (v) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver; and
- (vi) the grant of the Whitewash Waiver by the Executive.

The conditions (v) and (vi) may not be waived. As at the Latest Practicable Date, the conditions (ii) and (iii) set out above have been satisfied. Fujian Wonderful is a company incorporated in the PRC and principally engaged in trading of petroleum products, non-ferrous metals, bitumen mixture and chemical products and owned by Liang Junhua and Feng Zongping as to approximately 95% and 5% respectively. Based on the best knowledge of the Directors, the ultimate beneficial owner of Fujian Wonderful is third party independent of GZE and parties acting in concert with it and its associates and not an existing shareholder.

### **Deconsolidation of subsidiaries and jointly-controlled entity**

As at 31 March 2016, the total outstanding amount due to the deconsolidated subsidiaries was approximately HK\$490.4 million and amounts due to jointly-controlled entity was approximately HK\$165.4 million, which will be restructured by the following methods:

- In relation to the amount due to the deconsolidated subsidiaries from TRML of approximately HK\$333.3 million, the Company proposes to restructure its debts by negotiating with the liquidators of the deconsolidated subsidiaries to compromise debts by the TRML Scheme by the funding of any payments to be made under TRML to Titan Resources Management (S) Pte. Ltd. (in liquidation), a company incorporated in Singapore, or any party amounted to approximately HK\$9.0 million which is subject to verification by the liquidator and shall be funded by internal resources within the Group. The proposed TRML Scheme was approved by the creditors and sanctioned by the BVI Court. TRML has obtained a letter of support from the liquidator in Singapore stating that he will recommend to the creditors to support the proposed TRML Scheme.



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## LETTER FROM THE BOARD

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- In respect of the amount due to the deconsolidated subsidiaries from TQSL Holding of approximately HK\$79.6 million, the Company proposes to execute the compromise agreement (the “**Compromise Agreement**”) pursuant to which the amount due from TQSL Holding to the deconsolidated subsidiaries will be compromised and settled by TQSL Holding procuring the payment of approximately HK\$796,000 which is subject to verification by the liquidator and was funded by third party loan (which the repayment of such third party loan will be funded by the internal resources within the Group). The closing of the Compromise Agreement is subject to (i) TQSL Holding entering into appropriate terms with the third party funder in respects of the funds to be paid under the Compromise Agreement; and (ii) the liquidator having obtained the approval of creditors and/or the sanction of the High Court of Singapore (as required by applicable law) to enter into the compromise effected by the Compromise Agreement. TQSL Holding has obtained a letter of support from the liquidator in Singapore stating that he will recommend to the creditors to accept the revised proposed Compromise Agreement.
- The Group will deconsolidate Titan Oil Finance Limited. Upon the deconsolidation of Titan Oil Finance Limited, the amount due to the deconsolidated subsidiaries will be decreased by approximately HK\$20.5 million.
- In respect of the amount due to the deconsolidated companies mainly from certain subsidiaries of the Group in the PRC (the “**PRC Subsidiaries**”) and a subsidiary in BVI of approximately HK\$57.0 million, subject to the liquidation procedures of the deconsolidated subsidiaries, the Company plans to implement the restructuring of the PRC Subsidiaries, including but not limited to winding up the PRC Subsidiaries.
- The amount due from the jointly-controlled entity was approximately HK\$148.6 million. Accordingly, the net amount due to the jointly-controlled entity was approximately HK\$16.8 million as at 31 March 2016 and will be settled by internal resources within the Group.

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## LETTER FROM THE BOARD

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### D. INTERIM FINANCING ARRANGEMENTS

In order to rescue the Group, GZE has made available certain interim financing arrangements.

#### **First Loan Agreement**

On 12 March 2013, the Company entered into the First Loan Agreement (as amended and supplemented on 16 October 2015 and 29 April 2016) with Fame Dragon, pursuant to which Fame Dragon agreed to provide an interim financing on request of the Company of up to approximately HK\$62.24 million at an interest rate of 2% per annum (from the date of utilization of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).

The Company shall:

- (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and
- (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

The obligations of the Company under the First Loan Agreement are conditional on:

- (i) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
- (ii) the grant of the Whitewash Waiver by the SFC; and
- (iii) the First Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions can be waived. As at the Latest Practicable Date, HK\$3 million has been drawn down under the First Loan Agreement.

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## LETTER FROM THE BOARD

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### Second Loan Agreement

On 13 March 2014, the Company entered into the Second Loan Agreement (as amended and supplemented on 10 July 2014, 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of a 3-year unsecured loan of HK\$62.24 million by Fame Dragon to the Company at an interest rate of 2% per annum (from the date of utilisation of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).

The Company shall:

- (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and
- (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

The obligations of the Company under Second Loan Agreement are conditional on:

- (i) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
- (ii) the grant of the Whitewash Waiver by the SFC; and
- (iii) the Second Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions can be waived. As at the Latest Practicable Date, HK\$62.24 million has been fully received under the Second Loan Agreement.

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## LETTER FROM THE BOARD

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### The 2015 Loan Agreement

On 27 February 2015, the Company entered into the 2015 Loan Agreement (as amended and supplemented on 16 October 2015, 15 January 2016 and 29 April 2016) with Fame Dragon in relation to the provision of an uncommitted term loan of US\$15 million by Fame Dragon to the Company.

The major terms of the 2015 Loan Agreement are set out below:

- Parties:
- a. the Company (as borrower); and
  - b. Fame Dragon (as lender).
- Loan amount: an aggregate of US\$15 million, to be made available to the Company from time to time according to the requirements of the Company.
- Interest: 2% per annum (from the date of utilisation of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).
- Term: Three years.
- Security: The loan under the 2015 Loan Agreement is unsecured.
- Purpose of the loan: For meeting costs incurred by the Company in relation to the Creditors' Scheme or any other purpose agreed by Fame Dragon and the Provisional Liquidators, but not including the repayment of any debt which is included in the Creditors' Scheme.
- Repayment: On the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

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## LETTER FROM THE BOARD

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- Conditions:
- a. the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
  - b. the grant of the Whitewash Waiver by the SFC; and
  - c. the 2015 Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM

None of the conditions can be waived.

- Event of default:
- a. The Company fails to make any payment to Fame Dragon which is due and payable under the provisions of the 2015 Loan Agreement;
  - b. Any representation, statement or warranty given by the Company under the 2015 Loan Agreement is, or at the time it was provided has been, materially incorrect, untrue or misleading;
  - c. Any authorisation required to be obtained for the Company to execute the 2015 Loan Agreement or perform any of its obligations under the 2015 Loan Agreement is revoked, cancelled or expires;
  - d. Any approval, registration or filing required to be obtained from a government body to ensure the legality, effectiveness and enforceability of the obligations of the Company under the 2015 Loan Agreement and for the 2015 Loan Agreement to be subject to the jurisdiction of the Hong Kong courts and to be enforceable is revoked, cancelled or expires;

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## LETTER FROM THE BOARD

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- e. The Company does not use the loan in accordance with the purpose set out in the 2015 Loan Agreement;
- f. In any jurisdiction, in relation to the liquidation of the Company, other than the Provisional Liquidators, one or more liquidators, receivers, administrators, administrative receivers or other similar officers are appointed (whether temporary or not);
- g. A liquidator (including the Provisional Liquidators or any other provisional liquidators) of the Company, a government official or other similar officer in any jurisdiction applicable to the Company proposes to disclaim, avoid, abandon and/or challenge the terms or validity of the 2015 Loan Agreement or any part thereof or any transactions related to or contemplated by the 2015 Loan Agreement;
- h. The Stock Exchange makes a last and final decision to delist the Shares from the Main Board of the Stock Exchange and cancel the Company's listing;
- i. Any material term of the Creditors' Scheme is amended or varied without the consent of Fame Dragon or the scheme documents in form and substance satisfactory to Fame Dragon are not approved by the Bermuda Court.

Upon the occurrence of an event of default above, Fame Dragon has the right to declare by means of written notice that the loans already disbursed under the 2015 Loan Agreement are immediately due and payable and to demand the Company to pay immediately all principal, interest and all other payable costs due under the 2015 Loan Agreement. However, in the event the Bermuda Court shall make a winding up order in respect of the Company, Fame Dragon shall be entitled to submit a proof of debt in the Company's liquidation as an unsecured creditor for all amounts due under the 2015 Loan Agreement.

As at the Latest Practicable Date, approximately US\$11.5 million has been received under the 2015 Loan Agreement.

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## LETTER FROM THE BOARD

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### Shares to be allotted and issued in respect of the Interim Financing Agreements

Based on the terms of the First Loan Agreement, Second Loan Agreement and the 2015 Loan Agreement and on the assumption that (a) the completion of the transactions contemplated under this circular would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements are drawn down as at the Latest Practicable Date, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$0.2 million, HK\$2.3 million and HK\$1.9 million under the First Loan Agreement, Second Loan Agreement and the 2015 Loan Agreement respectively, and a maximum 42,942,355 Shares in aggregate will be allotted and issued to Fame Dragon (or its wholly-owned subsidiary).

For the avoidance of doubt, the new Shares to be issued and allotted to Fame Dragon (or its wholly-owned subsidiary) in respect of the Interim Financing Agreements will only cover the interest payment of the relevant agreements up to the date on which the transactions contemplated under the Resumption Proposal are completed. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.

### E. THE GZE STANDBY WORKING CAPITAL FACILITY

On 16 October 2015, the Company entered into the GZE Standby Working Capital Facility Agreement with GZE in relation to the provision of standby working capital facility for an aggregate amount of HK\$180 million by GZE to the Company. The principal terms of the loan agreement as follows:

Parties	a. the Company (as borrower); and b. GZE (as lender).
Loan amount	an aggregate of HK\$180 million, to be made available to the Company from time to time after the Resumption according to the requirements of the Company.
Interest	4% per annum, accrued from the date of drawdown.
Term	Three years, or such other period as may be agreed between the Company and GZE.
Purpose of the loan	To support the business and operations of the Group after Resumption.

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## LETTER FROM THE BOARD

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- Repayment
- The loans shall be repaid in full together with the accrued interest and all other amounts payable under the GZE Standby Working Capital Facility Agreement, the loan maturity date (i.e. 3 years from the date of the GZE Standby Working Capital Facility Agreement or such later date mutually agreed between the Company and GZE). The loan under the GZE Standby Working Capital Facility Agreement will not form part of the debt to be restructured under the Creditors' Scheme.
- Events of default
1. the borrower fails to make any payment to the lender (including without limitation principal, interest or other any other amount) which is due and payable under the provisions of GZE Standby Working Capital Facility Agreement;
  2. any representation, statement or warranty given by the borrower under the GZE Standby Working Capital Facility Agreement is materially incorrect, untrue or misleading or at the time such representation, statement or warranty was provided or deemed to be provided it proves to have been materially incorrect, untrue or misleading;
  3. any authorisation required to be obtained for the borrower to execute the GZE Standby Working Capital Facility Agreement or perform any of its obligations under the GZE Standby Working Capital Facility Agreement is revoked, cancelled or expires;
  4. any approval, registration or filing required to be obtained from a government body to ensure the legality, effectiveness and enforceability of the obligations of the borrower under the GZE Standby Working Capital Facility Agreement and for the GZE Standby Working Capital Facility Agreement to be subject to the jurisdiction of the Hong Kong courts and to be enforceable is revoked, cancelled or expires;
  5. the borrower does not use the loans in accordance with the purpose set out in the GZE Standby Working Capital Facility Agreement;



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## LETTER FROM THE BOARD

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6. in any jurisdiction, in relation to the liquidation of the borrower, other than the Provisional Liquidators one or more liquidators, receivers, administrators, administrative receivers or other similar officers are appointed (whether temporary or not);
7. a liquidator (including the Provisional Liquidators or any other provisional liquidators) of the borrower, a government official or other similar officer in any jurisdiction applicable to the borrower proposes to disclaim, avoid, abandon and/or challenge the terms or validity of the GZE Standby Working Capital Facility Agreement or any part thereof or any transactions related to or contemplated by the GZE Standby Working Capital Facility Agreement;
8. the Stock Exchange makes a last and final decision to delist the share of the borrower from the main board of the Stock Exchange and cancel the listing of the borrower;
9. any material term of the Creditors' Scheme is amended or varied without the consent of the lender or the scheme documents in form and substance satisfactory to the lender are not approved by the Bermuda Court; or
10. the powers and/or duties of the Provisional Liquidators as set forth in an order of the Bermuda Court dated 14 February 2014 are extended or materially amended (other than in respect of amendments which has been made to such powers at the date of the GZE Standby Working Capital Facility Agreement).

Upon the occurrence of an event of default above, GZE has the right to declare by means of written notice that the loans already disbursed under the GZE Standby Working Capital Facility Agreement are immediately due and payable and to demand the Company to pay immediately all principal, interest and all other payable costs due under the GZE Standby Working Capital Facility Agreement. However, in the event the Bermuda Court shall make a winding up order in respect of the Company, GZE shall be entitled to submit a proof of debt in the liquidation of the Company as an unsecured creditor for all amounts due under the GZE Standby Working Capital Facility Agreement.

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## LETTER FROM THE BOARD

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### F. PROPOSED OPEN OFFER

The Board proposes to raise not less than approximately HK\$260.7 million and not more than HK\$260.9 million by way of the Open Offer of new Shares on the basis of one Offer Share for every three existing Shares held by the Qualifying Shareholders on the Record Date.

On 16 October 2015, the Company and GZE entered into the Underwriting Agreement pursuant to which the Underwriter conditionally agreed to fully underwrite the proposed Open Offer.

Condensed particulars on the proposed Open Offer are set out as follows:

#### Issue statistics

Basis of the Open Offer	One (1) Offer Share for every three (3) existing Shares held on the Record Date
Subscription price	HK\$0.1 per Share
Number of Shares in issue	7,820,554,682 Shares
Number of Offer Shares	not less than 2,606,851,560 Offer Shares and not more than 2,609,251,560 Offer Shares (assume the exercise of all outstanding Share Options prior to the Record Date)
Underwriting arrangement	Fully underwritten by GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares)

#### Conditions of the Open Offer

The consummation of the Open Offer is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with the terms and conditions of the Underwriting Agreement. The conditions of the Underwriting Agreement are set out in the paragraph headed “Underwriting arrangement – Conditions of the Underwriting Agreement”.

If the conditions of the Underwriting Agreement are not fulfilled, the Open Offer will not proceed.

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## LETTER FROM THE BOARD

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### **Application for excess Offer Shares**

It is expected that any Offer Shares (i) not validly applied for by any Qualifying Shareholders under the Open Offer; (ii) to which the Non-Qualifying Shareholders would otherwise have been entitled; and (iii) created by aggregating any fractional assured entitlements will be made available for excess and equitable applications by the Qualifying Shareholders and such Offer Shares will be allocated on a fair and equitable basis.

### **Application for listing**

If the Open Offer proceeds, application will be made to the Listing Committee for the listing of, and permission to deal in, the Offer Shares to be allotted and issued under the Open Offer to be allotted and issued pursuant to the Open Offer.

Further details of the Open Offer will be set out in the Open Offer Prospectus to be despatched to the Qualifying Shareholders in due course.

### **Underwriting arrangement**

#### ***Underwriting Agreement***

Date	16 October 2015 (as supplemented and amended on 29 April 2016)
Underwriter	GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares)
Underwriting arrangement	Fully underwritten
Commission	Nil

Pursuant to the Underwriting Agreement, GZE has conditionally agreed to underwrite the Open Offer subject to the terms and conditions set out in the Underwriting Agreement and, in particular, the fulfilment of the conditions contained therein. GZE, by virtue of their holding of voting rights of a total of 3,556,353,661 Shares (representing approximately 45.5% of the total Shares in issue as at the Latest Practicable Date) is a company incorporated under the laws of the PRC whose ordinary business does not include underwriting.

As the Underwriter will not be charging any underwriting fee or commission, the Directors consider that the underwriting arrangement under the Underwriting Agreement would be beneficial to the Company and would allow the Company to reduce the costs and expenses in conducting the Open Offer which the Company would otherwise have to incur if a registered brokerage firm or an investment bank was to be appointed as the underwriter.

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## LETTER FROM THE BOARD

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### *Conditions of the Underwriting Agreement*

The obligations of the Underwriter under the Underwriting Agreement are conditional on the following conditions:

- (i) (if required under the Companies Ordinance) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong respectively on or prior to the Posting Date and (if required under the Companies Act) the registration by the Registrar of Companies in the Bermuda prior to or as soon as practicable after the Posting Date of the Open Offer Documents (and all other documents required to be filed or delivered for registration);
- (ii) the posting on the Posting Date of copies of the Open Offer Documents to the Qualifying Shareholders and the Open Offer Prospectus to the Non-Qualifying Shareholders;
- (iii) the Listing Committee granting listing of, and permission to deal in, the Offer Shares either unconditionally or subject to conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the Posting Date and the Listing Committee not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date;
- (iv) the Stock Exchange having unconditionally or conditionally in principle or otherwise approved the resumption of trading of the Shares based on the Resumption Proposal to be submitted to the Stock Exchange (as may be supplemented or amended from time to time);
- (v) amendment of the Creditors' Scheme to implement the terms of the Resumption Proposal of the Company;
- (vi) all consents and approvals necessary in connection with the transactions contemplated in the Underwriting Agreement having been obtained and all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC and/or the Bermuda Court in relation to the Underwriting Agreement and the transactions contemplated thereunder, including without limitation the approval of the Whitewash Waiver and the Special Deal by the Independent Shareholders of the Company and the grant of the Whitewash Waiver and the Special Deal consent by the Executive having been complied with; and

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## LETTER FROM THE BOARD

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- (vii) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement; and (iii) the Underwriting Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms.
- (viii) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
- (ix) the grant of the Whitewash Waiver by the SFC; and
- (x) the Underwriting Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in SGM.

None of the conditions set out above can be waived. As at the Latest Practicable Date, condition (iv) set out above has been satisfied. If the conditions are not fulfilled on or before 31 August 2016 (or such later date as may be agreed among the parties hereto in writing), any party hereto may terminate the Underwriting Agreement by giving each other party hereto not less than 30 days' written notice and, upon termination of the Underwriting Agreement, all the obligations of the parties hereto shall immediately cease and none of the parties hereto shall have any claim against any other party hereto in respect of any matter arising out of or in connection with the Underwriting Agreement, save for any antecedent breaches.

### ***Termination and Force Majeure of the Underwriting Agreement***

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4:00 p.m. on the Settlement Date under any of the following circumstances:

- (i) the powers and/or duties of the Provisional Liquidators of the Company appointed by the Bermuda Court on 18 October 2013 (Bermuda time) as set forth in an order of the Bermuda Court dated 14 February 2014 are materially extended or amended by the Bermuda Court (other than in respect of amendments which has been made to such powers at the date of the Underwriting Agreement);

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## LETTER FROM THE BOARD

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- (ii) the making of an order to wind up of the Company;
- (iii) there is any breach of any of the warranties made by the Company in any material respect which has come to the knowledge of the Underwriter or any event which has occurred or any matter which has arisen on or after the date of the Underwriting Agreement which if it had occurred or arisen before the date hereof would have rendered any of such warranties untrue, inaccurate or misleading in any material respect; or
- (iv) there is material adverse change in the financial position, business, property or operations of any member of the Group compared to that as at the date of the Underwriting Agreement.

Upon the giving of notice pursuant to the Underwriting Agreement, all obligations of the Underwriter hereunder shall cease and determine and none of the parties hereto shall have any claim against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement, save for any antecedent breaches.

### **Reasons for the Open Offer**

The Company intends to use the proceeds from the Open Offer to fund its Debt Restructuring and the repayment of the outstanding indebtedness of the Group other than those that will form part of the claims to be restructured under the Debt Restructuring. Given the financial situation of the Group and having considered other fund raising alternatives for the Group, such as placing of new Shares or other convertible bonds, and the benefits and cost of each of the alternatives, the Board considers that the Open Offer would be in the interests of the Company and the Shareholders as a whole as it would offer all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company at the same price and would enable the Qualifying Shareholders to continue to participate in the future development of the Company should they wish to do so.

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## LETTER FROM THE BOARD

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### G. SUBSCRIPTION OF SHARES

On 16 October 2015, the Company and GZE entered into the GZE Subscription Agreement pursuant to which GZE has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share. In order to diversify the shareholders base, the Company has negotiated with the Subscriber and on 24 December 2015, the Company and the Subscriber entered into the Subscription Agreement (as supplemented and amended on 29 April 2016), pursuant to which the Subscriber has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share. On the same date of the Subscription Agreement, the parties to the GZE Subscription Agreement has mutually agreed to terminate the GZE Subscription Agreement and the GZE Subscription Agreement has become null and void.

#### Conditions to completion of the Subscription

Completion of the Subscription Agreement is subject to the following conditions:

- (i) the Listing Committee having granted the listing of, and permission to deal in, the Subscription Shares;
- (ii) the Stock Exchange having unconditionally or conditionally agreed in principle or otherwise approved the resumption of trading of the Shares based on the Resumption Proposal submitted to the Stock Exchange (as may be supplemented or amended from time to time);
- (iii) amendment of the Creditors' Scheme to implement the terms of the Resumption Proposal of the Company;
- (iv) all consents and approvals necessary (whether from the courts, the Bermuda monetary authority, governmental or regulatory authorities in whatever jurisdictions) in connection with the Subscription, the allotment and issue of the Subscription Shares and the transactions contemplated in the Subscription Agreement having been obtained and all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC and/or the courts of Bermuda in relation to the Subscription Agreement and the transactions contemplated thereunder, including without limitation the approval by the Independent Shareholders of the Company who are permitted to vote under the Listing Rules of the Subscription Agreement and the transactions contemplated in the Subscription Agreement, including the issue of the Subscription Shares, at the SGM of the Company, having been complied with;

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## LETTER FROM THE BOARD

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- (v) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of the Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement; and (iii) the Subscription Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms;
- (vi) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver; and
- (vii) the grant of the Whitewash Waiver by the Executive.

As at the Latest Practicable Date, condition (ii) set out above have been satisfied. If the conditions are not fulfilled on or before 15 July 2016 (or such later date as may be agreed between the Subscriber and the Company in writing), the Subscription Agreement shall lapse and become null and void and the parties will be released from all obligations thereunder, save for any liability arising out of any antecedent breaches of the Subscription Agreement.

### **Subscription Share**

The subscription price of HK\$0.10 per Subscription Share represents (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day; and (ii) a premium of approximately HK\$0.62 over the audited net liability value per Share as at 31 December 2015.

Specific Mandate will be obtained from the Shareholders at the SGM for the issue of the Subscription Share.

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares to be allotted and issued pursuant to the Subscription.

The Subscription Shares shall, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Subscription Shares.



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## LETTER FROM THE BOARD

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### Termination of the Subscription Agreement

The provisions of the Subscription Agreement shall terminate on the date when the Subscriber issues a written notice to the Company upon the occurrence of any of the following events (unless the right to issue such notice upon the occurrence of such event has been waived by the Subscriber in writing):

- (i) the powers and/or duties of the Provisional Liquidators of the Company appointed by the Bermuda Court on 18 October 2013 (Bermuda time) as set forth in an order of the Bermuda Court dated 14 February 2014 (other than in respect of amendments which has been made to such powers as at the date of the Subscription Agreement are substantially and materially amended such that control of the Company (including for its day to day operations) are vested solely in the Provisional Liquidators to the exclusion of the Directors and management of the Company;
- (ii) the appointment of one or more liquidators, receivers, administrators, administrative receivers or other similar officers (other than the Provisional Liquidators) for the liquidation of the Company in any jurisdiction (whether temporary or not) at any time after the date of the Subscription Agreement;
- (iii) the making of an order by a court of competent jurisdiction to restrict or limit the power of the Board of the Company (and/or TQSL Holding and TPFL) to control the management of the affairs of the Company (or the affairs of TQSL Holding and/or TPFL);
- (iv) the making of an order to wind up the Company and/or TQSL Holding and/or TPFL;
- (v) the appointment of one or more liquidators, receivers, administrators, administrative receivers or other similar officers for the liquidation of TQSL Holding and/or TPFL in any jurisdiction (whether temporary or not) at any time after the date of the Subscription Agreement; or
- (vi) there is any breach of any of the warranties made by the Company in any material respect which has come to the knowledge of the Subscriber or any event which has occurred or any matter which has arisen on or after the date of the Subscription Agreement and prior to completion which if it had occurred or arisen before the date hereof would have rendered any of such warranties untrue, inaccurate or misleading in any material respect.

Upon the giving of notice pursuant to the Subscription Agreement, the obligations of the parties shall immediately cease and neither party shall have any claims against the other party in respect of any matter arising out of or in connection with the Subscription Agreement, save for any antecedent breaches.

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## LETTER FROM THE BOARD

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### **Reasons for the Subscription**

The Subscription, if it proceeds, will provide funding for the Debt Restructuring and the repayment of the outstanding indebtedness of the Group (other than those that will form part of the claims to be restructured under the Debt Restructuring).

The Directors consider that the terms of the Subscription Agreement, including the subscription price of the Subscription Share, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **Previous fund raising exercise of the Company**

The Company did not raise any funds by the issue of equity securities during the twelve months immediately preceding the Latest Practicable Date.

## **H. USE OF PROCEEDS OF THE OPEN OFFER AND SUBSCRIPTION**

The aggregate gross proceeds from the Open Offer and the Subscription will amount to approximately HK\$520.7 million. The aggregate proceeds of approximately HK\$520.7 million are expected to be utilised as to (i) a maximum of HK\$265.6 million for funding the cash payments to be made by the Company to Scheme Creditors under the Debt Restructuring; (ii) approximately HK\$140.8 million for the upgrade and modification of the Quanzhou Shipyard; (iii) approximately HK\$61.8 million for the settlement of certain debts under the Remaining Indebtedness Arrangements; and (iv) the remaining of approximately HK\$52.5 million for the working capital of the Group.

## **I. PROPOSED ISSUE OF CONSIDERATION SHARES**

Lego is the financial adviser to the Company in relation to the proposed restructuring of the Company. Having considered the financial position of the Company, it was agreed between the Company and Lego that part of the professional fees charged by Lego, being HK\$1,400,000, will be settled by means of issue of Consideration Shares. The issue price of the Consideration Shares shall be the same as the subscription price of the new Shares to be issued to the Subscriber, being HK\$0.10 per Share.

As at the Latest Practicable Date, Lego had no interest in the Company. Upon issue of the Consideration Shares, Lego will be interested in 14,000,000 new Shares, representing approximately 0.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares, the Subscription Shares and the Consideration Shares upon completion of the restructuring of the Company (assuming no exercise of the warrants granted to FELS under the Management Services Agreement and the conversion of the Listco Preferred Shares).

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## LETTER FROM THE BOARD

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Having considered the subscription price of HK\$0.10 per Consideration Share represents a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day, pursuant to Rule 13.36(5), the Consideration Shares will be issued under the Specific Mandate. Application will be made to the Stock Exchange in respect of such listing of, and permission to deal in, the Consideration Shares. The Consideration Shares shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Consideration Shares. The Consideration Shares will be issued upon completion of the Restructuring.

### J. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has in issue (i) 7,820,554,682 Shares; (ii) outstanding Share Options entitling the holders thereof to subscribe for a total of 7,200,000 Shares; (iii) 555,000,000 outstanding Listco Preferred Shares entitling the holder thereof to convert those shares into 555,000,000 Shares based on the conversion ratio of 1:1; and (iv) the Listco Convertible Notes in the outstanding principal amount of US\$47,960,000 entitling holders thereof to convert those notes into 523,483,348 Shares based on the conversion rate of 10,915 Shares per US\$1,000.

Based on the best knowledge of the Directors, set out below is the shareholding structure of the Company (i) as at the date of Latest Practicable Date; (ii) immediately upon completion of the Open Offer (assuming no exercise of Share Options); (iii) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement, the issue of 14,000,000 Consideration Shares and the issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement respectively on the assumption (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date and the exercise of the warrants granted to FELS under the Management Services Agreement; (iv) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes and the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of 14,000,000 Consideration Shares, the issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement respectively on the assumption (a) the completion of the transactions contemplated under the Resumption Proposal would take

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## LETTER FROM THE BOARD

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place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date and the exercise of the warrants granted to FELS under the Management Services Agreement; (v) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of 14,000,000 Consideration Shares, the issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement respectively on the assumption (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date and the exercise of the warrants granted to FELS under the Management Services Agreement and the conversion of the Listco Preferred Shares; and (vi) immediately upon completion of the Open Offer (assuming all Share Options are exercised), Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of 14,000,000 Consideration Shares, the issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement respectively on the assumption (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date, the conversion of the Listco Preferred Shares and the exercise of warrants granted to FELS under the Management Services Agreement.

**LETTER FROM THE BOARD**

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately upon completion of the Open Offer (assuming no exercise of Share Option)			
	Number of Shares	Approximate %	Assuming no Shareholder take up the Offer Shares	Approximate %	Assuming all Shareholders take up the Offer Shares	Approximate %
Fame Dragon (Note 6)	3,556,353,661	45.5	3,556,353,661	34.1	4,741,804,881	45.5
DBIL	-	-	-	-	-	-
GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) (Note 1 and 6)	-	-	2,606,851,560	25.0	-	-
GZE and parties acting in concert with it (Note 6)	3,556,353,661	45.5	6,163,205,221	59.1	4,741,804,881	45.5
Subscriber	-	-	-	-	-	-
Moral Base Investment Limited (Note 2)	1,000,000,000	12.8	1,000,000,000	9.6	1,333,333,333	12.8
Option holders – Shares Options under the Share Option Scheme of the Company	-	-	-	-	-	-
FELS (Note 3)	-	-	-	-	-	-
Holder of Existing Notes (Note 4)	84,520,000	1.0	84,520,000	0.8	112,693,333	1.0
Lego	-	-	-	-	-	-
Others public Shareholders	3,179,681,021	40.7	3,179,681,021	30.5	4,239,574,695	40.7
Public	3,264,201,021	41.7	4,264,201,021	40.9	4,352,268,028	41.7
			(Note 5)	(Note 5)		
Total	7,820,554,682	100.0	10,427,406,242	100.0	10,427,406,242	100.0

## LETTER FROM THE BOARD

(iii) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of the Consideration Shares and the issue of maximum number of new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements

Shareholders	Assuming no Shareholder take up the Offer Shares		Assuming all Shareholders take up the Offer Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Fame Dragon (Note 6)	7,194,716,431	23.5	8,380,167,651	27.3
DBIL	–	–	–	–
GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) (Note 1 and 6)	14,639,774,631	47.8	12,032,923,071	39.3
GZE and parties acting in concert with it (Note 6)	21,834,491,062	71.3	20,413,090,722	66.6
Subscriber	2,600,000,000	8.5	2,600,000,000	8.5
Moral Base Investment Limited (Note 2)	1,000,000,000	3.3	1,333,333,333	4.4
Option holders – Shares Options under the Share Option Scheme of the Company	–	–	–	–
FELS (Note 3)	–	–	–	–
Holders of Existing Notes (Note 4)	2,005,406,282	6.5	2,033,579,615	6.6
Lego	14,000,000	0.0	14,000,000	0.0
Others public Shareholders	3,179,681,021	10.4	4,239,574,695	13.9
Public	8,799,087,303	28.7	10,220,487,643	33.4
	(Note 5)	(Note 5)	(Note 5)	(Note 5)
Total	30,633,578,365	100.0	30,633,578,365	100.0

## LETTER FROM THE BOARD

(iv) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of the Consideration Shares, the issue of maximum number of new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements, and the exercise of the warrants granted to FELS under the Management Services Agreement

Shareholders	Assuming no Shareholder take up the Offer Shares		Assuming all Shareholders take up the Offer Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Fame Dragon (Note 6)	7,194,716,431	21.2	8,380,167,651	24.6
DBIL	–	–	–	–
GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) (Note 1 and 6)	14,639,774,631	43.0	12,032,923,071	35.4
GZE and parties acting in concert with it (Note 6)	21,834,491,062	64.2	20,413,090,722	60.0
Subscriber	2,600,000,000	7.7	2,600,000,000	7.7
Moral Base Investment Limited (Note 2)	1,000,000,000	2.9	1,333,333,333	3.9
Option holders – Shares Options under the Share Option Scheme of the Company	–	–	–	–
FELS (Note 3)	3,365,953,671	9.9	3,365,953,671	9.9
Holders of Existing Notes (Note 4)	2,005,406,282	5.9	2,033,579,615	6.0
Lego	14,000,000	0.0	14,000,000	0.0
Others public Shareholders	3,179,681,021	9.4	4,239,574,695	12.5
Public	12,165,040,974	35.8	13,586,441,314	40.0
	(Note 5)	(Note 5)	(Note 5)	(Note 5)
Total	33,999,532,036	100.0	33,999,532,036	100.0

## LETTER FROM THE BOARD

(v) immediately upon completion of the Open Offer (assuming no exercise of Share Options), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of the Consideration Shares and the issue of maximum number of new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements, the exercise of the warrants granted to FELS under the Management Services Agreement and the conversion of the Listco Preferred Shares

Shareholders	Assuming no Shareholder take up the Offer Shares		Assuming all Shareholders take up the Offer Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Fame Dragon (Note 6)	7,194,716,431	20.8	8,380,167,651	24.3
DBIL	555,000,000	1.6	555,000,000	1.6
GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) (Note 1 and 6)	14,639,774,631	42.4	12,032,923,071	34.8
GZE and parties acting in concert with it (Note 6)	22,389,491,062	64.8	20,968,090,722	60.7
Subscriber	2,600,000,000	7.5	2,600,000,000	7.5
Moral Base Investment Limited (Note 2)	1,000,000,000	2.9	1,333,333,333	3.9
Option holders – Shares Options under the Share Option Scheme of the Company	–	–	–	–
FELS (Note 3)	3,365,953,671	9.7	3,365,953,671	9.7
Holders of Existing Notes (Note 4)	2,005,406,282	5.9	2,033,579,615	5.9
Lego	14,000,000	0.0	14,000,000	0.0
Others public Shareholders	3,179,681,021	9.2	4,239,574,695	12.3
Public	12,165,040,974	35.2	13,586,441,314	39.3
	(Note 5)	(Note 5)	(Note 5)	(Note 5)
Total	34,554,532,036	100.0	34,554,532,036	100.0



## LETTER FROM THE BOARD

Shareholders	Assuming no Shareholder take up the Offer Shares		Assuming all Shareholders take up the Offer Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Fame Dragon (Note 6)	7,194,716,431	20.8	8,380,167,651	24.3
DBIL	555,000,000	1.6	555,000,000	1.6
GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) (Note 1 and 6)	14,642,174,631	42.4	12,032,923,071	34.8
GZE and parties acting in concert with it (Note 6)	22,391,891,062	64.8	20,968,090,722	60.7
Subscriber	2,600,000,000	7.5	2,600,000,000	7.5
Moral Base Investment Limited (Note 2)	1,000,000,000	2.9	1,333,333,333	3.9
Option holders – Shares Options under the Share Option Scheme of the Company	7,200,000	0.0	9,600,000	0.0
FELS (Note 3)	3,365,953,671	9.7	3,365,953,671	9.7
Holders of Existing Notes (Note 4)	2,005,406,282	5.8	2,033,579,615	5.9
Lego	14,000,000	0.0	14,000,000	0.0
Others public Shareholders	3,179,681,021	9.3	4,239,574,695	12.3
Public	12,172,240,974	35.2	13,596,041,314	39.3
	(Note 5)	(Note 5)	(Note 5)	(Note 5)
Total	34,564,132,036	100.0	34,564,132,036	100.0

(vi) immediately upon completion of the Open Offer (assuming all Share Options are exercised), the Subscription, debt settlement (including the issue of 9,382,164,000 new Shares to GZE under the Shipyard Termination Agreement, the issue of 1,920,886,282 new Shares to the holders of

Existing Notes, the issue of 3,595,420,415 new Shares to Fame Dragon under the Assumption Agreement), the issue of the Consideration Shares, the issue of maximum number of new Shares to GZE, Fame Dragon under the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements, the conversion of the Listco Preferred Shares and the exercise of warrants granted to FELS under the Management Services Agreement

Assuming no Shareholder  
take up the Offer Shares

Assuming all Shareholders  
take up the Offer Shares

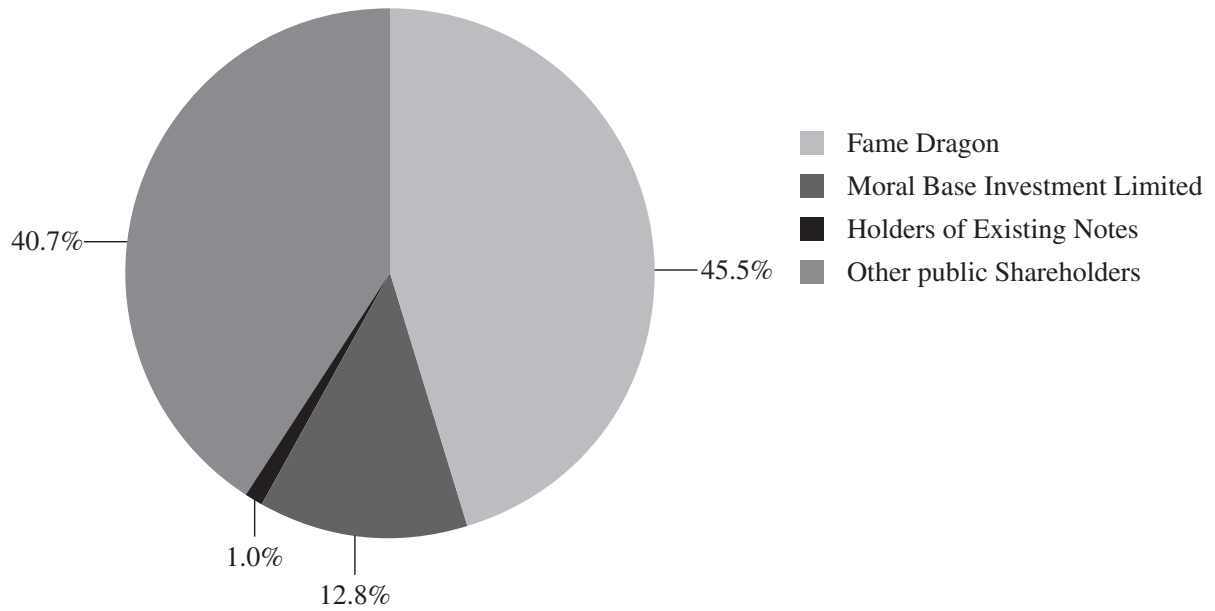
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## LETTER FROM THE BOARD

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The following diagram demonstrates the shareholding of the Company for each scenario as stipulated in the shareholding table for easier reference:

**Scenario (i)**

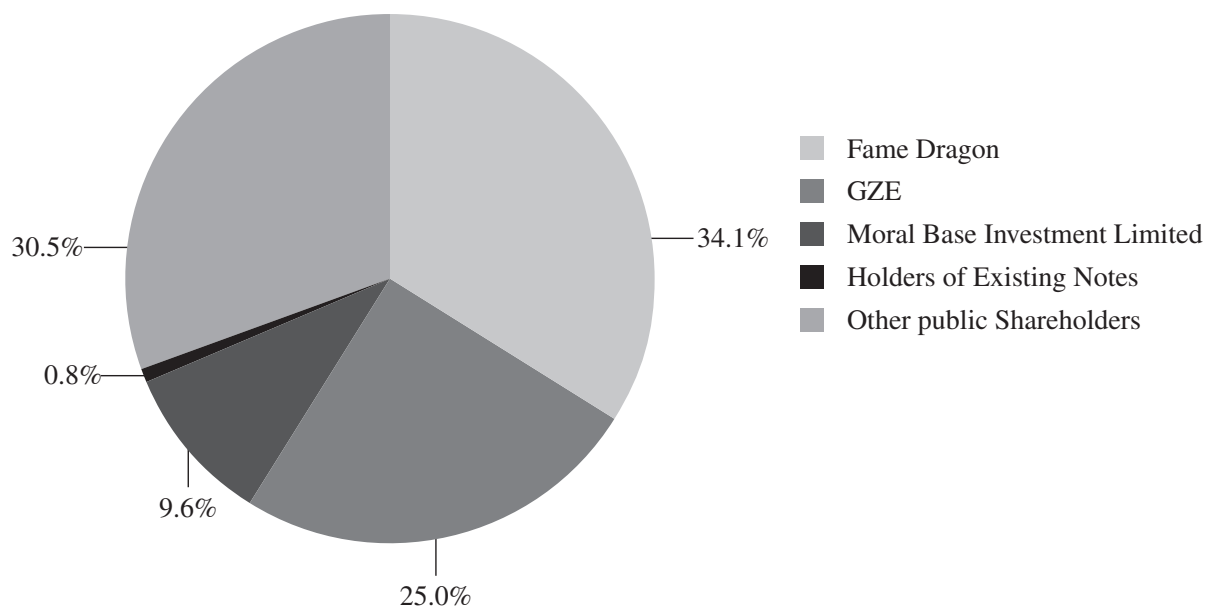


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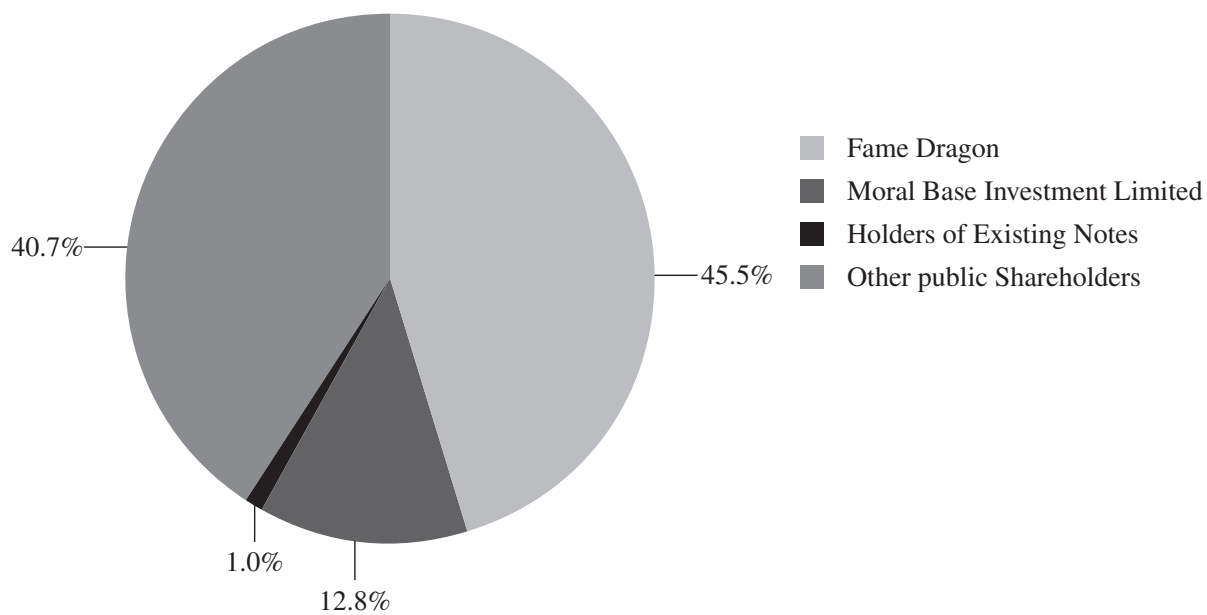
## LETTER FROM THE BOARD

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**Scenario (ii) (a)**



**Scenario (ii) (b)**

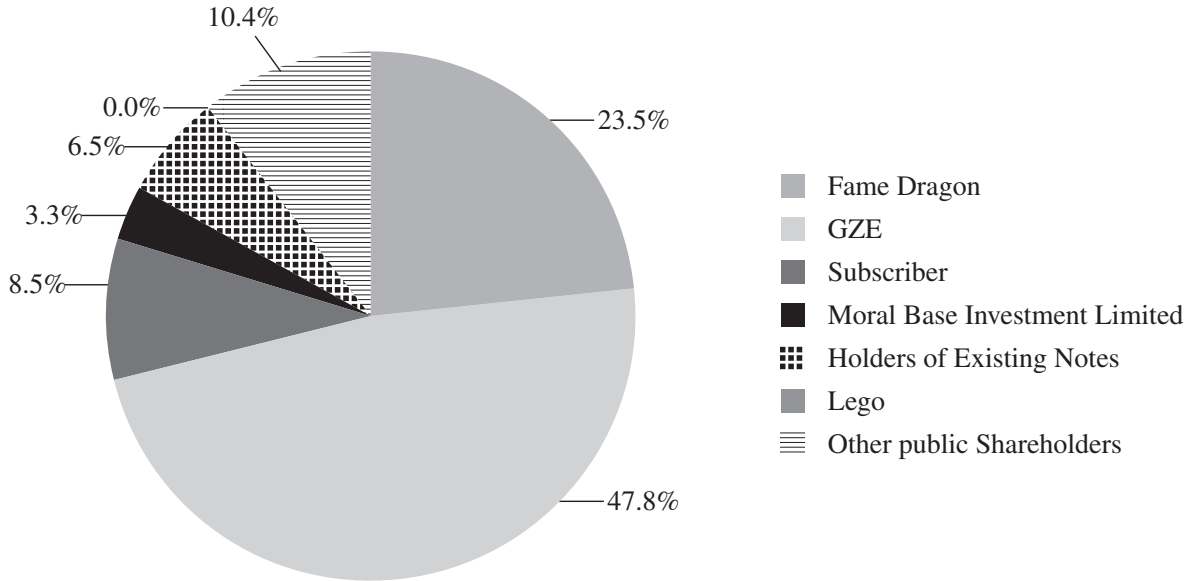


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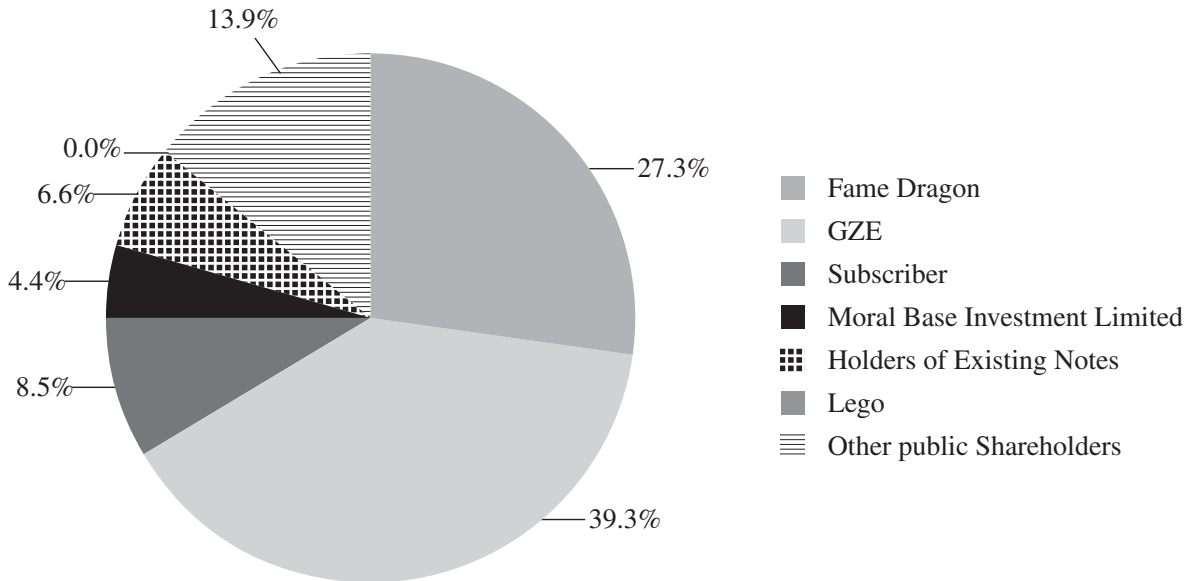
## LETTER FROM THE BOARD

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Scenario (iii) (a)

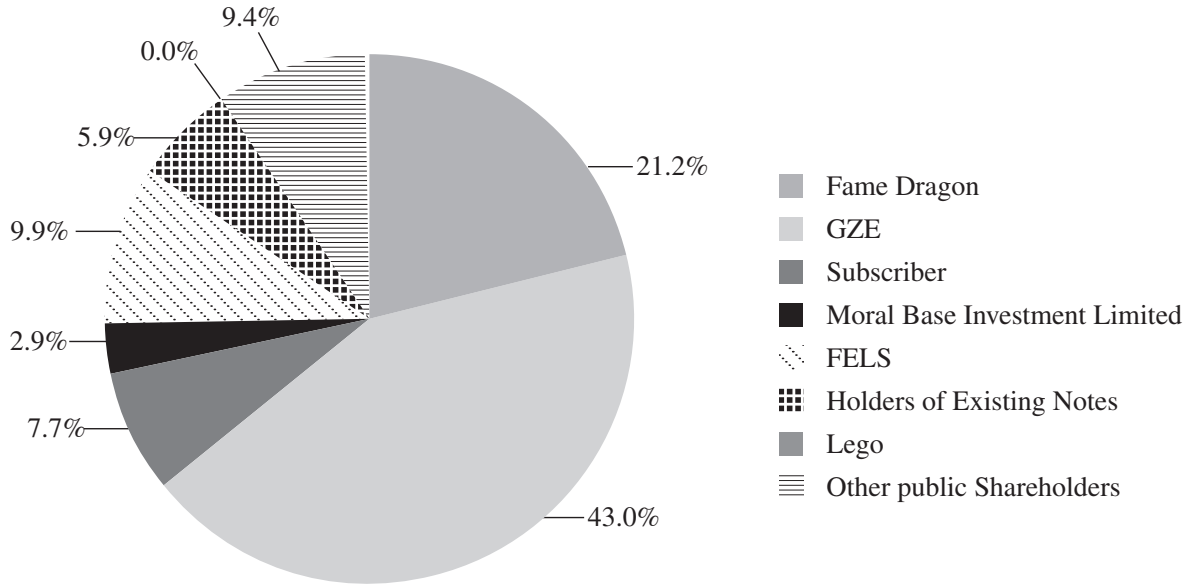


Scenario (iii) (b)

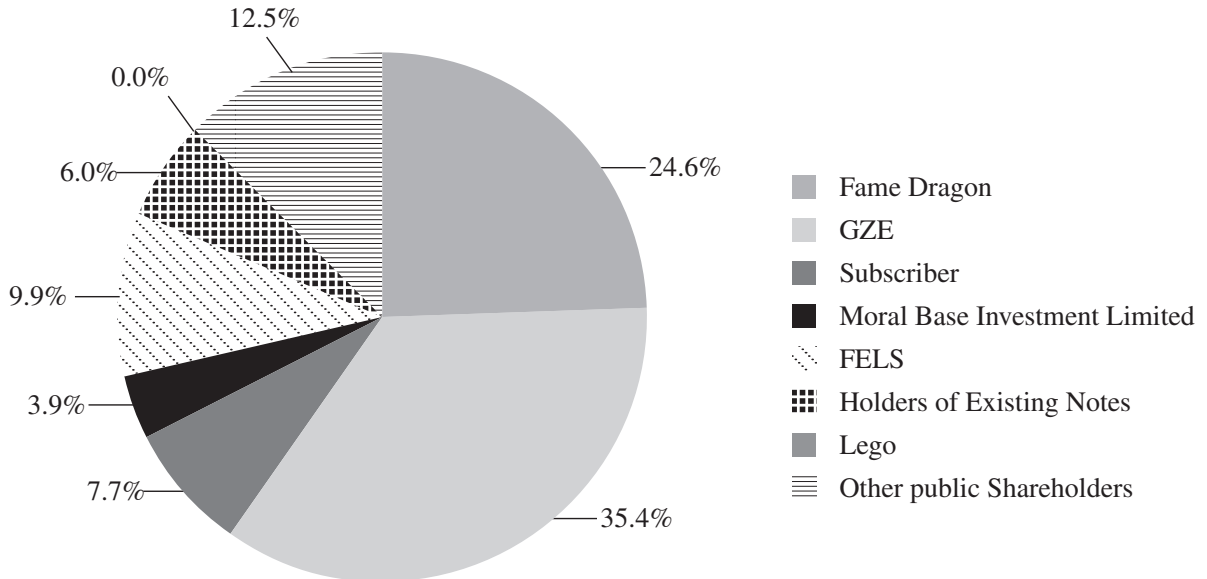


**LETTER FROM THE BOARD**

**Scenario (iv) (a)**

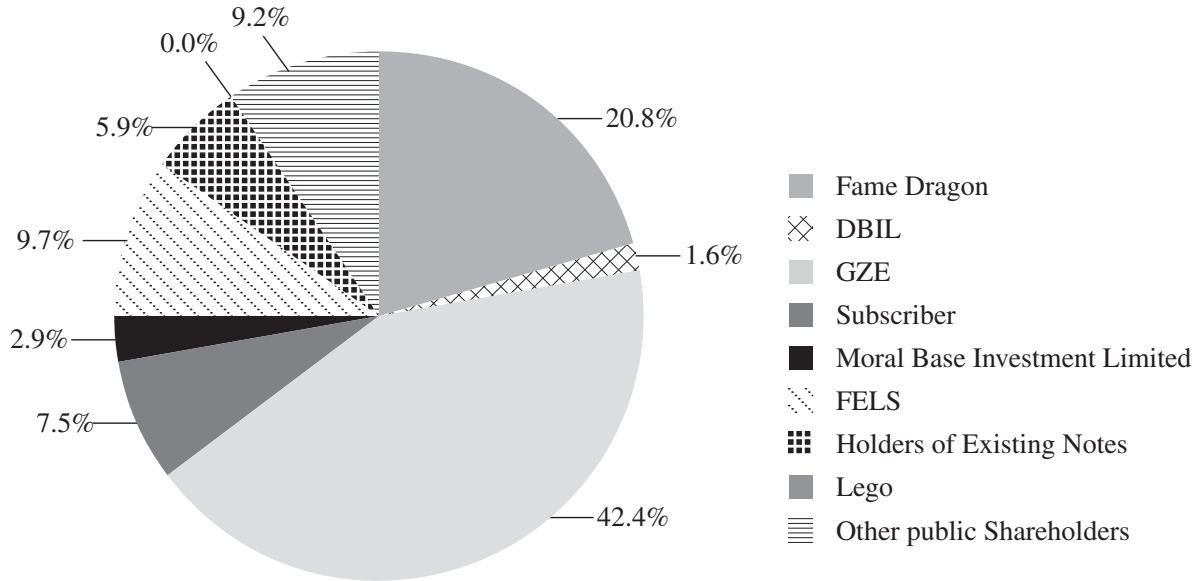


**Scenario (iv) (b)**

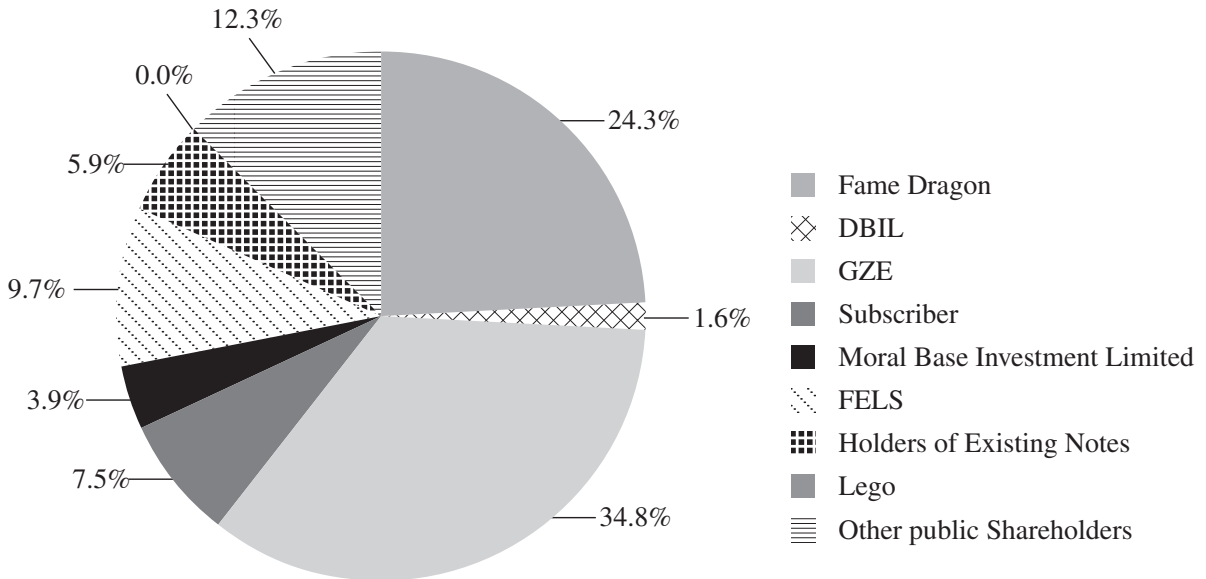


**LETTER FROM THE BOARD**

**Scenario (v) (a)**

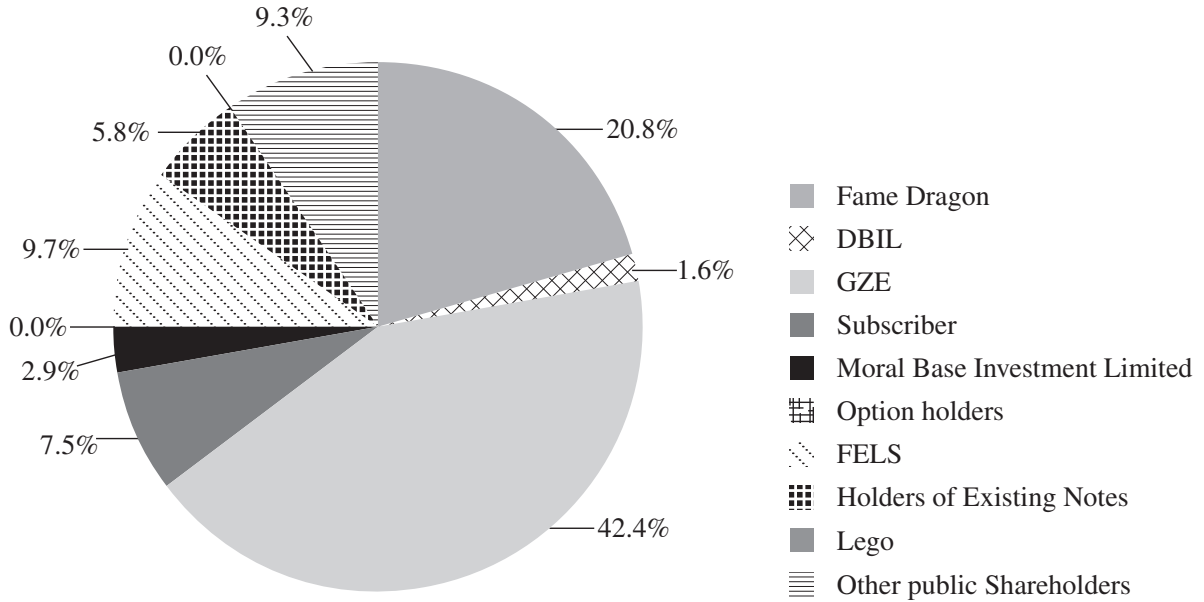


**Scenario (v) (b)**

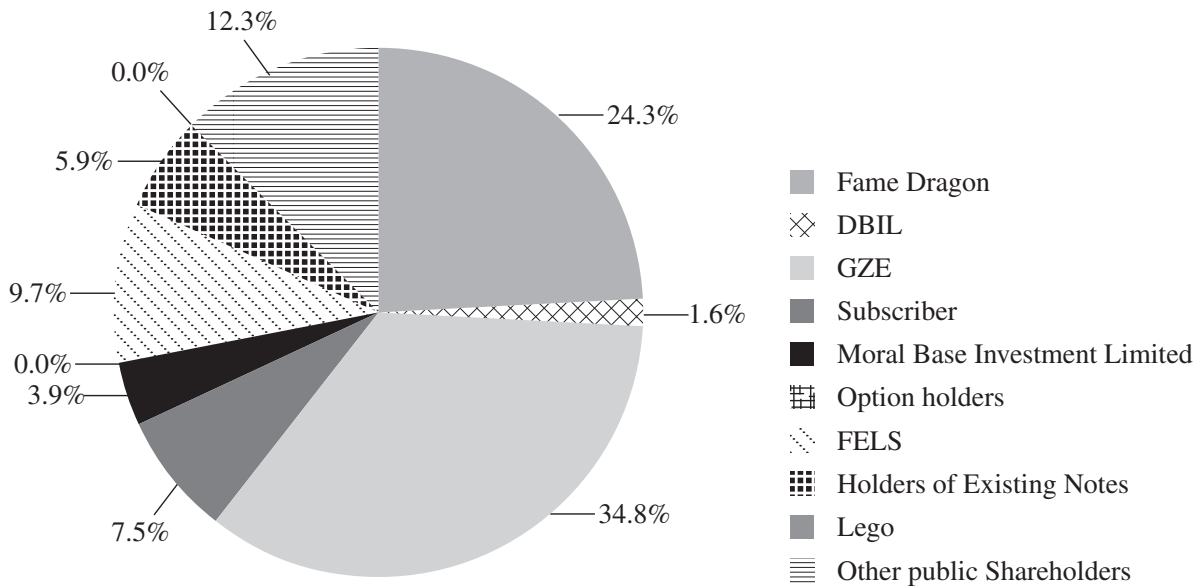


**LETTER FROM THE BOARD**

**Scenario (vi) (a)**



**Scenario (vi) (b)**



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## LETTER FROM THE BOARD

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*Notes:*

- (1) Pursuant to the Underwriting Agreement, if GZE is required to take up the unsubscribed Offer Shares, such Offer Shares can be taken up by GZE itself or GZE can procure its wholly-owned subsidiary to take up the Offer Shares.
- (2) Moral Base Investment Limited, which is beneficially owned as to 50% by Mr. Wong Chi Leung and 50% by Ms. Wong Kwok Ying, the spouse of Mr. Wong Chi Leung, (save for their shareholding in the Company, Mr. Wong Chi Leung and Ms. Wong Kwok Ying are Independent Third Parties) will be regarded as public Shareholders if its shareholding is less than 10% of the issued share capital of the Company.
- (3) It is one of the conditions precedent of the Management Services Agreement that the Company having granted FELS (or such other person as FELS may specify) the convertible bonds which are convertible, at the option of the holder of such bonds, into 9.9% of the total issued share capital of the Company after completion of the Debt Restructuring and on terms as described in the announcement of the Company dated 25 November 2013 or the warrants to subscribe for 9.9% of the total issued share capital of the Company after completion of the Debt Restructuring at an indicative initial subscription price of HK\$0.12 at any time during a period of four years from the issue of the warrants, as elected by FELS in its absolute discretion, and having complied with all applicable requirements under the Listing Rules or those requirements imposed by the Stock Exchange, the SFC and/or the Bermuda Court in respect of the convertible bonds or the warrants as so elected by FELS. FELS has since elected to be granted the FELS Warrants.
- (4) The aggregate outstanding amount and the accrued interests of the Existing Notes under the Creditors' Scheme are amounted to approximately US\$181.1 million (equivalent to approximately HK\$1,412.7 million). Based on the Creditors' Scheme, the aggregate number of Shares for the Creditors' Scheme will be 1,920,886,282.
- (5) The figures or percentages included the Shares and/or the percentage of shareholding of Moral Base Investment Limited as its shareholding is less than 10% of the issued share capital of the Company in the respective scenario.
- (6) Pursuant to the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement, GZE or Fame Dragon can procure their respective wholly-owned subsidiary to take up the new Shares to be issued and allotted thereunder.
- (7) The percentages shown are rounded to the nearest 1 decimal place. Numbers may not add up to 100% due to rounding.



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## LETTER FROM THE BOARD

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Save as disclosed above and (i) the existing shareholding of GZE and its subsidiaries in the Company; (ii) certain arrangements, including the extension of an instrument of transfer, a declaration of trust and an irrevocable power of attorney executed by Saturn Petrochemical in favour of DBIL, between Saturn Petrochemical and DBIL on 10 October 2013 whereby DBIL became entitled to the benefit of all interests arising under or in connection with the Listco Preferred Shares; and (iii) the holding of the benefit of all interests arising under or in connection to the Listco Preferred Shares by GZE's subsidiary, as at the Latest Practicable Date:

- a. GZE or any person acting in concert with it does not own, control or have direction over any voting rights or rights over the Shares or convertible securities, options, warrants of the Company;
- b. GZE or any person acting in concert with it has no dealing in the securities of the Company for the 6 months before the suspension of trading of Shares on 19 June 2012 and up to the Latest Practicable Date;
- c. neither GZE nor any person acting in concert with it has received any irrevocable commitment to vote for or against the Open Offer (including the Underwriting Agreement), the Listco Preferred Shares Modification Deed, the Debt Rescheduling Agreements, the GZE Excess Liabilities Undertaking, the Assumption Agreement, the Loan Rescheduling Agreements, the Interim Financing Agreements, the Subscription Agreement, the GZE Purchase Order MOU, the Shipyard Termination Agreement, the Working Capital Loan Agreement, the Whitewash Wavier and the Special Deal or to take up the Shares to be provisionally allotted under the Open Offer (including the Underwriting Agreement);
- d. neither GZE nor any person acting in concert with it has entered into any outstanding derivative in respect of any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company;
- e. save for the Underwriting Agreement, the Shipyard Termination Agreement, the Subscription Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreements, and the grant of the FELS Warrants to FELS under the Management Services Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or the shares of GZE which might be material to the Open Offer (including the Underwriting Agreement), the Shipyard Termination Agreement, the Assumption Agreement the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, and/or the Whitewash Wavier;

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## LETTER FROM THE BOARD

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- f. the Open Offer (including the Underwriting Agreement), the Whitewash Waiver and the Special Deal are subject to the satisfaction or waiver of (where applicable) the relevant conditions set out under the paragraph headed “Conditions of the Underwriting Agreement” above, which includes, among other things, the Stock Exchange having unconditionally or conditionally approved the resumption of trading of Shares and the proposal for the Debt Restructuring having been approved by the Bermuda Court (which has been approved) (collectively the “**Restructuring and Resumption Conditions**”). Such Restructuring and Resumption Conditions may also be subject to, among other things, the terms of the Underwriting Agreement, the Shipyard Termination Agreement, the Subscription Agreement, the Debt Rescheduling Agreements, the GZE Excess Liabilities Undertaking, the GZE Purchase Order MOU, the Assumption Agreement, the Interim Financing Agreements, the GZE Working Capital Facility Agreement the Working Capital Loan Agreement, the Loan Rescheduling Agreements, the Listco Preferred Shares Modification Deed. Save for the aforesaid, there is no agreement or arrangement to which GZE is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Open Offer (including the Underwriting Agreement), the Listco Preferred Shares Modification Deed, the Debt Rescheduling Agreements, the GZE Excess Liabilities Undertaking, the Assumption Agreement, the Loan Rescheduling Agreements, the Interim Financing Agreements, the GZE Purchase Order MOU, the Shipyard Termination Agreement, the GZE Working Capital Facility Agreement and the Working Capital Loan Agreement, the Whitewash Waiver and/or the Special Deal;
- g. there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between GZE or any persons acting in concert with it and any other person; and
- h. neither GZE nor any person acting in concert with GZE has borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.

### I. INFORMATION ON THE GROUP

Before the Suspension, the Group was engaged in the operation of onshore and offshore oil storage facilities, transportation, supply and distribution of oil and chemical products, and shipbuilding and ship repair.

As disclosed in the annual report of the Company for the year ended 31 December 2015, the Group did not earn any revenue for the year ended 31 December 2015.

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## LETTER FROM THE BOARD

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### **Onshore and offshore oil storage business**

The Group previously conducted its onshore oil storage business through one of its direct wholly-owned subsidiaries, TOSIL.

On 18 June 2012, Saturn Storage, a company incorporated in the BVI, served notices to exercise its redemption rights under the TGIL Preferred Shares and the TGIL Convertible Notes, the redemption monies of which were due (in the case of the TGIL Preferred Shares) within 90 days and (in the case of the TGIL Convertible Notes) immediately after the date of the redemption notice. On the same day, Saturn Storage filed an application to the BVI Court to liquidate TGIL and a winding up order against TGIL was made on 17 July 2012 and liquidators were appointed to TGIL on the same day.

Upon the liquidation of TGIL, the assets of the onshore oil storage business, comprising the oil storage facilities located in Nansha in Guangdong Province, Quanzhou in Fujian Province, Yangshan in Shanghai and Yantai in Shandong Province in the PRC, were sold by the liquidators of TGIL to an entity owned by Warburg Pincus LLC and Southernpec Corporation. That entity subsequently entered into an agreement with a subsidiary of GZE on 12 October 2012, pursuant to which the assets of the onshore oil storage business have been further transferred to GZE. Completion of that agreement took place in October 2013 and the onshore oil storage assets are now owned by GZE.

The floating storage units that the Group used for its offshore oil storage business were chartered by the Group. The owners have re-possessed those storage units.

### **Transportation, supply and distribution business**

The Group conducted its business of transportation, supply and distribution of oil and chemical products through various subsidiaries in Singapore. Since the Suspension, the Group has placed a number of those subsidiaries into liquidation.

The tankers that the Group used for its transportation, supply and distribution business were chartered by the Group. The owners have re-possessed those tankers.

### **Shipbuilding and ship repair business**

The Group carried out its shipbuilding and ship repair business at the Quanzhou Shipyard.

Due to the fierce competition and the adverse market condition of the shipbuilding industry since 2008 and TQS has been in prolonged litigation in 2012, the shipbuilding business recorded losses and the operation of TQS was suspended. TQS's repair business was not yet fully developed so that the ship repair business was not able to generate profit to offset the loss in shipbuilding business.

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## LETTER FROM THE BOARD

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On 11 December 2010, the Company, TPFL and TQSL Holding entered into the Shipyard Sale and Purchase Agreement with Grand China Logistics in relation to the disposal of its 95% equity interest in TQS at a consideration of RMB1,865,670,000 or a maximum reduced consideration of RMB1,465,670,000 if TQS's net profit targets for the two years ended 31 December 2012 were not met. Pursuant to a supplemental agreement signed in 2011, such net profit targets were cancelled and the consideration for the proposed disposal was fixed at RMB1,665,670,000. While the requisite regulatory and shareholder's approvals for the first two stage payments totaling RMB800,000,000 were obtained, only RMB740,000,000 has been received to date and the equity interests in TQS have not yet been transferred to Grand China Logistics.

On 30 May 2012, Grand China Logistics commenced legal proceedings against the Company, TPFL and TQSL Holding to seek an order for, among other things, the termination of the Shipyard Sale and Purchase Agreement and repayment of the amount of RMB740,000,000 that was paid by Grand China Logistics together with accrued interest or for the Company to fulfil its obligation under its guarantee to repay such amount. On 23 August 2012, TPFL filed a counterclaim against Grand China Logistics to seek, among other remedies, specific performance by Grand China Logistics of the Shipyard Sale and Purchase Agreement.

On 10 June 2013, the Company received a notification dated 7 June 2013 from Grand China Logistics informing the Company that it had entered into an assignment with GZE pursuant to which it would assign all of its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement to GZE.

In December 2013, the Shanghai Intermediate Court approved the withdrawal of the legal proceedings brought by Grand China Logistics and ordered the discontinuation of the counterclaim proceedings brought by TPFL.

At the time of the Suspension, the Company had the following principal subsidiaries, associates and jointly-controlled entities:

<b>Name of entities</b>	<b>Principal activities</b>
Titan Oil (Asia) Ltd.	Investment holding
Titan FSU Investment Limited	Investment holding
TOSIL	Investment holding
Titan Oil Trading (Asia) Limited	Investment holding
Titan Bunkering Investment Limited	Investment holding
Harbour Sky Investments Limited	Investment holding
TSHL	Investment holding

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## LETTER FROM THE BOARD

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<b>Name of entities</b>	<b>Principal activities</b>
TPFL	Investment holding
Titan Orient Lines Pte. Ltd. <i>(Note 7)</i>	Investment holding
石獅市益泰潤滑油脂貿易有限責任公司	Investment holding
TQSL Holding	Investment holding
TGIL <i>(Note 1)</i>	Investment holding
Titan WP Storage Ltd. <i>(Note 2)</i>	Investment holding
Titan Group Yangshan Investment Limited <i>(Note 2)</i>	Investment holding
Sky Sharp Investments Limited <i>(Note 2)</i>	Investment holding
Forever Fortune Holdings Limited <i>(Note 2)</i>	Investment holding
Titan Group Nansha Investment Limited <i>(Note 2)</i>	Investment holding
Titan Group Yantai Investment Limited <i>(Note 2)</i>	Investment holding
Titan Investment Group Limited <i>(Note 2)</i>	Investment holding
Titan Bunkering Pte. Ltd. <i>(Note 3)</i>	Provision of bunker refueling services
Estonia Capital Ltd. <i>(Note 5)</i>	Provision of floating storage services
TSL <i>(Note 5)</i>	Provision of floating storage services
Titan Libra Pte. Ltd. <i>(Note 6)</i>	Provision of financing services
Ascend Success Investments Limited	Provision of financing services
Sino Venus Pte. Ltd. <i>(Note 7)</i>	Provision of oil transportation services
Wynham Pacific Ltd. <i>(Note 5)</i>	Provision of oil transportation services

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## LETTER FROM THE BOARD

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<b>Name of entities</b>	<b>Principal activities</b>
Sino Ocean Development Limited ( <i>Note 5</i> )	Provision of oil transportation services
Titan Ocean Pte Ltd ( <i>Note 4</i> )	Provision of ship management and agency services
Titan Mars Limited ( <i>Note 5</i> )	Holding a floating storage license
TRML	Provision of consultancy services
Titan Resources Management (S) Pte. Ltd. ( <i>Note 3</i> )	Provision of consultancy services
Shengsi Haixin	Supply of oil products
Titan Petrochemical (Guangzhou)	Supply of oil products
TQS	Shipbuilding and ship repair
Yangshan Shen Gang International Oil Logistics Co., Ltd. ( <i>Note 2</i> )	Operation of oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd. ( <i>Note 2</i> )	Terminal facilities services
Guangzhou Nansha Titan Petrochemical Development Company Limited ( <i>Note 2</i> )	Provision of onshore storage services
Fujian Titan Petrochemical Storage Development Co., Ltd. ( <i>Note 2</i> )	Provision of onshore storage services
Quanzhou Titan Petrochemical Terminal Development Co., Ltd ( <i>Note 2</i> )	Provision of onshore storage services
Yantai Titan Petrochemical Port Development Company Limited ( <i>Note 2</i> )	Provision of onshore storage services

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## LETTER FROM THE BOARD

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*Note:*

- (1) On 17 July 2012 (BVI time), the BVI Court ordered the liquidation of TGIL, a jointly-controlled entity. This resulted to a loss of joint control over TGIL and its subsidiaries, associates and a jointly-controlled entity (collectively, the “**TGIL Group**”) upon occurrence of the external restrictions and events during the year ended 2012.
- (2) There were all subsidiaries, associates or jointly-controlled entity of TGIL.
- (3) The companies were put into voluntary liquidation on 6 June 2013.
- (4) The company was ordered to be wound up by the High Court of the Republic of Singapore under the provisions of the Company Act (Cap 50).
- (5) The companies were placed into voluntary liquidation on 25 April 2014.
- (6) The company was put into voluntary liquidation on 19 July 2013.
- (7) The company was put into voluntary liquidation on 13 August 2013.

### **J. UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT**

In order to provide sustainable revenue and cashflow to the Group and sustain the business operation of the Group, the Directors have proposed the followings business strategies and entered into various agreements in order to facilitate the business strategies accordingly.

#### **Re-activate our shipbuilding and ship repair business**

The Group started to engage in shipbuilding and ship repair operations in 2007. Prior to the Suspension, the Group had successfully completed and delivered a total of 16 tankers of various types and models.

The Directors believe that based on the Group’s past track record, the best option for the Group to rebuild its business would be to re-activate its shipbuilding and ship repair business by utilising the Quanzhou Shipyard and the qualified and experienced work force that it has retained there. Thus, on 5 May 2014, the Company, TPFL and TQSL Holding entered into the Shipyard Termination Agreement with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated.

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## LETTER FROM THE BOARD

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### *Shipyard Termination Agreement*

On 5 May 2014, the Company, TPFL and TQSL Holding entered into the Shipyard Termination Agreement with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated with immediate effect and with respect to the amount of RMB740,000,000 that was originally paid by Grand China Logistics to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares at the issue price of HK\$0.10 to GZE in lieu of repayment of such amount.

The Shipyard Termination Agreement will only be effective upon the satisfaction of the following conditions:

- (a) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the Shipyard Termination Agreement and the transactions contemplated thereunder;
- (b) the Debt Restructuring having become effective;
- (c) a resumption of trading in the Shares having been unconditionally or conditionally in principle or otherwise approved by the Stock Exchange;
- (d) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement and (iii) the Shipyard Termination Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms;
- (e) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; and
- (f) the grant of the Whitewash Waiver by the Executive; and
- (g) the Shipyard Termination Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions can be waived, and if such conditions are not fulfilled on or before 31 August 2016 (or such later date as may be agreed among the parties in writing), the Shipyard Termination Agreement will lapse and become null and void and the parties will be released from all obligations under the agreement, save for any liability arising out of any antecedent breaches. As at the Latest Practicable Date, conditions (b) and (c) are satisfied.



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## LETTER FROM THE BOARD

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Subject to the fulfillment of the conditions, completion of the issue of Shipyard Termination Shares to GZE shall take place on a business day as may be specified by the Company in writing not being less than two nor more than 15 business days next following the date of fulfillment of the condition last in time to be fulfilled (or such other date as the parties may agree in writing).

The Shipyard Termination Agreement shall terminate upon the occurrence of each of the following:

- (i) the powers and/or duties of the Provisional Liquidators appointed by the Bermuda Court on 18 October 2013 (Bermuda time) as set forth in an order of the Bermuda Court dated 14 February 2014 are materially extended or amended by the Bermuda Court;
- (ii) the making of an order to wind up the Company;
- (iii) there is any breach of any of the warranties made by the Company in any material respect which has come to the knowledge of GZE or any event which has occurred or any matter which has arisen on or after the date of the Shipyard Termination Agreement which if it had occurred or arisen before the date thereof would have rendered any of such warranties untrue, inaccurate or misleading in any material respect; or
- (iv) the Shipyard Termination Agreement is terminated by applicable laws or regulations.

If the Shipyard Termination Agreement is terminated pursuant to the above, no party may raise any claim against any other party with respect to the costs, damages, indemnity or other issues under the agreement, unless such claim arises because of any violation to the agreement before such termination.

### ***Reasons for and benefits of the Shipyard Termination Agreement***

The amount of RMB740 million currently owed by TPFL and TQSL Holding to GZE arose from the aborted sale by TPFL and TQSL Holding of an aggregate of 95% equity interest in TQS to Grand China Logistics pursuant to the Shipyard Sale and Purchase Agreement, the interests, rights and obligations of which were assigned by Grand China Logistics, an Independent Third Party, to GZE. The Directors consider that the arrangement to settle such indebtedness of the Group by way of issue of new Shares to GZE could reduce the cash outlay of the Group, which would be beneficial to the Group's financial condition and development.

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## LETTER FROM THE BOARD

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The terms for the Shipyard Termination Agreement were arrived at based on arm's length negotiations among the Company, TPFL, TQSL Holding and GZE. The Directors are of the opinion that the terms of the Shipyard Termination Agreement are fair and reasonable and the transactions contemplated under the Shipyard Termination Agreement are in the interest of the Company and the Shareholders as a whole.

### **FTSD Purchase Order Framework Agreement and GZE Purchase Order MOU**

The Group will seek both to re-establish connections with past customers as well as to actively pursue new business opportunities, including potential referrals from the business contacts of GZE and FEG. To demonstrate their commitment to the Group and to provide their full support to enable the Group to start re-building its business. On 5 May 2014, the Company entered into the FTSD Purchase Order Framework Agreement with FTSD, a subsidiary of FEG, and the GZE Purchase Order MOU with GZE. As at the Latest Practicable Date, FTSD, FEG and their subsidiaries have no shareholding in the Company.

Under the GZE Purchase Order MOU, which is non-legally binding, GZE has conditionally agreed in principle that it will or will procure purchase orders to be placed with TQS for the construction of two semi-submersibles, four jack ups and two FSRU at prices to be determined by arm's length negotiations based on the then prevailing market price.

Under the FTSD Purchase Order Framework Agreement, which is legally binding, FTSD has conditionally agreed that, it will, and will procure product orders to be placed with TQS for the construction of one semi-submersible and two jack ups within one year from the effective date of the agreement, at prices to be determined by arm's length negotiations based on the then prevailing market price.

### ***FTSD Purchase Order Framework Agreement***

Pursuant to the FTSD Purchase Order Framework Agreement, which is legally-binding, FTSD has agreed that it will, and will procure purchase orders to be placed with TQS for the construction of one semi-submersible and two jackups within one year from the effective date of the FTSD Purchase Order Framework Agreement, at prices to be determined by arm's length negotiations based on the then prevailing market price, subject to the FTSD Purchase Order Framework Agreement becoming effective upon the satisfaction of the following conditions:

- (a) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the FTSD Purchase Order Framework Agreement and the transactions contemplated thereunder;

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## LETTER FROM THE BOARD

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- (b) the Debt Restructuring having become effective;
- (c) trading in the Shares having resumed on the Stock Exchange; and
- (d) the Management Services Agreement having become effective in accordance with its terms,

in each case on or before 15 July 2016 (or such later date as the parties may agree in writing).

As at the Latest Practicable Date, the condition (b) set out above has been satisfied.

### ***GZE Purchase Order MOU***

Pursuant to the GZE Purchase Order MOU, which is non-legally binding, GZE has conditionally agreed in principle that it will or will procure purchase orders to be placed with TQS for the construction of two semi-submersibles, four jackups and two FSRU at prices to be determined by arm's length negotiations based on the then prevailing market price, subject to the following conditions:

- (a) the Debt Restructuring having become effective;
- (b) resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange;
- (c) each condition precedent required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) FTSD Purchase Order Framework Agreement; (ii) Management Services Agreement and (iii) the GZE Purchase Order MOU) having been satisfied or waived for the purpose of making each respective Restructuring Documents effective in accordance with its terms;
- (d) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver;
- (e) the grant of the Whitewash Waiver by the Executive; and
- (f) the Quanzhou Shipyard being reasonably suitable for carrying on the business of the construction, repair, conversion and upgrading of mobile offshore drilling units and FPSO, FSO, FSRU and FLNG,

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## LETTER FROM THE BOARD

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in each case having been satisfied on or before 31 August 2016 (or such later date as the parties may agree in writing). If the conditions above are not satisfied on or before 31 August 2016 (or such other date as the parties thereto may agree in writing), either party thereto may terminate the GZE Purchase Order MOU by giving the other party thereto not less than 30 days' written notice and, upon termination of the GZE Purchase Order MOU, all obligations of the parties shall immediately cease and neither party shall have any claim against the other party in respect of any matter arising out of or in connection with the GZE Purchase Order MOU. As at the Latest Practicable Date, the conditions (a) and (b) set out above have been satisfied.

### **Modification and Upgrading of Quanzhou Shipyard**

The Group will need to carry out certain modification and upgrading works to its production facilities at the Quanzhou Shipyard in order for them to be utilised for the construction, repair, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG. These works primarily involve in adjusting the lay-out and increasing the load capacity of certain of the Group's production facilities and equipment, which the Group has already commenced. TQS has commenced a series of preliminary works of modification and upgrading on the Quanzhou Shipyard, including but not limited to (i) inspect and upgrade the existing equipments (including equipments of workshops and plants); (ii) perform total stock count, update the inventory list and top up material; (iii) inspect, maintain and upgrade the existing infrastructure; and (iv) renovate the staff living facilities and office buildings, including access roads, dormitories and canteens. The Group targets to substantially complete those works by third to fourth quarter of 2016 so as to be able to commence production at or around the third to fourth quarter of 2016.

### **Expand into the offshore and marine engineering business**

The Directors believe that this is an opportune time for the Group to expand into the offshore and marine engineering business as this sector has undergone rapid growth in recent years as a result of favourable market conditions and the Directors believe that there remains significant potential for further growth in this sector in the near term. The opportunity to cooperate with the Keppel Group and the management and technical support that the Group will be able to access with, the Directors believe, provide the Group with a strong foundation and strong competitive advantages to enter into the offshore and marine engineering business.

The Group will need to carry out certain modification and upgrading works to its production facilities at the Quanzhou Shipyard in order for them to be utilised for the construction, repair, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG. These works primarily involve in adjusting the lay-out and increasing the load capacity of certain of the Group's production facilities and equipment, which the Group has already commenced. TQS has commenced a series of preliminary work of modification and upgrading works on the Quanzhou Shipyard, including but not limited to (i) inspect and upgrade the existing equipments (including equipments of workshops and plants); (ii) perform total stock count, update the inventory list and top up material; (iii) inspect,

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## LETTER FROM THE BOARD

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maintain and upgrade the existing infrastructure; and (iv) renovate the staff living facilities and office buildings, including access roads, dormitories and canteens. The Group targets to complete those works in the third to fourth quarter of 2016 so as to be able to commence production at or around the third to fourth quarter of 2016. Various expert teams from Keppel Group have visited the Quanzhou Shipyard several times for the purpose of giving guidance to the modification and upgrading works. The table below sets out the progress of the modification and upgrading works as at the Latest Practicable Date:

	Job tasks involved	% of completion	Expected completion date	The responsible parties (contract out or done by own staff)	Current Status (if yet to complete)
Inspect and upgrade the existing equipments (including equipments of workshops and plants)	a. inspect the existing equipments	100%	N/A	By own staff	N/A
	b. maintain and repair the equipments	0%	By 31 December 2016	Outsource	(i) Obtain quotations from three contractors;  (ii) Selected one contractor, which is a heavy-duty equipment manufacturer and provides installation, repair and maintenance services; and  (iii) Negotiating contract with the selected contractor.
	c. confirm a list of equipments needed for the Shipyard upgrade	100%	N/A	By own staff	N/A
	d. source the equipments needed	100%	N/A	By own staff	N/A
Perform total stock count, update the inventory list and top up material	a. perform total stock count	100%	N/A	By own staff	N/A
	b. update the inventory list	100%	N/A	By own staff	N/A
	c. prepare a list of materials according to the future projects	100%	N/A	By own staff	N/A
inspect, maintain and upgrade the existing infrastructure	a. inspect the existing infrastructure	100%	N/A	By own staff	N/A
	b. prepare a list of infrastructure needed for maintenance and upgrading	100%	N/A	By own staff	N/A
	c. perform the maintenance and upgrading work	0%	By 31 December 2016	Outsource	(i) Obtained quotations from three contractors;  (ii) Selected one contractor which is principally engaged in major port engineering in China; and  (iii) Negotiating contract with the selected contractor.

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## LETTER FROM THE BOARD

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	Job tasks involved	% of completion	Expected completion date	The responsible parties (contract out or done by own staff)	Current Status (if yet to complete)
Renovate the staff living facilities and office buildings, including access roads, dormitories and canteens	a. Renovate the staff living facilities and office buildings	0%	By 31 December 2016	Outsource	(i) Obtained quotations from three contractors;  (ii) selected one contractor which is one of the major construction companies in Fujian Province; and  (iii) Negotiating contract with the selected contractor.
	b. expand the access roads	0%	By 31 December 2016	Outsource	Pending the preliminary road planning and design from a contractor, which was responsible for the design of Quanzhou Shipyard in 2006, before confirming the engagement
	c. build a new canteen	0%	By 31 December 2016	Outsource	(i) Design plan is finalised by the Group; and  (ii) Negotiating the construction contract with the contractor.

While the Directors expect that the first purchase orders will be those to be placed by FTSD (a subsidiary of FEG) and GZE pursuant to the FTSD Purchase Order Framework Agreement and the GZE Purchase Order MOU, respectively (subject to the fulfilment of the conditions specified in those agreements), the Directors intend that once the Group has established a sufficient track record, it will actively seek to expand its customer base.

As at the Latest Practicable Date, the Company has already liaised with certain potential customers. These potential customers are renowned companies and leading players in the industry of which some of those are listed on the Stock Exchange and the Alternative Investment Market of the London Stock Exchange, who indicated their interest to cooperate/place order with the Company following Resumption. It demonstrates the strong business network of the management of the Company in the industry as well as their continued effort in expanding the customer base which receives positive responses. Thus the management of the Company respectfully submits that the reliance on certain related customers is unlikely to be an issue following resumption and the customer base of the Company will expand gradually.

### ***Management Services Agreement***

To help strengthen the Group's position in connection with its expansion into the offshore and marine engineering sector, the Group has entered into the Management Services Agreement with FELS, an Independent Third Party on 9 April 2014, pursuant to which FELS will provide certain management services to TQS.

A summary of the principal terms of the Management Services Agreement is set out below:

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## LETTER FROM THE BOARD

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### *Conditions*

The term of the Management Services Agreement will commence on the day on which the following conditions, among others, are satisfied (or waived by FELS):

- (a) the Debt Restructuring having been completed and becoming unconditional and effective in accordance with its terms;
- (b) the trading in the Shares on the Stock Exchange having resumed;
- (c) FELS having issued a written notice to TQS that it has inspected the Quanzhou Shipyard and the employees of TQS deployed at the Quanzhou Shipyard (including any arrangements relating to the Quanzhou Shipyard and such employees) and that it is satisfied that the Quanzhou Shipyard is reasonably suitable for carrying on the business of a shipyard;
- (d) the Company having granted FELS (or such other person as FELS may specify) the FELS CBs or the FELS Warrants, as elected by FELS at its absolute discretion, and having complied with all applicable requirements under the Listing Rules or those requirements imposed by the Stock Exchange, the SFC and/or the Bermuda Court in respect of the FELS CBs or the FELS Warrants;
- (e) to the extent required by any relevant law and regulation, (i) all regulatory requirements, registrations or formalities required to ensure that the undertaking and obligations set out in the Deed of Undertaking are valid, binding and enforceable against GZE in any relevant jurisdiction having been duly complied with; and (ii) all regulatory approvals or registrations required for the Management Services Agreement and the performance of the obligations thereunder by the parties to the Management Services Agreement have been obtained and/or made, as the case may be;
- (f) TQS and FELS having agreed to the terms of the improvement plan for the Quanzhou Shipyard with respect to the first two years of the term of the Management Services Agreement; and
- (g) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed by the Stock Exchange, the SFC and/or the Bermuda Court in relation to the Management Services Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, the condition (a) set out above has been satisfied. If the conditions set out above are not satisfied or waived by FELS on or before 15 July 2016 (or such other date as FELS and TQS may mutually agree in writing), either FELS or TQS may terminate the Management Services Agreement by giving the other parties to the agreement not less than 30 days' written notice.

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## LETTER FROM THE BOARD

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### ***Obligations of FELS***

FELS will, during the term of the Management Services Agreement, make available employees of FELS and its related corporations to hold various management positions at TQS and to undertake the following duties:

- (i) to supervise and manage the employees of TQS deployed at the Quanzhou Shipyard;
- (ii) to represent TQS in negotiating the terms of contracts to be entered into with any customer, supplier and service provider, contracts relating to the maintenance and improvement of the Quanzhou Shipyard, insurance contracts for the Quanzhou Shipyard and employment contracts with the employees of TQS, provided that no such contract shall be entered into for and on behalf of TQS without the prior written approval of the board of directors of TQS; and
- (iii) to submit to the board of directors of TQS for consideration and approval plans for the maintenance and improvement of the Quanzhou Shipyard with respect to each year after the second year of the term of the Management Services Agreement.

### ***Obligations of TQS***

TQS has agreed that, for the effective term of the Management Services Agreement, it will use the Quanzhou Shipyard to carry on the business of (1) construction, repair, conversion and upgrading of mobile offshore drilling units; (2) repair, conversion and upgrading of vessels into FPSO, FSO, FSRU and FLNG; and (3) construction, repair, conversion and upgrading of vessels in accordance with the terms of the Management Services Agreement.

### ***Steering Committee***

Pursuant to the Management Services Agreement, a steering committee, comprising of not more than four members appointed by FELS or otherwise agreed by the parties to the Management Services Agreement, will be established to consider customer contracts to be entered into by TQS and to make recommendations to the board of directors of TQS on the following matters:

- (a) whether TQS should enter into any such customer contract;
- (b) the marketing approach to be adopted in relation to such customer contract;
- (c) the terms of such customer contract;



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## LETTER FROM THE BOARD

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- (d) the terms of the license agreement (if any) to be entered into between TQS and FELS or any of its related corporations for the use of any design and specification of rigs, drillships and specialised vessels owned by, and/or any name, mark, service mark or logo of, FELS or any of its related corporations for such customer contract; and
- (e) the scope of work under such customer contract to be sub-contracted to FELS or any of its related corporations and the terms of such sub-contract.

TQS has agreed that it will not enter into any customer contract unless the contract is recommended by the steering committee and the other recommendations of the steering committee with respect to such contract will be adhered to.

### ***Sub-contracting***

TQS has also agreed that with respect to any customer contract to be entered into by TQS, any work falling within the designated work scope described below will be sub-contracted to FELS or any of its related corporations. The designated work scope includes:

- (i) (where the customer contract relates to a rig, drillship, or specialised vessel) the design, engineering, procurement scope, project management, testing and commissioning involved in or relating to, and the construction of the legs and chords of, such rig, drillship or specialised vessel (as the case may be); or
- (ii) (where the customer contract relates to the conversion of a FPSO, FSO, FSRU or FLNG) the engineering, procurement, project management, testing and commissioning involved in or relating to, and the construction of the modules of such vessel.

As those designated works require high quality of standard and different technical skill sets as TQS possesses, which it is also the industry practice to outsource certain works to third parties, TQS has to subcontract those designated works to third parties. In order to ensure the quality of the products and deliver them on time, and in turn, build up and maintain the reputation of TQS in the market, the Directors consider it is beneficial to the Group to subcontract those designated works to FELS as stipulated in the Management Services Agreement. Besides, by subcontracting the designated work scope, TQS can focus on the rest of the work scope in order to maximize its productivity therefore optimizing revenue and save the research and develop cost.

### ***Management fee and reimbursements***

TQS will pay FELS the following fees each year during the term of the Management Services Agreement:

- (i) a fixed annual fee of US\$2,000,000 (or pro rata if less than twelve calendar months); and

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## LETTER FROM THE BOARD

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- (ii) a variable fee, being 3% (or such other percentage as FELS and TQS may mutually agree in writing from time to time) of the revenue of TQS for such year as shown in its audited financial statements in respect of such year less the aggregate amount of any fees paid by TQS during such year to FELS or any of its related corporations for carrying out sub-contracted work under any customer contract and for the use of any design and specialisation, any name, mark, service mark or logo of FELS or any of its related corporations.

The variable fee with respect to any year will only be payable by TQS to FELS if the earnings before interest, taxes, depreciation and amortisation of TQS as shown in its audited financial statement in respect of that year reaches an agreed threshold as stated in the Management Services Agreement. The threshold amount with respect to any year shall be sum equal to US\$20,000,000 (or pro rata if less than twelve calendar months).

In addition, TQS will reimburse FELS all manpower costs and related expenses arising from or in connection with the employees of FELS or any of its related corporations being made available to TQS under the Management Services Agreement which are incurred by FELS (and where applicable, the relevant related corporation of FELS).

### ***Term and termination***

The term of the Management Services Agreement is 30 years from the date when the various conditions to which it is subject to have been satisfied (or waived by FELS), or such other period as TQS and FELS may mutually agree in writing from time to time.

No party to the Management Services Agreement may terminate the Management Services Agreement unless upon the occurrence of any of the following events with respect to TQS or FELS, in which case, FELS or TQS (as the case may be) will have the right to terminate the Management Services Agreement immediately by giving written notice to the other parties:

- (i) winding up, dissolution or appointment of liquidator or judicial manager of TQS or FELS (as the case may be), or the appointment of any receiver over the whole or any part of the assets of TQS or FELS (as the case may be) save for the purpose of or following an amalgamation or reconstruction;
- (ii) material breach of the Management Services Agreement by TQS or FELS (as the case may be); or
- (iii) illegality or legal prohibitions on any transaction under the Management Services Agreement with respect to TQS or FELS (as the case may be).

If FELS terminates the Management Services Agreement pursuant to (i) or (ii) above, TQS shall pay FELS a termination fee of US\$20,000,000.

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## LETTER FROM THE BOARD

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### *Issue of the FELS CBs or FELS Warrants*

The Company has agreed, as one of the conditions to the Management Services Agreement becoming effective, to issue to FELS (or such other person as it may specify), at its election, either the FELS CBs which are convertible into Shares or the FELS Warrants which will entitle the holder to subscribe, in cash for Shares, that in both cases, will represent 9.9% of the total issued share capital of the Company after completion of the restructuring, provided always that if the Company considers that it would no longer satisfy the minimum public shareholding (i.e. 25% public float) requirement under Rule 8.08 of the Listing Rules immediately following an exercise of the subscription right under any FELS Warrants, such exercise shall be postponed until such time as the Company is satisfied that such exercise will not result in any non-compliance of Rule 8.08 of the Listing Rules.

The FELS CBs will be five-year, zero coupon, unlisted convertible bonds which will be convertible into Shares at an initial conversion price of HK\$0.10 per Share, subject to customary adjustments for subsequent dilutive issues and for consolidation and sub-division. The FELS CBs will be issued on the terms of convertible bonds as described in the announcement of the Company dated 25 November 2013.

The FELS Warrants will be issued by the Company at an indicative initial subscription price of HK\$0.12 (subject to customary adjustments for subsequent dilutive issues and for consolidate and sub-division) and exercisable by the holder at any time during a period not earlier than the commencement of the fourth year but not later than the end of the fourth year after the issue of the FELS Warrants. The Shares to be issued upon the exercise of the FELS Warrants will be subject to a restriction on transfer for a period of two years after the date on which they are issued.

FELS has since elected to be granted the FELS Warrants. The Directors believe that the option retained by FELS to invest in the Company demonstrates its confidence in the Group's ability to re-establish and expand its business operations and to establish its market position in the offshore and marine engineering industry.

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## LETTER FROM THE BOARD

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### Principal terms of the FELS Warrants

Exercise price: HK\$0.12 per FELS Warrants Share.

Adjustment to the exercise price: The exercise price of the FELS Warrants is subject to adjustment in the event of, among others:

- (a) consolidation, subdivision or reclassification of Shares;
- (b) capitalisation of profits or reserves;
- (c) dividend or distributions;
- (d) rights issue of other securities; and
- (e) other offers to Shareholders,

provided that no adjustment will be made to the exercise price when Shares or other securities (including rights or options) are issued, offered or granted (i) to employees (including Directors) of the Company or any subsidiary of the Company pursuant to any employee share scheme (and which employee share scheme is in compliance with the Listing Rules or, if applicable, those of an alternative stock exchange on which the Shares are listed); (ii) pursuant to the Debt Restructuring and the transactions contemplated under the Resumption Proposal including but not limited to, the Open Offer (including the Underwriting Agreement), the Subscription, the Shipyard Termination Agreement, the Assumption Agreement, the Interim Financing Agreements, the Working Capital Loan Agreement, the Debt Rescheduling Agreements, and the Consideration Shares; (iii) pursuant to the conversion of any Listco Preferred Shares; or (iv) pursuant to the exercise of any FELS Warrants.

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## LETTER FROM THE BOARD

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Exercise period:	Not earlier than the commencement of the fourth year but not later than the end of the fourth year after the issue of the FELS Warrants.
Application for listing:	No listing of the FELS Warrants will be sought on the Stock Exchange or other stock exchange.
Conversion:	Each one (1) FELS Warrant carries the right to subscribe for one (1) FELS Warrant Share.
Transferability:	Shares to be issued upon the exercise of the FELS Warrants will be subject to a restriction on transfer for a period of two years after the date on which they are issued.
Rights to vote or dividend:	Holders of the FELS Warrants will not have the right to vote or to consent or to receive notice as Shareholders in respect of any meeting of Shareholders, or to receive dividends.
Public float restriction:	If the Company considers that it would no longer satisfy the minimum public shareholding (i.e. 25% public float) requirement under Rule 8.08 of the Listing Rules immediately following an exercise of the subscription right under any FELS Warrants, such exercise shall be postponed until such time as the Company is satisfied that such exercise will not result in any non-compliance of Rule 8.08 of the Listing Rules.
Winding up:	If an effective resolution is passed for the voluntary winding up of the Company and if such winding up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the holders of the FELS Warrants, or some person designated by them for such purpose by special resolution, will be a party or in conjunction with which a proposal is made to the holders of the FELS Warrants and is approved by special resolution, the terms of such scheme of arrangement or (as the case may be) proposal will be binding on all the holders of the FELS Warrants.

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## LETTER FROM THE BOARD

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In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering, and if thought fit, resolving to approve the voluntarily winding-up of the Company, the Company shall forthwith give notice thereof to each holder of the FELS Warrants and thereupon, every holder of the FELS Warrants (or, in the case of joint holders, the holder whose name stands first in the register in respect of the Warrant held by such holders) shall be entitled by irrevocable surrender of his Warrant certificate(s) to the registrar with the subscription form(s) duly completed, together with payment of the exercise moneys (or the relative portion thereto), to exercise the subscription rights represented by such FELS Warrants whereupon the Company shall deliver the Shares to the holder of the FELS Warrants no later than the day immediately prior to the date of the proposed shareholders' meeting and shall procure that the holder of the FELS Warrants be registered as a member of the Company in time for it to be able to attend and vote at such shareholders' meeting.

Subject to the foregoing, if the Company is wound up, all subscription rights which have not been exercised at the date of the passing of such resolution shall lapse and Warrant certificates shall cease to be valid for any purpose.

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## LETTER FROM THE BOARD

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### Working Capital Loan Agreement

As set out in the announcement of the Company dated 14 April 2014, in consideration of FELS entering into the Management Services Agreement, GZE entered into the Deed of Undertaking in favour of FELS pursuant to which GZE shall, after the signing of the Deed of Undertaking, procure the Company to provide to TQS working capital and, if the Company fails to do so, GZE shall provide (whether directly or indirectly) to TQS working capital. In light of the above, GZE entered into the Working Capital Loan Agreement with TQS pursuant to which GZE has agreed to provide a loan of not less than RMB60 million to TQS for its working capital. The interest rate from the date of the Working Capital Loan Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal is calculated based on the base interest rate for the tenure of one (1) to three (3) years as published by the PBOC. The interest rate from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date (i.e. three years from the drawdown date) shall be on a rate of 2% plus the aforesaid PBOC base interest rate. The Company shall (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to GZE (or its wholly-owned subsidiary) based on the exchange rate as at the date of the Announcement, which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue and (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

#### Conditions of the Working Capital Agreement:

- (a) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable laws and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the Working Capital Loan Agreement and the transactions contemplated thereunder;
- (b) the Debt Restructuring having become effective;
- (c) a resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange;
- (d) each condition precedent required to be satisfied pursuant to the terms of each other Restructuring Document (other than all conditions precedent in (i) FTSD Purchase Order Framework Agreement; (ii) Management Services Agreement and (iii) the Working Capital Loan Agreement) having been satisfied or waived for the purpose of making each respective Restructuring Document effective in accordance with its terms;

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## LETTER FROM THE BOARD

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- (e) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; and
- (f) the grant of the Whitewash Waiver by the Executive.
- (g) the Working Capital Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions can be waived. As at the Latest Practicable Date, the conditions (b) and (c) set out above have been satisfied.

### **Shares to be allotted and issued in respect of the Working Capital Loan Agreement**

Based on the terms of the Working Capital Loan Agreement and on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$0.8 million and a maximum of 8,367,447 Shares will be allotted and issued to GZE accordingly.

For the avoidance of doubt, the new Shares to be issued and allotted to GZE (or its wholly-owned subsidiary) in respect of the Working Capital Loan Agreement will only cover the interest payment of the relevant agreements up to the date on which the transactions contemplated under the Resumption Proposal are completed. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.

The Directors are of the opinion that the terms of the Working Capital Loan Agreement are fair and reasonable and the transactions contemplated under the Working Capital Loan Agreement are in the interest of the Company and the Shareholders as a whole.

If the conditions set out above are not satisfied on or before 31 August 2016 (or such other date as the parties may agree), (i) the loans under the Working Capital Loan Agreement are immediately due and payable; and (ii) either party thereto may terminate the Working Capital Loan Agreement by giving the other party thereto not less than 30 days' written notice and, upon termination of the Working Capital Loan Agreement, all obligations of the parties shall immediately cease and neither party shall have any claim against the other party in respect of any matter arising out of or in connection with the Working Capital Loan Agreement.



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## LETTER FROM THE BOARD

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### K. THE BUSINESS OPERATIONS OF THE RESTRUCTURED GROUP

#### Overview

In the past, the Quanzhou Shipyard's shipbuilding orders were mainly the building of tankers of not more than 10,000 DWT. Competition in this market was intense as small scale shipyards were able to build the same kind of vessels, and thus the profit margin was thin. In addition, due to the adverse market condition of the shipbuilding industry since 2008 and TQS has been in prolonged litigation, the shipbuilding business recorded losses and the operation of the Quanzhou Shipyard was suspended. The Quanzhou Shipyard's repair business was not yet fully developed so that the ship repair business was not able to generate profit to offset the loss in shipbuilding business.

After completion of the Restructuring, the Group will use the Quanzhou Shipyard as base for re-building its business. It will re-activate the shipbuilding and ship repair business it carried on before the Suspension and at the same time, expand into the business of offshore and marine engineering services, which primarily involves the construction, repair, conversion and upgrading of oil rigs used in connection with offshore oil and gas drilling operations as well as FPSO, FSO, FSRU and FLNG, which are support vessels used in those operations.

In recent years, the offshore and marine engineering sector has undergone rapid growth and is expected to have significant potential for further growth in the near future and the Directors believe that there remains significant potential for further growth in this sector in the near term. As such, the Directors consider that it is an opportune time to optimize the value of Quanzhou Shipyard facilities by focusing the strategy on the construction of high value premium quality vessels (such as drill ship, oil rigs etc) and ship repair and conversion business to tap into the offshore and marine engineering sector which are less sensitive to the macro-economic environment and with high barrier of entry.

The Group also considers that such expansion will be a natural extension of its shipbuilding and ship repair business as it will, to a significant extent, be able to utilise its existing production facilities at the Quanzhou Shipyard also to undertake the construction, repair, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG, subject to certain modification and upgrading works, which the Group is already undertaking. These work primarily involve adjusting the lay-out and increasing the load capacity of certain of the Group's production facilities and equipment, which the Group currently expects to be able to complete in the third to fourth quarter of 2016.

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## LETTER FROM THE BOARD

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There has been a consistent increase in offshore exploration and drilling activities in the oil and gas industry in recent years, and the Directors believe this trend will continue as onshore oil and gas deposits decline through gradual depletion from production. According to Research and Markets, an international market research and market data provider, the growing demand for energy, coupled with increasing investment in offshore exploration activities, will drive the global offshore drilling market to \$121.1 billion by 2018, which represents a CAGR of 10.6% from 2013 to 2018. In addition, in the “Twelve-Five” National Strategic Development Planning of Dynamic Sectors (“十二五”國家戰略性新興產業發展規劃) issued on 9 July 2012, the PRC government stated its support for the development of China’s offshore and marine engineering sector. The Directors believe that the projected growth in investment in offshore exploration activities and the support expressed by the PRC government for the development of the offshore marine and engineering sector are both key factors that will provide a favourable environment for the Group’s expansion into this sector.

To help the Group to build up its capability and the track record and to strengthen the Group’s position in connection with its expansion into the offshore and marine engineering sector, the Group has entered in a long-term cooperation arrangement with FELS, an Independent Third Party, pursuant to the Management Services Agreement signed on 9 April 2014. FELS is a subsidiary of Keppel, which is a global leader in the design, construction and repair of offshore rigs. The Directors consider that the Management Services Agreement is an invaluable opportunity for the Group to develop a long-term cooperation relationship with the Keppel Group, which the Directors believe will be mutually beneficial to both the Group and the Keppel Group as it helps provide the Group with a strong foundation to re-build its business after completion of the restructuring and also allows the Keppel Group to establish a strong foothold for expanding its business in the PRC market.

Leveraging on Keppel’s expertise, excellent track record in shipbuilding, ship repair and marine engineering business, its goodwill, exclusive technical knowhow and market resources, the Company is confident that TQS can penetrate in the market in a most efficient way and build up its track record and reputation in the market. Once the track record and reputation of the Quanzhou Shipyard in the market is built up and with the support by GZE and FEG (as set out below), it is expected that the Group can receive sufficient sales orders and thus, increase the utilisation of the Quanzhou Shipyard, lower the production cost and ensure business sustainability of the Group. Accordingly, the Directors consider such proposed business model is viable and sustainable.

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## LETTER FROM THE BOARD

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The Group's management has business connections with independent third parties for negotiating contracts of ship repair, rig building and ship conversion. TQS has also retained a core group of employees who are experienced in ship and rig-building, details of the biographies of the employees are set out in the paragraph headed "Employees" below. In the long run, TQS will constantly improve every aspect of the Quanzhou Shipyard (including work force, equipments, management, etc), implement localisation policy through training of local employees and expand the scale of the Company's business leveraging on its track record and reputation built up in order to reduce the reliance on Keppel.

Keppel is incorporated and domiciled in Singapore and its shares are listed on The Singapore Exchange Securities Trading Limited. The Keppel Group has engaged in the shipbuilding business for more than 40 years and has extensive experience and expertise in the design and construction of offshore rigs and other floating systems and the conversions of FPSO, FSO, FSRU and drillships. Particularly, the delivery of the world's largest jackups has further strengthened FELS sterling rig building track record. The Keppel Group also owns various proprietary designs and patents which are used in connection with the production of their offshore rigs.

Through the introduction of GZE and FEG, the Group entered into discussions with FELS, which led to the signing of the Management Services Agreement by the Company, TQS and FELS on 9 April 2014. FELS will, as part of the management services to be provided under the Management Services Agreement, make available certain employees of FELS or its related corporation to TQS who will take up various management positions at the Quanzhou Shipyard on a full-time basis. These seconded employees from FELS and its related corporations will work together with the Group's existing management and staff of TQS under the supervision of the board of TQS in connection with the operation and development of the Quanzhou Shipyard. They will, among other things, assist the Group in formulating improvement plans for the Quanzhou Shipyard, and negotiating contracts with customers and supervise the TQS's employees and the day-to-day operations at the Quanzhou Shipyard. TQS has agreed that, during the effective term of the Management Services Agreement, it will use the Quanzhou Shipyard to carry on the business of construction, repair, conversion and upgrading of mobile offshore drilling units, repair, conversion and upgrading of FPSO, FSO, FSRU and FLNG units, and construction, repair, conversion and upgrading of other types of vessels in accordance with the terms of the Management Services Agreement. The Management Services Agreement has an initial term of 30 years, but it will only come into effect if the various conditions to which it is subject (including completion of the restructuring and Resumption) are satisfied on or before 15 July 2016. As a further commitment to the development of a long-term relationship, the Company has agreed, as one of the conditions to the Management Services Agreement becoming effective, to issue to FELS (or such other person as it may specify), at its election, either the FELS CBs which are convertible into Shares or the FELS Warrants which will entitle the holder to subscribe, in cash, for Shares that in both cases, will represent 9.9% of the total issued share capital of the Company after completion of the restructuring, provided always that if the Company considers that it would no longer satisfy the minimum public shareholding (i.e. 25% public float) requirement under Rule 8.08 of the Listing Rules immediately following an exercise of the subscription right under any FELS Warrants, such exercise shall be postponed until such time as the Company is satisfied that such exercise will not result in any non-compliance of Rule 8.08 of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Business model**

After completion of the restructuring, the Group will engage in the business of construction and repair of ships such as tankers and the construction, repair, conversion and upgrading of oil rigs and FPSO, FSO, FSRU and FLNG.

The Group will be undertaking its production operations at the Quanzhou Shipyard, which is favorably situated at the deep-water port of Douwei near Meizhou Bay in Fujian Province, PRC, halfway between Shanghai and Guangzhou. The Quanzhou Shipyard occupies a site of approximately 110 hectares on the south shore of Meizhou Bay along the Taiwan Straits, a 180 kilometre-wide water passage that connects the South China Sea to the East China Sea. The Quanzhou Shipyard consists of shipbuilding and ship repairing facilities which are capable of building and repairing vessels of various types and models. The Group is currently undertaking certain modification and upgrading works at the Quanzhou Shipyard which on completion, will also allow the Group to utilise the production facilities to undertake the construction, repair, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG units. It is expected that such costs of approximately HK\$185 million, HK\$11 million and HK\$3 million will be incurred in the year ending 31 December 2016, 2017 and 2018 respectively.

Project financing for shipyard business will be utilised upon the commencement of each shipbuilding order. The Company has obtained a letter of intent dated 6 May 2016 with six months expiry from a commercial bank in the PRC that the bank principally agrees to provide not more than US\$1.2 billion for project financing with an annual interest rate of approximately 6%. All principals and interest payments will be settled upon the maturity date, which is three years from drawdown date. Final terms will be subject to negotiation of the official loan agreements to be entered by the bank and the Company.

*Shipbuilding.* The shipbuilding facilities of the Quanzhou Shipyard feature two slipways for building small and medium-sized oil and chemical tankers, together with outfitting berths, workshops and heavy-lifting cranes. With such facilities, the Group is capable of manufacturing a wide range of vessels including bulk carriers, oil tankers and container ships.

*Ship repair.* The Quanzhou Shipyard repair facilities consist of four dry docks, repair berths and cranes, and repair workshops. With such facilities, the Group is capable of conducting repair work for a wide variety of vessels, including very large crude carriers (VLCC), and large bulk carriers.

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## LETTER FROM THE BOARD

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*Offshore and marine engineering.* The Group's offshore and marine engineering operations will be a natural extension of its existing shipbuilding and ship repair operations, which will largely share space, facilities, workforce and other resources with the Group's shipbuilding and ship repair business. After completion of the modification and upgrading works, the Quanzhou Shipyard will be capable of constructing and repairing offshore rigs and FPSO, FSO, FSRU and FLNG.

Under the business model on cooperation with Keppel, the operation of the Quanzhou Shipyard will be managed jointly by the management team of TQS and the Seconded Employees. The board of directors of TQS will be the highest decision-making authority. The senior management of TQS as well as the Company will make use of their business network to explore business opportunities including but not limited to orders for the marine engineering services business.

The operation flow of the Group's for the shipbuilding, ship repair business and offshore and marine engineering business may be divided into the three main stages of obtaining orders, construction preparation and manufacturing.

*Obtaining order.* The construction process will start with the obtaining of a shipbuilding order. Both Seconded Employees and the management of TQS are responsible for finding customers. Pursuant to the Management Services Agreement, a steering committee, comprising of not more than four members appointed by FELS or otherwise agreed by the parties to the Management Services Agreement, will be established to consider customer contracts to be entered into by TQS and to make recommendations to the board of directors of TQS. No customer contract shall be entered into without the prior written approval of the board of directors of TQS or the steering committee. The customer orders normally contain the technical specifications of the vessel and the commercial terms such as those relating to payment and delivery.

*Construction preparation.* After a shipbuilding order has been secured, the Group will prepare for construction, which includes design, procurement and production planning.

*Design.* The design process typically involves body design, preparation of drawings and specifications, which must be approved by the customers and comply with the relevant published rules of a particular classification society or international convention and the production guidelines. The Seconded Employees are mainly responsible for the design process. Under the Management Services Agreement, relevant member of Keppel Group may enter into the license agreement with TQS for the use of the relevant proprietary rights of the Keppel Group relating to the designs and specifications of rigs, drill ships and specialised vessels and the name, mark(s), service mark(s), and/or logo(s) of the Keppel Group. The TQS Employees are responsible to customize the design provided by the Seconded Employees to satisfy customers' requests.

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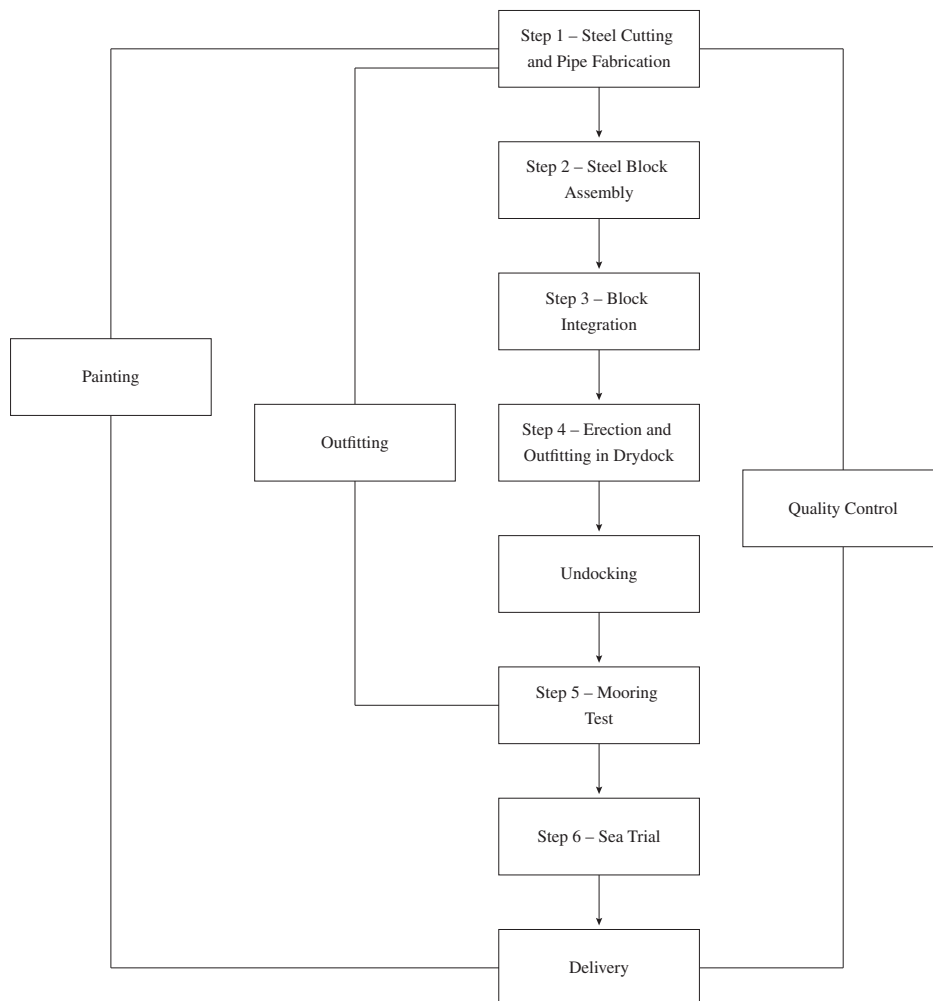
## LETTER FROM THE BOARD

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*Procurement.* The Group's procurement efforts will include contacting suppliers, entering into technical specification agreements, making price inquiries, negotiating contracts and following up on shipment and delivery. Both the Seconded Employees and TQS Employees are responsible for the procurement.

*Production planning.* Both the Seconded Employees and TQS Employees are responsible for preparing detailed manufacturing plan, making drydock arrangements, procure equipment, and arrange for the management and staffing of the project.

*Manufacturing.* TQS Employees are responsible for the manufacturing process for the shipbuilding, ship repair business and offshore and marine engineering business. The ship manufacturing process generally involves the coordination and interaction of four different processes: ship hull construction, outfitting, painting and testing. The following diagram illustrates the typical main steps of the manufacturing process:



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## LETTER FROM THE BOARD

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The manufacturing process of offshore and marine engineering projects will begin with the pre-treatment of steel plates and other steel parts, where the steel plates and other steel parts are cleaned, sand-dusted to remove rust and coated with protective paint. The steel plates will then be cut into components and parts. The components and parts will then be sub-assembled and welded into blocks. Outfitting components and parts will then be installed into each block. After the painting of each block is completed and the blocks are assembled and welded into bigger blocks, the manufacturing process will be shifted to the drydocks, where the Group will assemble all the blocks into the hull and install of the machinery and outfitted the vessel. The Group will then paint the whole vessel. Prior to the delivery of the product to the Group's customer, the Group will conduct sea trials to ascertain the product's performance to ensure its conformity to the required specifications.

Under the Management Services Agreement, the Group has agreed that with respect to all the contracts to be entered into by the Group, any work that falls under the work scopes, such as the construction of the legs and chords of any rig, drillship, specialised vessel, and the conversion of a FPSO, FSO, FSRU and FLNG, will be sub-contracted to one or more members of the Keppel Group.

### **Development plan**

After the Management Services Agreement becoming effective, the Group and the Keppel Group will establish the long term cooperation relationship through the provision of the management service by FELS to TQS and Keppel Group will become the strategic investor of the Company as a result of the grant of FELS CBs or FELS Warrants. The long term relationship and the strategic investment will be mutually beneficial to both the Keppel Group and the Group as it helps providing the Group with a strong foundation and network to re-build its business and also allows the Keppel Group to establish a strong foothold for expanding its business and investment in the PRC market. As such, the Directors believe such long term cooperation relationship will continue and is beneficial to the Group to explore other business opportunities in the shipbuilding and MODU industry.

With the long term cooperation with Keppel Group, TQS can penetrate in the market in a most efficient way, save its initial research and development time and cost before commencing the manufacturing of MODUs and attract customers who request products with Keppel's design, and in turn, secure a source of income stream in long run. During the initial stage of cooperation, to build up its track record and reputation, TQS will focus on purchase orders for products with designs and specifications of the Keppel Group, which TQS (with the assistance of Seconded Employees) has better control on the product quality and delivery schedule. In long run, TQS will develop its own research and development capacity to improve its operations and technology to manufacture products with different designs and specifications and in turn, to diversify its customer base and reduce the reliance on the Keppel Group.

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## LETTER FROM THE BOARD

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Pursuant to the Management Services Agreement, TQS will enter into employment contract with each Seconded Employee. The Seconded Employees are thus, the employees of TQS and will work as a team together with TQS Employees. TQS will also adopt the operation processes and knowhow of Keppel Group for the manufacturing of MODUs. During the initial stage of the cooperation, TQS will rely on the Seconded Employees to set up the operations of the Quanzhou Shipyard, resolve the challenges or matters for the operation of the Quanzhou Shipyard after its reactivation and train up the TQS Employees. In long run, it is the consensus between the Keppel Group and the Group to adopt the localisation strategy (i.e. to rely on local TQS Employees for the operations of the Quanzhou Shipyard).

Set out below is the detailed development plan of TQS based on its long term development direction as discussed above:

TQS's detailed development plan can be divided into the following three stages:

**1. Preliminary stage: being the first ten years from the re-activation of the Quanzhou Shipyard**

During the preliminary stage, TQS expects to accomplish the following major tasks.

- (a) completing the modification and upgrading works on the facilities of Quanzhou Shipyard to meet the international offshore and marine engineering standards;
- (b) integrating the Seconded Employees into key departments;
- (c) enhancing the relevant technical knowledge of the existing TQS Employees by providing various trainings and employing new local talents with the relevant technical knowledge through the assistance from or introduction by local marine institutes and Keppel;
- (d) formulating a formal succession plan for all critical positions in each department;
- (e) establishing a business planning and marketing team based in Hong Kong and China to enhance the business sourcing ability of TQS; and
- (f) adapting the advanced and standardized risk assessment, project management policies and monitoring process of Keppel, which involve costing, scheduling, planning, engineering, procurement, quality control, health, safety and environment management, in order to ensure that projects are executed and completed on time, within budget, with standards of safety and quality that meet contractual specifications.



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## LETTER FROM THE BOARD

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By the end of the preliminary stage, it is expected a solid foundation can be built up for TQS to develop its business independently in a long run.

**2. *Mid-stage/Growth stage: being the next ten years after the preliminary stage.***

During the mid-stage/growth stage, TQS expects to accomplish the following major tasks.

- (a) establishing its own training centre in order to develop the technical skills of the employees in a more efficient way;
- (b) developing a management traineeship scheme and retention programmes to attract the talented candidates and retain existing employees to facilitate the business growth and stable operations of TQS;
- (c) setting up its own research and development department through close collaboration with related educational institutes and universities and with the assistance of Keppel to improve and modify the operating procedures and technologies for the manufacturing of MODUs; and
- (d) expanding and diversifying the customer base with the established track record of TQS;

By the end of the mid-stage/growth stage, it is expected that TQS can diversify its customer base and commence its research and development on the modification or improvement of the existing technologies.

**3. *Final stage/Mature stage: being the next ten years after the mid-stage/growth stage.***

During the final-stage/mature stage, TQS expects to accomplish the following major tasks.

- (a) continuing the improvement of its own training centre, management traineeship scheme and retention programmes according to the business needs;
- (b) continuing the investment in research and development so as to meet the evolving needs of its customers;
- (c) cooperating with research institutions and renowned laboratories in order to improve the existing technologies and develop new technologies for manufacturing MODUs with different designs and specifications; and
- (d) continuing to expand and diversify its customer base.

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## LETTER FROM THE BOARD

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By the end of the final stage/mature stage, it is expected that TQS can manufacture MODUs with different designs and specifications, maintain a strong customer base and become one of the top players in the global offshore and marine engineering market.

### **Deed of Undertaking**

In consideration of FELS entering into the Management Services Agreement, GZE has executed the Deed of Undertaking in favour of FELS, pursuant to which it has unconditionally and irrevocably undertaken to and for the benefit of FELS and all of its related corporations, among other things, that:

- (i) GZE shall, after the signing of the Deed of Undertaking, procure the Company to provide working capital to TQS and, if the Company fails to do so, GZE shall provide (whether directly or indirectly) working capital to TQS;
- (ii) GZE shall take all steps as may be required, necessary or relevant to ensure that the effective date of the Management Services Agreement occurs on or before 15 July 2016; and
- (iii) if (1) the effective date of the Management Services Agreement does not occur on or before 15 July 2016; or (2) TQS becomes insolvent, or admits in writing its inability to pay its debts when due, or a resolution is passed by TQS for its winding up or dissolution, or any order of the relevant court is made for the appointment of a liquidator or judicial manager of TQS or any receiver over the whole or any part of the assets of TQS, GZE shall, upon the occurrence of any of the above events, take over the Quanzhou Shipyard and procure that TQS enters into a novation agreement with FELS, pursuant to which all the rights and obligations of TQS in connection with the Management Services Agreement shall be transferred to and assumed by GZE.

Under the Deed of Undertaking, GZE also agrees to take all steps necessary or desirable to promote the business of TQS, including (without limitation) procuring the entry of customer contracts between GZE and TQS pursuant to which GZE will purchase certain rigs, floating platforms and vessels from TQS.

In addition to the above, the Group may also outsource the production of certain other parts or components to other sub-contractors.

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## LETTER FROM THE BOARD

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### **Raw materials and suppliers**

The principal raw material used by the Group for both its shipbuilding and offshore and marine engineering operations is steel, in the form of plates, pipes and beams. The steel required by the Group for its offshore and marine engineering operations will comprise a higher proportion of high tension and large thick steel plates. After the Management Services Agreement has become effective, the Group will, in addition to undertaking its own procurement, also have the alternative of sourcing steel and other materials through FELS and other members of the Keppel Group, the principal advantage of which, the Directors believe, would be the possibility to negotiate more favorable terms from suppliers based on the combined volume of purchases to be made by the Keppel Group and the Group.

### **Sales, marketing and customers**

With respect to its shipbuilding and ship repair business, the Group will seek both to re-establish connections with past customers as well as to actively pursue new business opportunities, including potential referrals from the business contacts of GZE, FEG and the Keppel Group.

With respect to its offshore and marine engineering business, the Directors expect that the first purchase orders will be those to be placed by FTSD (a subsidiary of FEG) and GZE pursuant to the FTSD Purchase Order Framework Agreement and the GZE Purchase Order MOU, respectively (subject to the fulfilment of the conditions specified in those agreements). The Directors intend that once the Group has established a sufficient track record, it will actively seek to expand its customer base both in the PRC and the international market.

TQS has established business connections with some large shipping companies and commenced preliminary ship repair business negotiations. Once the Liquidation Proceedings in Bermuda is dismissed, the trading of the Shares is resumed and the production at Quanzhou Shipyard is resumed, the Company will negotiate with these companies on letters of intent and agreements.

In late 2012, TQS began negotiation with an agency company (which is headquartered in Shanghai and its core business is providing new building supervision, ship repair supervision, agency services and marine surveys. For the agency services, it is the general shipbuilding and ship repair agent of several large European shipping companies in China) for general shipbuilding and ship repair regarding the large vessel repair business. Senior management team of the agency company has visited the Shipyard several times and the management of TQS has maintained good relationship with them. In view of the excellent geographical location, the favourable weather conditions, the navigation channel and port conditions, the docks and berths layout of the Shipyard, the agency company expects that Quanzhou Shipyard can resume operation so as to commence the cooperation with TQS. Such agency company is the agent of several large European shipping companies.

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## LETTER FROM THE BOARD

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The Group was in a deteriorating financial position when the current management team joined the Company in 2012, and the business operations were almost stagnant. The management needed to find a way out and the easiest and most normal one was to resume the original business of TQS. Therefore, such negotiation began in late 2012 and involves mainly the repair of general cargo vessels and container vessels.

In late 2013, TQS began to build up the business connection with a marine offshore engineering company, which is a major player in the FPSO market and leases and operates Floating Production Storage and Offloading vessels, and is involved in the design and engineering, the construction, the installation, the operation and the life extension of floating production solutions for the offshore Oils and Gas industry. Through the personal network of Mr. Fu with this marine offshore engineering company, TQS has commenced the commercial negotiations since late 2013.

In April 2014, its general manager of China and other responsible staff have visited the Quanzhou Shipyard and evaluated the Quanzhou Shipyard's FPSO conversion capability. They were satisfied with all aspects of the Quanzhou Shipyard and intended to build FPSO at Quanzhou Shipyard. In addition, the chief construction engineer will visit the Shipyard from time to time for the purpose of further commercial negotiations.

Although there are no purchase orders or agreements were entered into between the Company and the abovementioned potential customers (the "**Potential Customers**") so far, the Company is in good relationship and maintains communication with the Potential Customers. The Directors are optimistic in reactivating the business negotiation with the Potential Customers upon completion of the Restructuring on the basis that (i) the Company has proven track record in the past prior to the occurrence of current financial difficulty; (ii) the collaboration with Keppel, one of the world's largest shipbuilding, offshore rigs and other floating systems design and construction company, is expected to enhance the confidence of potential customers as well as provides market niche for the Company; and (iii) the network of existing management, including Mr. Fan Qinghua and Mr. Tang Chao Zhang who have substantial experience in the oil and gas industry, will facilitate the sourcing of new orders from potential customers in the future.

### **Quality control**

After the Management Services Agreement has become effective, the Group will revise its quality control standards and measures for its shipbuilding operations and will adopt standards and measures for its offshore and marine engineering operations which are compatible with those developed and implemented by the Keppel Group.

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## LETTER FROM THE BOARD

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The Group's quality control department will be primarily responsible for overseeing quality management. Our quality control department will also be responsible for formulating and implementing the rules and procedures for quality inspection and testing and the continuous compliance with the quality assurance process in accordance with the requirements of the ISO9001 standard and technical specifications of vessels.

### **Competition**

The shipbuilding and offshore and marine engineering industries are highly competitive. The Directors expect that the Group's main competitors will be domestic shipyards in the PRC which will be able to take advantage of the relatively low production costs in China. Although there are many shipyards in China that are capable of carrying out labour-intensive work, the Directors believe that the strategic location of the Quanzhou Shipyard and the Group's business relationship with the Keppel Group, GZE and FEG will provide the Group with key competitive advantages over its competitors.

Any global economic downturn may also negatively impact the shipbuilding and offshore and marine engineering industries. The drop in seaborne trade will lead to excess capacity and depress the demand for new ships. Fluctuations in oil and gas prices will affect the offshore and marine engineering business.

### **Directors**

#### ***Executive Directors***

**Mr. Tang Chao Zhang ("Mr. Tang")**, aged 41, chief executive and an executive Director of the Company. He was a vice-president of GZE and is currently a director of Fame Dragon. From 2008 to 2011, Mr. Tang took up the role of vice-president of 廣東振戎石油化工有限公司 (Guangdong Zhenrong Petrochemical Co., Ltd). He is also a director of 雲南振戎潤德珠寶有限公司 (Yunnan Zhenrong Runde Jewellery Ltd). Mr. Tang graduated from Guangdong University of Foreign Studies with a Bachelor of Arts degree in International Marketing. He joined the Group in 2013 and is also a director of certain subsidiaries of the Company.

Save as disclosed above, Mr. Tang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Tang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

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## LETTER FROM THE BOARD

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**Dr. Zhang Weibing (“Dr. Zhang”)**, aged 49, an Executive Director and the chairman of the remuneration committee of the Company. He holds a bachelor degree in international economics and a master degree in international finance from University of Beijing and a doctoral degree in international finance from University of Sichuan. Dr. Zhang has through his close associate provided consultancy services to GZE, the controlling shareholder of the Company. Dr. Zhang has 25 years of experience in financial securities industry and was the responsible person of Securities Business of China Agriculture Development Trust and Investment Corporation (中國農村發展信託投資公司), the general manager of China Life Insurance Trust East China (Group) Company (中國人保信託華東(集團)公司), the deputy general manager of Qing Hai Securities Company Limited (青海證券有限責任公司), the general manager of Shanghai Jinhui Information System Company Limited (上海金匯信息系統有限公司), the director of Shanghai Lingyun Industries Development Co. Ltd. (上海凌雲實業發展股份有限公司)(which was approved to issue 境內上市外資股(B股)) and listed on the Shanghai Stock Exchange, the executive director of West Australia Resources Pty. Co, the chairman of the board of directors of Haton Polymer & Fibre Corp. Dr. Zhang has extensive experience in corporate governance, initial public offers, merger and acquisitions and equity and debt securities investment. He joined the Group in 2015 and is also a director of certain subsidiaries of the Company.

Save as disclosed above, Dr. Zhang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Dr. Zhang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares with the meaning of Part XV of the SFO.

### ***Non-executive Director***

**Mr. Fan Qinghua (“Mr. Fan”)** (Chairman), aged 55, was appointed as a non-executive Director of the Company in March 2013 and subsequently appointed as the chairman of the nomination committee and a member of the audit committee of the Company. He is also a director and deputy general manager of GZE and a director of DBIL. From 1992 to 1995, he joined 珠海東大集團公司 (Zhuhui Dongda Group) in the capacity of manager of the finance department and assistant general manager. From 1995 to 1998, he was a senior deputy general manager of 珠海九豐阿科能源有限公司 (Zhuhai Jovocarco Energy Ltd). Mr. Fan is also the chairman of the trade union of GZE. Mr. Fan studied Economic Management and graduated from Henan Normal University.

Save as disclosed above, Mr. Fan has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

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## LETTER FROM THE BOARD

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Save as disclosed above, Mr. Fan does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

### *Independent non-executive Directors*

**Mr. Lau Fai Lawrence (“Mr. Lau”)**, aged 44, was appointed as an independent non-executive Director in March 2014 and subsequently appointed as the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Lau is currently a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor’s degree in business administration in 1994 and obtained a master’s degree in corporate finance from Hong Kong Polytechnic University in 2007. Mr. Lau is the company secretary of BBMG Corporation, a company listed on the main board of the Stock Exchange. Mr. Lau is an executive director of Central Wealth Financial Group Limited; an independent non-executive director of Artini China Co. Ltd., and an independent non-executive director of Topsearch International (Holdings) Limited, all the above companies are listed on the main board of the Stock Exchange.

Save as disclosed above, Mr. Lau has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Lau does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**Ms. Xiang Siying (“Ms. Xiang”)**, aged 53, was appointed as an independent non-executive Director in July 2015 and subsequently appointed as a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. She holds a Bachelor degree in Agriculture from Beijing Agriculture University (now known as China Agriculture University), Master degree in Economics from 財政部財政科學研究所 and MBA degree from the London Business School. She has extensive experience in all sectors of corporate finance, restructuring and merger and acquisitions practice. She is an independent non-executive director of China Ocean Shipbuilding Industry Group Limited, the shares of which are listed on the Stock Exchange. Ms. Xiang currently is an executive director of CDH Investments, a leading private equity firm in China. Prior to joining CDH Investments, she had worked for China International Capital Corporation Limited since returning to China in early 2004. Before that Ms. Xiang had long career with International Finance Corporation, the private investment arm of the World Bank Group, in Washington, United States of America.

Save as disclosed above, Ms. Xiang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

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## LETTER FROM THE BOARD

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Save as disclosed above, Ms. Xiang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**Mr. Hu Hongwei (“Mr. Hu”)**, aged 36, was appointed as an independent non-executive Director in November 2015 and appointed as a member of the remuneration committee of the Company on 24 March 2016. He holds a Bachelor of Laws (LL.B.) and Master of Laws (LL.M.) from Fudan University. He has extensive experience in legal aspects of cross-border investment, restructuring and mergers and acquisitions practice. Mr. Hu is attorney-at-law admitted to practice in China. He currently is a partner of the Shanghai office of Dentons, a leading multinational law firm. Prior to joining Dentons, he had long career with Clifford Chance, a leading international law firm headquartered in London, United Kingdom and HHP Attorneys-At-Law, a leading Chinese commercial law firm. Mr. Hu advised foreign and domestic clients on legal aspects of their investment in China, including mergers and acquisitions, regulatory compliance, intellectual property protection and dispute resolution.

Save as disclosed above, Mr. Hu has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Hu does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares with the meaning of Part XV of the SFO.

**Ms. Hsu Wai Man Helen (“Ms. Hsu”)**, aged 46, was appointed as an independent non-executive Director in December 2015. She has over 23 years’ experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu had been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is currently an independent non-executive director of Branding China Group Ltd., Perfect Shape (PRC) Holdings Limited, Richly Field China Development Limited and TCL Display Technology Holdings Limited, all are listed on the Stock Exchange. She was an independent non-executive director of China Forestry Holdings Co. Ltd., Fujian Nuoqi Co., Ltd., China Kingstone Mining Holdings Limited, listed on the Stock Exchange, and an independent director of SGOCO Group, Ltd., a company listed on the Nasdaq Stock Market.

Save as disclosed above, Ms. Hsu has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Ms. Hsu does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.



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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 14 April 2016, Ms. Hsu has, due to her other business commitment, tendered her resignation as the independent non-executive Director which will be effective after the SGM, in compliance with Rule 7 of the Takeovers Code.

The Company is in negotiation with Dr. Liu Li Ming, a proposed executive Director who possesses extensive experience in offshore and marine engineering and oil rig design, manufacturing and installation and the Board is in process to finalise the appointment of him and expects his appointment will be effective after the SGM.

Dr. Liu Li Ming, the proposed executive Director of the Company, graduated from Tianjin University with bachelor degree majoring in marine engineering and manufacturing. He then obtained master degree in business administration from Capital University of Economics and Business and a doctor's degree in structural engineering. He is a senior engineer enjoying government special subsidy from China's State Council. Dr. Liu has over 50 years experience in offshore oil exploration and development, including the design, manufacturing and installing of offshore oil drilling rigs, and the design, design review, supervision and management of offshore oilfield development project. From 1997 to 1999, he worked as general manager of China Offshore Oil Development & Engineering Corporation (中海石油工程設計公司). From 1999 to 2003, he was the deputy director of CNOOC Research Center; from 2003 to 2005, he was the deputy general manager of Offshore Oil Engineering Co., Ltd. and CNOOC Oil Base Group Company; from 2005 to 2008, he was the deputy executive general manager and general manager of CNOOC Gas & Power Limited; from 2008 and 2011, he was the deputy chief engineer of CNOOC, general manager of CNOOC Haixiningde Industrial Development Zone Co., Ltd. and director of the Administrative Committee of Haixiningde Industrial Development Zone in Fujian Province. Dr. Liu is currently the senior advisor of Beijing Gaotai Deep-sea Technology Co., Ltd., a member of the expert group of "863" Project in China's Ministry of Science and Technology and the evaluation expert of the State Science and Technology Award.

Save as disclosed above, Dr. Liu has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Dr. Liu does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

### **Employees and senior management**

As at 31 December 2015, the Group currently has approximately 173 employees, comprised of management, engineers technicians and skilled workers. Most of our employees have prior work experience at shipyards.

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## LETTER FROM THE BOARD

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Senior management of the Group are as follow:

**Fu Yong Yuan**, was appointed as an executive Director on 3 July 2012 and the chairman of Titan Quanzhou Shipyard Co., Ltd. in August 2012. He is currently the legal representative of TQS. He was a general manager of Rojam Entertainment Holdings Limited. Mr. Fu has over 40 years of experience in shipping and freight management. He served in COSCO System for two decades from 1972 to 1992. Mr. Fu worked for 廣州遠洋運輸公司 (COSCO Guangzhou) and was responsible for managing of freight, container transportation and vessel chartering operations. He was a general manager of 中遠系統福星航運企業有限公司廣州分公司 (COSCO FuXing Shipping Enterprises Limited Guangzhou Branch) and a general manager and executive director of 廣東華銓船務有限公司 (Guangdong HuaQuan Shipping Limited). Mr. Fu, a marine engineer and an economist for the shipping management, graduated from Guangdong Province Economics Management Institute majoring in Industrial Economic Management.

**Hu Jun**, graduated from Zhenjiang Shipbuilding Institute (now called Jiangsu University of Science and Technology) in Jiang Su Province, China, in 1985 with a bachelor degree in Marine Engineering, is the proposed senior vice president of TQS and will be responsible for the planning, oversees and supervision of the marine projects. He joined TQS in early 2014 as an advisor and is responsible for the budgeting and planning of marine projects. Mr. Hu is also a technical director of TS Drillings Pte. Ltd., Singapore and he is in charge of engineering in offshore engineering and construction, overall project management (including budget planning) in Jackup drilling rig and client engineering in DSS38E Semi-Rig.

Mr. Hu has over 25-year experience in shipbuilding and marine engineering industry. Prior to joining the Quanzhou Shipyard, he worked for several shipyards in China and Singapore. From 1985 to 1993, he was the project engineer in engineering division of Hudong Shipyard in Shanghai, China, during which he independently finished designing, procurement and delivery of various types of vessels (including 62,000 DWT Crude Oil Tanker, 52,000 DWT FPSO and 34,000 DWT Crude Oil Tanker). From 1993 to 1996, he was the section manager in design department of Shanghai Edward Shipbuilding Co., Ltd in Shanghai, China, during which he was responsible for designing, supervising and planning (including budget planning)the construction of various types of vessels (including 2,000 DWT Product Oil Tanker, 3,700 M3 LPG Carrier (Liquid Petrol Gas Carrier), 4,200 M3 LPG Carrier and 1,100 TEU Container Vessel). From 1997 to 2005, he was the project manager and engineering manager of Jurong Shipyard Limited in Singapore. Mr. Hu was the project manager/engineering project manager for one 11,500 DWT chemical tanker, one cable laying vessel, two FPSO conversions and one Class 375 Jackup Oil Rig. From 2006 to 2007, he was the project manager and engineering director of China Merchant Industry Group in China. He was the project manager for one liftboat rig and one 350ft Jackup rig. From 2008 to 2013, he was the technical director of Shanghai WaiGaoQiao Shipyard in China, during which he was in charge of engineering in a semi-submersible project, project management in a Jackup drilling rig and a 6th generation drillship, and exploring in the new offshore projects (such as Jackup drilling rig, drillships, etc).

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## LETTER FROM THE BOARD

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**Xu Xinjian**, graduated from Dalian Maritime University with bachelor degree majoring in Engine Management, owned an A Class Chief Engineer and China Classification Society authorised cycle engine inspection Chief Engineer certificates. Mr. Xu is the proposed manager of the commissioning subdivision of TQS which is responsible for the inspection and sea trial of the manufactured product and under the supervision of the operations department which is headed by Sam, Weng Kuan, a Seconded Employee. Mr. Xu joined TQS in 2007 and was in-charge for the commissioning department prior to the suspension of operations of Quanzhou Shipyard and has 34 years of experience in running projects and testing and commissioning works. In 1982, Mr. Xu joined the China Ocean Shipping (Group) Company (COSCO), Guangzhou Branch as engineer and promoted to chief engineer in 1993. He was responsible for the testing and commissioning, safe operation and maintenance of mechanical and electrical equipments on the vessels he managed. In 2006, he left COSCO Guangzhou and joined the Yongxin Shipping Co., Ltd in Quanzhou, China. He served as engineering manager and was responsible for the overall engineering management. During his tenure with TQS, Mr. Xu has solved several difficult technical problems on engines when testing and commissioning. By virtue of his expertise, relevant experience and strong technical problem-solving skills, we believe that Mr. Xu will be competent to identify and tackle technical issues when conducting sea trials.

**Chen Liangren**, graduated from Wuhan Marine College with a diploma in Ship Engineering. Mr. Chen also holds a Master Degree in Business Administration from South Australia University. Mr. Chen is the proposed assistant vice president of operations department of TQS which is responsible for the oversees and supervision of the whole manufacturing process including production planning and control, painting, facility, staging and crane, hull and welding, mechanical, outfit, piping, electrical, commissioning and quality controls. Mr. Chen joined TQS in 2006, and was responsible for the management of the overall manufacturing process (including cost control, production planning, safety and quality control, personnel and equipment management, etc.) prior to the suspension of operations of the Quanzhou Shipyard. Prior to joining TQS, Mr. Chen had worked for Japan Hitachi Zosen Group (subsequently acquired by Keppel) for 11 years from 1993 to 2004. He served as manager of technical department and participated in shipbuilding, ship repair, FPSO and offshore drilling platform projects. From 1986 to 1993, Mr. Chen served as technician of hull shop at Fujian Mawei Shipbuilding Ltd. (formerly known as Fujian Mawei Shipyard). He was responsible for the manufacturing process of hull shop and tackling the on-site technical problems. Fujian Mawei Shipbuilding Ltd. manufactures different kinds of ships, including multi-purpose semi-submersible unit, container ships, oil tanker, barge, etc.

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## LETTER FROM THE BOARD

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**Huang Zisheng**, is the proposed senior vice president of TQS. He graduated from Jimei Navigation College with diploma in Engine Engineering. He has an A1 Chief Engineer certificate, Continuous Inspection Certificate of Russian Maritime Register of Shipping Classification Societies and higher registered equipment management engineer certificate. He joined TQS in 2007, and is responsible for the overall operation of the Quanzhou Shipyard. Mr. Huang has more than 15 years of hands-on experience in tanker operation and maintenance and is well aware of IMO (International Maritime Organization) regulations. From 1991 to 2007, he worked as Engineer Officer, First Engineer Officer and Chief Engineer Officer successively on several seagoing tankers. He was responsible for the routine operation and maintenance of propulsion and other ship systems such as: electrical power generation plan, lighting, fuel oil, lubrication, water distillation and separation, water systems on board the vessel, etc. In addition, he has obtained Certificate in Safety Management, Fire Fighting Training Certificate, First Aid Certificate and Certificate of Proficiency in Survival Craft and Rescue Boats.

**Zhang Haiquan**, is the proposed vice president of the engineering department of TQS which is responsible for the design and product engineering. He graduated from Dalian University of Technology with bachelor degree in Ship Engineering. He joined TQS in 2008 as general manager and is responsible for the production process and management system. He had over 22 years experience in shipbuilding, ship repair, marine engineering, design, management and operations. He participated in the management of various types of ship building, FPSO, semi-submersible and jackup rig projects. He has knowledge in the domestic and international shipbuilding developments and had been sent overseas to Japan and Korean (DSME) shipyards to learn the advanced techniques of production management and enterprise resource planning. From 1991 to 2008, he worked for the Dailian Shipbuilding Industry Co., Ltd. He was responsible for the supervision of the entire ship building process. The major projects which he had been involved were BINGO9000 semi-submersible drilling rig, Bohai No.12 drilling rig platform, FPSO, several crude oil tankers and VLCCs. Mr. Zhang was also responsible for the preparation (including the design and product engineering), implementation and management of the working plan of every workshop, including steel cutting, structure erection, outfitting, painting, etc.

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## LETTER FROM THE BOARD

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The proposed Seconded Employees are as follow:

**Wong, Fook Seng**, the proposed president of TQS, is an executive director (Operations) of FELS. He holds Master of Science (Financial Management) from the University of London, United Kingdom and Master of Business Administration (Nanyang Fellows/MIT) from Nanyang Technological University, Singapore. He started his career in the marine industry 44 years ago as an apprentice and has been with FELS for the last 34 years. Prior to this appointment, Mr. Wong was a general manager, heading various functions such as production, marketing, projects, planning & control, quality system and process excellence. Mr. Wong had served as a Council Member for the Singapore Welding Society and had been a member of the Institute of Industrial Managers, Institute of Marine Engineers, Society of Naval Architecture and Marine Engineers and is a Certified System Engineer with the Institute of Engineers Singapore.

**Woo, Boon Hwee**, the proposed manager of operations department of TQS, is a yard manager of FELS. He holds Diploma of Mechanical Engineering from Singapore Polytechnic. He joined the Keppel Group in 1968. Mr. Woo has over 45 years experience in facility and project management and operations. He has successively served as technician and foreman of its Plant & Maintenance Department, ship repair manager and executive superintendent of its Facility Department, deputy shipyard manager of its Operations Department, and senior project manager of its Project Management Department from 1968 to 2011.

**Lim Eng Kwee**, the proposed manager of the hull and welding subdivision of the operations department of TQS, is section head (hull) of FELS. He joined the FELS in 1970. Mr. Lim has been responsible for the hull section throughout his career. He has successively served as plater helper, plater, marker, chargehand, foreman, superintendent, assistant hull manager and hull manager of the Hull Department from 1970 to 2014.

**Aw, Swee**, the proposed manager of the facility subdivision of the operations department, is a senior facility manager of FELS. He holds technical certificates in Electric Fitting & Installation granted by Vocational and Industrial Training Board, Singapore. He joined the FELS in 1987 and has been responsible for the facility management. He has successively served as foreman, senior superintendent, assistant section manager, section manager and facility manager of the Facility Department from 1987 to 2006.

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## LETTER FROM THE BOARD

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**Sam, Weng Kuan**, the proposed vice president of operations department of TQS, is a shipyard manager (planning & control) of FELS. He holds a bachelor degree in Mechanical Engineering from Nanyang Technological University, Singapore and a diploma in Shipbuilding & Offshore Engineering from Ngee Ann Polytechnic, Singapore. He joined FELS in 1990. Mr. Sam has over 20 years experience in operations, production engineering & planning and planning & control. He has successively served as technician trainee, foreman, superintendent of its Operations Department, engineer of its Commercial Department, deputy production engineering & planning manager, deputy planning & control manager and senior planning & control manager from 1990 to 2012.

**Neo, Swee Wah**, the proposed procurement and logistics manager of TQS, is a subcontracts manager of FELS. He holds an advanced diploma in Business Management from Management Development Institute of Singapore and a diploma in Electronic Engineering from Ngee Ann Polytechnic, Singapore. He joined FELS in 2001 and has been responsible for the purchasing and contracting. He has successively served as senior purchasing officer of its Purchasing Department, senior sub-contracting officer and principal sub-contract officer of its Contracting Department from 2001 to 2008.

### **Business connections of the management of the Group**

Prior to the Suspension, the Company has been involved in transportation, distribution, and marine services for petrochemical products in the Asia Pacific region. The Company has business connections with major ship owners, such as Tanker Pacific Management (Singapore) Pte Ltd (“**Tanker Pacific**”), a leading provider of marine transportation for energy markets which manages a fleet of 29 vessels and operate in both the spot and time-charter markets delivering crude oil and oil products to customers worldwide, Frontline Ltd (“**Frontline**”), a major tanker company which owns a fleet of 47 vessels (including very large crude carriers (i.e. VLCC)) and engaged in international seaborne transportation of crude oil; K-Line, one of the largest ship operators in the world which owns a fleet of 558 vessels and provides marine transport of crude oil, oil products, liquid petroleum gas and other petrochemical products by its VLCC, brokers, participants along the value chain of shipping.

Mr. Fu Yong Yuan (deputy chief executive of the Company and chairman of TQS), has over 40 years of experience in shipping and freight management and worked for COSCO Guangzhou, COSCO FuXing Shipping Enterprises Limited Guangzhou Branch and Guangdong HuaQuan Shipping Limited. He has extensive and profound connections at the executive management level in the shipping industry of China. Throughout his 40 years of experience in shipping and freight management, Mr. Fu has developed business connections with different shipping companies and brokers which have connections with different companies including oil drilling companies.

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## LETTER FROM THE BOARD

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Through the business network of the Company prior to the Suspension (including its customers, brokers and other participants along the value chain of shipping industry) and the personal network of the management of the Company, the Group has extension business network (for both small and large scale shipping companies) in the ship building and repair industry.

The Group has business connection within MODU industry through the personal work of the management of the Company and the brokers. Notwithstanding the business network within MODU industry is limited, after TQS having developed its reputation and track record with the assistance of the Keppel Group, along with the principal strengths of TQS (such as strategic location, favourable water depth, favourable weather conditions and modified production facilities), it is expected TQS can attract customers (without the assistance of Keppel Group) in long run.

In addition, the management of the Company has been invited to participate in a number of offshore & marine conferences, which expands further the business connection of the Company within the MODU industry.

### **Training**

The Group has established cooperative relationships with local marine institutes in Xiamen and Quanzhou since Quanzhou Shipyard has been set up. Pursuant to the cooperative agreements with the marine institutes, courses and training of the following matters will be provided.

- (a) Pre-job training: It is provided to the newly employed workers for the purpose to strengthen their relevant technical skills and offer workplace health and safety training so as to meet the Quanzhou Shipyard's standards when started working;
- (b) On-the-job training:
  - i. For skilled workers – Combined on-the-job training with lectures, this type of training will provide the workers with improved skills and knowledge of new technologies and opportunities to practice them on-the-job;
  - ii. For potential workers – Certain workers who the management consider having potential to become a lead person, foreman or supervisor, will be offered with management courses;
- (c) Workshops and seminars: will be held occasionally as requested by TQS.

In exchange, the internship opportunities of TQS will be given to some of the students of these marine institutes. Also, selected employees will serve as instructors to teach the students how to apply theories into practices.

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## LETTER FROM THE BOARD

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Through the collaboration with the local marine institutes, TQS will have an efficient and cost-effective training system which can help the operation of Quanzhou Shipyard becoming more productive and sustainable.

The Directors believe that (i) the pre-job training can help new employees understand their jobs better, so as to avoid job-related injuries once started working, which in turn will save time and money for the Company; (ii) the on-the-job training will allow the skilled workers to upgrade their current skills and keep up-to-date with new technologies, and also provide opportunities to develop their career path; and (iii) the ad hoc workshops and seminars can meet the training needs of the Group whatever and whenever when they are raised.

Moreover, the Company can identify suitable candidate through internship. These marine institutes will become our talent pool for the Quanzhou Shipyard's future expansion.

At this stage, the main purposes of the training at the Keppel Group are: (a) to understand every aspect related to the construction of MODUs (including the production process, equipment layout, design system, quality control, etc.); (b) to integrate the original management and quality control systems of Quanzhou Shipyard with those related to the construction of MODUs; and (c) to implement drawing and data sharing platform.

The persons that will be trained at the Keppel Group are the persons in charge of each department and the chief engineers. The training will include: (a) visiting the shipyard of the Keppel Group to understand better its overall operation of offshore and marine engineering sector; and (b) the selected heads of departments will attach to specific departments to carry out individual training tailor-made to his/her core responsibilities. For the selected chief engineers, the training programme also involves familiarisation of offshore design software, process flow, design guidelines, construction standards, production process guidelines and safety and health system.

The Company expects that the local employees, after the training, will be well prepared for the cooperation with the Seconded Employees and the construction of MODUs.

A manager of HR department and Mr. Huang Zisheng, the proposed senior vice president of TQS, have finished their training in June 2014.



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## LETTER FROM THE BOARD

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### **Intellectual property rights**

The Group does not currently own any patents, registered trademarks, or copyrights. After the Management Services Agreement has become effective, the Group may use designs, technical knowhow, trademark or trade name of the Keppel Group in connection with the construction, repair, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG and other specialised vessels and if it does, it will have to negotiate and enter into such licensing agreement with the relevant member of the Keppel Group as may be required in accordance with the terms of the Management Services Agreement.

### **Environmental matters**

The Group is subject to various PRC laws and regulations, including but not limited to, laws and regulations related to air and water quality, limitations on discharge of pollutants into the environment and standards for the treatment, storage and disposal of toxic and hazardous wastes, such as the Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Environmental Protection law of the People's Republic of China (中華人民共和國環境保護法), and the Law of the People's Republic of China on the Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法).

## **L. PRINCIPAL STRENGTHS**

### **Strategic location**

The Quanzhou Shipyard is favourably situated at the deep-water port of Douwei near Meizhou Bay in Fujian Province, PRC, halfway between Shanghai and Guangzhou with a shoreline of approximately 3,600 metres. The Directors believe there are few comprehensive and large-scale shipbuilding and ship repair facilities that are comparable to the Quanzhou Shipyard located along the shoreline between Shanghai and Guangzhou. The Directors believe the Quanzhou Shipyard benefits from its strategic location in the following aspects:

- Favourable water depth: the deep-water port at Douwei, where the Quanzhou Shipyard is located, is capable of accommodating vessels of up to 300,000 DWT. The Quanzhou Shipyard has two large dry docks and eight berths which can accommodate up to 22 large vessels. Its location at a deep-water port makes it convenient for docking of vessels and undertaking of pre-delivery testing and sea trials.
- Favourable weather conditions: Quanzhou is located in South China and on average, enjoys generally mild temperature and wind conditions. Its lowest temperature is on average above 5 degrees Celsius throughout the year. These factors allow the Quanzhou Shipyard to have more work days suitable for outdoor production and to suffer less disruption to production schedules than compared to for example, shipyards in Central or Northern China.

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## LETTER FROM THE BOARD

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- Convenient access to markets: the Quanzhou Shipyard is conveniently located along many busy shipping and trading routes, and hence, closes to markets where there is demand for shipbuilding and repair services. It is also located near some of Asia's busiest ports. It is 502 nautical miles to Shanghai in the north, 386 nautical miles to Hong Kong in the south, 170 and 186 nautical miles to Taipei and Gaoxiong in the east, respectively, and 50 nautical miles from the Straits of Taiwan.

### **Comprehensive production facilities**

The Quanzhou Shipyard was designed by China State Shipbuilding Corporation Ninth Design and Research Institute and a team of industry experts from Japan, Singapore and China in accordance with international standards. It consists of comprehensive shipbuilding and ship repair facilities designed for and capable of building and repairing vessels of various types and models. The standard of those facilities also means that the Group will, to a significant extent, be able to utilise them in connection with its expansion into the offshore and marine engineering business, subject to certain modification and upgrading works, which the Group is undertaking. These works primarily involve adjusting the lay-out and increasing the load capacity of certain of the Group's production facilities and equipment, which the Group currently expects to be able to substantially complete in the fourth quarter of 2016.

The Quanzhou Shipyard also has sufficient space at its site to cater for future expansion. In connection with the development of the offshore and marine engineering business, the Group has now reserved a site at the shipyard with a shoreline of approximately 80 metres for the construction of a heavy duty berth, and sites with an aggregate shoreline of approximately 680 metres for the construction of two additional berths for building offshore rigs and support vessels.

### **Support of the Keppel Group, GZE and FEG**

The Directors believe that the Group will also benefit extensively from the support of the Keppel Group through the cooperation arrangement with FELS under the Management Services Agreement as well as the support of GZE and FEG.

Through the Management Services Agreement, the Group will be able to draw on the extensive management and technical expertise of the Keppel Group, a global leader in the field, in the design, construction, repair, conversion and upgrading of offshore oil rigs as well as FPSO, FSO, FSRU and FLNG and other specialised vessels used in offshore drilling operations in connection with its expansion into the offshore and marine business.

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## LETTER FROM THE BOARD

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Leveraging on Keppel's expertise, excellent track record in shipbuilding, ship repair and marine engineering business, its goodwill, exclusive technical knowhow and market resources, the Company is confident that TQS can penetrate in the market in a most efficient way and build up its track record and reputation in the market. Once the track record and reputation of the Quanzhou Shipyard in the market is built up and with the support by GZE and FEG (as set out below), it is expected that the Group can receive sufficient sales orders and thus, increase the utilisation of the Quanzhou Shipyard, lower the production cost and maintain the profitability of the Group. Accordingly, the Directors consider such proposed business model is viable and sustainable.

The Directors believe that the Group will benefit from the support of GZE and FEG both in terms of direct business opportunities generated by their expansion into the business of leasing of oil rigs and support vessels for offshore drilling operations as well as potential business opportunities among business contacts they have built up in the oil and gas industry.

As described above, FTSD (a subsidiary of FEG) has, pursuant to the FTSD Purchase Order Framework Agreement, agreed that it will, subject to various conditions, place or procure to be placed purchase orders with TQS for the construction of one semi-submersible and two jackups within one year from the effective date of that agreement, while GZE has, pursuant to the GZE Purchase Order MOU, agreed in principle that it will, subject to various conditions, place or procure to be placed purchase orders with TQS for the construction of two semi-submersibles, four jackups and two FSRU. The Directors believe that these commitments will provide the Group with a strong foundation to develop its offshore and marine business.

In order to rescue the Group, GZE has made available certain interim financing arrangements to the Group and has agreed to reschedule the repayment of certain loans owed by the Group to GZE. In addition, GZE had entered into an assignment with Grand China Logistics pursuant to which Grand China Logistics had assigned all of its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement to GZE. Subsequently, GZE entered into the Shipyard Termination Agreement with the Company on 5 May 2014, pursuant to which the parties conditionally agreed to terminate the Shipyard Sale and Purchase Agreement and settle the amount of RMB740,000,000 paid by Grand China Logistics pursuant to the Shipyard Sale and Purchase Agreement (that the rights to which were subsequently assigned to GZE) by way of the issuance of 9,382,164,000 new Shares to GZE.

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## LETTER FROM THE BOARD

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GZE also assists in resuming the operations of the Group. Through the introduction by GZE and FEG, the Company and TQS have entered into the Management Services Agreement with FELS on 9 April 2014 pursuant to which FELS has conditionally agreed to provide management services for the operations of the Quanzhou Shipyard. Such Management Services Agreement constitutes the major element to resume the operations of the Restructured Group. GZE has also entered into the Working Capital Loan Agreement with the Company and agrees to fund the capital expenditure of up to RMB60,000,000 incurred prior to the completion of the restructuring in connection with upgrading the production facilities to make them suitable for manufacturing offshore engineering products.

### **Experienced management and qualified work force**

The Group's management plays a key role in forming and implementing business development strategies and supervising day-to-day business operations. Mr. Fu Yong Yuan, legal representative of TQS, is a marine engineer and an economist for shipping management. He has over 40 years of experience in shipping and freight management. The Group has retained a core group of qualified and experienced employees, most of whom had previously been engaged in the shipbuilding and ship repair business at the Quanzhou Shipyard. The Directors expect that the Group will be able to rely on these employees to provide the backbone for the rebuilding of its shipbuilding and ship repair business as well as the expansion into the offshore and marine business.

### **Government support**

The PRC Government issued the "Twelve-Five" National Strategic Development Planning of Dynamic Sectors ("十二五"國家戰略性新興產業發展規劃) on 9 July 2012. In this document, the PRC Government has identified the marine engineering industry as one of the industries the development of which it will actively support in its twelfth five-year state plan which covers the period from 2011 to 2015. The government's objective is to encourage innovation in and to increase the competitiveness of China's marine engineering industry. The Directors believe that this will provide a favourable environment for the Group to enter into the marine engineering business.

There is a similarly strong level of support by the Fujian Provincial Government for the development of enterprises engaged in the marine engineering industry. The Fujian Provincial Government has implemented policies which provide for, among other things, the grant of government subsidies, preferential taxes and other incentives to enterprises in the marine engineering industry whose operations are based in Fujian Province. TQS has benefited from and the Directors expect, will continue to benefit from these policies.

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## LETTER FROM THE BOARD

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### M. RISK FACTORS

#### **Risks relating to the restructuring**

##### ***Adverse publicity relating to the restructuring and the financial condition of the Group may adversely affect its ability to build customer and supplier relationships and market perception of its business***

Adverse publicity relating to the restructuring and the financial condition of the Group may have a materially adverse effect on our business by making it difficult for us to convince the suppliers and customer to do business with us. Suppliers may demand quicker payment terms or not extend normal trade credit, all of which could further materially adversely affect our working capital position. In addition, suppliers may choose not to continue to supply the Group and the Group may find it difficult to obtain new or alternative suppliers. Ongoing negative publicity may also have a long-term negative effect on the brand names owned or used by the Group, which could make it more difficult for the Group to operate. The Group will encounter difficulty to build new suppliers and customers relationship and to diversify its supplier and customer basis.

#### **Risks relating to the Group's business**

##### ***The Group has a limited track record in its shipbuilding and ship repair business and does not have any track record in the offshore and marine engineering business***

The Group's business prospects after completion of the restructuring must be considered and assessed in light of the risks and difficulties the Group may encounter, due to the fact that it has a limited operating history in its shipbuilding and ship repair business and has no established our track record in the offshore and marine engineering business which the Group plans to expand into. The Group's business model has not been fully tested, including, but not limited to the following:

- delay in completing the modification and upgrading works at the Quanzhou Shipyard to enable the Group to start carrying on its offshore and marine engineering business due to factors beyond the control of the Group;
- inability to re-establish, build or expand the Group's customer base;
- early termination of, or interruption to, the Management Services Agreement;
- inability to achieve effective cooperation under the Management Services Agreement;
- inability to master the necessary know-how of the offshore and marine engineering business;
- lack of productivity, efficiency and stability of workforce; and

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## LETTER FROM THE BOARD

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- the cyclical nature of the shipbuilding and ship repair industry and the offshore and marine engineering industry in general, whether on a worldwide or regional basis.

***Demand for the Group's products or services is directly or indirectly affected by trends in oil and gas prices***

The Quanzhou Shipyard will, immediately following completion of the restructuring, be the Group's principal production asset. The number of purchase orders that the Group may be able to secure in connection with its offshore and marine engineering business will be dependent on oil and gas exploration and production activity and capital expenditures of oil and gas producers, which in turn are largely dependent on current prices of, and future trends in global oil and gas prices.

Typically, rising oil and gas prices will trigger increasing oil and gas exploration and production activities, which in turn will result in increasing demand for oil rigs and related support vessels, while on the opposite, declining oil and gas prices will result in decreasing demand for those products.

In addition, the recovery in market demand for drilling rigs may lag behind the rebound in oil and gas prices. For example, the lifetime of drilling rigs generally range from 20 to 25 years. If the drilling rigs owned by oil and gas producers are relatively new, the market demand for drilling rigs may remain sluggish for a long period after the rebound in oil and gas prices.

***The Group's business is susceptible to the fluctuation of raw material prices and labour cost***

The Group's raw materials primarily include steel, iron ore, parts and components, such as engineering equipment, drill equipment, and electrical equipment. Any fluctuation in the price of these raw materials or any interruption in the supply of any of these raw materials will adversely affect the Group's business, financial condition and results of operations.

The Group's business is also labour intensive, and labour cost constitutes a material portion of the Group's operating expenses. On 29 June 2007, the National People's Congress of the People's Republic of China enacted the Labour Contract Law, which became effective on 1 January 2008. The implementation of this new law results in the imposition of more restrictions and the increase in labour cost to employers. The Group is also required under the PRC law to provide social insurance scheme such as pension insurance to certain of its employees. Any material increase in labour cost will have a material and adverse effect on the Group's business, financial position and results of operations.

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## LETTER FROM THE BOARD

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***The Group relies, to a material extent, on its relationship with Keppel and its subsidiary, FELS to establish and develop its offshore and marine engineering business, and hence, termination or any deterioration of such relationship may materially and adversely affect the Group's business operations and future prospects***

Pursuant to the Management Services Agreement, FELS will provide us with management and technical support in connection with the development of the Group's offshore and marine engineering business. FELS will second to us certain of their employees as well as those of its related corporations. The success of the development of the Group's offshore and marine engineering business will, to a material extent, be dependent on whether the employees being seconded to the Group have the appropriate qualifications and experience and whether those employees will be able to collaborate with the Group and its employees in the development of the Group's offshore and marine engineering business.

Also, the Management Services Agreement will only become effective if certain conditions are met. There is no assurance that those conditions will be satisfied in a timely manner or at all. In addition, even after the Management Services Agreement has become effective, there is no assurance that it will not be terminated early or the performance of its terms will not be interrupted from time to time. Any delayed performance by any party under the Management Services Agreement, or any early termination of that agreement or any interruption in the performance of its terms may materially and adversely affect the Group's business, financial condition and results of operations.

***The Group's products will, in line with industry practice, be sold on a fixed-price basis, which may result in losses or lower profitability for the Group than anticipated in the event that the Group incurs unforeseen or additional expenses***

The Group's products will, in line with industry practice, be sold on fixed-price basis. The Group will attempt to forecast costs of labour, raw materials and other production costs when it enters into fixed-price contracts and will be able to retain any cost savings on completed contracts but will remain liable for the full amount of any cost overruns. The actual costs incurred and profit realised by the Group may vary from its estimates due to factors such as:

- unanticipated variations in labour and equipment productivity over the term of a contract;
- unanticipated increases in labour, raw material, sub-contracting and overhead costs; and
- delivery delays and corrective measures.

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## LETTER FROM THE BOARD

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Depending on the size of the contract, variations from costs estimates may significantly reduce the Group's earnings and even result in losses. Furthermore, a purchase order may provide for the Group to be liable for liquidated damages if the Group is unable to deliver a vessel according to the agreed delivery schedule specified in the relevant contract. In this case, any liquidated damages which the Group may be liable for may adversely affect the Group's business, financial condition and results of operations.

***The Group may face risks relating to the quality and timing of the work performed by its outsourcing partners***

It is common practice in the shipbuilding industry as well as the offshore and marine engineering industry for certain parts of the production process to be outsourced to sub-contractors. The Group expects that it will engage sub-contractors in connection with both its shipbuilding operations and its offshore and marine engineering operations. Under the Management Services Agreement, the Group is also obliged to sub-contract certain parts of the production process in connection with the construction, conversion and upgrading of oil rigs, FPSO, FSO, FSRU and FLNG to members of the Keppel Group, because Keppel Group owns the proprietary rights relating to the designs and specification of rigs, drillships and specialized vessels, such as DSS38E semi-submersible and Super A- Class jackup. Since Keppel Group is one of the world's largest offshore and marine groups with a strong network of 20 yards worldwide, it will be more cost effective and time efficient if the Group will also utilise the supply chain of Keppel Group through bulk purchases under the Management Services Agreement. The Group is also expected to benefit from sharing the technical knowhow and experience of the specialists of Keppel Group. Accordingly, there was an agreement between the Group and Keppel Group for the sub-contracting arrangements. Moreover, subcontracting certain production processes to members of Keppel Group will lower the variable management fee payable to Keppel Group under the Management Services Agreement.

Any material claim by any customer against the Group in respect of defects, quality or workmanship or non-conformity to specifications resulting from work performed by the Group's outsourcing partners could lead to rectification costs being borne by the Group.

The Group may suffer from delays if its outsourcing partners do not have sufficient production capacity or fail to complete work that has been sub-contracted to them on time. Any such breach on their part may cause the Group to default under the contracts that it has entered into with its customers.

Any default by the Group's sub-contractors of their contractual obligations or any inability by them to complete their work according to specifications or on schedule will affect the Group's ability to meet its contractual obligations to its customers which could result in material claims being brought against the Group or loss of business by the Group and which, in turn could adversely affect the Group's business, financial condition and results of operations.



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## LETTER FROM THE BOARD

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### ***The Group relies on the services of its skilled workers and experts***

Skilled workers, and in particular engineers and experts, play a significant role in the Group's businesses. The Group's ability to rebuild its business will depend on its ability to continue to retain the skilled workers and experts that it has retained since suspension of its business operations after the Suspension and to recruit a sufficient number of additional skilled workers and experts. If the Group fails to do so, the Group's plan to rebuild its business may be delayed. The Group's business may also suffer if the Group loses the services of any of these personnel and could not adequately replace them.

### ***The Group needs to keep up-to-date with the technology development in the industry***

Technology in the shipbuilding and offshore and marine engineering industries constantly evolves. The Group's competitiveness in the market will be affected by its ability to develop advanced technology and to continue updating its skills with the most advanced technology that is available. There is no assurance that the Group will always be updated with the most advanced technology in the market. If the technical skills of the Group's competitors are comparable with, or more advanced than the Group's, the Group's competitiveness and market share will be adversely affected, which will in turn materially and adversely affect the Group's business, financial condition and results of operations.

### ***The Group's business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products***

Where any material defect in any product manufactured by the Group results in any financial loss, casualty and/or personal injuries on the part of any of the Group's customers or any other third parties, the Group may become subject to material claims for compensation, and may also incur significant legal costs, which could materially and adversely affect our business, financial condition and results of operations.

### ***The Group may be subject to liability in connection with industrial accidents at its production facilities***

The Group's operations involve the operation of heavy machinery that could result in industrial accidents and could cause injuries or deaths. There is no assurance that industrial accidents, whether due to malfunction of machinery or other reason, will not occur. In such an event, the Group may be liable for loss of life and property, medical expenses, medical leave payment and other payments, and may be subject to interruptions to its operations.

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## LETTER FROM THE BOARD

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### ***All of the Group's production facilities are located at the Quanzhou Shipyard***

Immediately following the completion of the restructuring, the Quanzhou Shipyard will be the principal production base of the Group. Any material interruption to the Groups' production operations at the Quanzhou Shipyard, whether caused by any damage to or destruction of any part of the production facilities, whether arising from unexpected or catastrophic events, such as earthquakes, fires or floods, or epidemics or other similar events or otherwise, could prevent the Group from carrying on its normal business operations, which could have a material and adverse effect on the Group's business, financial condition and results of operations.

### ***The Group may suffer certain losses not covered by insurance***

Risks associated with the Group's operations include damage to equipment and facilities, environmental pollution, transportation damage and delays, and risks posed by natural disasters, any of which may result in losses to the Group.

The Company entered the insurance for properties and public liabilities in due course and procure appropriate builder's risks insurance policy prior to the commencement of the construction of the first oil rig. Such premium for various insurance has been included in the working capital forecast of the Group for the two years ending 31 December 2017. The Group's financial condition and results of operations will be negatively affected if it incurs any loss which is not covered by its insurance policies, or if the amount of such loss exceeds the aggregate amount of its insurance coverage.

### **Risks relating to the Group's industry**

#### ***Demand and pricing for the Group's produces are highly dependent on global economic conditions and cyclicity of the industries served by industry***

Worldwide demand and pricing for the Group's products fluctuate with conditions in the shipping industry and the oil and gas industry, which in turn are significantly influenced by trends in global economic conditions. Companies in these industries experience significant fluctuations in their revenues and profitability due to a variety of factors, including general economic conditions and factors affecting each of these industries individually.

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## LETTER FROM THE BOARD

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***The industry in which the Group operates is competitive, and a further increase in completion or productivity by the Group's competitors may affect its market share and profit margins***

Both the shipbuilding and offshore and marine engineering industries are highly competitive, with multiple global and domestic competitors. If the Group is unable to compete effectively in the market, its business may be materially and adversely affected. Some of the Group's potential competitors may have longer operating histories than the Group's, stronger relationship with their customers, great brand recognition, or greater financial, technical, marketing and public relationship resources than the Group has. The Group's market share could be affected if its competitors are able to develop any new technology or new products, or offer products that are comparable or superior to the Group's at a lower price. Increased competition in the future could result in price reductions and other strains on the Group's operations, which could materially and adversely affect the Group's business, financial condition and results of operations.

***The Group's operations are vulnerable to significant operating hazards, natural disasters and other circumstances, which are beyond the Group's control and for which the Group has limited or no insurance***

Though the Group maintains certain types and levels of insurance coverage it believes to be adequate based on the industry it operates in, the Group may not be fully covered, or covered at all, for certain circumstances that are beyond its control. Transportation disruptions, power shortages, weather, natural disasters, unexpected maintenance problems, destruction of or damages to the Group's production facilities, equipment or products, labour shortages, industrial accidents, and other matters beyond the Group's control are some of the factors that may significantly disrupt the the Group's business operations or cause a cessation in production at the Group's production facilities. Any of these could have a material and adverse effect on the Group's business, financial condition and results of operations.

***Change in applicable policies related to offshore rig construction***

Since the oil spill in the Gulf of Mexico in 2010, the policies related to health, safety and environment and other rules and regulations on offshore drilling have become more stringent. Changes in relevant policies and rules and regulations in the offshore rig market may affect oil producers' requirements for product specifications. Change in product specifications will increase production cost for offshore rig manufacturers and adversely affect manufacturers' business, financial position and results of operations.

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## LETTER FROM THE BOARD

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### Risks relating to the PRC

***The Group's business, financial condition and results of operations are highly susceptible to changes in the PRC's political, economic and social conditions as the Group conducts its operations primarily in the PRC***

The Group's production activities and principal place of business are located in the PRC. Accordingly, the Group's business and future growth are dependent on the political, economic, regulatory and social conditions of the PRC. Any changes in the policies implemented by the government of the PRC which result in currency and interest rate fluctuations, capital restrictions, and changes in duties and taxes detrimental to our business may adversely affect our business, financial condition and results of operations. Unfavorable changes in the social, economic and political conditions of the PRC and in PRC government policies in the future may adversely affect the Group's operations in the PRC which in turn may adversely affect its business, financial condition and results of operations. In particular, the recent global financial slowdown has resulted in various untested regulatory measures being taken within a short period of time by the PRC government to stabilize the economy which may result in uncertainties in the PRC's political, economic and social conditions.

***Uncertainty in the PRC legal system may make it difficult for the Group to predict the outcome of any disputes in which it may be involved***

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are subject to policy changes and therefore, enforcement of laws in China is uncertain. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not adversely affect the Group's business, financial condition and results of operations.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited and decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolution may not be as consistent or predictable as in other jurisdictions and it may be difficult to obtain the enforcement of a judgment by a court of another jurisdiction in the PRC. The Group may also be affected by any regulation implemented by the PRC government affecting its investments in its PRC subsidiaries, such as any regulation restricting the Group's shareholding ratio in any of its PRC subsidiaries.

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## LETTER FROM THE BOARD

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***We may fail to comply with PRC laws and regulations and if we fail to obtain, renew, extend or comply with the licenses, permits, certificates or approvals or pass the inspections that are required for our business operations and future business expansion, our business, financial condition and results of operations will be materially and adversely affected***

The Group's business and operations in the PRC are subject to government rules and regulations, including safety and health regulations, environmental regulations, laws and regulations on the management of sea area and coastline use. The Group may be unable to meet the requirements set by the PRC authorities at all times. The Group may also be required to incur higher costs to comply with new PRC regulations if stricter or more onerous laws, rules or regulations are imposed, and the Group's business, financial condition and results of operations may be adversely affected.

We are required to obtain various licenses, permits and approvals and pass various inspections to carry out our business operations and future business expansion, including but not limited to, pollutant discharge licenses, foreign investment approvals, coastline use certificate, business licenses, tax registration certificates, foreign exchange registration certificates and various production facility inspections. Our failure to obtain and maintain any licenses, permits or approvals or pass the inspections that necessary to operate our business may adversely affect our business, financial condition and results of operations.

Any breach or non-compliance with any laws and regulations in the PRC applicable to the Group's business operations may result in the suspension, withdrawal or termination of the Group's business licenses or permits, or the imposition of fines or other penalties by the relevant authorities. Certain of the Group's licenses and permits were granted for a limited period and any extension is subject to the approval of the relevant authorities. Any suspension, withdrawal, termination or refusal to extend such licenses or permits may adversely affect the Group's business, financial condition and results of operations.

***Changes in tax and other preferential policies may adversely affect the Group's business, financial condition and results of operations***

The Company is incorporated under the laws of Bermuda with substantially all of its operations conducted through its PRC operating subsidiaries. PRC tax law and other preferential policies have been undergoing continuous changes in recent years. The Group's business has benefited from and may continue to benefit from certain PRC government incentives, such as export subsidy and loan interest subsidy. Further, the Group may also benefit from preferential policies implemented by the Fujian Provincial Government to encourage the development of marine engineering enterprises within the province. Expiration of, or changes to, these incentives may adversely affect the Group's business, financial condition and results of operations. When any tax benefits available to the Group expire or become unavailable as a result of the enactment of new laws or for any other reasons, the effective tax rate which the Group may then become subject to may increase significantly, which could adversely affect the Group's business, financial condition and results of operations.

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## LETTER FROM THE BOARD

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### ***The Group is subject to environmental laws and regulations which may increase its cost of doing business***

The operations of the Group's operating subsidiaries in the PRC are subject to laws and regulations of the PRC relating to the protection of the environment and human health. These environmental laws and regulations impose limitations on the emission of noise and discharge of pollutants into the environment and establish standards for the generation, handling, storage, transportation, treatment and disposal of raw materials, hazardous waste and other materials. The government may impose significant fines or penalties for violations of these environmental laws and regulations. The production activities of the Group's operating subsidiaries in the PRC may produce harmful emissions including volatile or noxious chemical compounds, metal waste, noise, odor and wastewater. They are required to obtain permits for discharging pollutants from the relevant environmental authorities in accordance with PRC law and such permits are subject to annual inspections at the end of every year. In addition, in connection with any expansion of the Group's business, the Group's existing licenses, permits, authorisations or approvals may not match its growth and the Group may need to apply for new licenses, permits, authorisations or approvals. For example, the Group may not have the permission to discharge the increased amount of industrial waste water due to its increased manufacturing activities without obtaining new permits. If the Group fails to comply with these requirements or fail to obtain/renew such permits or pass any inspections (including but not limited to noise pollution checks, industrial discharge inspections) conducted by any relevant PRC authorities, it could be subject to fines or suspension of operations, which may adversely affect its business, financial condition and results of operations.

## **N. INDUSTRY OVERVIEW**

*The section contains information and statistics relating to the industry in which we will operate. We have derived certain such information and data partly from publicly available sources prepared by independent third parties. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact that has been omitted that would render such information false or misleading. The information has not been independently verified by us, or any of our directors, affiliates or advisers, as to its correctness and accordingly such information should not be unduly relied upon.*

### **Shipbuilding and ship repair industry**

The shipbuilding and ship repair industry comprises construction, repair, conversion and upgrading of vessels of various types and models.

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## LETTER FROM THE BOARD

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### ***Shipbuilding***

According to 中國海上石油鑽井平台行業市場調查及投資諮詢報告 (the market research and investment information report for China offshore rigs industry), in recent years, the global shipbuilding industry witnessed remarkable fluctuations. The industry grew continuously from 2003 till 2007, but experienced a substantial downturn with declined new purchase orders and product price during 2008-2009, as a result of the ragged macro-economic conditions and the financial crisis. The industry performed modestly better in 2010, but again collapsed in 2011. In 2012, the total shipyard orders declined by about 40% as compared to 2011. The sluggish movement of global shipbuilding market was reflective of the weak economic fundamentals, euro zone debt crisis, and unavailability of shipping loans.

In the second half of 2013, the market, however, began to see early signs of rebound as new orders increased sharply. In 2015, it is expected to see remarkable investment opportunities in the shipbuilding industry since the PBOC has already proposed guidelines for raising the financial support needed to upgrade ship manufacturing.

### ***Ship repair***

The parameters that determine the scale of ship repair business include (a) seaborne trade growth and its geography, for its influence on our competitors' business scope, (b) world fleet growth, (c) fleet age profile, as older vessels are more prone to damages, and (d) freight market's conditions, for its impact on the timetable of repair and demolition work.

Scheduled repairs to merchant ships are the main source of repair work. It involves routine maintenance and other work to ensure satisfactory and seaworthy conditions of vessels. Ship repair should follow rules set up by a certain classification society, such as requirements on refurbishment.

In addition, repair requests also arises from ship operation accidents. Vessel damages may occur at the port area, such as collision against dock walls or offloading accidents, or on the sea, such as adverse weather or sea conditions, collisions, groundings, etc. Machinery failure may also occur, for example, to engines and steering gear.

The evolvement of seaborne trade is key to fleet size and therefore to ship repair demand. Theoretically, the supply and demand equilibrium could be achieved when newbuilds meet the demand for additional vessels and replacement of retired vessels. Unfortunately, the seaborne trade industry does not follow this "rational" evolvement. The evolvement of mainstream shipping market features cycles of a short peak period and a longer dip period. Nevertheless, the ship repair market is relatively stable, as compared to its shipbuilding counterpart.

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## LETTER FROM THE BOARD

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### Offshore and Marine Engineering

The world's demand for oil continues to increase despite gradual depletion of onshore oil reserves. With the technology advances in offshore oil and gas exploration and development, the offshore fields attract a growing global attention.

There has been a consistent increase in offshore exploration and drilling activities in the oil and gas industry in recent years and it is expected that this trend will continue as onshore oil and gas deposits decline through gradual depletion from production. According to the *Offshore Drilling Rigs Market – Global Forecast to 2019* published in January 2015, the global offshore drilling market is estimated to reach about US\$134.02 billion by 2019, signifying a firm growth rate of over 10.6% from 2014 to 2019. Despite declines in the oil price and the US drilling rigs market, worldwide growth comes as a result of increased expenditure on exploration and production in areas with emerging economies such as Africa. Increased investments with high capital expenditure in the Asia-Pacific region of global offshore drilling is also likely to result in market growth, specifically the production of deepwater floater rigs.

The global economic environment remains challenging, with volatility in international financial markets and concerns over the economic slowdown in China and other emerging economies. China's GDP grew 6.9% in the third quarter, the slowest quarterly economic growth since the first quarter of 2009. Uncertainty over the timing of the US expected interest rate hike is also affecting business sentiments.

Meanwhile, oil price depressed, hovering at around US\$50 per barrel. Slower demand growth coupled with global oversupply continues to weigh on oil prices, posing significant challenges to the global oil and gas industry.

Looking ahead to the next two years, the business environment for the offshore and marine sector as a whole may be uncertain. The international oil price rebound early this year. Although the market estimates the oil price may drop down generally in the future, according to the Morgan Stanley Research report released on 5 August 2015, their estimates of the average oil prices (Brent) were revised down to US\$58 per barrel, US\$61 per barrel, and US\$65 per barrel, for each of the years 2015, 2016 and 2017, respectively. Although the market will be challenging, the Directors are conservative but not pessimistic on the prospect of the offshore and marine engineering.

The Company considers that the recent downturn of the oil price would not have a material impact to the business of the Company on the basis that:

- (i) As one of the essential natural resources and a kind of commodity, it is normal for the oil price to move along cycles. The Company believes that the recent hitting of the bottom for the oil price would be followed by uptrend based on historical cycle of prices of natural resources; and



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## LETTER FROM THE BOARD

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- (ii) The Company has secured 11 orders for upcoming years after Resumption by entering into of the GZE Purchase Order MOU with GZE and FTSD Purchase Order Framework Agreement with FTSD. The Company is also in discussion with certain major industry players for potential orders. Thus the business of the Company would not be materially affected in near to mid-term.

### Offshore Rig Market

At present, the offshore rigs can be classified into the following three categories:

*Jackups.* The vast majority of jackup units are able to operate in water depths of up to 120 meters, with certain models able to operate in water depths of up to 170 meters. Jackups are of medium stability and mobility among all types of offshore rigs.

*Semi-submersibles.* Semi-submersibles operate in water depths between 60 and 3,000 meters. They are of relatively higher stability, suitable for areas under less stable weather and ocean current conditions. On the other hand, its mobility is relatively lower.

*Drillships.* The drillships are able to operate in water depths of up to 3,700 meters. They are often used in exploration and drilling of new oil fields in deep sea and can also be used in scientific drilling. Drillships can be converted from hull tankers or built from scratch. They are of relatively lower stability but higher mobility.

According to the *Offshore Drilling Rigs Market – Global Forecast to 2019*, the global offshore rigs market is valued at US\$65,773 million in 2014 and is projected to reach US\$102,473 million by 2019, growing at a CAGR of 9.27% from 2014 to 2019. The progress of the offshore rigs market largely depends on growing exploration activities across the globe. The recent discoveries of oil and gas reserves in remote areas (such as natural gas discovery in fields of Tanzania and Mozambique in west Africa), along with increasing technological advancements in terms of equipment have made drilling operations more feasible and cost-effective.

Ongoing economic expansion in Asia-Pacific, particularly in China and India, will drive continued growth in the world's demand for energy over the next 20 years. According to the BP Energy Outlook 2035 published in February 2015, global demand for energy is expected to rise by 37% from 2013 to 2035, or by an average of 1.4% a year. Therefore, despite the dramatic recent weakening in global energy markets, the future of the industry remains bright, in particular for the emerging markets such as China and India.

In its 12th five-year plan, China announced plans to more than double its investment in offshore exploration and production activities to RMB300 billion, up from RMB120 billion in its 11th five-year plan. Offshore oil and gas production is also targeted to double to 100 million tons, from 50 million tons, annually. This will result in sharp increase in demand for MODUs, and further stimulate the offshore rig manufacturing industry.

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## LETTER FROM THE BOARD

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### *Floating Production Systems*

In the highly-competitive landscape of the shipbuilding industry, research and innovation is essential in realizing future development. Many shipyards have shifted their focus on construction and conversion of special purpose vessels, such as floating production systems.

#### *(a) FPSO*

FPSO is the main component of the floating production systems. A FPSO is a large offshore oil processing plant, combining various functions including production, storage, offloading, etc. It is usually moored at an offshore oil field by attaching to a single buoy for long periods of time and, together with subsea production equipment and shuttle tankers, forms a complete production system, particularly suitable for early production and development of marginal oil fields.

FPSOs are mainly converted from tankers, instead of newbuilds. Conversion is a complex task which normally takes 240 days to one year and occupies dry docks and quay space throughout.

Advantages of a FPSO are its low cost, high storage capacity, short delivery time and reusability. However, usage of FPSOs may be restricted by environmental conditions and risk of potential pollution. Technological innovations will allow FPSOs to overcome current capacity limitations and further reduce the construction costs.

Conversions account for the majority of the existing FPSO. With the market tendency towards more sophisticated vessels in deepwater areas, a larger proportion of FPSOs are expected to be newbuilds in the future. Conversions will continue to dominate in shallow water and marginal fields, while newbuilds will be preferred in deepwater fields. At any time, the number of FPSO conversions will be limited by the number of hulls available for conversion.

#### *(b) FSO*

A FSO is a type of floating storage system used by the offshore oil and gas industry and is designed to take oil or gas produced from nearby drilling platforms and store it until the oil or gas can be offloaded onto a tanker or transported through a pipeline.

#### *(c) FSRU*

A FSRU is designed to take, store, regasify liquefied natural gas (LNG) and transfer the regasified LNG onshore through a subsea pipeline, which will later be delivered to power plants and consumers through a pipeline. A FSRU contains two risers at its aft, controlling its direction and angle during offloading, without main propulsion system nor self-propelling ability.

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## LETTER FROM THE BOARD

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The key components of FSRUs are single buoy mooring system, offloading system, LNG pumping system, regasification system, vaporisation system, etc.

On top of its LNG gathering function, a FSRU is also equipped with the ability to regasify and deliver LNG, making it a mobile offshore LNG terminal. FSRUs have attracted attention from manufacturers such as oil companies for its speediness and convenience. Recently many enterprises have been actively promoting the development of FSRU technology, demonstrating the technical and commercial feasibility of FSRUs. This technology has been transformed from concept into reality and has already been put into application.

*(d) FLNG*

FLNG is one of the most important progresses in offshore oil and gas development industry in recent years. As the entire LNG processing under a FLNG system is carried on completely offshore, without using subsea gas pipelines or onshore facilities, it largely reduces the cost in developing offshore oil and gas fields as well as its environmental impact, and provides a promising solution for development of offshore marginal fields in relatively remote areas. Currently, this technology is a hot topic in marine engineering industry and is still in its exploration and preparation stage in terms of FLNG's design and construction. More and more companies began to explore deepwater natural gas reserves. The world's first FLNG is expected to be put into use in near future.

### **O. SUMMARY OF RELEVANT LAWS AND REGULATIONS**

#### **Manufacture and repair of vessels and construction of offshore engineering**

*(i) Port Law of the People's Republic of China (《中華人民共和國港口法》) and Rules for the Administration of Port Operation (《港口經營管理規定》)*

In accordance with the Port Law of the People's Republic of China (《中華人民共和國港口法》) passed by the Standing Committee of the National People's Congress on 28 June 2003 and in effect since 1 January 2004 and revised on 24 April 2015, and the Rules for the Administration of Port Operation (《港口經營管理規定》) passed by the Ministry of Transport of the PRC on 29 October 2009 and in effect since 1 March 2010 and revised on 23 December 2014, a "Port Operation Permit" issued by the port administration authorities shall be obtained in accordance with the law prior to the conduct of port operations (including the provision of cargo loading/unloading (including transshipment), warehousing, intra-port barge transport, container stacking, container dismantling and assembly, and simple processing of cargo and its packaging). The conduct of port operation without a legally obtained port operation permit shall be ordered by the port administration authorities to be suspended and illegally generated income shall be forfeited. Where illegally generated income amounts to over RMB100,000, a fine ranging from 200% to 500% of the amount of illegally generated income shall be imposed. Where illegally generated income amounts to less than RMB100,000, a fine ranging from RMB50,000 to 200,000 shall be imposed.

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## LETTER FROM THE BOARD

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**(ii) Measures for the Approval and Administration of Port Waterfront Usage** (《港口岸線使用審批管理辦法》)

In accordance with the Measures for the Approval and Administration of Port Waterfront Usage (《港口岸線使用審批管理辦法》) promulgated by the Ministry of Transport and NDRC on 22 May 2012 and enacted on 1 July 2012, construction projects utilising the port waterfront shall file an application for port waterfront utilisation with the port administration authorities of the locality where the port is situated in accordance with the law and obtain the approvals of relevant government authorities. A construction project which has received approval for the use of deepwater port waterfront shall present the approval documents for port waterfront utilisation as well as documents giving approvals and permissions to the construction project to the transport authorities within 10 working days after such approval and permission documents for the construction project are obtained, so as to collect a port waterfront usage permit from the transport authorities. In the event of a change in the actual user of the waterfront as a result of the renaming of an enterprise or the transfer of controlling equity interests, or a change in the approved usage of the waterfront, approval of the original approving authorities shall be sought in accordance with procedures stipulated in the measures.

For the port waterfront utilisation without such approval, the people's government at county level or above or the port administration authorities will order to make corrections within a time limit according to Article 45 of the Port Law of the People's Republic of China; if fails to do so, the authority who made the correction order will apply for court to enforce mandatory dismantling of the illegal construction and impose a fine below RMB 50,000.

**(iii) Administrative Regulations for the Prevention of Pollution and Damage of Marine Environment by Offshore Engineering Construction Projects** (《防治海洋工程建設項目污染損害海洋環境管理條例》)

In accordance with the Administrative Regulations for the Prevention of Pollution and Damage of Marine Environment by Offshore Engineering Construction Projects (《防治海洋工程建設項目污染損害海洋環境管理條例》) promulgated on 19 September 2006 and implemented on 1 November 2006, the said regulations shall apply to works to prevent pollution and damage of marine environment by offshore engineering construction projects in the sea areas of the PRC. According to the said regulations, offshore engineering includes new construction, conversion and expansion projects aimed at the development, use, protection and recovery of marine resources and the main body of which is located on the seaward side along the coastal line, such as the exploration and development of marine mineral resources and its auxiliary works.

The fixed platforms, movable platforms, floating oil storage units, oil transmission pipelines and other ancillary facilities used in the exploration and development of marine oil and gas mineral resources shall comply with requirements relating to the prevention of seeping, leakage and corrosion. The operating units shall have periodical inspection in order to prevent accidents from oil leakage.

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## LETTER FROM THE BOARD

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After marine engineering commissioning or officially putting into operation of the construction units, the actual operation of the pollutant discharge facilities and disposal equipment, and the information on the pollutant emission and disposal shall be properly recorded, and shall be reported on a regular basis to the competent marine authority that issued the approval for the environmental impact report in accordance with regulations of the competent marine authorities.

Units in charge of the new construction, conversion and expansion of offshore engineering projects shall appoint units with relevant qualifications in environmental impact assessment to prepare an environmental impact report and submit the same to the competent marine authorities for approval. At the same time, the construction unit shall not dismantle or render idle the environmental protection facilities for offshore engineering projects without approval. If such environmental protection facilities is dismantled or rendered idle without approval, the competent marine authority that issued the approval for the environmental impact report shall order to make corrections; if fails to do so, the authority will terminate the operation and impose a fine over RMB 10,000 but below RMB 100,000.

***(iv) Regulations of the People's Republic of China for the Inspection of Vessels and Marine Facilities*** (《中華人民共和國船舶和海上設施檢驗條例》)

In accordance with the Regulations of the People's Republic of China for the Inspection of Vessels and Marine Facilities (《中華人民共和國船舶和海上設施檢驗條例》) promulgated and implemented on 14 February 1993, marine facilities installed or to be installed within the sea areas of the PRC shall be in compliance with the said regulations. Marine facilities include various types of fixed or floating structures, installations and fixed platforms above and under the water. Application for construction inspection shall be made for the construction and conversion of marine facilities. Application for construction inspection shall be made for the construction and conversion of marine facilities; application for regular inspection shall be made for the marine facilities in operation and inspection certificates shall be obtained. ZC or inspection body is entitled to revoke the relevant certificates altered or acquired by fraudulent means, and shall order to make corrections or complete the formalities. The forged certificates shall be circularized a criticism by administrative body, shall be subject to a fine in the range of 100% to 500% of the inspection fee and will be prosecuted for criminal liability if constitutes a crime.

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## LETTER FROM THE BOARD

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**(v) *Law on Inbound Water Transportation Management of the PRC* (國內水路運輸管理條例)**

According to the Law on Inbound Water Transportation Management of the PRC (國內水路運輸管理條例) promulgated by the State Council of the PRC on 13 October 2012, and implemented on 1 January 2013, for an operator engaging in ancillary water transportation business for the provision of services for water transportation such as vessel management and vessel agency services, when applying to operate the relevant vessel management business in the PRC, it shall obtain the approval from the competent water transportation authority under the local district municipal level people's government or above. The approval authority should make a licensing decision if an applicant has complied with the conditions, issue the Operation License for Vessel Management Business (船舶管理業務經營許可證), and file with the competent transport authority under the State Council. For unapproved vessel management business operation, or operates the vessel management business in the PRC beyond the scopes approved, in addition to terminating its illegal operation by order, its illegally generated income will be confiscated, and a fine of over one time but below five times of the same will be imposed. In the event of no illegally generated income or the amount is less than RMB30,000, a fine of over RMB30,000 but below RMB150,000 will be imposed.

**(vi) *Law of the People's Republic of China on the Management of Sea Area Use* (《中華人民共和國海域使用管理法》)**

In accordance with the Law of the People's Republic of China on the Management of Sea Area Use (《中華人民共和國海域使用管理法》) promulgated on 27 October 2001 and implemented on 1 January 2002, entities and individuals who require to use the sea areas for construction works such as the construction of shipbuilding dockyards shall file an application for usage of sea areas to competent authorities for the administration of offshore matters under the people's government at county level or above neighbouring such sea areas in accordance with the law. The right to use sea areas shall be obtained following approval by the people's government who owns the authority of approval and the issuance of the certificate of right to use sea areas. Where there are cases of illegal occupation of sea areas against such law, without approval or upon approval obtained through deceptive means, the competent authorities for the administration of offshore matters shall order the vacation of illegally occupied sea areas, restoration of the original state of conditions, disgorgement of illegally generated income and a fine in the range of 500% to 1500% of the sea areas usage fee payable for period of illegal occupation in respect of the area of illegally occupied sea areas. Parties who carry out fence-off or reclamation at the sea areas without approval or upon approval obtained through deceptive means shall be subject to a fine in the range of 1000% to 2000% of the sea areas usage fee payable for period of illegal occupation in respect of the area of illegally occupied sea areas.

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## LETTER FROM THE BOARD

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***(vii) Basic Requirements and Assessment Method for the Production Means of Vessel Manufacturers*** (《船舶生產企業生產條件基本要求及評價方法》)

The Basic Requirements and Assessment Method for the Production Means of Vessel Manufacturers (《船舶生產企業生產條件基本要求及評價方法》) (the “Standards”) promulgated by the Commission of Science, Technology and Industry for National Defense on 23 March 2007 have provided for the basic requirements and assessment method for the production means of enterprises engaged in vessel production (including construction and conversion) in the PRC. In accordance with Clause 7.4 of such Standards, the minimum registered capital of various classes of vessel manufacturers shall comply with corresponding standards. Moreover, in accordance with Clause 8.2.1 of the Standards, vessel manufacturers of various classes shall each obtain a certificate of quality assurance system compatible with their respective classes. In accordance with Clause 8.15, vessel manufacturers of various classes shall establish legitimate and effective environmental protection and health regulations, and take effective measures to protect the health of employees. The discharge or disposal of waste water, waste gas and waste materials shall be in compliance with pertinent national regulations.

### **Others**

***(i) Laws and regulations pertaining to labour protection***

In accordance with the Labour Law of the People’s Republic of China (《中華人民共和國勞動法》), an employer unit shall develop and improve its rules and regulations according to the law to assure entitlement to labour rights and fulfillment of labour obligations by its workers. An employer unit must develop and improve its labour safety and health system, stringently implement national protocol and standards on labour safety and health, conduct labour safety and health education for workers, prevent the occurrence of labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer unit must provide to workers necessary labour protection gear that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupationally hazards. Labour engaged in special operations must have received specialised training and obtained qualifications for manning specialised operations. An employer unit shall develop a vocational training system. Vocational training funds shall be set aside and applied in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

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## LETTER FROM THE BOARD

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The Labour Contract Law of the People's Republic of China revised on 28 December 2012 and enacted on 1 July 2013 provides regulation over both parties to a labour contract, namely the employer and the employee, and contains specific provisions involving the terms of a labour contract. It is stipulated under the Labour Contract Law that a labour contract must be made in writing. An employer and a worker may enter into a fixed-term labour contract, a labour contract with an indefinite term or a labour contract that concludes upon the completion of certain works assignments, after reaching agreement upon due negotiations. An employer may terminate a labour contract and dismiss its employee in accordance with the law after reaching agreement upon due negotiations with the worker or fulfilling the statutory conditions for doing so. In accordance with the said law, labour contracts entered into in a lawful manner prior to the enactment of the said law and subsisting on the date the said law came into effect shall continue to be honoured. In respect of a labour relationship established prior to the enactment of the said law and for which no labour contract in writing has been made, such labour contract in writing shall be entered into within one month from the date of the enactment of the said law.

In accordance with the Provisional Regulations for the Collection and Payment of Social Insurance Premium (《社會保險費徵繳暫行條例》), Regulations for Work Injury Insurance (《工傷保險條例》), Regulations for Unemployment Insurance (《失業保險條例》) and Trial Measures for Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit schemes for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance, and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premium for or on behalf of employees. The "Social Insurance Law of the People's Republic of China" promulgated on 28 October 2010 and implemented on 1 July 2011 has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in greater detail the obligations and legal liabilities of employer units who do not comply with pertinent laws and regulations on social insurance.

In accordance with the Regulations for the Administration of Housing Provident Fund (《住房公積金管理條例》) promulgated on 3 April 1999 and revised on 24 March 2002, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer unit shall belong to the individual employee. Housing provident fund contributions paid up in deposit by individual employees shall be withheld and paid up from their wages each month by the employer unit on their behalf. The employer unit shall pay up and deposit housing provident fund contributions in full in a timely manner. Late or insufficient payments shall be prohibited.



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## LETTER FROM THE BOARD

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The employer unit shall process housing provident fund payment and deposit registration with the housing provident fund administration centre and, following due examination by the housing provident fund administration centre, open an employee housing provident fund account with an appointed bank. Each employee may only have one housing provident fund account. The housing provident fund administration centre shall open a special housing provident fund account with the appointed bank, and shall establish a ledger of employee housing provident fund to record the payment, deposit and withdrawal of individual employee housing provident fund. In respect of companies who fail to process housing provident fund payment and deposit registration or open housing provident fund accounts for their employees in violation of the said regulations shall be ordered by the housing provident fund administration centre to complete such procedures within a designated period. Those who fail to process within the designated period shall be subject to a fine in the range of RMB10,000 to RMB50,000. Where companies fail to pay up housing provident fund contributions in full as due in violation of the said regulations, the housing provident fund administration centre shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

**(ii) Provisions on Guiding the Orientation of Foreign Investment 《指導外商投資方向規定》 and Foreign-invested Industry Guidance Catalogue (Revised 2015) 《外商投資產業指導目錄（2015年修訂）》**

In accordance with the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) promulgated on 11 February 2002 and became effective since 1 April 2002, projects with foreign investment shall fall into four categories, namely encouraged, permitted, restricted and prohibited. As confirmed by the PRC legal advisers of the Company, the relevant business of the Company was not restricted business at the time the business license was granted under the then PRC law and subsequent amendments of the law should have no retrospective effect to the business license of the relevant subsidiary which will be valid until 2054.

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## LETTER FROM THE BOARD

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### P. INFORMATION ON GZE

On 30 August 2012, Fame Dragon, a company ultimately wholly-owned by GZE entered into four share purchase agreements with companies ultimately beneficially owned by the former chairman of the Group, Mr. Tsoi Tin Chun and/or his spouse to acquire all of the Shares held by them in the Company, which in aggregate amounted to approximately 45.47% of the issued share capital of the Company. None of those share purchase agreements has been completed as the Company is subject to the ongoing winding up proceedings in Bermuda referred to above and section 166 of the Act provides that in a winding up by the court, any transfer of shares in the Company after the commencement of the winding up would be void unless the court otherwise orders. The seller under each of those agreements has, however, executed irrevocable proxies in favour of Fame Dragon to enable Fame Dragon to exercise the voting rights attached to the Shares being sold under such agreement. GZE, through Fame Dragon, thereby acquired control over 45.5% of the total voting rights in the Company with effect from 30 August 2012.

Fame Dragon is a company incorporated in Hong Kong on 21 January 2010 with limited liability and is principally engaged investing and trading. The ultimate beneficial owner of Fame Dragon is GZE while the shares of Fame Dragon are held by Guangdong Zhenrong (Hongkong) Company Limited which in turn is wholly owned by GZE.

GZE whose the largest shareholder is a state-owned enterprise Zhuhai Zhen Rong Company incorporated under the laws of the PRC which carries on the business of bulk commodities, energy and resource trading and is principally involved in the trading of petroleum products, non-ferrous metals, coal, chemical products among other products or services. GZE is also in the business of onshore and offshore investments in petroleum refinery and warehousing and logistics terminal in relation to petroleum. GZE is owned as to 44.3% by Zhuhai Zhen Rong Company (a PRC state-owned enterprise), as to 35% by Hainan Li Jun Investment Co., Ltd (which is owned by Xia Ying Yan as to approximately 34%, He Xiao Qun as to approximately 33% and Liang Wei as to approximately 33%), as to 15% by Beijing Mo Ya Xun Technology Co Ltd (which is owned by Li Tong Nan as to approximately 60% and Liu Ge as to approximately 40%) and as to 5.7% by Beijing Ding Da Investment Co. Ltd. (which is owned by Shanghai Yafeng Investment Management Co. Ltd. (上海亞峰投資管理有限公司) as to approximately 85%, Gao Yong Qing as to approximately 9% and Gao Wei as to approximately 6%).

The directors of GZE are Xiong Shaohui, Luo Jie, Xia Yingyan, Li Tongnan and Fan Qinghua, with its registered address at 35/F, International Finance Place, No. 8 Huaxia Road, Zhujiang New Town, Tianhe District, Guangzhou. The principal members of GZE's concert group includes GZE, Fame Dragon, DBIL, Zhuhai Zhen Rong Company and Hainan Li Jun Investment Co., Ltd. Zhuhai Zhen Rong Company has no director and the sole director of Hainan Li Jun Investment Co., Ltd. is Xia Yingyan. The directors of Guangdong Zhenrong (Hongkong) Company Limited are Xiong Shao Hui, Wei Qi, Tang Chao Zhang and Ma Jinsong. The directors of Fame Dragon are Tang Chao Zhang and Chen Bingyan and the directors of DBIL are Fan Qinghua, Tang Chao Zhang, Lu Hai and Ma Jinsong.

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## LETTER FROM THE BOARD

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GZE intends to continue the shipbuilding and repair business of the Restructured Group after completion of the restructuring and will maintain the listing status of the Company on the main board of the Stock Exchange following completion of the restructuring. Meanwhile, GZE will conduct a review on the business operations and financial position of the Restructured Group for the purpose of formulating business plans and strategies for the future business development of the Restructured Group in order to enhance the long-term growth potential of the Restructured Group. Subject to the results of the review and formulation of an appropriate business plan for the Restructured Group, it is the intention of GZE to further improve the existing business operation of the Restructured Group by taking advantage of the business network of GZE. While the onshore and offshore oil storage facilities previously owned by the Group have, as described above, been acquired and are now owned by GZE, there are currently no plans for such assets to be re-introduced into the Group and for the Group to resume the oil storage business. GZE has no intention to discontinue employment of the current employees of the Restructured Group or redeploy the fixed assets of the Restructured Group after completion of the restructuring other than in its ordinary and usual course of business. GZE and the Company will comply with the relevant requirements under the Listing Rules in the event any possible diversification of the Group's business operations materializes after completion.

### **Q. INFORMATION ON THE KEPPEL GROUP**

Keppel is incorporated and domiciled in Singapore and its shares are listed on the Singapore Exchange. The Keppel Group has engaged in the shipbuilding business for more than 40 years and has extensive experience and expertise in the design and construction of offshore rigs and other floating systems and the conversions of FPSO, FSO, FSRU and drillships.

According to the annual report of Keppel, for the year ended 31 December 2015, the marine and offshore division of the Keppel Group generated revenue and net profit of S\$6,241 million (equivalent to approximately HK\$35.8 billion) and S\$517 million (equivalent to approximately HK\$3.0 billion), respectively. In 2015, Keppel Group has delivered seven rigs and several non-drilling projects during the year. The Keppel Group also owns various proprietary designs and patents which are used in connection with the production of their offshore rigs.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Keppel Group is, save as disclosed in this circular, an Independent Third Party.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, save for GZE is the customer of the Keppel Group, members of the Keppel Group (including FELS) are not existing shareholders of the Company and are independent of and not acting in concert with GZE and Fame Dragon and the parties acting on concert with them.

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## LETTER FROM THE BOARD

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### R. INFORMATION ON THE SUBSCRIBER

The Subscriber is a company incorporated in the PRC and principally engaged in fund management business and owned by 長江證券股份有限公司 (Changjiang Securities Company Limited\*), a company listed on the Shenzhen Stock Exchange, 上海海欣(集團)股份有限公司 (Shanghai Haixin Group Co. Ltd.\*), a company listed on the Shanghai Stock Exchange and 武漢鋼鐵股份有限公司 (Wuhan Iron and Steel Company Limited\*), a company listed on the Shanghai Stock Exchange as to approximately 49%, 34.33% and 16.67% respectively.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are not connected persons of the Company and are third parties independent of and not acting in concert with GZE, Fame Dragon and parties acting in concert with any of them. The Subscriber is not an existing Shareholder as at the Latest Practicable Date.

### S. FINANCIAL EFFECT OF THE RESUMPTION PROPOSAL

The unaudited pro forma financial information of the Group is set out in Appendix II to this circular. Taking into account the financial effects of the restructuring:

The unaudited pro forma total assets value and net assets of the Group were approximately HK\$3,488.9 million and HK\$68.9 million respectively upon completion of the restructuring contemplated in the Resumption Proposal.

### T. THE AUDIT QUALIFICATIONS

Please refer to Appendix I of this circular for the qualification opinions as extracted from the annual report of the Company for the year ended 31 December 2015.

The management has summarised the below the qualification opinions as extracted from the annual report of the Company for the year ended 31 December 2015 by the following types of resolutions or justification of reasons of removal of the audit qualifications:

- (A) The audit qualifications that will be removed upon the completion of the Creditors' Scheme and the TRML Scheme and liquidations of respective subsidiaries;
- (B) The required audit procedures have not been performed during the audit for the year ended 31 December 2015 due to limitation of scope and/or feasibility of performing such and those procedures will be feasible to perform after the Resumption and the audit qualifications that will be removed accordingly;
- (C) The audit qualifications that will be removed when GZE and parties acting in concert with it take up the respective liabilities or obligation upon the respective agreements pursuant to the Resumption Proposal being effective and/or the completion of the transactions contemplated under the Resumption Proposal; and

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## LETTER FROM THE BOARD

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(D) The audit qualifications that will be removed upon removal of other audit qualifications.

**A. The audit qualifications that will be removed upon the completion of the Creditors' Scheme and the TRML Scheme and liquidations of respective subsidiaries**

***(1) Scope limitation – Amounts due from/to holding companies of a deconsolidated jointly-controlled entity***

As the jointly-controlled entity was deconsolidated from the Group during the year ended 31 December 2012, the Group was unable to provide sufficient evidence regarding the nature and the impairment testing of the amounts with a deconsolidated jointly controlled entity and the auditors of the Company were unable to carry out effective confirmation procedures in relation to the amounts due from/to holding companies of a deconsolidated jointly-controlled entity.

The deconsolidated jointly-controlled entity was placed into liquidation during the year ended 31 December 2012. Subject to the liquidation of the deconsolidated jointly-controlled entity is completed in 2016, the Group will no longer have balances owed from/to the deconsolidated jointly-controlled entity and then the audit qualification is expected to be removed during the year ending 31 December 2016.

***(2) Scope limitation – Amounts due from/to deconsolidated subsidiaries***

The deconsolidated subsidiaries represented part of the Singapore Subsidiaries. As partial books and records of the Singapore subsidiaries were unable to be located and therefore the Group is unable to provide sufficient appropriate evidence to the auditors of the Company regarding the amounts due from/to the deconsolidated subsidiaries.

17 of the affected Singapore Subsidiaries were placed into liquidation in 2013 and 13 of the affected Singapore Subsidiaries were placed into liquidation in 2014. Subject to the liquidation is completed in 2016, the audit qualification is expected to be removed during the year ending 31 December 2016.

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## LETTER FROM THE BOARD

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- B. The required audit procedures have not been performed during the audit for the year ended 31 December 2015 due to limitation of scope and/or feasibility of performing such and those procedures will be feasible to perform after the Resumption and the audit qualifications that will be removed accordingly**

***(1) Scope limitation – Assets and liabilities of a disposal group classified as held for sale***

- (i) Scope limitation – Property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale*

Pursuant to Hong Kong Financial Reporting Standard 5, Non-Current Assets Classified as held for Sale and Discontinued Operation (“**HKFRS 5**”), a disposal group classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to distribute. The Group remeasured the property, plant and equipment and prepaid land/seabed lease payments of the disposal group at fair values less cost to sell with reference to valuation reports. However, the Group is unable to determine the fair value less cost to sell of the disposal group as at 31 December 2015. In the absence of comparison between the fair values less cost to sell of individual assets and the disposal group, the auditors of the Company were unable to obtain sufficient appropriate evidence to satisfy themselves as to the reasonableness of the bases and assumptions used in arriving the amounts of property, plant and equipment and prepaid land/seabed lease payments of the disposal group as at 31 December 2015 of approximately HK\$2,299,402,000 and HK\$293,982,000 respectively.

As mentioned in the Resumption Proposal, the Group has entered into the Shipyard Termination Agreement with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated. Subject to completion of the Shipyard Termination Agreement in 2016, the disposal group classified as held for sale as at 31 December 2015 will cease to be classified as held for sale in 2016. The non-current asset that ceases to be included in a disposal group classified as held for sale will be measured at the lower of (a) its carrying amount before the disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the disposal group not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision not to sell according to HKFRS 5. As a result, the disposal group including the property, plant and equipment and prepaid land/seabed lease payments will no longer measure at fair value less cost to distribute and the audit qualification is expected to be removed during the year ending 31 December 2016.

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## LETTER FROM THE BOARD

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*(ii) Scope limitation – Prepayments, deposits and other receivables of a disposal group classified as held for sale*

The prepayments, deposits and other receivables of a disposal group classified as held for sale at 31 December 2015 was approximately HK\$20,247,000. The Group was unable to provide sufficient appropriate evidence regarding the nature and the impairment testing of the prepayments, deposits and other receivables and the auditors of the Company were also unable to carry out effective confirmation procedures.

The Group will negotiate with them individually to confirm the nature and amounts owed by them. Subject to completion of the negotiation with them to confirm the nature and amounts owed by them in 2016 and the auditors of the Company will carry out confirmation procedures to confirm the existence and accuracy of such debited balances, the audit qualification is expected to be removed during the year ending 31 December 2016.

**C. The audit qualifications that will be removed when GZE and parties acting in concert with it take up the respective liabilities or obligation upon the respective agreements pursuant to the Resumption Proposal being effective and successful implementation of the Resumption Proposal**

***(1) Scope limitation – Assets and liabilities of a disposal group classified as held for sale***

*(i) Scope limitation – Accounts payables of a disposal group classified as held for sale*

The accounts payables of a disposal group classified as held for sale as at 31 December 2015 was approximately HK\$88,806,000. The Group was unable to provide sufficient appropriate evidence regarding the nature of the accounts payables and the auditors of the Company were also unable to carry out effective confirmation procedures.

The amounts will be taken up by GZE pursuant to the Assumption Agreement in 2016, the audit qualification is expected to be removed during the year ending 31 December 2016.

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## LETTER FROM THE BOARD

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*(ii) Scope limitation – Other payables and accruals of a disposal group classified as held for sale*

The other payables and accruals of a disposal group classified as held for sale as at 31 December 2015 was approximately HK\$395,159,000. The Group was unable to provide sufficient appropriate evidence regarding the nature of the other payables and accruals and the auditors of the Company were also unable to carry out effective confirmation procedures.

The amounts will be taken up by GZE pursuant to the Assumption Agreement in 2016, the audit qualification is expected to be removed during the year ending 31 December 2016.

**(2) *Scope limitation – Financial guarantee contracts and commitments***

The auditors of the Company were unable to verify whether all financial guarantee contracts and commitments committed by the Group were included in the consolidated financial statements of the Group and financial statements of the Company as at 31 December 2015.

Subject to completion of the restructuring mentioned in this Resumption Proposal in 2016, including the Remaining Indebtedness Arrangements and the GZE Undertaking of Excess Liabilities, it is expected that this audit qualification will be removed during the year ending 31 December 2016.

**(3) *Material uncertainties relating to the going concern basis***

The Group incurred a loss attributable to owners of the Company of approximately HK\$241,781,000 for the year ended 31 December 2015 and as of that date, the Group had net current liabilities and net liabilities of approximately HK\$3,938,700,000 and HK\$4,049,058,000 respectively. In addition, the Group was in default on repayments of several liabilities, included secured interest-bearing bank loans, fixed rate guaranteed senior notes, guaranteed senior convertible notes, guaranteed senior payment-in-kind notes, convertible preferred shares and notes payable. The Group also involved in several legal proceedings. These conditions indicate the existence of material uncertainties on the Group's ability to continue as a going concern.

As mentioned in this Resumption Proposal, the Group will implement the restructuring, which involves, *inter alia*, (i) the Creditors' Scheme; (ii) the Remaining Indebtedness Arrangements; (iii) the Open Offer; (iv) the Subscription; (v) the First Loan Agreement; (vi) the Second Loan Agreement; (vii) the 2015 Loan Agreement; and (viii) the Debt Rescheduling Agreements. Upon successful implementation of the Resumption Proposal, the Company will be able to compromise and discharge its indebtedness and to reschedule the repayment of the principal outstanding indebtedness at the level of its subsidiaries as well as to provide the Restructured Group with sufficient working capital for its future operations.



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## LETTER FROM THE BOARD

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The legal proceedings involved include the Bermuda Proceedings, BVI Proceedings, Hong Kong Proceedings and the PRC Proceedings detailed in Section 7 of this circular.

For the Bermuda Proceedings, the Company expected that subject to the successful resumption and trading of the Shares and completion of the restructuring in 2016, the Provisional Liquidators will be discharged and the winding up petition will be dismissed or withdrawn by the petitioner.

Subject to completion of the restructuring mentioned in the Resumption Proposal, including the Remaining Indebtedness Arrangements and the GZE Undertaking of Excess Liabilities, it is expected that this audit qualification will be removed during the year ending 31 December 2016.

For the PRC Proceedings, on 23 December 2013, the Shanghai Intermediate Court ordered the discontinuation of the PRC Proceedings and on 26 December 2013, the Shanghai Intermediate Court approved the application by the plaintiff to the withdrawal of the claim initiated by the plaintiff against the Company, TQSL Holding and TPFL in relation to the Shipyard Sale and Purchase Agreement.

Subject to successful implementation of the abovementioned remedial actions in 2016, the Company expects that the uncertainties on the Group's ability to continue as a going concern and the audit qualification can be removed during the year ending 31 December 2016.

**D. The audit qualifications that will be removed upon removal of other audit qualifications**

***(1) Scope limitation – Events after the reporting period***

In light of the audit qualifications and limitations above, the auditors of the Company were unable to verify the occurrence, accuracy and completeness of the events after the reporting period, which may have occurred between the periods from 1 January 2016 to the date of the auditors' report.

Subject to removal of all other related audit qualifications on the Group's financial statements in 2016, the Company expects that this audit qualification will also be removed during the year ending 31 December 2016.

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## LETTER FROM THE BOARD

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### **(2) *Scope limitation – Related party transactions***

In light of the audit qualifications and limitations above, the auditors of the Company were unable to verify the occurrence, accuracy and completeness of the related party transactions, which may have occurred during the year ended 31 December 2015.

Subject to removal of the audit qualifications of A1, A2 and C2 on the Group's financial statements in 2016, the Company expects that this audit qualification will also be removed during the year ending 31 December 2016.

### **(3) *Scope limitation – Opening balances and corresponding figures***

The auditors' reports of the Group's consolidated financial statements for the years ended 31 December 2011, 2012, 2013 and 2014 were disclaimed in view, as a result, the opening balances and corresponding figures included in the Group's consolidated financial statements was also qualified. Subject to removal of all other audit qualifications on the Group's financial statements during the year ending 31 December 2016, the Company expects that this audit qualification will also be removed during the year ending 31 December 2017.

## **U. IMPLICATION UNDER THE LISTING RULES AND TAKEOVERS CODE**

GZE and its wholly-owned subsidiary Fame Dragon, by virtue of their holding of voting rights of 3,556,353,661 Shares (representing approximately 45.47% of the total Shares in issue as at the Latest Practicable Date) and through DBIL (a wholly-owned subsidiary of GZE) holding of the benefit of all interests arising under or in connection with the Listco Preferred Shares, are the controlling Shareholders and, hence, connected persons of the Company.

### **Relationship between GZE, FEG, Keppel Group, the Subscriber**

To the best knowledge of the Directors, save and except for the relationships described below, the Directors are not aware of any other relationship between GZE, FEG, Keppel Group, the Subscriber and the Company:

#### ***Business dealings***

- the Company and FTSD (subsidiary of FEG) entered into the FTSD Purchase Order Agreement;
- the Company and GZE entered into the GZE Purchase Order MOU; and
- the Company, TQS (subsidiary of the Company) and FELS (a company in the Keppel Group) had entered into the Management Services Agreement.

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## LETTER FROM THE BOARD

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### ***Shareholding***

- shareholding in the Company (including the shareholding as at the Latest Practicable Date and all relevant Shares to be issued upon Resumption pursuant to the Resumption Proposal); and
- subject to the terms of the Management Services Agreement, the Company may issue FELS Warrants to the Keppel Group.

### ***Common directorship***

- the Company and GZE (including the subsidiaries of GZE) have common directors, Mr. Fan Qinghua and Mr. Tang Chao Zhang.

Moreover, to the best knowledge of the Directors, there is no relationship between and among GZE, FEG and Keppel Group, save for (i) the joint venture, TS Drilling Holdings Limited, set up and jointly-controlled by GZE and FEG; and (ii) GZE is the customer of the Keppel Group.

### **Shipyard Debt Rescheduling Agreement**

Since the TQS Debt to which the Shipyard Debt Rescheduling Agreement relates is secured by, among other things, the assets of TQS, the Shipyard Debt Rescheduling Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company. As one or more of the percentage ratios exceeds 5%, the Shipyard Debt Rescheduling Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Whitewash Waiver will cover Shares to be issued under the Shipyard Debt Rescheduling Agreement, the Shipyard Debt Rescheduling Agreement will also be subject to Independent Shareholders' approval under the Takeovers Code.

### **GZE Standby Working Capital Facility Agreement**

GZE is the controlling Shareholder, holding (through Fame Dragon) approximately 45.47% of voting rights to the Shares as at the Latest Practicable Date and, hence, a connected person of the Company. Accordingly, the transaction contemplated under the GZE Standby Working Capital Facility Agreement constitutes a connected transaction of the Company. As the transaction contemplated under the GZE Standby Working Capital Facility Agreement is conducted on normal commercial terms and not secured by assets of the Company, pursuant to Rule 14A.90 of the Listing Rules, it is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Shipyard Termination Agreement**

The transactions contemplated under the Shipyard Termination Agreement, including the issue of the Shipyard Termination Shares, constitutes a connected transaction of the Company. As one or more of the Percentage Ratios exceeds 5%, the Shipyard Termination Agreement (including the issue of the Shipyard Termination Shares) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Whitewash Waiver will cover Shares to be issued under the Shipyard Termination Agreement, the Shipyard Termination Agreement will also be subject to Independent Shareholders' approval under the Takeovers Code.

### **TPG Debt Rescheduling Agreement, Haixin Debt Rescheduling Agreement, First Loan Agreement, Second Loan Agreement, Working Capital Loan Agreement and 2015 Loan Agreement**

GZE is the controlling Shareholder, holding (through Fame Dragon) approximately 45.47% of voting rights to the Shares as at the Latest Practicable Date and, hence a connected person of the Company according to Rule 14A.07(1) of the Listing Rules. Therefore, the transactions contemplated under the TPG Debt Rescheduling Agreement, the Haixin Debt Rescheduling Agreement, the First Loan Agreement, the Second Loan Agreement, the Working Capital Loan Agreement and the 2015 Loan Agreement, including the issue of shares to GZE and the parties acting in concert with it pursuant to the agreements, constitute connected transactions of the Company under Rule 14A.25 of the Listing Rules. Accordingly, the TPG Debt Rescheduling Agreement, Haixin Debt Rescheduling Agreement, First Loan Agreement, Second Loan Agreement, Working Capital Loan Agreement and 2015 Loan Agreement (including the issue of Shares to GZE and the parties acting in concert with it) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Moreover, as the Whitewash Waiver will cover Shares to be issued under the TPG Debt Rescheduling Agreement, the Haixin Debt Rescheduling Agreement, the First Loan Agreement, the Second Loan Agreement, the Working Capital Loan Agreement and the 2015 Loan Agreement, such agreements will be subject to Independent Shareholders' approval under the Takeovers Code.

### **Assumption Agreement**

The transactions contemplated under the Assumption Agreement constitute a connected transaction of the Company. As one or more of the Percentage Ratios exceed 5%, the Assumption Agreement (including the issue of the Assumption Consideration Shares) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Whitewash Waiver will cover Shares to be issued under the Assumption Agreement, the Assumption Agreement will also be subject to Independent Shareholders' approval under the Takeovers Code.

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## LETTER FROM THE BOARD

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### **Listco Preferred Shares Modification Deed**

In respect of the change of terms of the Listco Preferred Shares under the Listco Preferred Shares Modification Deed, the Company requires to comply with the relevant connected transaction requirements. As one or more of the Percentage Ratios exceed 5%, the Listco Preferred Shares Modification Deed is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Open Offer**

As the Open Offer will not increase the issued share capital of the Company by more than 50%, the Open Offer is fully exempt as to Rule 7.24(5)(a) of the Listing Rules. The underwriting of the Open Offer by GZE pursuant to the Underwriting Agreement constitutes a connected transaction of the Company but is, pursuant to Rule 14A.92(2)(b) of the Listing Rules, exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Whitewash Waiver will cover Shares to be taken up by the Underwriter under the Underwriting Agreement (if any), the Underwriting Agreement will also be subject to Independent Shareholders' approval under the Takeovers Code.

### **Subscription**

As the Subscription Agreement are inter-conditional with the relevant agreements entered into under the Resumption Proposal, the Subscription Agreement is subject to the Independent Shareholders' approval under the Listing Rules.

### **Specific Mandate**

The Company will seek the Specific Mandate from the Independent Shareholders for the allotment and issue of the new Shares to be issued under the Creditors' Scheme, Offer Shares, Subscription Shares, Assumption Consideration Shares, the Shipyard Termination Shares, Consideration Shares, the FELS Warrant Shares and the shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements.

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## LETTER FROM THE BOARD

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### Whitewash Waiver

In the event that (i) the Underwriter is called upon to subscribe or procure subscription for all or any part of the Offer Shares pursuant to its underwriting obligations under the Underwriting Agreement (assuming none of the Qualifying Shareholders accept their respective provisional allotment of the Offer Shares and no exercise of the Share Options and GZE is required to take up all the underwritten Shares); (ii) the Company will issue 9,382,164,000 new Shares to GZE pursuant to the Shipyard Termination Agreement; (iii) the Company will issue the Assumption Consideration Shares of 3,595,420,415 Shares to Fame Dragon upon resumption of trading of the Shares on the Stock Exchange pursuant to the Assumption Agreement; and (iv) the Company will issue and allot maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert with it upon resumption of the trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date, the aggregate shareholding of GZE and the parties acting in concert with it will be increased from approximately 45.5% of the voting rights in the total Shares in issue as at the Latest Practicable Date to a maximum of approximately 71.3% of the voting rights in the total Shares in issue as enlarged by the Open Offer, Subscription, the Debt Restructuring, the issue of Shipyard Termination Shares under the Shipyard Termination Agreement, issue of 3,595,420,415 Assumption Consideration Shares under the Assumption Agreement and issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively. The transactions underlying the issue of Shares which are subject to the Whitewash Waiver, including the Open Offer (including the Underwriting Agreement), the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement will be subject to the approval by the Independent Shareholders in the SGM.

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## LETTER FROM THE BOARD

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Under Rule 26 of the Takeovers Code, the acquisition of voting rights by GZE and the parties acting in concert with it under the above circumstances will result in GZE and the parties acting in concert with it being obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by GZE and the parties acting in concert with it. An application has been made by GZE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver if granted, will be subject to, among other things, the approval by the Independent Shareholders in the SGM by way of poll. Shareholders should note that the maximum potential holding of voting rights for GZE and the parties acting in concert with it upon completion of the restructuring will exceed 50% of the voting rights of the Company and that GZE and the parties acting in concert with it may increase its holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

### **Special Deal**

The repayment of the outstanding indebtedness of the Group to the Scheme Creditors (among which Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua are existing Shareholders, which holds approximately 0.004%, 0.82% and 0.26% of the total issued shares of the Company as at the Latest Practicable Date and had debt amount due from the Company of US\$5.0 million, US\$2.3 million and US\$17.9 million respectively) out of the proceeds from the Open Offer and the Subscription, which is not extended to all the other Shareholders, constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code. The Special Deal requires consent from the Executive under Rule 25 of the Takeovers Code, and such consent, if granted, shall be conditional upon the approval of the Independent Shareholders by way of a poll at the SGM and the Independent Financial Adviser to the TC Independent Board Committee publicly stating in its opinion that the terms of the Special Deal are fair and reasonable. The Company has applied to the Executive for its consent to the Special Deal under Rule 25 of the Takeovers Code. Since the Special Deal consent by the Executive and the approval by the Independent Shareholders are conditions precedent to the Open Offer (including the Underwriting Agreement), and that the agreements in relation to the Creditors' Scheme and the Resumption including the Listco Preferred Shares Modification Deed, the Debt Rescheduling Agreements, the GZE Excess Liabilities Undertaking, the Assumption Agreement, the Loan Rescheduling Agreements, the Interim Financing Agreements, the Subscription Agreement, the GZE Purchase Order MOU, the FTSD Purchase Order Framework Agreement, the Management Services Agreement, the Shipyard Termination Agreement, the GZE Working Capital Facility and the Working Capital Loan Agreement are inter-conditional, if the Special Deal consent is not approved by the Independent Shareholders or the Special Deal consent is not given by the Executive, the said agreements in relation to the Creditors' Scheme and the Resumption Proposal will not be completed.

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## LETTER FROM THE BOARD

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### Voting

GZE, Fame Dragon and the parties acting in concert with any of them, who collectively held 3,556,353,661 Shares (representing approximately 45.47% of the total Shares in issue) as at the Latest Practicable Date, will abstain from voting on the resolutions to approve the Underwriting Agreement, the Debt Rescheduling Agreements, the Shipyard Termination Agreement, the Assumption Agreement, the Subscription Agreement, the Working Capital Loan Agreement, the Interim Financing Agreements, the Listco Preferred Shares Modification Deed, the Whitewash Waiver, the Special Deal and the Specific Mandate at the SGM.

Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua, who held 280,000 Shares, 64,240,000 Shares and 20,000,000 Shares, representing approximately 0.004%, 0.82% and 0.26% of the total Shares in issue respectively as at the Latest Practicable Date and have interests in the Special Deal will abstain from voting on the resolutions approving the Underwriting Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement, the Interim Financing Agreement, the Shipyard Termination Agreement, the Working Capital Loan Agreement, the Assumption Agreement, the Subscription Agreement, the Listco Preferred Shares Modification Deed, the Special Deal, the Whitewash Waiver and the Specific Mandate.

As at the Latest Practicable Date, none of the Directors had (a) any direct or indirect interests in any assets which have been since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (b) any subsisting material interest in any contract or arrangement which is significant in relation to the business of the Group.

### **V. LR INDEPENDENT BOARD COMMITTEE AND TC INDEPENDENT BOARD COMMITTEE**

The LR Independent Board Committee comprising Mr. Lau Fai Lawrence and Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders on the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed.



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## LETTER FROM THE BOARD

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The TC Independent Board Committee comprising Mr. Lau Fai Lawrence and Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being all the non-executive Directors who have no direct or indirect interest in the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, Working Capital Loan Agreement, Interim Financing Agreements, the Whitewash Waiver and the Special Deal, has been formed to advise the Independent Shareholders on the aforesaid transactions. Mr. Fan Qinghua, a non-executive Director, who is a director and a deputy general manager of GZE and a director of DBIL thus, may have conflict of interest in the Whitewash Waiver and is not included as a member of the TC Independent Board Committee.

### W. SGM

The notice convening the SGM is set out on pages SGM-1 to SGM-8 of this circular. The SGM will be convened at 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong at 11:00 a.m. on Monday, 30 May 2016 for the purpose of, considering and, if thought fit, to approve, among other things, the Shipyard Debt Rescheduling Agreement, the Open Offer, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, the Whitewash Waiver, the Special Deal, the Specific Mandate to issue Shares.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

**WARNING: The release of this circular does not mean that trading in the Shares will be resumed and listing of the Offer Shares, the Subscription Shares, the Assumption Consideration Shares, the shares to be issued under the Shipyard Termination Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements and Consideration Shares will be approved by the Stock Exchange.**

### X. RECOMMENDATION

Your attention is drawn to the letter of the LR Independent Board Committee and the letter of the TC Independent Board Committee set out on pages 169 to 170 and pages 171 and 172 of this circular respectively. Your attention is also drawn to the “Letter from the Independent Financial Adviser” set out on pages 173 to 234 of this circular.

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## LETTER FROM THE BOARD

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The LR Independent Board Committee, after taking into consideration of the advice of the Independent Financial Adviser, considers that the terms of the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders taken as a whole and recommends the Independent Shareholders to vote for the resolutions in these respects.

The TC Independent Board Committee, after taking into consideration of the advice of the Independent Financial Adviser, considers that the terms contemplated under, the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Independent Shareholders taken as a whole and recommends the Independent Shareholders to vote for the resolutions in these respects.

You are strongly advised to read the letter from the Independent Financial Adviser before voting.

The Directors believe that the transactions contemplated under the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

Trading in the Shares was suspended with effect from 9:00 a.m. on 19 June 2012 and will remain suspended until further notice.

By Order of the Board  
**Titan Petrochemicals Group Limited**  
**ZHANG Weibing**  
*Executive Director*



## Titan Petrochemicals Group Limited

(Provisional Liquidators appointed)  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 1192)

13 May 2016

*To the Independent Shareholders,*

- (1) SHIPYARD DEBT RESCHEDULING AGREEMENT;**
- (2) SHIPYARD TERMINATION AGREEMENT;**
- (3) ASSUMPTION AGREEMENT; AND**
- (4) LISTCO PREFERRED SHARES MODIFICATION DEED**

Dear Sir or Madam,

We refer to the circular dated 13 May 2016 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The LR Independent Board Committee has been established by the Board for the purpose of advising the Independent Shareholders in connection with the transactions contemplated under the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed, details of which are set out in the “Letter from the Board” in the Circular. The LR Independent Board Committee comprises the independent non-executive Directors namely Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen. Asian Capital has been appointed as the Independent Financial Adviser to advise the Independent Shareholders as well as the LR Independent Board Committee on, among other things, the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 173 to 234 of the Circular.

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## LETTER FROM THE LR INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser, we are of the view that the terms contemplated under the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Shipyard Debt Rescheduling Agreement, the Shipyard Termination Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed, to be proposed at the SGM.

Yours faithfully

For and on behalf of the

*LR Independent Board Committee*

**Mr. Lau Fai Lawrence**  
*Independent*  
*non-executive Director*

**Ms. Xiang Siying**  
*Independent*  
*non-executive Director*

**Mr. Hu Hongwei**  
*Independent*  
*non-executive Director*

**Ms. Hsu Wai Man Helen**  
*Independent*  
*non-executive Director*



## Titan Petrochemicals Group Limited

(Provisional Liquidators appointed)  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 1192)

13 May 2016

*To the Independent Shareholders,*

- (1) UNDERWRITING AGREEMENT;**
- (2) SHIPYARD TERMINATION AGREEMENT;**
- (3) ASSUMPTION AGREEMENT;**
- (4) DEBT RESCHEDULING AGREEMENTS;**
- (5) WORKING CAPITAL LOAN AGREEMENT;**
- (6) INTERIM FINANCING AGREEMENTS;**
- (7) WHITEWASH WAIVER;**
- AND**
- (8) SPECIAL DEAL**

Dear Sir or Madam,

We refer to the circular dated 13 May 2016 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The TC Independent Board Committee has been established by the Board for the purpose of advising the Independent Shareholders in connection with the transactions contemplated under the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements, the Whitewash Waiver and the Special Deal, details of which are set out in the “Letter from the Board” in the Circular. The TC Independent Board Committee comprises the non-executive Director and independent non-executive Directors namely Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen who have no direct or indirect interest in the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, Working Capital Loan Agreement and the Interim Financing Agreements, the Whitewash Waiver and Special Deal. Asian Capital has been appointed as the Independent Financial Adviser to advise the Independent Shareholders as well as the TC Independent Board Committee on, among other things, the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special

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## LETTER FROM THE TC INDEPENDENT BOARD COMMITTEE

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Deal. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 173 to 234 of the Circular.

Having taken into account the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser, we are of the view that the terms contemplated under the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement, the Interim Financing Agreements, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Underwriting Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Working Capital Loan Agreement and the Interim Financing Agreements, the Whitewash Waiver and the Special Deal, to be proposed at the SGM.

Yours faithfully

For and on behalf of the

*TC Independent Board Committee*

**Mr. Lau Fai Lawrence**

*Independent*

*non-executive Director*

**Ms. Xiang Siying**

*Independent*

*non-executive Director*

**Mr. Hu Hongwei**

*Independent*

*non-executive Director*

**Ms. Hsu Wai Man Helen**

*Independent*

*non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter from Asian Capital (Corporate Finance) Limited to the LR Independent Board Committee, the TC Independent Board Committee and the independent Shareholders which has been prepared for the purpose of inclusion in this Circular.*



**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED  
卓亞(企業融資)有限公司

Suite 601, Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

*To the LR Independent Board Committee, the TC Independent Board Committee and the independent Shareholders*

13 May 2016

Dear Sirs,

**PROPOSED RESTRUCTURING OF  
TITAN PETROCHEMICALS GROUP LIMITED INVOLVING:  
(1) DEBT RESTRUCTURING;  
(2) THE REMAINING INDEBTEDNESS ARRANGEMENTS;  
(3) SHIPYARD TERMINATION AGREEMENT;  
(4) PROPOSED OPEN OFFER;  
(5) SUBSCRIPTION OF SHARES;  
(6) ASSUMPTION AGREEMENT;  
(7) LISTCO PREFERRED SHARES MODIFICATION DEED;  
(8) APPLICATION FOR WHITEWASH WAIVER; AND  
(9) SPECIAL DEAL**

### **I. INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise (1) the LR Independent Board Committee on the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed and the Subscription; and (2) the TC Independent Board Committee on the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Underwriting Agreement (if the Open Offer proceeds), the Shipyard Termination Agreement and the Assumption Agreement, the Whitewash Waiver and the Special Deal; and (3) the Independent Shareholders on the aforesaid matters, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Circular of the Company dated 13 May 2016 (the “**Circular**”) of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context indicates otherwise.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1. The Debt Rescheduling Agreements

On 5 May 2014, TQS entered into the Shipyard Debt Rescheduling Agreement (as amended and supplemented on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with GZE in relation to the rescheduling of the repayment of principal loan amount and accrued interest as at the date of the Shipyard Debt Rescheduling Agreement of approximately RMB1,526.7 million in aggregate, i.e. the TQS Debt. The TQS Debt is secured by the construction in progress, machinery and buildings owned by TQS, among other things, the assets of TQS. TQS shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to GZE; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash.

On 5 May 2014, TQS and Titan Petrochemical (Guangzhou) entered into the TPG Debt Rescheduling Agreement (as amended and supplemented on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with GZE in relation to the rescheduling of the repayment of principal loan amount and accrued interest as at the date of the TPG Debt Rescheduling Agreement of approximately RMB43.9 million in aggregate, i.e. the TPG Debt. The TPG Debt is guaranteed by the original finance agreements between, among others, Titan Petrochemical (Guangzhou) and Ping An Bank Co., Ltd..

On 5 May 2014, Shengsi Haixin entered into the Haixin Debt Rescheduling Agreement (as amended and supplemented on 22 August 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with GZE in relation to the rescheduling of the repayment of principal loan amount and accrued interest as at the date of the Haixin Debt Rescheduling Agreement of approximately RMB36.4 million in aggregate, i.e. the Haixin Debt.

Under each of the Debt Rescheduling Agreements, it was provided that the interest accrued from the date of the Debt Rescheduling Agreements to the date on which the transactions contemplated under the Resumption Proposal are completed will be settled by the issuance of new Shares. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **2. The Interim Financing Agreements**

On 12 March 2013, the Company entered into the First Loan Agreement (as amended and supplemented on 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of an interim financing as at the date of the First Loan Agreement of up to approximately HK\$62.24 million in aggregate. On 13 March 2014, the Company entered into the Second Loan Agreement (as amended and supplemented on 10 July 2014, 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of an unsecured loan as at the date of the Second Loan Agreement of approximately HK\$62.24 million in aggregate. On 27 February 2015, the Company entered into the 2015 Loan Agreement (as amended and supplemented on 16 October 2015, 15 January 2016 and 29 April 2016) with Fame Dragon in relation to the provision of an uncommitted term loan of US\$15 million in aggregate.

Under each of the Interim Financing Agreements, it was provided that the interest accrued from the date of the Interim Financing Agreements to the date on which the transactions contemplated under the Resumption Proposal are completed will be settled by the issuance of new Shares. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.

### **3. The Working Capital Loan Agreement**

On 22 August 2014, GZE entered into the Working Capital Loan Agreement (as amended and supplemented on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with TQS in relation to the provision of a loan of not less than RMB60 million by GZE to TQS for its working capital.

Under the Working Capital Loan Agreement, it was provided that the interest accrued from the date of the Working Capital Loan Agreement to the date on which the transactions contemplated under the Resumption Proposal are completed will be settled by the issuance of new Shares. The interest to be accrued thereafter and the principal of the relevant loan agreements will be settled in cash.

### **4. The Shipyard Termination Agreement**

On 5 May 2014, the Company, TPFL and TQSL Holding entered into the Shipyard Termination Agreement (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated with immediate effect and with respect to the amount of RMB740.0 million that was originally paid by Grand China Logistics to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares, i.e. the Shipyard Termination Shares, at the issue price of HK\$0.10 to GZE in lieu of repayment of such amount.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **5. The Assumption Agreement**

On 20 August 2014, TQS entered into the Assumption Agreement (as supplemented and amended on 15 September 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with Fame Dragon and the Company in respect of the indebtedness arising from certain accounts payables and other payables of TQS, pursuant to which Fame Dragon agrees to assume certain debts payable by TQS in consideration for the Company agreeing to allot and issue the Assumption Consideration Shares at the issue price of HK\$0.1 per Share to the extent that immediately after the issue of any such Assumption Consideration Shares, subject to the verification by auditors appointed by Fame Dragon and the compliance with any applicable requirements under the Listing Rules, and Fame Dragon will assume liabilities up to a maximum amount of RMB282,056,122.05 (equivalent to HK\$359,542,041.5 based on the exchange rate of RMB1.00 to HK\$1.274718091). Accordingly, the number of Assumption Consideration Shares to be issued to Fame Dragon shall be 3,595,420,415 Shares upon the date of the resumption of trading in the Shares.

### **6. The Open Offer and the Underwriting Agreement**

The Board proposes to raise not less than approximately HK\$260.7 million and not more than HK\$260.9 million by way of the Open Offer of new Shares on the basis of one Offer Share for every three existing Shares held by the Qualifying Shareholders on the Record Date. On 16 October 2015 (as supplemented and amended on 29 April 2016), the Company entered into the Underwriting Agreement with GZE in relation to the underwriting and other arrangements of the Open Offer, pursuant to which GZE (for itself and its wholly-owned subsidiary taking up the Offer Shares) conditionally agreed to fully underwrite the proposed Open Offer in respect of not less than 2,606,851,560 Offer Shares and no more than 2,609,251,560 Offer Shares (assume the exercise of all outstanding Share Options prior to the Record Date).

## **7. The Listco Preferred Shares Modification Deed**

On 22 August 2014, the Company and DBIL (as the lawful attorney of Saturn Petrochemical) entered into the Listco Preferred Shares Modification Deed (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016) in relation to, among others, the extension of the redemption period of the Listco Preferred Shares and the restriction of the conversion of the Listco Preferred Shares. Pursuant to the Listco Preferred Shares Modification Deed, DBIL and the Company have agreed that (i) the purported redemption notice relating to the Listco Preferred Shares as issued by Saturn Petrochemical on 4 July 2012 cannot be completed as a matter of applicable law and shall, for all purposes, be treated for as being withdrawn, ab initio and of no legal effect; (ii) the terms of the Bye-Laws shall be amended so that the earliest date of a notice of redemption of the Listco Preferred Shares may be served on the Company is the 3rd anniversary of the actual date when the Restructuring becoming effective and the Release Date having occurred; (iii) the conversion price of the Listco Preferred Shares are subject to adjustment except that no adjustment will be made to the conversion price of the Listco Preferred Shares when Shares or other securities are issued, offered or granted pursuant to the conversion of the Listco Preferred Shares or the Restructuring; and (iv) no conversion of the Listco Preferred Shares shall occur until the date falling six months after the date on which trading in Shares have resumed on the Stock Exchange provided always that if the Company considers that it would no longer satisfy minimum public shareholding requirement under Rule 8.08 of the Listing Rules immediately following a conversion of the Listco Preferred Shares.

## **8. The Subscription**

On 16 October 2015, the Company and GZE entered into the GZE Subscription Agreement pursuant to which GZE has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share. In order to diversify the shareholders base, on 24 December 2015 (as supplemented and amended on 29 April 2016), the Company has negotiated with the Subscriber, Chang Xin Asset Management Corporation Limited, a company incorporated in the PRC, and principally engaged in fund management business and owned by 長江證券股份有限公司 (Changjiang Securities Company Limited\*), a company listed on the Shenzhen Stock Exchange, 上海海欣(集團)股份有限公司 (Shanghai Haixin Group Co. Ltd.\*), a company listed on the Shanghai Stock Exchange and 武漢鋼鐵股份有限公司 (Wuhan Iron and Steel Company Limited\*), a company listed on the Shanghai Stock Exchange as to approximately 49%, 34.33% and 16.67% respectively. The Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share. On the same date of the Subscription Agreement, the party to the GZE Subscription Agreement has mutually agreed to terminate the GZE Subscription Agreement and the GZE Subscription Agreement has become null and void.

## **9. Implications under the Listing Rules**

GZE and its wholly-owned subsidiary Fame Dragon, by virtue of its holding through of voting rights of 3,556,353,661 Shares (representing approximately 45.5% of the total Shares in issue as at the Latest Practicable Date) and through DBIL (a wholly-owned subsidiary of GZE) holding of the benefit of all interests arising under or in connection with the Listco Preferred Shares, is the controlling Shareholder and, hence, connected persons of the Company.

### ***The Debt Rescheduling Agreements***

GZE is the controlling Shareholder, holding (through Fame Dragon) approximately 45.5% of voting rights to the Shares as at the date of the Resumption Proposal and, hence a connected person of the Company according to Rule 14A.07(1) of the Listing Rules. Therefore, the transactions contemplated under the Debt Rescheduling Agreements, including the issue of shares to GZE and the parties acting in concert with it pursuant to the agreements, constitute connected transactions of the Company under Rule 14A.25 of the Listing Rules.

### ***The Interim Financing Agreements and the Working Capital Loan Agreement***

GZE is the controlling Shareholder, holding (through Fame Dragon) approximately 45.5% of voting rights to the Shares as at the date of the Resumption Proposal and, hence a connected person of the Company according to Rule 14A.07(1) of the Listing Rules. Therefore, the transactions contemplated under the Interim Financing Agreements and the Working Capital Loan Agreement, including the issue of shares to GZE and the parties acting in concert with it pursuant to the agreements, constitute connected transactions of the Company under Rule 14A.25 of the Listing Rules.

### ***The Shipyard Termination Agreement***

As mentioned above, GZE is a connected person of the Company. Accordingly, the transactions contemplated under the Shipyard Termination Agreement, including the issue of the Shipyard Termination Shares, constitute connected transactions of the Company. As one or more of the Percentage Ratios exceeds 5%, the Shipyard Termination Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***The Assumption Agreement***

As mentioned above, GZE is a connected person of the Company. Accordingly, the transactions contemplated under the Assumption Agreement constitute connected transactions of the Company. As one or more of the Percentage Ratios exceed 5%, the Assumption Agreement (including the issue of the Assumption Consideration Shares) is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### ***The Listco Preferred Shares Modification Deed***

As mentioned above, GZE is a connected person of the Company. As such, in respect of the change of terms of the Listco Preferred Shares under the Listco Preferred Shares Modification Deed, the Company is required to comply with the relevant connected transaction requirements. As one or more of the Percentage Ratios exceed 5%, the entering into the Listco Preferred Shares Modification Deed is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### ***The Subscription Agreement***

As the Subscription Agreement is inter-conditional with the relevant agreements entered into under the Resumption Proposal, the Subscription Agreement is subject to the Independent Shareholders' approval under the Listing Rules.

## **10. Implications under the Takeovers Code**

### ***Whitewash Waiver***

As at the Latest Practicable Date, GZE and parties acting in concert with it are interested in 3,556,353,661 Shares, representing approximately 45.5% of the issued share capital of the Company as at the Last Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In the event that (i) the Underwriter is called upon to subscribe or procure subscription for all or any part of the Offer Shares pursuant to its underwriting obligations under the Underwriting Agreement (assuming none of the Qualifying Shareholders accept their respective provisional allotment of the Offer Shares and no exercise of the Share Options and GZE is required to take up all the underwritten Shares); (ii) the Company will issue 9,382,164,000 new Shares to GZE pursuant to the Shipyard Termination Agreement; (iii) the Company will issue the Assumption Consideration Shares of 3,595,420,415 Shares to Fame Dragon upon resumption of trading of the Shares on the Stock Exchange pursuant to the Assumption Agreement; and (iv) the Company will issue and allot maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert with it upon resumption of the trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date, the aggregate shareholding of GZE and the parties acting in concert with it will be increased from approximately 45.5% of the voting rights in the total Shares in issue as at the Latest Practicable Date to a maximum of approximately 71.3% of the voting rights in the total Shares in issue as enlarged by the Open Offer, the Subscription, the Debt Restructuring, the issue of Shipyard Termination Shares under the Shipyard Termination Agreement, issue of 3,595,420,415 Assumption Consideration Shares under the Assumption Agreement and issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert with it upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively.

The transactions underlying the issue of Shares which are subject to the Whitewash Waiver, including the Open Offer (including the Underwriting Agreement), the Shipyard Termination Agreement, the Assumption Agreement, the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement will be subject to the approval by the Independent Shareholders in the SGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Under Rule 26 of the Takeovers Code, the acquisition of voting rights by GZE and the parties acting in concert with it under the above circumstances will result in GZE and the parties acting in concert with it being obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by GZE and the parties acting in concert with it. An application has been made by GZE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval by the Independent Shareholders in the SGM by way of poll.

### ***Special Deal***

The repayment of the outstanding indebtedness of the Group to certain Scheme Creditors (among which Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua are existing Shareholders, which holds approximately 0.004%, 0.82% and 0.26% of the total issued Shares as at the Latest Practicable Date and had debt amount due from the Company of US\$5.0 million, US\$2.3 million and US\$17.9 million respectively) out of the proceeds from the Open Offer and the Subscription, which is not extended to all the other Shareholders, constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code. The Special Deal requires consent from the Executive under Rule 25 of the Takeovers Code, and such consent, if granted, shall be conditional upon the approval of the Independent Shareholders by way of a poll at the SGM and the Independent Financial Adviser to the TC Independent Board Committee publicly stating in its opinion that the terms of the Special Deal are fair and reasonable. The Company has applied to the Executive for its consent to the Special Deal under Rule 25 of the Takeovers Code.

## **II. THE INDEPENDENT BOARD COMMITTEES**

As the Latest Practicable Date, the Board consists of (i) two executive Directors, namely Mr. Tang Chao Zhang and Dr. Zhang Weibing; (ii) a non-executive Director, namely Mr. Fan Qinghua; and (iii) four independent non-executive Directors, namely Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The LR Independent Board Committee comprising Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being all the independent non-executive Directors who have no direct or indirect interest in the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Shipyard Termination Agreement, the Subscription Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed and the transactions contemplated thereunder, has been established to advise the Independent Shareholders as to whether the terms of the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Shipyard Termination Agreement, the Subscription Agreement, the Assumption Agreement and the Listco Preferred Shares Modification Deed are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders taken as a whole.

The TC Independent Board Committee comprising Mr. Lau Fai Lawrence, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen, being the independent non-executive Directors who have no direct or indirect interest in the Whitewash Waiver and the Special Deal, has been established to advise the Independent Shareholders as to whether (i) the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Underwriting Agreement (if the Open Offer proceeds), the Shipyard Termination Agreement, the Assumption Agreement and their respective terms; (ii) the Whitewash Waiver; and (iii) the Special Deal, are fair and reasonable and in the interests of the Company and the Independent Shareholders taken as a whole.

We, Asian Capital (Corporate Finance) Limited, have been appointed as the Independent Financial Adviser to the LR Independent Board Committee, the TC Independent Board Committee (the “**Independent Board Committees**”) and the Independent Shareholders on the aforesaid matters. Our appointment as the Independent Financial Adviser has been approved by Independent Board Committees.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committees and the Independent Shareholders as to (1) whether the terms of the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Shipyard Termination Agreement, the Subscription Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, and the Underwriting Agreement (if the Open Offer proceeds) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders taken as a whole; (2) whether the granting of the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Independent Shareholders taken as a whole; and (3) whether the Independent Shareholders should vote in favour of all the relevant resolutions.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We set out below our past professional engagements with the Company:-

- i. We were previously appointed as the independent financial adviser (the “**First Appointment**”) to the then Independent Board Committees and the Independent Shareholders in relation to the Company’s previous debt restructuring (the “**First Restructuring**”) (details of which are set out in the Company’s circular date 29 May 2015). As at the date of this letter, our obligations and responsibilities in connection with the First Appointment have been discharged in full; and
- ii. We were also engaged to review and certify the adjustment of the Company’s outstanding share option of the Company in June 2015 (the “**Second Appointment**”) in respect of the previous open offer which formed part of the First Restructuring as required under the Company’s share option scheme (which requires, among others, the Company’s auditors or independent financial adviser to confirm to the directors of the Company in writing as to whether the proposed adjustment is in accordance with the terms of the Company’s share option scheme). As the First Restructuring did not eventually materialized, no certification has actually been given.

The First Appointment and the Second Appointment are considered not to have an effect on Asian Capital’s independence in performing its duties as an independent financial adviser for the Company, or giving rise to a perception that Asian Capital’s independence would be so affected; or resulting a conflict of interest for Asian Capital.

Apart from a normal professional fee payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders, no arrangements exist whereby we will receive any fees or benefits from the Company.

### III. BASIS AND ASSUMPTIONS OF OUR OPINION

In forming our opinion and recommendation, we have considered, among other matters, information and documents including but not limited to (i) the Resumption Proposal; (ii) the Letter from the Board contained in the Circular; (iii) the Debt Rescheduling Agreements; (iv) the Shipyard Termination Agreement; (v) the Interim Financing Agreements; (vi) the Assumption Agreement; (vii) the Listco Preferred Shares Modification Deed; (viii) the Underwriting Agreement; (ix) the Working Capital Loan Agreement; (x) the Announcement; (xi) the annual reports of the Company for the three years ended 31 December 2015 (respectively, the “**Annual Report 2013**”, “**Annual Report 2014**” and “**Annual Report 2015**”), (xii) the Subscription Agreements and (xiii) the other information, financial information and otherwise, contained in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have also relied on the information provided and statements and opinions made by the Company, its Directors, advisers and representatives, for which they take full responsibilities. We assumed that all relevant information and statements were true, accurate and complete at the time they were given or made and continue to be so as at the Latest Practicable Date. Independent Shareholders will be notified of material changes to such information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and until the SGM. We also assumed that all views, opinions and statements of intention provided by the Directors, advisers and representatives of the Company had been arrived at after due and careful enquiries. The Company confirmed that there were no other material facts not contained in the information provided to us the omission of which would make any statement or opinion contained in the Circular misleading.

We have no reason to suspect that any material fact or information has been omitted or withheld from the information or opinions provided to us by the Company, its Directors, advisers or representatives, or to doubt the truth, accuracy or completeness of the information and representations or reasonableness of the opinions provided to us by them. We have not, however, conducted any independent verification on the information provided to us by the Company, its Directors, advisers or representatives, nor have we conducted any independent investigation into the business and affairs or the prospects of the Group. We therefore do not guarantee the accuracy or completeness of any of such information.

#### **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our recommendations, we have taken into consideration the following principal factors and reasons:

##### **1. Information of the Group**

Prior to the Suspension, the Group was involved in the following principal activities:

- (i) operation of onshore and offshore oil storage facilities;
- (ii) transportation, supply and distribution of oil and chemical products; and
- (iii) shipbuilding and ship repair.

##### **2. Suspension of Trading**

On 11 December 2010, the Company, TPFL and TQSL Holding, both wholly-owned subsidiaries (direct and indirect respectively) of the Company, entered into the Shipyard Sale and Purchase Agreement (as amended by supplemental agreements) with Grand China Logistics in relation to the sale by TPFL and TQSL Holding of, in aggregate, a 95% equity interest in TQS to Grand China Logistics at a cash consideration of approximately RMB1,665.7 million to be paid by instalments on specified dates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On the same date, the Company entered into the GCL Subscription Agreement with Grand China Logistics in relation to the subscription by Grand China Logistics in cash of 500 million new subscription Shares at the issue price of HK\$0.61 per Share.

On 18 March 2012, the Company announced that, among other things, (i) Grand China Logistics, after making instalment payments totalling RMB740.0 million, had failed to make further instalment payments as and when they fell due under the Shipyard Sale and Purchase Agreement; and (ii) the GCL Subscription Agreement, completion of which was conditional upon the registration of the transfer of the 95% equity interest in TQS being sold by TPFL and TQSL Holding to Grand China Logistics, had lapsed.

The Group intended to use the net proceeds which it was expecting to receive under the Shipyard Sale and Purchase Agreement and the GCL Subscription Agreement to repay the 2012 Senior Notes, to reduce its other indebtedness, to fund the development of its business as well as to fund its general working capital requirements. As a result of the default in payment by Grand China Logistics under the Shipyard Sale and Purchase Agreement and the lapse of the GCL Subscription Agreement, the Company was unable to repay the 2012 Senior Notes when they became due on 19 March 2012. The repayment default with respect to the 2012 Senior Notes triggered the cross default of a bilateral loan between a member of the Group and a financial institution in the outstanding principal amount of US\$1.3 million and constituted an early redemption event in respect of the Listco Preferred Shares and the TGIL Convertible Notes and the TGIL Preferred Shares.

As a result of the events described above, trading in the Shares of the Company was suspended with effect from 19 June 2012.

### ***Delisting procedures and Resumption Proposal***

On 22 May 2013, the Listing Division issued a letter to the Company informing the Company that it had been placed in the first stage of delisting pursuant to Practice Note 17 to the Listing Rules and that the Company was required to submit a viable resumption proposal to demonstrate its compliance with Rule 13.24 of the Listing Rules and to publish all outstanding financial results and address any audit qualifications. The first stage of delisting pursuant to Practice Note 17 expired on 21 November 2013.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 22 November 2013, as the Company had not submitted a resumption proposal before the expiry date of the first stage of delisting, the Listing Division issued a further letter to the Company informing the Company that the Listing Division has decided to place the Company in the second stage of delisting under Practice Note 17 to the Listing Rules and that the Company is required to submit a viable resumption proposal as well as to satisfy the following conditions:

- (i) the Company must demonstrate that it has sufficient operations or assets under Rule 13.24 of the Listing Rules;
- (ii) the Company must publish all outstanding financial results and address any audit qualifications; and
- (iii) the Company must have the winding-up petition against the Company withdrawn or dismissed and the Provisional Liquidators discharged.

The second stage of delisting was to expire on 21 May 2014.

Subsequently on 5 May 2014, the Resumption Proposal, in relation to the restructuring of the Company involving, among others, a restructuring of the debts at the level of the Company by a scheme of arrangement with the Company's creditors, an open offer of new Shares to be made by the Company to its Shareholders, the subscription by certain investors of new Shares issued by the Company and the issue of new Shares to the Company's controlling Shareholder to settle certain debts, has been submitted to the Stock Exchange. The updated versions of the Resumption Proposal in response to the comments from the Stock Exchange have been submitted on 10 June 2014, 22 August 2014, 16 September 2014, 10 October 2014 and 25 November 2014, respectively.

On 1 December 2014, the Stock Exchange decided to allow the Company to proceed with the Resumption Proposal subject to satisfying the conditions set out below by 31 May 2015:-

1. completion of the transactions under the Resumption Proposal;
2. completion of the internal control review indicating no material deficiency;
3. withdrawal or dismissal of the winding up petition and discharge of the Provisional Liquidators;
4. inclusion in a Circular to the Shareholders:
  - (a) a profit forecast for the two years ending 31 December 2016 and 2017 together with reports from the auditors and the financial adviser under Rules 14.62(2) and (3) of the Listing Rules;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (b) a pro forma balance sheet upon completion of the Resumption Proposal; and
- (c) a statement from the Directors (including the proposed directors) confirming working capital sufficiency for at least 12 months from trading resumption and a comfort letter from the auditors on the Directors' statement.

On 29 May 2015, the Company published a Circular to the Shareholders giving, among others, details of the Debt Restructuring and the Resumption Proposal and the notice of the special general meeting held on 22 June 2015. Although all the resolutions proposed at the special general meeting held on 22 June 2015 were all successfully passed, the Debt Restructuring was not implemented as anticipated. Subsequently, several agreements contemplated under the Debt Restructuring were supplemented by several supplemental agreements in October 2015 which form the basis of the latest Debt Restructuring, details of which are set out in this Circular.

On 18 September 2015, the Listing Division issued a letter to the Company informing the Company that they have decided to place the Company in the third stage of delisting under Practice Note 17 to the Listing Rules and that the Company is required to submit a viable resumption proposal to the Stock Exchange at least 10 business days before the third stage of delisting expires (i.e. 15 March 2016)

The Company has submitted the Resumption Proposal on 16 October 2015 (as supplemented and amended on 17 November 2015, 31 December 2015 and 25 January 2016). As disclosed in the Company's announcement dated 16 March 2016, on 14 March 2016, the Stock Exchange has decided to allow the Company to proceed with the Resumption Proposal subject to satisfying the following conditions by 15 July 2016, including among others:

1. completion of all transactions contemplated under the Resumption Proposal; and
2. the Company must have the winding up petition withdrawn or dismissed and the provisional liquidators discharged.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *2.1. Development since the Suspension*

Before the Suspension, the Group was engaged in operation of onshore and offshore of storage facilities, transportation, supply and distribution of oil and chemical products, and shipbuilding and ship repair. Yet, as reported in the Annual Report 2015, the Group has suspended its business and did not record any revenue during the year ended 31 December 2015.

In addition, since the Suspension, the Group has been involved in several legal proceedings. Details of these legal proceedings are set out in the section headed “A. BACKGROUND – Legal proceedings” in the Letter from the Board contained in this Circular.

#### *Change in control of the Company*

On 30 August 2012, Fame Dragon, a company wholly-owned by GZE, entered into four share purchase agreements with companies ultimately beneficially owned by the former chairman of the Group, Mr. Tsoi Tin Chun and/or his spouse, to acquire all of the Shares held by them in the Company, which in aggregate amounted to approximately 45.5% of the then issued share capital of the Company.

None of those share purchase agreements has been completed as the Company is subject to the ongoing winding up proceedings in Bermuda as section 166 of the Act provides that in a winding up by the Bermuda Court, any transfer of Shares in the Company after the commencement of the winding up would be void unless the Bermuda Court otherwise orders.

The seller under each of those agreements has, however, executed irrevocable proxies in favour of Fame Dragon to enable Fame Dragon to exercise the voting rights attached to the Shares being sold under such agreements. GZE, through Fame Dragon, thereby acquired control over approximately 45.5% of the total voting rights in the Company with effect from 30 August 2012.

Fame Dragon is a company incorporated in Hong Kong on 21 January 2010 with limited liability and is principally engaged investing and trading. The ultimate beneficial owner of Fame Dragon is GZE while the shares of Fame Dragon are held by Guangdong Zhenrong (Hongkong) Company Limited which in turn is wholly-owned by GZE.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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GZE is an enterprise incorporated under the laws of the PRC which carries on the business of bulk commodities, energy and resource trading and is principally involved in the trading of petroleum products, non-ferrous metals, coal, and chemical products amongst other products or services. GZE is also in the business of onshore and offshore investments in petroleum refinery and warehousing and logistics terminal in relation to petroleum. GZE is owned as to 44.3% by Zhuhai Zhen Rong Company (a PRC state-owned enterprise), as to 35% by Hainan Li Jin Investment Co., Ltd (which is owned by Xia Ying Yan as to approximately 34%, He Xiao Qun as to approximately 33% and Liang Wei as to approximately 33%), as to 15% by Beijing Mo Ya Xun Technology Co Ltd (which is owned by Li Tong Nan as to approximately 60% and Liu Ge as to approximately 40%), as to 5.7% by Beijing Ding Da Investment Co. Ltd. (which is owned by Shanghai Yafeng Investment Management Co. Ltd. as to approximately 85%, Gao Yong Qing as to approximately 9% and Gao Wei as to approximately 6%).

### *Interim Financing Arrangements*

On 12 March 2013, the Company entered into the First Loan Agreement (as amended and supplemented on 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of an interim financing as at the date of the First Loan Agreement of up to approximately HK\$62.24 million in aggregate. On 13 March 2014, the Company entered into the Second Loan Agreement (as amended and supplemented on 10 July 2014, 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of an unsecured loan as at the date of the Second Loan Agreement of approximately HK\$62.24 million in aggregate. On 27 February 2015, the Company entered into the 2015 Loan Agreement (as amended and supplemented on 16 October 2015, 15 January 2016 and 29 April 2016) with Fame Dragon in relation to the provision of an unsecured loan as at the date of the 2015 Loan Agreement of approximately US\$15 million in aggregate.

The principal terms of the First Loan Agreement, the Second Loan Agreement and the 2015 Loan Agreement are set out in the section headed “D. INTERIM FINANCING ARRANGEMENTS” in the Letter from the Board contained in the Circular.

### *The GZE Standby Working Capital Facility*

On 16 October 2015, the Company entered into the GZE Standby Working Capital Facility Agreement with GZE in relation to the provision of standby working capital facility for an aggregate amount of not less than HK\$180 million by GZE to the Company. The principal terms of the loan agreement are set out in the section headed “E. THE GZE STANDBY WORKING CAPITAL FACILITY” in the Letter from the Board contained in the Circular.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**2.2. Financial performance of the Group**

Set out below are the highlights of the financial results of the Group for the three years ended 31 December 2015 (the “**Review Period**”):

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>CONTINUING OPERATIONS</b>			
<b>REVENUE</b>	–	–	644,325
Cost of sales	–	–	<u>(673,394)</u>
Gross loss	–	–	(29,069)
Other revenue	61	178,353	5,807
Other gain	54,910	2,294	–
Gain on deconsolidation of subsidiaries	–	4,134,534	1,236,193
General and administrative expenses	(63,666)	(210,901)	(317,279)
Finance costs	(22,911)	(22,585)	(153,318)
Impairment losses on amounts due from deconsolidated subsidiaries	–	(135,461)	(5,384,435)
Loss arising on change in fair value of investment property	(505)	(510)	–
Loss on derecognition of derivative financial instruments not qualifying as hedges	–	–	<u>(176,049)</u>
(Loss)/profit before tax from continuing operations	(32,111)	3,945,724	(4,818,150)
Income tax credit	<u>126</u>	<u>113</u>	<u>440</u>
(Loss)/profit for the year from continuing operations	(31,985)	3,945,837	(4,817,710)
<b>DISCONTINUED OPERATIONS</b>			
(Loss)/profit for the year from discontinued operation	<u>(209,796)</u>	<u>(166,463)</u>	<u>247,478</u>



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>(LOSS)/PROFIT FOR THE YEAR</b>	(241,781)	3,779,374	(4,570,232)
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Revaluation gain of prepaid land lease payment upon reclassification to investment property	–	142,324	–
Income tax arising from revaluation gain thereof	–	(34,219)	–
	<u>–</u>	<u>108,105</u>	<u>–</u>
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations	<u>25,357</u>	<u>2,767</u>	<u>(13,108)</u>
	<u>25,357</u>	<u>2,767</u>	<u>(13,108)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>25,357</u>	<u>110,872</u>	<u>(13,108)</u>
Total comprehensive (loss)/income for the year, net of tax	<u><u>(216,424)</u></u>	<u><u>3,890,246</u></u>	<u><u>(4,583,340)</u></u>

Based on the audited consolidated profit and loss accounts of the Company contained in the Annual Report 2013, the Annual Report 2014 and the Annual Report 2015, the scale of the Group, in terms of revenue, has been recorded as approximately of HK\$644.3 million in 2013. As reported in the Annual Report 2014 and 2015, the Group did not record any revenue during the years ended 31 December 2014 and 31 December 2015 due to the suspension of business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's losses improved from year ended 31 December 2013 to year ended 31 December 2014. The Group recorded net losses of approximately HK\$4,570.2 million and net profits of approximately HK\$3,779.4 million for the years ended 31 December 2013 and 2014 respectively.

Further, the Company reported in its Annual Report 2015 that net loss for the year ended 31 December 2015 amounted to approximately HK\$241.8 million, mainly includes finance costs from discontinued operation of approximately HK\$146 million, general and administrative expenses from continuing operations of approximately HK\$64 million. During the year ended 31 December 2015, the Group incurred general and administrative expenses and finance costs from continuing operations of approximately HK\$86.6 million in aggregate. We note from the Annual Report 2015 that the other gain had substantially increased to HK\$54.9 million for the year ended 31 December 2015 from approximately HK\$2.3 million for the year ended 31 December 2014 mainly due to the unrealized exchange gain. We also note that the general and administrative expenses had substantially decreased to HK\$63.7 million for the year ended 31 December 2015 from approximately HK\$210.9 million for the year ended 31 December 2014 mainly due to a recognition of financial guarantee for a deconsolidated subsidiary in 2014. If the unrealized exchange gain on balance sheet items, one-off gain on deconsolidation of subsidiaries, the one-off impairment losses on amounts due from deconsolidated subsidiaries and the loss from discontinued operation are removed, the Group had a net loss of approximately HK\$86.9 million and HK\$55.5 million for the year ended 31 December 2015 and 2014 respectively.

Although the adjusted net loss had reduced in 2015 when compared with previously years in the Review Period, we are not aware of any improvement in the business operations of the Group during the Review Period and the adjusted net loss of the Group of approximately HK\$32.0 million for the year ended 31 December 2015 may indicate that the Group has not shown any improvement when compared with the adjusted net loss of HK\$53.2 million for the year ended 31 December 2014.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**2.3. Financial position of the Group**

Set out below is the summary of the audited consolidated assets and liabilities of the Group as at 31 December 2013, 31 December 2014 and 31 December 2015 respectively:

	<b>As at 31 December</b>		
	<b>2015</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>2014</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>2013</b> <i>HK\$'000</i> <i>(Audited)</i>
<b>TOTAL NON-CURRENT ASSETS</b>	158,306	169,361	29,345
Current assets	183,342	173,390	668,633
Assets of a disposal group classified as held for sale	<u>2,655,804</u>	<u>2,861,227</u>	<u>2,956,904</u>
<b>TOTAL CURRENT ASSETS</b>	<u>2,839,146</u>	<u>3,034,617</u>	<u>3,625,537</u>
Current liabilities	3,922,779	3,985,692	8,121,062
Liabilities directly associated with the assets classified as held for sale	<u>2,855,067</u>	<u>2,865,369</u>	<u>3,255,146</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,777,846</u>	<u>6,851,061</u>	<u>11,376,208</u>
<b>NET CURRENT LIABILITIES</b>	<u>(3,938,700)</u>	<u>(3,816,444)</u>	<u>(7,750,671)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	(3,780,394)	(3,647,083)	(7,721,326)
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>(268,664)</u>	<u>(185,551)</u>	<u>(3,000)</u>
<b>NET LIABILITIES</b>	<u>(4,049,058)</u>	<u>(3,832,634)</u>	<u>(7,724,326)</u>
<b>DEFICIENCY IN ASSETS</b>	<u>(4,049,058)</u>	<u>(3,832,634)</u>	<u>(7,724,326)</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group recorded consolidated net liabilities as at 31 December 2013, 31 December 2014 and 31 December 2015. The Group's net liabilities position was primarily due to the impairment losses on amounts due from deconsolidated subsidiaries during the year ended 31 December 2013. The Group's consolidated net liabilities decreased significantly to approximately HK\$3,832.6 million as at 31 December 2014 from approximately HK\$7,724.3 million as at 31 December 2013 mainly due to the gain on deconsolidation of subsidiaries. As disclosed in the Annual Report 2015, the subsidiaries in concern in such deconsolidation carried net liabilities of HK\$4,136.0 million immediately before the deconsolidation. Upon the deconsolidation, such liabilities were excluded from the Group's financial statements and as a result, the Group's net liability position decreased by HK\$4,134.5 million and a gain was recognized accordingly. Despite the decrease, this net liabilities position suggests that it is likely that the Shareholders would not receive any return if all the members in the Group were put into liquidation. The Group's consolidated net liabilities as at 31 December 2015 was approximately HK\$4,049.1 million.

### *The audit qualifications*

We note from the Annual Report 2013, the Annual Report 2014 and the Annual Report 2015 that the Company's auditors have given "disclaimer of opinion" on the respective consolidated financial statements of the Company for the three years ended 31 December 2015. The basis of the "disclaimer of opinion" of the Company's auditors for consolidated financial statements of the Company for the year ended 31 December 2015 was limitation of scope in respect of a number of aspects of the Group's operations, namely:

- (a) assets and liabilities of a disposal group classified as held for sale;
- (b) amounts due from/to holding companies of a deconsolidated jointly-controlled entity;
- (c) amounts due from/to deconsolidated subsidiaries;
- (d) financial guarantee contracts and commitments;
- (e) events after the reporting period;
- (f) related party transactions;
- (g) opening balances and corresponding figures; and
- (h) material uncertainties relating to the going concern basis.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company's auditors pointed out that any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Company and the Group as at 31 December 2015 and 2014 and the financial performance and cash flows of the Group for the years then ended.

Furthermore, the Company's auditors also expressed material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern on the basis that (1) as at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately HK\$3,938.7 million and its total liabilities exceeded its total assets by approximately HK\$4,049.1 million; (2) the Group was in default on repayments of various indebtedness amounted to approximately HK\$2056.8 million; and (3) the Group was involved in several legal proceedings. The consolidated financial statements were prepared on the assumption that the Group would continue as a going concern. In the absence of sufficient documentary evidence, the Company's auditors were unable to ascertain whether the assumptions made by the Directors in the preparation of the consolidated financial statements on a going concern basis was fair and reasonable and, accordingly, the Company's auditors were unable to satisfy themselves that the use of the going concern assumption was appropriate.

Further discussions and responses from the management in relation to the qualified opinions issued by the auditors of the Company, are set out in the paragraphs under the subsection headed "T. THE AUDIT QUALIFICATIONS" in the Letter from the Board of the Circular.

The management has summarised the qualified opinions from Annual Report 2015 by the following types of resolutions or justification of reasons of removal of the relevant audit qualifications as follows:

- (a) The audit qualifications that will be removed upon the completion of the Creditors' Scheme on 2016 and the TRML Scheme and liquidations of respective subsidiaries;
- (b) The required audit procedures have not been performed during the audit for the year ended 31 December 2015 due to limitation of scope and/or feasibility of performing such and those procedures will be feasible to perform after the Resumption and the audit qualifications that will be removed accordingly;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (c) The audit qualifications that will be removed when GZE and parties acting in concert with it take up the respective liabilities or obligation upon the respective agreements pursuant to the Resumption Proposal being effective and/or the completion of the transactions contemplated under the Resumption Proposal on 2016; and
- (d) The audit qualifications that will be removed upon removal of other audit qualifications.

In addition, the implications of the aforesaid audit qualifications have been disclosed under each of the qualifications in the section headed “Audit Qualifications” in Appendix I of the Circular.

In view of the limitation of scope of the audit procedures and the doubt of the Company’s auditors on the going concern assumption on which the Group’s consolidated financial statements were prepared; we have reservation on the performance and financial position as reflected in the consolidated financial statements. In the absence of any restructuring proposal to revive the business of the Group and compromise the liabilities of the Group, we have doubt on the sustainability of the Group in its present establishment.

In summary, the Company expects that the audit qualifications (save and except for the audit qualification on opening balances and corresponding figures) can be removed during the year ending 31 December 2016. The audit qualification on opening balances and corresponding figures is expected to be removed during the year ending 31 December 2017, subject to all other audit qualifications having been removed during the year ending 31 December 2016.

After considering the above, including the management’s plan to resolve the audit qualifications set out above, we are of the view that, in the event that the Restructuring can be completed as set out in the Letter from the Board, the audit qualifications will be resolved by the year ending 31 December 2017 and have no material negative implications to the Company upon the Resumption.

#### ***2.4. Management Services Agreement***

GZE continues to assist in resuming the operations of the Group. Through the introduction by GZE and FEG, the Company and TQS have entered into the Management Services Agreement (as supplemented and amended on 30 December 2014, 28 May 2015, 30 July 2015, 22 September 2015 and 22 March 2016) with FELS on 9 April 2014 pursuant to which FELS has conditionally agreed to provide management services for the operations of the Quanzhou Shipyard. The Management Services Agreement has an initial term of 30 years, but it will only come into effect if the various conditions (including completion of the Debt Restructuring and resumption of trading in the Shares having been approved by the Stock Exchange) are satisfied on or before 15 July 2016. Such Management Services Agreement constitutes the major element to resume the operations of the Restructured Group. Pursuant to the Management Services Agreement, scope of management services to be provided by FELS is as follows:-

- (a) FELS has agreed that, during the effective term, it will make available employees of FELS and its related corporations to hold various management positions at TQS. These seconded employees from FELS and its related corporations will work together with the Group's existing management and staff of TQS in connection with the operation and development of the Quanzhou Shipyard. They will, among other things, supervise and manage the employees of TQS deployed at the Quanzhou Shipyard; negotiate terms of contracts with customers, suppliers and service providers, contracts relating to the maintenance and improvement of the Quanzhou Shipyard, insurance contracts for the Quanzhou Shipyard and employment contracts with the employees of TQS; and submit to the board of directors of TQS for consideration and approval plans for the maintenance and improvement of the Quanzhou Shipyard with respect to each year after the second year of the terms of the Management Services Agreement; and
- (b) TQS has agreed that, during the effective term, it will use the Quanzhou Shipyard to carry on the business of (i) construction, repair, conversion and upgrading of mobile offshore drilling units; (ii) repair, conversion and upgrading of vessels into FPSO, FSO, FSRU and FLNG; and (iii) construction, repair, conversion and upgrading of vessels in accordance with the terms of the Management Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As a further commitment to the development of a long-term relationship, the Company has agreed, as one of the conditions to the Management Services Agreement becoming effective, to issue to FELS (or such other person as it may specify), at its election, either the FELS CBs which are convertible into new Shares or the FELS Warrants which will entitle the holder to subscribe, in cash, for new Shares that in both cases, will represent 9.9% of the total issued share capital of the Company after completion of the Restructuring, provided always that if the Company considers it would no longer satisfy the minimum public shareholding (i.e. 25% public float) requirement under Rule 8.08 of the Listing Rules immediately following an exercise of the subscription rights under any FELS Warrants, such exercise shall be postponed until such time as the Company is satisfied that such exercise will not result in any non-compliance of Rule 8.08 of the Listing Rules. FELS has since elected to be granted the FELS Warrants. Further details of the Management Services Agreement are set out in the section headed “J. UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT – Management Services Agreement” in the Letter from the Board contained in this Circular.

As set out in the announcement of the Company dated 14 April 2014, in consideration of FELS entering into the Management Services Agreement, GZE entered into the Deed of Undertaking in favour of FELS pursuant to which GZE shall, after the signing of the Deed of Undertaking, procure the Company to provide to TQS working capital and, if the Company fails to do so, GZE shall provide (whether directly or indirectly) to TQS working capital. In light of the above, GZE entered into the Working Capital Loan Agreement with TQS on 22 August 2014 (as supplemented and amended by the supplemental agreements on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively). Details of Working Capital Loan Agreement and our view thereon are set out in this letter under the section headed “5. The Working Capital Loan Agreement” below.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. The Debt Rescheduling Agreements

As at 31 March 2016, certain subsidiaries of the Company were indebted to GZE as follows:

- (1) TQS was indebted to GZE for amounts which are related to loans that were originally made by Shanghai Pudong Development Bank Co. Ltd. Fuzhou Branch to TQS over the period from 2009 to 2011. The bank subsequently assigned its rights and interests with respect to those loans and related security interests to China Cinda Asset Management Co., Ltd. which then further assigned those rights and interests to GZE. TQS has defaulted in its repayment obligations and these amounts have become immediately due and payable;
- (2) Titan Petrochemical (Guangzhou) was indebted to GZE for amounts which are related to loans that were originally made by Ping An Bank Co., Ltd. to Titan Petrochemical (Guangzhou) in March 2012, all of which were jointly guaranteed by TQS, Quanzhou Zhenrong Petrochemical Terminal Co. Ltd and Guangzhou Nansha Zhenrong Storage Co. Ltd.. The bank subsequently assigned its rights and interests with respect to those loans and guarantee to GZE on 31 December 2013. Titan Petrochemical (Guangzhou) has defaulted in its repayment obligations and these amounts have jointly become immediately due and payable; and
- (3) Shengsi Haixin was indebted to GZE for an amount which is related to a loan made available by GZE to Shengsi Haixin pursuant to a loan agreement dated 25 November 2013. Shengsi Haixin has defaulted in its repayment obligations and this amount has become immediately due and payable.

On 5 May 2014, TQS entered into the Shipyard Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (1) above, TQS and Titan Petrochemical (Guangzhou) entered into the TPG Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (2) above and Shengsi Haixin entered into the Haixin Debt Rescheduling Agreement with GZE in respect of the indebtedness described in (3) above. Pursuant to the Debt Rescheduling Agreements, GZE has agreed, among other things, to reschedule the repayment of the Group's indebtedness due to GZE postponing the first repayment date until 5 May 2017.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Principal terms of the Shipyard Debt Rescheduling Agreement*

- (1) Total amount of the TQS Debt: RMB1,526,741,949.33, being the aggregate of the original principal of RMB1,429,497,482.80 and the accrued interest of RMB97,244,466.53 as of the date of the Shipyard Debt Rescheduling Agreement;
- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the Shipyard Debt Rescheduling Agreement, the maturity of the TQS Debt shall be extended to the date falling 264 months from the date of the Shipyard Debt Rescheduling Agreement and TQS shall repay the principal of the TQS Debt in instalments on each repayment date (repay 5% for each 12 months until 264 months from the date of the Shipyard Debt Rescheduling Agreement), the first one of which shall fall on 5 May 2017;
- (3) Interest: the interest rate from the date of the Shipyard Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the Shipyard Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the Shipyard Debt Rescheduling Agreement and including the final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash; and
- (4) Security: each security provided under the original loan and pledge agreements between TQS and Shanghai Pudong Development Bank Co. Ltd. Fuzhou Branch shall continue in full force and effect in securing the repayment of the TQS Debt.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Principal terms of the TPG Debt Rescheduling Agreement*

- (1) Total amount of the TPG Debt: RMB43,880,272.00, being the aggregate of the original principal of RMB42,600,000.00 and the accrued interest of RMB1,280,272.00 as of the date of the TPG Debt Rescheduling Agreement;
- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the agreement, the maturity of the TPG Debt shall be extended to the date falling 96 months from the date of the TPG Debt Rescheduling Agreement and Titan Petrochemical (Guangzhou) shall repay the principal of the TPG Debt in instalments on each repayment date, the first one of which shall fall on 5 May 2017;
- (3) Interest: the interest rate from the date of the TPG Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the TPG Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the agreement and including the final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash; and
- (4) Guarantee: the guarantee TQS provided under the original finance agreements between, among others, Titan Petrochemical (Guangzhou) and Ping An Bank Co., Ltd. (formerly known as Shenzhen Development Bank Co., Ltd) shall remain in full force and effect in guaranteeing the repayment of the TPG Debt. Such guarantee in respect of the TPG Debt was jointly provided by TQS, Quanzhou Zhenrong Petrochemical Terminal Co. Ltd and Guangzhou Nansha Zhenrong Storage Co. Ltd., the wholly-owned subsidiaries of GZE.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***Principal terms of the Haixin Debt Rescheduling Agreement***

- (1) Total amount of the Haixin Debt: RMB36,367,173.72, being the aggregate of the original principal of RMB35,478,631.11 and the accrued interest of RMB888,542.61 as of the date of the Haixin Debt Rescheduling Agreement;
- (2) Extension of tenure: subject to the occurrence of and with effect from the effective date of the agreement, the maturity of the Haixin Debt shall be extended to the date falling 96 months from the date of the Haixin Debt Rescheduling Agreement and Shengsi Haixin shall repay the Haixin Debt in instalments on each repayment date, the first one of which shall fall on 5 May 2017; and
- (3) Interest: the interest rate from the date of the Haixin Debt Rescheduling Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal shall be on the base interest rate for the tenure of one (1) to three (3) years as of the date of the Haixin Debt Rescheduling Agreement as published by the PBOC. The rate of interest from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% plus the aforesaid base interest rate. Interest will be calculated on the basis of actual number of days elapsed and a year of 360 days. Interest shall accrue from the date of the agreement and including the final maturity date. The borrower shall pay accrued interest on the loan on (i) the date of completion of all the transactions contemplated under the Resumption Proposal pay by allotting and issuing ordinary shares of HK\$0.1 each to the lender based on the exchange rate as at the date of the Announcement; (ii) thereafter, on 31 March, 30 June, 30 September and 31 December of each year in cash until the final maturity date; and (iii) the final maturity date in cash.

### ***Reasons for the entering into of the Debt Rescheduling Agreements***

As advised by the Company, to accommodate the finance situation the Group is facing, the Company seeks GZE's support for the rescheduling of the repayment dates of the debts with grace period, which would allow the Company to allocate the funds raised from the Restructuring on its business development.

Furthermore, TQS, an indirect wholly-owned subsidiary of the Company, was principally engaged in shipbuilding and ship repair business at the Quanzhou Shipyard before suspension of its business in around 2013. The Debt Rescheduling Agreements, when effective, will release TQS, Titan Petrochemical (Guangzhou) and Shengsi Haixin from its liabilities arising from its default on payment under the Debt Rescheduling Agreements and enable it to focus its resources on re-building its business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We note that the Company proposed to settle its indebtedness by way of the Creditors' Scheme and entering into of the Debt Rescheduling Agreements. Based on our discussion with the Company, in view of the audited net liabilities position of the Company as at 31 December 2015, it is unlikely the Group is in a position to repay such loans, at subsidiary level, owed to GZE in near future. These loans, at subsidiary level, are not subject of the Creditors' Scheme, instead, the Company entered into the Debt Rescheduling Agreements to postpone the repayment to later dates.

We note that the interest rate under each of the Debt Rescheduling Agreements is based on the market lending rate as published by the PBOC.

To provide cover for any potentially unidentified liabilities of the Restructured Group, GZE has executed the GZE Excess Liabilities Undertaking on 5 May 2014 (as supplemented and amended by the supplemental agreements on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) in favour of the Company, pursuant to which GZE has irrevocably and unconditionally agreed and undertaken to the Company that, upon the GZE Excess Liabilities Undertaking becoming effective and if the total indebtedness of the Restructured Group as at 31 January 2015 exceeds the amount set forth in the indebtedness statement of the Restructured Group as at 31 January 2015, GZE shall, subject to certain conditions and upon demand by the Company, pay to the Company (or such other person as the Company may specify) the full amount of such excess liabilities. Further details of the GZE Excess Liabilities Undertaking are set out in the section headed "C. REMAINING INDEBTEDNESS ARRANGEMENTS – GZE Excess Liabilities Undertaking" in the Letter from the Board contained in this Circular. We understand from the Board that the GZE Excess Liabilities Undertaking demonstrates GZE's commitment toward the Restructuring of the Group.

### ***Shares to be allotted and issued in respect of the Debt Rescheduling Agreements***

Based on the terms of the Debt Rescheduling Agreements and on the assumption that the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$7.2 million, HK\$6.0 million and HK\$251.0 million under TPG Debt Rescheduling Agreement, Haixin Debt Rescheduling Agreement and Shipyard Debt Rescheduling Agreement respectively, and thus a maximum of 2,642,391,624 Shares in aggregate will be allotted and issued to GZE (or its wholly-owned subsidiary) accordingly.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Issue Price*

The price of HK\$0.10 per Shares under the Debt Rescheduling Agreements represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;
- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and
- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

The Shares under the Debt Rescheduling Agreements shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Shares under the Debt Rescheduling Agreements.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the shares under the Debt Rescheduling Agreements.

Having considered that (i) the issue price of the Shares under the Debt Rescheduling Agreements is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the issue price of the Shares the Debt Rescheduling Agreements is at premium over the audited net liabilities value per Share as at 31 December 2015; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the issue price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Interest rate*

We note that as at the date of the Debt Rescheduling Agreements, the base interest rate for the tenure of one (1) to three (3) years as published by the PBOC is 6.15% per annum. As such, the interest rate adopted by the Debt Rescheduling Agreements is 2% plus the aforesaid PBOC base interest rate, i.e. 8.15% per annum.

Having considered the Group's current financial and trading status and the prolonged suspension in trading of the Company's shares, we concur with the Company's view that the Company will face difficulties in identifying financing alternatives comparable to the Debt Rescheduling Agreements, and the interest rate charged under the Debt Rescheduling Agreements is more favorable to the Group than normal commercial term that would be available to the Group under the Group's current circumstances.

### *Other financing alternatives*

In assessing the Debt Rescheduling Agreements, in particular their respective repayment arrangements, we have considered and discussed with the management of the Company the potential impact of alternative repayment arrangements, including (1) repaying all of the principal and outstanding interest by cash; and (2) repaying all of the principal and outstanding interest by the issue and allotment of new Shares, to the Group's shareholding structure and working capital.

Based on our discussion with the Company's management, it is estimated that if all of the principal and outstanding interest is to be repaid by cash, the Company has to bear additional cash outflow of HK\$264.2 million, being the interest portion of the Debt Rescheduling Agreements to be repaid by the issue and allotment of new Shares. This additional cash outflow will take up substantial portion of the Group's cash, which is reported to be in the amount of HK\$502.9 million upon the completion of the Restructuring in the unaudited pro forma financial information of the Group contained in appendix II of the Circular. We are given to understand in the event of such, the Group may not be able maintain sufficient working capital for its daily operation after the Resumption.

Meanwhile, if all of the principal and outstanding interest is to be repaid by the issue and allotment of new Shares, we are given to understand that additional 19,399.7 million Shares will be issued for the repayment of the principal of the Debt Rescheduling Agreements. In this regard, we concur with the Company's view that such issuance alone has substantial dilution effect to the existing Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further, based on our discussion with the Company's management, we are given to understand that as at the date when the current repayment arrangement of the Debt Rescheduling Agreements was agreed (i.e. 16 October 2015), the Group was indebted to GZE an amount of RMB1,607.0 million under the Debt Rescheduling Agreements. Under this circumstance, the Group and GZE had to agree on a repayment arrangement which can afford the Group to implement its Restructuring with sufficient financial resources and provide incentives to GZE and Fame Dragon to support the Group's Restructuring. Otherwise, the Group would not have sufficient financing to continue its Restructuring.

In view of such, the current repayment arrangement was agreed such that the Group can continue with its Restructuring while GZE and Fame Dragon can enjoy potential upside from the success of the Group's Restructuring by increasing their shareholdings in the Company. As such, the Group agreed on the current repayment arrangement but not others, including repaying it by cash that would be financed by an open offer.

After considering the above, we concurs with the Company's view that the current repayment arrangement of the Debt Rescheduling Agreements is made after taking consideration of the working capital requirements and the shareholding structure of the Company, and we are of the view that such arrangement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

After taking into account of the above, in particular the interest rate charged on the Debt Rescheduling Agreements, we are of the view that the terms of the Debt Rescheduling Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

#### **4. The Interim Financing Agreements**

In order to rescue the Group, the Company and Fame Dragon entered into the Interim Financing Agreements (i.e. the First Loan Agreement, the Second Loan Agreement and the 2015 Loan Agreement).

##### ***First Loan Agreement***

On 12 March 2013, the Company entered into the First Loan Agreement (as amended and supplemented on 16 October 2015 and 29 April 2016) with Fame Dragon, pursuant to which Fame Dragon agreed to provide an interim financing on request of the Company of up to approximately HK\$62.24 million at an interest rate of 2% per annum (from the date of utilization of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company shall:

- (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and
- (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

The obligations of the Company under the First Loan Agreement are conditional on:

- (i) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
- (ii) the grant of the Whitewash Waiver by the SFC; and
- (iii) the First Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions may be waived. As at the Latest Practicable Date, HK\$3 million has been drawn down under the First Loan Agreement.

### ***Second Loan Agreement***

On 13 March 2014, the Company entered into the Second Loan Agreement (as amended and supplemented on 10 July 2014, 16 October 2015 and 29 April 2016) with Fame Dragon in relation to the provision of a 3-year unsecured loan of HK\$62.24 million by Fame Dragon to the Company at an interest rate of 2% per annum (from the date of utilisation of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company shall:

- (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and
- (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

The obligations of the Company under Second Loan Agreement are conditional on:

- (i) the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
- (ii) the grant of the Whitewash Waiver by the SFC; and
- (iii) the Second Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM.

None of the above conditions may be waived. As at the Latest Practicable Date, HK\$62.24 million has been fully received under the Second Loan Agreement.

### ***2015 Loan Agreement***

On 27 February 2015, the Company entered into the 2015 Loan Agreement (as amended and supplemented on 16 October 2015, 15 January 2016 and 29 April 2016) with Fame Dragon in relation to the provision of an uncommitted term loan of US\$15 million by Fame Dragon to the Company.

The major terms of the 2015 Loan Agreement are set out below:

- |              |   |
|--------------|---|
| Parties:     | a. the Company (as borrower); and   |
|              | b. Fame Dragon (as lender).   |
| Loan amount: | an aggregate of US\$15 million, to be made available to the Company from time to time according to the requirements of the Company. |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Interest: 2% per annum (from the date of utilisation of the loan to the completion date of the transactions contemplated under the Resumption Proposal) and an interest rate of 4% per annum (from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid).
- Term: Three years.
- Security: The loan under the 2015 Loan Agreement is unsecured.
- Purpose of the loan: For meeting costs incurred by the Company in relation to the Creditors' Scheme or any other purpose agreed by Fame Dragon and the Provisional Liquidators, but not including the repayment of any debt which is included in the Creditors' Scheme.
- Repayment: On the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to Fame Dragon (or its wholly-owned subsidiary), which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue; and on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.
- Conditions:
- a. the Company having obtained the approval of its Independent Shareholders in a general meeting in respect of the Whitewash Waiver;
  - b. the grant of the Whitewash Waiver by the SFC; and
  - c. the 2015 Loan Agreement and the transactions contemplated by it, including the allotment and issue of any shares or securities of the Company, having obtained the Independent Shareholders' approval in the SGM
- None of the conditions may be waived.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Event of default:
- a. The Company fails to make any payment to Fame Dragon which is due and payable under the provisions of the 2015 Loan Agreement;
  - b. Any representation, statement or warranty given by the Company under the 2015 Loan Agreement is, or at the time it was provided has been, materially incorrect, untrue or misleading;
  - c. Any authorisation required to be obtained for the Company to execute the 2015 Loan Agreement or perform any of its obligations under the 2015 Loan Agreement is revoked, cancelled or expires;
  - d. Any approval, registration or filing required to be obtained from a government body to ensure the legality, effectiveness and enforceability of the obligations of the Company under the 2015 Loan Agreement and for the 2015 Loan Agreement to be subject to the jurisdiction of the Hong Kong courts and to be enforceable is revoked, cancelled or expires;
  - e. The Company does not use the loan in accordance with the purpose set out in the 2015 Loan Agreement;
  - f. In any jurisdiction, in relation to the liquidation of the Company, other than the Provisional Liquidators, one or more liquidators, receivers, administrators, administrative receivers or other similar officers are appointed (whether temporary or not);
  - g. A liquidator (including the Provisional Liquidators or any other provisional liquidators) of the Company, a government official or other similar officer in any jurisdiction applicable to the Company proposes to disclaim, avoid, abandon and/or challenge the terms or validity of the 2015 Loan Agreement or any part thereof or any transactions related to or contemplated by the 2015 Loan Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- h. The Stock Exchange makes a last and final decision to delist the Shares from the Main Board of the Stock Exchange and cancel the Company's listing;
- i. Any material term of the Creditors' Scheme is amended or varied without the consent of Fame Dragon or the scheme documents in form and substance satisfactory to Fame Dragon are not approved by the Bermuda Court.

Upon the occurrence of an event of default above, Fame Dragon has the right to declare by means of written notice that the loans already disbursed under the 2015 Loan Agreement are immediately due and payable and to demand the Company to pay immediately all principal, interest and all other payable costs due under the 2015 Loan Agreement. However, in the event the Bermuda Court shall make a winding up order in respect of the Company, Fame Dragon shall be entitled to submit a proof of debt in the Company's liquidation as an unsecured creditor for all amounts due under the 2015 Loan Agreement.

As at the Latest Practicable Date, approximately US\$11.5 million has been received under the 2015 Loan Agreement.

### ***Shares to be allotted and issued in respect of the Interim Financing Agreements***

Based on the terms of the Interim Financing Agreements and on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements are drawn down as at the Latest Practicable Date, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$0.2 million, HK\$2.3 million and HK\$1.9 million under the First Loan Agreement, Second Loan Agreement and the 2015 Loan Agreement respectively, and a maximum 42,942,355 Shares in aggregate will be allotted and issued to Fame Dragon (or its wholly-owned subsidiary).

### ***Issue Price***

The price of HK\$0.10 per Shares under the Interim Financing Agreements represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and
- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

The Shares under the Interim Financing Agreements shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Shares under the Interim Financing Agreements.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the shares under the Interim Financing Agreements.

Having considered that (i) the issue price of the Shares under the Interim Financing Agreements is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the issue price of the Shares the Interim Financing Agreements is at premium over the audited net liabilities value per Share as at 31 December 2015; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the issue price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### ***Interest rate***

The interest rate from the date of utilisation of the loan to the completion date of the transactions contemplated under the Resumption Proposal to the maturity date shall be on a rate of 2% and the interest rate from the completion date of transactions contemplated under the Resumption Proposal to the date on which the loan is repaid shall be on a rate of 4%.

Having considered the Group's current financial and trading status and the prolonged suspension in trading of the Company's shares, we concur with the Company's view that the Company will face difficulties in identifying financing alternatives comparable to the Interim Financing Agreements, and the interest rate charged under the Interim Financing Agreements is more favorable to the Group than normal commercial term that would be available to the Group under the Group's current circumstances.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Other financing alternatives*

In assessing the Interim Financing Agreements, in particular their respective repayment arrangements, we have considered and discussed with the management of the Company the potential impact of alternative repayment arrangements, including (1) repaying all of the principal and outstanding interest by cash; and (2) repaying all of the principal and outstanding interest by the issue and allotment of new Shares, to the Group's shareholding structure and working capital.

Based on our discussion with the Company's management, it is estimated that if all of the principal and outstanding interest is to be repaid by cash, the Company has to bear additional cash outflow of HK\$4.4 million, being the interest portion of the Interim Financing Agreements to be repaid by the issue and allotment of new Shares. This additional cash outflow, together with the potential cash outflow arising from the Debt Rescheduling Agreements and the Working Capital Loan Agreement resulting from the change in repayment terms, will take up substantial portion of the Group's cash, which is reported to be in the amount of HK\$502.9 million upon the completion of the Restructuring in the unaudited pro forma financial information of the Group contained in appendix II of the Circular. We are given to understand in the event of such, the Group may not be able maintain sufficient working capital for its daily operation after the Resumption.

Meanwhile, if all of the principal (assume unutilized facility under 2015 Loan Agreement are fully drawn down) and outstanding interest is to be repaid by the issue and allotment of new Shares, we are given to understand that additional 1,822.4 million Shares will be issued for the repayment of the principal of the Interim Financing Agreements. In this regard, we concur with the Company's view that such issuance alone has substantial dilution effect to the existing Shareholders.

As illustrated in the paragraph headed "J. SHAREHOLDING STRUCTURE" set out in the Letter from the Board, upon the completion of the Open Offer (assuming all of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer), the Subscription, the debt settlement, the issue of the Consideration Shares, the issue of maximum number of new Shares to GZE and Fame Dragon under the Interim Financing Agreements, the conversion of the Listco Preferred Shares, the exercise of the warrants granted to FELS under the Management Services Agreement, we noted that the shareholding of the independent Shareholders would be approximately 12.3%, assuming only outstanding interest of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement is to be repaid by the issue and allotment of new Shares. In the event that all of the principal (assume unutilized facility under 2015 Loan Agreement are fully drawn down) and outstanding interest is to be repaid by the issue and allotment of new Shares, the shareholding of the independent Shareholders would reduce to 7.5%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted the aforementioned dilution effect (i.e. from 12.3% to 7.5%) to the existing Shareholders represents a 38.8% drop in shareholdings of the independent Shareholders.

Further, based on our discussion with the Company's management, we are given to understand that as at the date when the current repayment arrangement of the Interim Financing Agreements was agreed (i.e. 16 October 2015), the Group has received from GZE and Fame Dragon an amount of HK\$133.1 million under the Interim Financing Agreements to maintain its daily operation and implement its Restructuring and the First Loan Agreement has been defaulted. Under this circumstance, the Group, GZE and Fame Dragon had to agree on a repayment arrangement which can afford the Group to implement its Restructuring with sufficient financial resources and provide incentives to GZE and Fame Dragon to support the Group's Restructuring. Otherwise, the Group would not have sufficient financing to continue its Restructuring.

In view of such, the current repayment arrangement was agreed such that the Group can continue with its Restructuring while GZE and Fame Dragon can enjoy potential upside from the success of the Group's Restructuring by increasing their shareholdings in the Company. As such, the Group agreed on the current repayment arrangement but not others, including repaying it by cash that would be financed by an open offer.

After considering the above, we concurs with the Company's view that the current repayment arrangement of the Interim Financing Agreements is made after taking consideration of the working capital requirements and the shareholding structure of the Company, and we are of the view that such arrangement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

After taking into account of the above, in particular the interest rate charged on the Interim Financing Agreements, we are of the view that the terms of the Interim Financing Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **5. The Working Capital Loan Agreement**

In consideration of FELS entering into the Management Services Agreement, GZE entered into the Deed of Undertaking in favour of FELS pursuant to which GZE shall, after the signing of the Deed of Undertaking, procure the Company to provide to TQS working capital and, if the Company fails to do so, GZE shall provide (whether directly or indirectly) to TQS working capital. In light of the above, GZE entered into the Working Capital Loan Agreement with TQS pursuant to which GZE has agreed to provide a loan of not less than RMB60 million to TQS for its working capital.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The interest rate from the date of the Working Capital Loan Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal is calculated based on the base interest rate for the tenure of one (1) to three (3) years as published by the PBOC. The interest rate from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date (i.e. three years from the drawdown date) shall be on a rate of 2% plus the aforesaid PBOC base interest rate. The Company shall (i) on the completion date of the transactions contemplated under the Resumption Proposal, pay the interest accrued up to that day by allotting and issuing Shares at the issue price of HK\$0.1 per Share to GZE (or its wholly-owned subsidiary) based on the exchange rate as at the date of the Announcement, which shall be fully paid, free from all liens, charges, options, encumbrances and any other third party rights or interests and will rank *pari passu* in all respects with the other Shares then in issue and (ii) on the loan maturity date, make payment in cash in respect of the principal amount and remaining interest accrued.

### ***Shares to be allotted and issued in respect of the Working Capital Loan Agreement***

Based on the terms of the Working Capital Loan Agreement and on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Working Capital Loan Agreement are drawn down as at the Latest Practicable Date, it is estimated that interest accrued up to 15 July 2016 would be approximately HK\$0.8 million and a maximum of 8,367,447 Shares will be allotted and issued to GZE accordingly.

### ***Issue Price***

The price of HK\$0.10 per Shares under the Working Capital Loan Agreement represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;
- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and
- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Shares under the Working Capital Loan Agreement shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Shares under the Working Capital Loan Agreement.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the shares under the Working Capital Loan Agreement.

Having considered that (i) the issue price of the Shares under the Working Capital Loan Agreement is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the issue price of the Shares the Working Capital Loan Agreement is at premium over the audited net liabilities value per Share as at 31 December 2015; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the issue price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### ***Interest rate***

We note that the interest rate from the date of the Working Capital Loan Agreement to the date of completion of all the transactions contemplated under the Resumption Proposal is calculated based on the base interest rate for the tenure of one (1) to three (3) years as published by the PBOC. (The base interest rate for the tenure of one (1) to three (3) years as published by the PBOC is 5.75% per annum as at the date of the Working Capital Loan Agreement) The interest rate from the date of completion of all the transactions contemplated under the Resumption Proposal to the maturity date (i.e. three years from the drawdown date) shall be on a rate of 2% plus the aforesaid PBOC base interest rate, i.e. 6.75% per annum (the base interest rate for the tenure of one (1) to three (3) years as published by the PBOC is 4.75% per annum as at the 31 March 2016).

Having considered the Group's current financial and trading status and the prolonged suspension in trading of the Company's shares, we concur with the Company's view that the Company will face difficulties in identifying financing alternatives comparable to the Working Capital Loan Agreement, and the interest rate charged under the Working Capital Loan Agreement is more favorable to the Group than normal commercial term that would be available to the Group under the Group's current circumstances.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Other financing alternatives*

In assessing the Working Capital Loan Agreement, in particular its respective repayment arrangements, we have considered and discussed with the management of the Company the potential impact of alternative repayment arrangements, including (1) repaying all of the principal and outstanding interest by cash; and (2) repaying all of the principal and outstanding interest by the issue and allotment of new Shares, to the Group's shareholding structure and working capital.

Based on our discussion with the Company's management, it is estimated that if all of the principal and outstanding interest is to be repaid by cash, the Company has to bear additional cash outflow of HK\$11.0 million, being the interest portion of the Working Capital Loan Agreement to be repaid by the issue and allotment of new Shares. This additional cash outflow, together with the potential cash outflow arising from the Debt Rescheduling Agreements and the Interim Financing Agreement resulting from the change in repayment terms, will take up substantial portion of the Group's cash, which is reported to be in the amount of HK\$502.9 million upon the completion of the Restructuring in the unaudited pro forma financial information of the Group contained in appendix II of the Circular. We are given to understand in the event of such, the Group may not be able maintain sufficient working capital for its daily operation after the Resumption.

Meanwhile, if all of the principal (assume unutilized facility is fully withdrawn) and outstanding interest is to be repaid by the issue and allotment of new Shares, we are given to understand that additional 724.3 million Shares will be issued for the repayment of the principal of the Working Capital Loan Agreement. In this regard, we concur with the Company's view that such issuance, together with potential additional issuance of new Shares from the Debt Rescheduling Agreements and the Interim Financing Agreements, has substantial dilution effect to the existing Shareholders.

As illustrated in the paragraph headed "J. SHAREHOLDING STRUCTURE" set out in the Letter from the Board, upon the completion of the Open Offer (assuming all of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer), the Subscription, the debt settlement, the issue of the Consideration Shares, the issue of maximum number of new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement, the conversion of the Listco Preferred Shares, the exercise of the warrants granted to FELS under the Management Services Agreement, we noted that the shareholding of the independent Shareholders would be approximately 12.3%, assuming only outstanding interest of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement is to be repaid by the issue and allotment of new Shares. In the event that all of the principal (assume unutilized facility under 2015 Loan Agreement are fully drawn down) and outstanding interest is to be repaid by the issue and allotment of new Shares, the shareholding of the independent Shareholders would reduce to 7.5%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted the aforementioned dilution effect (i.e. from 12.3% to 7.5%) to the existing Shareholders represents a 38.8% drop in shareholdings of the independent Shareholders.

Further, based on our discussion with the Company's management, we are given to understand that the Working Capital Loan Agreement is entered into to provide the Group with sufficient working capital and under the Group's current financial conditions, GZE is the only source of financing. In view of such, the Group had to secure this financing source by agreeing with GZE a repayment arrangement which can afford the Group to implement its Restructuring with sufficient financial resources and provide incentives to GZE and Fame Dragon to support the Group's Restructuring. Otherwise, the Group is not able to implement its Restructuring and will be placed into liquidation, by which all assets of the Group will be realized for the benefit of the creditors of the Group and the Shareholders is unlikely to recover any returns from their shareholdings in the Company.

In view of such, the current repayment arrangement was agreed such that the Group can continue with its Restructuring while GZE can enjoy potential upside from the success of the Group's Restructuring by increasing their shareholdings in the Company. As such, the Group agreed on the current repayment arrangement but not others, including repaying it by cash that would be financed by an open offer.

After considering the above, we concurs with the Company's view that the current repayment arrangement of the Working Capital Loan Agreement is made after taking consideration of the working capital requirements and the shareholding structure of the Company, and we are of the view that such arrangement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

After taking into account of the above, in particular the interest rate charged on the Working Capital Loan Agreement, we are of the view that the terms of the Working Capital Loan Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## **6. The Shipyard Termination Agreement**

On 5 May 2014, the Company, TPFL and TQSL Holding entered into the Shipyard Termination Agreement (as supplemented and amended by the supplemental agreements on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016 respectively) with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated and with respect to the amount of RMB740.0 million that was originally paid by Grand China Logistics to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares at the issue price of HK\$0.10 to GZE in lieu of repayment of such amount. The Shipyard Termination Agreement will only be effective if the various conditions (including completion of the Debt Restructuring and resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange) have been satisfied on or before 31 August 2016. Further details of the Shipyard Termination Agreement are set out in section “J. UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT – Shipyard Termination Agreement” in the Letter from the Board contained in this Circular.

### ***Shipyard Termination Shares***

The price of HK\$0.10 per Shipyard Termination Share represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;
- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and
- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

The Shipyard Termination Shares shall upon allotment and issue, rank *pari passu* in all respects with the existing Shares in issue on the date of allotment and issue of the Shipyard Termination Shares.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension of Trading cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the Shipyard Termination Shares.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that (i) the issue price is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the issue price under the Shipyard Termination Agreement is at premium over the audited net liabilities value per Share as at 31 December 2015; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the issue price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### ***Reasons for the entering into of the Shipyard Termination Agreement***

Pursuant to the Shipyard Sale and Purchase Agreement, the Company had sold its 95% interest in TQS to Grand China Logistics. Grand China Logistics, after making instalment payments totalling RMB740.0 million, failed to make further instalment payments totalling RMB925.7 million as and when they fell due under the Shipyard Sale and Purchase Agreement. Subsequently, Grand China Logistics initiated the PRC Proceedings against the Group before its rights and obligations under the Shipyard Sale and Purchase Agreement were transferred to GZE.

We note from the Company's announcement dated 29 October 2013 that the GZE is in possession of the rights and interests in (i) the indebtedness owed by TQS in the principal amount of approximately RMB1,429.5 million (the "**Indebtedness**"); and (ii) the collateral and guarantee granted in respect of the Indebtedness which was originally owed by TQS to, and the securities were granted for the benefit of, the Fuzhou branch of Shanghai Pudong Development Bank Co., Ltd.. Based on our discussion with the management of the Company, we are also given to understand that in the event that no agreement can be reached between the Company and GZE, GZE can take possession of the Quanzhou Shipyard, the Group's only remaining principal asset after the Restructuring, by enforcing the securities under the original loan and pledge agreements between TQS and the Fuzhou branch of Shanghai Pudong Development Bank Co., Ltd..

We understand that the Quanzhou Shipyard is the only remaining principal asset of the Company. Based on our discussion with the management of the Company, the Company takes the view that the business that the Group will resume and develop on the Quanzhou Shipyard, will be vital for future business development for the Group. The Group has also entered into the Management Services Agreement with FELS, a subsidiary of Keppel, so that the Quanzhou Shipyard can tap into the expertise of Keppel. Therefore, the Company must retain its interest in the Quanzhou Shipyard so that the Group can resume its business operation at the Quanzhou Shipyard, and the Company negotiated with GZE for the termination of the Shipyard Sale and Purchase Agreement and retention of the Company's interest in the Quanzhou Shipyard. This arrangement allows the Company to formulate more specific proposals on both the Restructuring and the Resumption.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on our discussion with the management of the Company, we are given to understand that the Company chose to proceed with current arrangements with the respective connected persons (i.e. GZE) as the respective connected persons were their capability of providing continuous financial support to the Group during the period which the Group experienced severe financial difficulties and the trading of the Shares were suspended. Further, GZE will be able to further improve the existing business operation of the Restructured Group by taking advantage of their business network. The largest shareholder of GZE is a state-owned enterprise, Zhuhai Zhen Rong Company, which carries on the business of bulk commodities, energy and resource trading and is principally involved in the trading of petroleum products, non-ferrous metals, coal, chemical products among other products or services. GZE is also in the business of onshore and offshore investments in petroleum refinery and warehousing and logistics terminal in relation to petroleum.

Further, we have considered the pro forma financial information of the Group which contained in Appendix II to this Circular and noted that the entering into of the Shipyard Termination Agreement will result in an increase of the Group's net asset value per Share through exchanging the Group's liability of approximately HK\$888.9 million for the Shipyard Termination Shares.

After taking into account of the above, we are of the view that the terms of Shipyard Termination Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **7. The Assumption Agreement**

On 20 August 2014, Fame Dragon, the Company and TQS entered into the Assumption Agreement (as supplemented and amended on 15 September 2014, 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016, respectively) in respect of the indebtedness arising from certain payables of TQS.

Pursuant to the Assumption Agreement, Fame Dragon agrees to assume certain debts payable by TQS in consideration for the Company agreeing to allot and issue new Shares, subject to the verification by auditors appointed by Fame Dragon and the compliance with any applicable requirements under the Listing Rules, at the issue price of HK\$0.1 per Share and Fame Dragon will assume liabilities up to a maximum amount of RMB282,056,122.05 (equivalent to HK\$359,542,041.5, based on the exchange rate of RMB1.00 to HK\$1.274718091). Accordingly, the number of Assumption Consideration Shares shall be 3,595,420,415 Shares upon the date of the resumption of trading in the Shares.

The completion of the Assumption Agreement is conditional upon:

- (i) the Stock Exchange having granted the listing of, and permission to deal in, the Assumption Consideration Shares;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) the Debt Restructuring having become effective in accordance with its terms;
- (iii) all authorizations necessary for the implementation of the transactions contemplated by the Assumption Agreement having been obtained or compiled with including any applicable requirements under the Listing Rules;
- (iv) each condition precedent (or such other condition) required to be satisfied pursuant to the terms of the Restructuring Documents (other than all the conditions precedent in (i) the FTSD Purchase Order Framework Agreement; (ii) the Management Services Agreement; and (iii) the Assumption Agreement) having been satisfied or waived for the purpose of making the Restructuring Documents effective in accordance with its terms;
- (v) resumption of trading in the share of the Company having been unconditionally or conditionally in principle or otherwise approved by the Stock Exchange;
- (vi) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; and
- (vii) the grant of the Whitewash Waiver by the Executive.

None of the above conditions precedent may be waived. As at the Latest Practicable Date, conditions (ii) and (v) set out above have been satisfied.

In the event that the conditions precedent above are not fulfilled on or before 31 August 2016 as extended by a supplemental agreement (or such later date as the parties hereto may agree in writing), any parties to the Assumption Agreement may terminate the Assumption Agreement by giving each other party not less than 30 days' written notice and, upon termination of the Assumption Agreement, all the obligations of the parties shall immediately cease and none of the parties shall have any claims against any other party in respect of any matter arising out of or in connection with the Assumption Agreement, save for any claims arising out of any antecedent breaches thereof.

### ***Issue Price***

The price of HK\$0.10 per Assumption Consideration Share represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;
- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

The Assumption Consideration Shares shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Assumption Consideration Shares.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the Assumption Consideration Shares.

Having considered that (i) the issue price is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the issue price under the Assumption Agreement is at premium over the audited net liabilities value per Share; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the issue price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Based on our discussion with the management of the Company, we are given to understand that the Company had considered other alternative settlement arrangements; including settling TQS's other liabilities through the allotment of new Shares. Yet, after taking account of (i) the possible regulatory restriction that may restrict the creditors in the PRC from accepting the Shares as settlement consideration, including foreign exchange restriction that the creditors may face after the disposal of the Shares and (ii) the fact that the Company may face difficulties in having over 300 creditors agreeing one settlement arrangement, together with the terms of the Assumption Agreement and the transactions contemplated under the Assumption Agreement as the Creditors' Scheme is not enforceable in the PRC and does not have any binding effect to the Group's creditors in the PRC, we are of the view that the above arrangements are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **8. The Open Offer and the Underwriting Agreement**

The Board proposes to raise not less than approximately HK\$260.7 million and not more than HK\$260.9 million by way of the Open Offer of new Shares at the subscription price of HK\$0.1 per Share on the basis of one Offer Share for every three existing Shares held by the Qualifying Shareholders on the Record Date. Details of the Open Offer are set out in the Letter from the Board under the section headed "F. Proposed Open Offer".

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Underwriting Agreement*

On 16 October 2015 (as supplemented and amended on 29 April 2016), the Company and GZE entered into the Underwriting Agreement pursuant to which the Underwriter conditionally agreed to fully underwrite the proposed Open Offer.

Pursuant to the Underwriting Agreement, GZE has conditionally agreed to underwrite the Open Offer subject to the terms and conditions set out in the Underwriting Agreement and, in particular, the fulfilment of the conditions contained therein. Conditions of the Underwriting Agreements are set out in the Letter from the Board under the section headed “F. Proposed Open Offer – Underwriting Agreement – Conditions of the Underwriting Agreement”.

Pursuant to the Underwriting Agreement, the Underwriter agreed not to charge any underwriting fee or commission. We also noted that, unlike other underwriting agreements, there is no provision under the Underwriting Agreement allowing the Underwriter to terminate, at its discretion, to terminate the Underwriting Agreement in case of any changes in, among other things, market conditions or financial, political or economic conditions that is materially adverse in the context of the Open Offer. We are of the view that these features of the Underwriting Agreement are favourable to the Company.

Given that (i) the Qualifying Shareholders have the right to decide whether to accept the Open Offer and are offered with the same terms under the Open Offer; (ii) the Underwriting Agreement ensures the Group to secure the required funding to fund its Debt Restructuring and the repayment of the outstanding indebtedness of the Group other than those that will form part of the claims to be restructured under the Debt Restructuring; and (iii) the Underwriter agreed not to receive any underwriting fee or commission, we are of the view that the terms of the Underwriting Agreement and the transactions contemplated under the Underwriting Agreement are fair and reasonable and in the interest of the Independent Shareholders and the Company as a whole.

### **9. The Listco Preferred Shares Modification Deed**

The Company and DBIL entered into the Listco Preferred Shares Modification Deed in relation to, among others, the extension of the redemption period of the Listco Preferred Shares and the restriction of the conversion of the Listco Preferred Shares.

Pursuant to the Listco Preferred Shares Modification Deed dated 22 August 2014 (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016), DBIL and the Company have agreed that (i) the purported redemption notice relating to the Listco Preferred Shares as issued by Saturn Petrochemical on 4 July 2012 cannot be completed as a matter of applicable law and shall, for all purposes, be treated for as being withdrawn, ab initio and of no legal effect; (ii) the terms of the Bye-laws of the Company shall be amended so that the earliest date of a notice of redemption of the Listco Preferred Shares may be served on the Company is

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the 3rd anniversary of the actual date when the Restructuring becoming effective and the Release Date having occurred; (iii) the conversion price of the Listco Preferred Shares are subject to adjustment except that no adjustment will be made to the conversion price of the Listco Preferred Shares when Shares or other securities are issued, offered or granted pursuant to the conversion of the Listco Preferred Shares and Restructuring; and (iv) no conversion of the Listco Preferred Shares shall occur until the date falling six months after the date on which trading in Shares have resumed on the Stock Exchange provided always that if the Company considers that it would no longer satisfy minimum public shareholding requirement under Rule 8.08 of the Listing Rules immediately following a conversion of the Listco Preferred Shares.

Having considered that (i) the extension of the redemption period of the Listco Preferred Shares improves the Group's liquidity flexibility without paying any consideration; (ii) the Group will recognize an accounting gain of, according to the pro forma financial information of the Group contained in the Appendix II of the Circular which has been reviewed by the reporting accountant of the Company, HK\$59.8 million from the entering into of the Listco Preferred Shares Modification Deed, being the difference between the fair value of the liability component of the Listco Preferred Shares and the total settlement of the original Listco Preferred Shares; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we are of the view that the terms of the Listco Preferred Shares Modification Deed are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### **10. The Subscription Agreement**

On 24 December 2015 (as supplemented and amended on 29 April 2016), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share. Details of the Subscription are set out in the Letter from the Board under the section headed "G. SUBSCRIPTION OF SHARES".

Pursuant to the Subscription Agreement, Subscriber has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK\$0.1 per Share subject to the terms and conditions set out in the Subscription Agreement and, in particular, the fulfilment of the conditions contained therein. Conditions of the Subscription Agreement are set out in the Letter from the Board under the section headed "G. SUBSCRIPTION OF SHARES – Conditions to completion of the Subscription".

As at the Latest Practicable Date, conditions (ii) set out above have been satisfied. If the conditions are not fulfilled on or before 15 July 2016 (or such later date as may be agreed between the Subscriber and the Company in writing), the Subscription Agreement shall lapse and become null and void and the parties will be released from all obligations thereunder, save for any liability arising out of any antecedent breaches of the Subscription Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***Reasons for the Subscription***

The Subscription, if it proceeds, will provide funding for the Debt Restructuring and the repayment of the outstanding indebtedness of the Group (other than those that will form part of the claims to be restructured under the Debt Restructuring).

### ***Subscription Price***

The price of HK\$0.10 per Subscription Share represents:

- (i) a discount of approximately 59.35% to the closing price of HK\$0.246 per Share on the Last Trading Day;
- (ii) a premium of approximately HK\$0.59 over the audited net liabilities value per Share of approximately HK\$0.49 as at 31 December 2014 based on the audited consolidated financial statements of the Company for the year ended 31 December 2014 and 7,820,554,682 Shares in issue as at the Latest Practicable Date; and
- (iii) a premium of approximately HK\$0.62 over the audited net liabilities value per Share of approximately HK\$0.52 as at 31 December 2015 based on the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 7,820,554,682 Shares in issue as at the Latest Practicable Date.

The Subscription Shares shall upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Subscription Shares.

Given that the Shares were suspended from trading for a prolonged period of time, we consider that the closing price of the Shares prior to the Suspension cannot reflect the current financial condition and the valuation of the Company and does not provide a fair basis for the evaluation of the issue price of the Subscription Shares.

Having considered that (i) the subscription price is the same as the Offer Price of the Open Offer in which the Qualifying Shareholders are given an equal opportunity to participate in; (ii) the subscription price under the Subscription Agreement is at premium over the audited net liabilities value per Share; and (iii) the significant consolidated net liabilities position of the Group as at 31 December 2015, we consider the subscription price and the terms of the Subscription Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

## **11. Business operations of the Restructured Group**

As stated in the Letter from the Board, after completion of the Restructuring, the Group will use the Quanzhou Shipyard as base for re-building its business. It will re-activate the shipbuilding and ship repair business it carried on before the Suspension and at the same time, expand into the business of offshore and marine engineering services, which primarily involves the construction, repair, conversion and upgrading of oil rigs used in connection with offshore oil and gas drilling operations as well as support vessels used in those operations.

The Directors believe that this is an opportune time for the Group to expand into the offshore and marine engineering business as this sector has undergone rapid growth in recent years as a result of favourable market conditions and the Directors believe that there remains significant potential for further growth in this sector in the near term. The Group also considers that such expansion will be a natural extension of its shipbuilding and ship repair business as it will, to a significant extent, be able to utilize its existing production facilities at the Quanzhou Shipyard also to undertake the construction, repair, conversion and upgrading of oil rigs and support vessels, subject to certain modification and upgrading works, which the Group is already undertaking. These works primarily involve adjusting the lay-out and increasing the load capacity of certain of the Group's production facilities and equipment, which the Group currently expects to be able to complete in the fourth quarter of 2016.

To help strengthen the Group's position in connection with its expansion into the offshore and marine engineering sector, the Group has entered in a long-term cooperation arrangement with FELS, an independent third party, pursuant to the Management Services Agreement signed on 9 April 2014 (as supplemented and amended on 30 December 2014, 28 May 2015, 30 July 2015, 22 September 2015 and 22 March 2016). FELS is a subsidiary of Keppel, which is a global leader in the design, construction and repair of offshore rigs. The Directors consider that the Management Services Agreement is an invaluable opportunity for the Group to develop a long-term cooperation relationship with the Keppel Group, which the Directors believe will be mutually beneficial to both the Group and the Keppel Group as it helps provide the Group with a strong foundation to re-build its business after completion of the Restructuring and also allows the Keppel Group to establish a strong foothold for expanding its business in the PRC market.

As a further commitment to the development of a long-term relationship, the Company has agreed, upon the Management Services Agreement becoming effective, to issue to FELS (or such other person as it may specify), at its election, either the FELS CBs which are convertible into Shares or the FELS Warrants which will entitle the holder to subscribe, in cash, for Shares that in both cases, will represent 9.9% of the total issued share capital of the Company after completion of the Restructuring. Further details of the Management Services Agreement are set out in the section headed "J.UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT – Management Services Agreement" in the Letter from the Board contained in this Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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To demonstrate their commitment to the Group and to provide their full support to enable the Group to start re-building its business, GZE entered into the GZE Purchase Order MOU with the Company, while FTSD (a subsidiary of FEG) signed the FTSD Purchase Order Framework Agreement with the Company, in both cases, on 5 May 2014.

Under the FTSD Purchase Order Framework Agreement, which is legally binding, FTSD has agreed that subject to the framework agreement becoming effective upon the satisfaction of the following conditions: (a) the Company having complied with all applicable requirements under the Listing Rules and those requirements imposed under applicable law and regulations or by the Stock Exchange, the SFC, the Bermuda Court and/or any other governmental or regulatory authority of competent jurisdiction in relation to the FTSD Purchase Order Framework Agreement and the transactions contemplated hereunder; (b) the Debt Restructuring having become effective; (c) trading in the Shares having been resumed on the Stock Exchange; and (d) the Management Services Agreement having become effective, in each case on or before 15 July 2016 (or such later date as the parties may agree in writing), it will, and will procure purchase orders to be placed with TQS for the construction of one semi-submersible and two jackups within one year from the effective date of the FTSD Purchase Order Framework Agreement, at prices to be determined by arm's length negotiations based on prevailing market price. As at the Latest Practicable Date, the condition (b) set out above has been satisfied.

Under the GZE Purchase Order MOU, which is non-legally binding, GZE has agreed in principle that subject to (a) the Debt Restructuring having become effective; (b) resumption of trading in the Shares having been unconditionally or conditionally approved by the Stock Exchange; and (c) each condition precedent required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) FTSD Purchase Order Framework Agreement; (ii) Management Services Agreement and (iii) the GZE Purchase Order MOU) having been satisfied or waived for the purpose of making each respective Restructuring Documents effective in accordance with its terms; each condition precedent required to be satisfied pursuant to the terms of each other Restructuring Documents (other than all the conditions precedent in (i) FTSD Purchase Order Framework Agreement; (ii) Management Services Agreement and (iii) the GZE Purchase Order MOU) having been satisfied or waived for the purpose of making each respective Restructuring Documents effective in accordance with its terms; (d) the Company having obtained the approval of the Independent Shareholders in general meeting in respect of the Whitewash Waiver; (e) the grant of the Whitewash Waiver by the Executive; and (f) the Quanzhou Shipyard being reasonably suitable for carrying on the business of the construction, repair, conversion and upgrading of mobile offshore drilling units and FPSO, FSO, FSRU and FLNG, in each case on or before 31 August 2016 (or such later date as the parties may agree in writing), it will or will procure purchase orders to be placed with TQS for the construction of two semi-submersibles, four jackups and two FSRU at prices to be determined by arm's length negotiations based on the then prevailing market price. As at the Latest Practicable Date, the conditions (a) and (b) set out above has been satisfied.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further details of the GZE Purchase Order MOU and FTSD Purchase Order Framework Agreement are set out in the section headed “J. UPDATE ON BUSINESS STRATEGIES AND DEVELOPMENT – GZE Purchase Order MOU and FTSD Purchase Order Framework Agreement” in the Letter from the Board contained in this Circular.

### **12. Financial effects of the transactions contemplated under the Resumption Proposal**

In the absence of unforeseeable events and based on the information available to the Company, as stated in the Appendix II to this circular, the unaudited pro forma net assets of the Restructured Group will be approximately HK\$68.9 million following the implementation of the Restructuring. This represents a significant improvement from the consolidated net liabilities position of the Company of approximately HK\$4,049.1 million as at 31 December 2015.

### **13. Dilution to the shareholding of the existing Shareholders**

As illustrated in the paragraph headed “J. SHAREHOLDING STRUCTURE” set out in the Letter from the Board, upon the completion of the Open Offer, the Subscription, the debt settlement, the issue of the Consideration Shares, the issue of maximum number of new Shares to GZE and Fame Dragon under the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements, the conversion of the Listco Preferred Shares, the exercise of the warrants granted to FELS under the Management Services Agreement, we noted that the shareholding of the independent Shareholders would reduce from approximately 40.7% as at the Latest Practicable Date to:

- (i) approximately 12.3% assuming all of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer; and
- (ii) approximately 9.3% assuming none of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer.

We noted the aforementioned potential dilution to the shareholding of the independent Shareholders. However, we consider such potential dilution acceptable on the bases that:

- (i) the Company is under prolonged suspension of trading in the Shares since 19 June 2012 and the Resumption is expected if, among others, the Restructuring can be completed;
- (ii) the Group, which recorded audited net liabilities as at 31 December 2015, is unlikely to have the ability to repay its indebtedness with internal resources in the absence of the proceeds from the Open Offer and the Subscription and might eventually be wound up. In such case Shareholders will be unlikely to receive any return from their investments in the Company; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) following completion of the Open Offer, the Subscription and the Debt Restructuring, and based on the unaudited pro forma statement of assets and liabilities of the Group (details of which are set out in Appendix II of the Circular), the Group would be returned into a net asset position.

Further, in order to assess the fairness and reasonableness of the dilution effect to the shareholding of the existing Shareholders, we have identified companies which had been placed under the delisting procedures by the Stock Exchange pursuant to Practice Note 17 with resumption plans involving the offer of shares by way of open offers to its existing shareholders, the subscription of shares and/or convertible notes (assuming full conversion thereof) which was approved by the Stock Exchange (subject to resumption conditions) and completed during the three years preceding the Latest Practicable Date. Based on the information publicly available on the website of the Stock Exchange and on our best effort basis, we have identified three companies and considered this list of comparable companies is exhaustive based on the selection criteria as set out above. We have also assumed each of the open offer shares were taken up by their respective existing shareholders of the comparables in full. Details of the comparables are summarised in the following table:-

<b>Comparable companies</b>	<b>Date of announcement</b>	<b>Potential maximum dilution to the existing Shareholders (Approximate)</b>
First Mobile Group Holdings Limited (HKEx stock code: 865)	22 August 2014	90.00%
Proview International Holdings Limited (HKEx stock code: 334)	30 May 2014	86.60%
Mitsumaruru East Kit (Holdings) Limited (HKEx stock code: 2358)	28 August 2013	82.51%
	Maximum	90.00%
	Minimum	82.51%
	Mean	86.37%
The Company		69.8%



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As shown above, we noted that the dilution effect to the existing Shareholders as shown by the comparable companies ranges from approximately 82.51% to approximately 90.00%, with a mean of approximately 86.37%. It is noted that the dilution effect to the existing Shareholders, upon completion of the Restructuring, of approximately 69.8% is less than the dilution effect of all of the comparable companies. As such, we are of the view that the dilution effect on the shareholding of the existing Shareholders is acceptable so far as the Independent Shareholders are concerned.

### **14. Whitewash Waiver**

As at the Latest Practicable Date, GZE and parties acting in concert with it are interested in 3,556,353,661 Shares, representing approximately 45.5% of the issued share capital of the Company as at the Last Practicable Date.

In the event that (i) the Underwriter is called upon to subscribe or procure subscription for all or any part of the Offer Shares pursuant to its underwriting obligations under the Underwriting Agreement (assuming none of the Qualifying Shareholders accept their respective provisional allotment of the Offer Shares and no exercise of the Share Options and GZE is required to take up all the underwritten Shares); (ii) the Company will issue 9,382,164,000 new Shares to GZE pursuant to the Shipyard Termination Agreement; (iii) the Company will issue the Assumption Consideration Shares of 3,595,420,415 Shares to Fame Dragon upon resumption of trading of the Shares on the Stock Exchange pursuant to the Assumption Agreement; and (iv) the Company will issue and allot maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert upon resumption of the trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively on the assumption that (a) the completion of the transactions contemplated under the Resumption Proposal would take place on 15 July 2016, being the latest date of satisfying of certain conditions pursuant to the letter issued by the Stock Exchange to allow the Company to proceed with the Resumption Proposal; and (b) the remaining funds available under the Interim Financing Agreements and the Working Capital Loan Agreement are drawn down as at the date of the Latest Practicable Date, the aggregate shareholding of GZE and the parties acting in concert with it will be increased from approximately 45.5% of the voting rights in the total Shares in issue as at the date of the Latest Practicable Date to a maximum of approximately 71.3% of the voting rights in the total Shares in issue as enlarged by the Open Offer, the Subscription, the Debt Restructuring, the issue of Shipyard Termination Shares under the Shipyard Termination Agreement, issue of 3,595,420,415 Assumption Consideration Shares under the Assumption Agreement and issue of maximum 2,642,391,624 Shares, 42,942,355 Shares and 8,367,447 Shares to GZE, Fame Dragon and the parties acting in concert upon resumption of trading of the Shares on the Stock Exchange in respect of the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Under Rule 26 of the Takeovers Code, the acquisition of voting rights and Shares by GZE and the parties acting in concert with it under the above circumstances will result in GZE and the parties acting in concert with it being obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by GZE and the parties acting in concert with it. An application has been made by GZE to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other thing, the approval by the Independent Shareholders in the SGM by way of poll.

It is stated in the Letter from the Board that the granting by the Executive of the Whitewash Waiver is one of the conditions precedent to completion of the Open Offer and cannot be waived and that if the Whitewash Waiver is not granted, the Underwriting Agreement will not become unconditional and the Open Offer will not proceed.

The implementation of, among other things, the Open Offer, the Shipyard Termination Agreement and the Assumption Agreement is crucial for the Company and the Shareholders as a whole. We understand that all these transactions are inter-conditional and if any of these transactions is not approved and does not become unconditional, the Restructuring of the Group will not be implemented. As mentioned above, the net liabilities position of the Company suggests that it is likely that the Shareholders would not receive any return if all the members in the Group were put into liquidation.

The issue prices of the new Shares to be issued under the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Open Offer, the Shipyard Termination Agreement and the Assumption Agreement are all the same at HK\$0.10 per Share. As discussed above, we are of the opinion that the issue price is fair and reasonable so far as the independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

On such basis and in particular, the granting of the Whitewash Waiver is one of the non-waivable conditions precedent, and is a common feature in similar rescue proposals for companies which are in grave financial difficulties and subsequently revived as a result of injection of funds or assets by new investors, we consider the granting of the Whitewash Waiver is fair and reasonable.

### **15. Special Deal**

The Company proposes to restructure its debts by implementing the Creditors' Scheme in Bermuda and seeking suitable cross-border recognition of that Creditors' Scheme in Hong Kong and the United States under principles of international comity where considered necessary following receipt of legal advice.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the Creditors' Scheme, the Existing Notes Creditors which lodged a valid account holder letter with the Information Agent on or before the bar date shall receive scheme consideration in the form of either:

- (i) US\$0.10 in cash and US\$0.30 in new Shares to be issued by the Company at the price of US\$0.10 per share (“**Equity Option**”); or
- (ii) US\$0.20 in cash and US\$0.10 in new Shares to be issued by the Company at the price of US\$0.10 per share (“**Cash Option**”);

for every US\$1.00 of the amount of their accepted claims.

If an Existing Notes Creditor fails to elect either the Equity Option or the Cash Option in its account holder letter, that Existing Notes Creditor shall receive scheme consideration set out in the form of the Equity Option.

Non-Note Creditors which lodged a valid notice of claim with the Information Agent on or before the bar date shall receive scheme consideration in the form of US\$0.10 in cash for every US\$1.00 of the amount of their accepted claim.

The repayment of the outstanding indebtedness of the Group to certain Scheme Creditors (among which Morgan Stanley & Co. International Plc, Mill Reef Investment S.A. and Mr. Ni Song Hua are existing Shareholders, which holds approximately 0.004%, 0.82% and 0.26% of the total issued shares of the Company as at the Latest Practicable Date and had debt amount due from the Company of US\$5.0 million, US\$2.3 million and US\$17.9 million respectively) out of the proceeds from the Open Offer and the Subscription, which is not extended to all the other Shareholders, constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code. The Special Deal requires consent from the Executive under Rule 25 of the Takeovers Code, and such consent, if granted, shall be conditional upon the approval of the Independent Shareholders by way of a poll at the SGM and the Independent Financial Adviser to the TC Independent Board Committee publicly stating in its opinion that the terms of the Special Deal are at arm's length, on normal commercial terms and fair and reasonable. The Company has applied to the Executive for the said consent.

The extent of the Scheme Creditors will be varied from time to time as the Scheme Administrators are now in the process of determination of the claims received from the Scheme Creditors. The maximum extent of the Scheme Creditors that include, among others, all the Scheme Creditors who are also Shareholders and/or their associates, who, directly or through their associates, hold an aggregate of approximately 1.081% of the existing share capital of the Company as at the Latest Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account (i) the Creditors' Scheme is part of the Resumption Proposal; (ii) the terms offered to the Scheme Creditors who are also the Shareholders under the Creditors' Scheme are the same as and not more favourable than other Scheme Creditors who are not the Shareholders; (iii) in the event that the Restructuring is not successful, the Group will be placed into liquidation, by which all assets of the Company will be realized for the benefit of the creditors of the Company; (iv) the issue price of the Shares to be issued and (v) the Scheme Creditors who are also the Shareholders will abstain from voting on the resolutions to approve the Special Deal, respectively, we are of the view that the terms of the Special Deal are fair and reasonable and in the interests of the Company and the independent Shareholders as a whole.

### V. RECOMMENDATIONS

Having considered the above principal factors and reasons, we concur with the view of the Board that the respective terms of the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Underwriting Agreement (if the Open Offer proceeds), the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed, the Subscription, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Independent Shareholders taken as a whole.

Accordingly, we advise the LR Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolutions in relation to the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Shipyard Termination Agreement, the Assumption Agreement, the Listco Preferred Shares Modification Deed and the Subscription at the SGM.

We also advise the TC Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolutions in relation to the Debt Rescheduling Agreements, the Interim Financing Agreements, the Working Capital Loan Agreement, the Underwriting Agreement (if the Open Offer proceeds), the Shipyard Termination Agreement, the Assumption Agreement, the Whitewash Waiver and the Special Deal at the SGM.

Yours faithfully,  
For and on behalf of  
**Asian Capital (Corporate Finance) Limited**  
**Larry CHAN**  
*Executive Director*

**1. FINANCIAL INFORMATION OF THE GROUP****(A) Financial summary for the three years ended 31 December 2015**

Financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 were disclosed in the annual reports of the Company for the years ended 31 December 2013 (pages 47 to 153), 2014 (pages 43 to 159) and 2015 (pages 38 to 146), which were published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.petrotitan.com>) respectively and as extracted from the annual report for the year ended 31 December 2015 as set out in section B in this appendix.

The consolidated financial statements for the years ended 31 December 2013, and 2014 and 2015 were audited by HLB Hodgson Impey Cheng Limited. The disclaimers of opinion for the year ended 31 December 2013, 2014 and 2015 were disclosed in pages 38 to 46, pages 34 to 42 and pages 30 to 37 of the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015 respectively and as extracted from the annual reports for the year ended 31 December 2013, 2014 and 2015 as set out in section 6 headed “Audit Qualification” in this appendix.

Please refer to the hyperlinks as stated below:

2013 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0530/LTN20140530235.pdf>

2014 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0424/LTN20150424576.pdf>

2015 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0405/LTN201604051472.pdf>

Loss attributable to owners of the Company for the year ended 31 December 2013 includes gain on deconsolidation of subsidiaries of approximately HK\$1,236 million, impairment losses on amounts due from deconsolidated subsidiaries of approximately HK\$5,384 million, loss on derecognition of derivative financial instruments not qualifying as hedges of approximately HK\$176 million, reversal of impairment of property, plant and equipment of approximately HK\$482 million and reversal of impairment of prepaid land/seabed lease payments of approximately HK\$17 million.

Profit attributable to owners of the Company for the year ended 31 December 2014 includes gain on deconsolidation of subsidiaries of approximately HK\$4,135 million and impairment losses on amounts due from deconsolidated subsidiaries of approximately HK\$135 million.

Loss attributable to owners of the Company for the year ended 31 December 2015 mainly includes finance costs from discontinued operation of approximately HK\$146 million, general and administrative expenses from continuing operations of approximately HK\$64 million.

Save for the aforesaid, there were no extraordinary items or exceptional items which were exceptional because of size, nature or incidence during each of the three years ended 31 December 2013, 2014 and 2015.

No dividend has been paid or declared by the Company and no amount has been absorbed by dividends for each of the three years ended 31 December 2013, 2014 and 2015.

Set out below is a summary of the financial results of the Group for each of the three years ended 31 December 2013, 2014 and 2015 as extracted from the annual reports of the Company for each of the three years ended 31 December 2013, 2014 and 2015 respectively.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<u>Years ended 31 December</u>		
	<b>2015</b> <i>HK\$'000</i> (Audited)	<b>2014</b> <i>HK\$'000</i> (Audited)	<b>2013</b> <i>HK\$'000</i> (Audited)
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	–	–	644,325
Cost of sales	–	–	(673,394)
<b>Gross loss</b>	–	–	(29,069)
Other revenue	61	178,353	5,807
Other gain	54,910	2,294	–
Gain on deconsolidation of subsidiaries	–	4,134,534	1,236,193
General and administrative expenses	(63,666)	(210,901)	(317,279)
Finance costs	(22,911)	(22,585)	(153,318)
Impairment losses on amounts due from deconsolidated subsidiaries	–	(135,461)	(5,384,435)
Loss arising on change in fair value of investment property	(505)	(510)	–
Loss on derecognition of derivative financial instruments not qualifying as hedges	–	–	(176,049)
(Loss)/profit before tax from continuing operations	(32,111)	3,945,724	(4,818,150)
Income tax credit	126	113	440
(Loss)/profit for the year from continuing operations	(31,985)	3,945,837	(4,817,710)
<b>DISCONTINUED OPERATION</b>			
(Loss)/profit for the year from discontinued operation	(209,796)	(166,463)	247,478
<b>(LOSS)/PROFIT FOR THE YEAR</b>	(241,781)	3,779,374	(4,570,232)

	<b>Years ended 31 December</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company	(241,781)	3,779,374	(4,570,232)
Non-controlling interests	—	—	—
	<u>(241,781)</u>	<u>3,779,374</u>	<u>(4,570,232)</u>
<b>BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
From continuing and discontinued operations			
Basic per share	(HK3.09 cents)	HK48.33 cents	(HK58.44 cents)
Diluted per share	<u>(HK3.09 cents)</u>	<u>HK45.30 cents</u>	<u>(HK58.44 cents)</u>
From continuing operations			
Basic per share	(HK0.41 cents)	HK50.45 cents	(HK61.60 cents)
Diluted per share	<u>(HK0.41 cents)</u>	<u>HK47.29 cents</u>	<u>(HK61.60 cents)</u>
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>			
<b>(Loss)/profit for the year</b>	(241,781)	3,779,374	(4,570,232)
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Revaluation gain of prepaid land lease payment upon reclassification to investment property	—	142,324	—
Income tax arising from revaluation gain thereof	—	(34,219)	—
	—	<u>108,105</u>	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	<u>25,357</u>	<u>2,767</u>	<u>(13,108)</u>
	<u>25,357</u>	<u>2,767</u>	<u>(13,108)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>25,357</u>	<u>110,872</u>	<u>(13,108)</u>
<b>Total comprehensive (loss)/income for the year</b>	<u>(216,424)</u>	<u>3,890,246</u>	<u>(4,583,340)</u>
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the Company	(216,424)	3,890,246	(4,583,340)
Non-controlling interests	—	—	—
	<u>(216,424)</u>	<u>3,890,246</u>	<u>(4,583,340)</u>



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December		
	2015 HK\$'000 (Audited)	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2,152	3,138	4,787
Investment property	156,154	166,223	–
Prepaid land/seabed lease payments	–	–	24,558
Total non-current assets	158,306	169,361	29,345
<b>CURRENT ASSETS</b>			
Accounts receivable	–	–	181
Prepayments, deposits and other receivables	146,926	145,555	161,729
Pledged deposits and restricted cash	26,547	26,520	487,059
Cash and cash equivalents	9,869	1,315	19,664
Assets of a disposal group classified as held for sale	183,342	173,390	668,633
	2,655,804	2,861,227	2,956,904
Total current assets	2,839,146	3,034,617	3,625,537
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	5,850	5,850	5,850
Accounts payable	217,731	217,731	351,408
Other payables and accruals	742,850	774,100	4,520,305
Fixed rate guaranteed senior notes	882,329	882,329	962,062
Guaranteed senior convertible notes	441,753	441,753	499,693
Guaranteed senior payment-in-kind notes	88,657	88,657	100,243
Liability portion of convertible preferred shares	435,325	420,717	406,110
Notes payable	202,896	202,896	227,292
Tax payable	1,008	1,069	1,059
Amounts due to the ultimate holding company	898,854	947,503	951,730
Amount due to the immediate holding company	2,526	87	27
Loans from the ultimate holding company	–	–	95,283
Loans from the immediate holding company	3,000	3,000	–
	3,922,779	3,985,692	8,121,062

	<u>As at 31 December</u>		
	<b>2015</b> <i>HK\$'000</i> (Audited)	<b>2014</b> <i>HK\$'000</i> (Audited)	<b>2013</b> <i>HK\$'000</i> (Audited)
Liabilities directly associated with the assets classified as held for sale	<u>2,855,067</u>	<u>2,865,369</u>	<u>3,255,146</u>
Total current liabilities	<u>6,777,846</u>	<u>6,851,061</u>	<u>11,376,208</u>
<b>NET CURRENT LIABILITIES</b>	<u>(3,938,700)</u>	<u>(3,816,444)</u>	<u>(7,750,671)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>(3,780,394)</u>	<u>(3,647,083)</u>	<u>(7,721,326)</u>
<b>NON-CURRENT LIABILITIES</b>			
Amount due to the immediate holding company	–	456	–
Loans from the ultimate holding company	96,392	102,293	–
Loans from the immediate holding company	140,240	48,681	3,000
Deferred tax liabilities	<u>32,032</u>	<u>34,121</u>	<u>–</u>
Total non-current liabilities	<u>268,664</u>	<u>185,551</u>	<u>3,000</u>
<b>Net liabilities</b>	<u>(4,049,058)</u>	<u>(3,832,634)</u>	<u>(7,724,326)</u>
<b>DEFICIENCY IN ASSETS</b>			
<b>Deficiency attributable to owners of the Company</b>			
Share capital	78,206	78,206	78,206
Deficits	<u>(4,127,264)</u>	<u>(3,910,840)</u>	<u>(7,802,532)</u>
<b>Deficiency in assets</b>	<u>(4,049,058)</u>	<u>(3,832,634)</u>	<u>(7,724,326)</u>

**(B) For the year ended 31 December 2015**

Set out below is the consolidated financial statements of the Group for the year ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***Year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	4	–	–
Cost of sales		<u>–</u>	<u>–</u>
<b>Gross loss</b>		–	–
Other revenue		61	178,353
Other gain		54,910	2,294
Gain on deconsolidation of subsidiaries	7(a)	–	4,134,534
General and administrative expenses		(63,666)	(210,901)
Finance costs	8	(22,911)	(22,585)
Impairment losses on amounts due from deconsolidated subsidiaries	7(d)	–	(135,461)
Loss arising on change in fair value of investment property	15	<u>(505)</u>	<u>(510)</u>
(Loss)/profit before tax from continuing operations	9	(32,111)	3,945,724
Income tax credit	12	<u>126</u>	<u>113</u>
(Loss)/profit for the year from continuing operations		(31,985)	3,945,837
<b>DISCONTINUED OPERATION</b>			
Loss for the year from discontinued operation	6(b)	<u>(209,796)</u>	<u>(166,463)</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<u>(241,781)</u>	<u>3,779,374</u>
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company		(241,781)	3,779,374
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(241,781)</u>	<u>3,779,374</u>

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>BASIC AND DILUTED (LOSS)/ EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<i>13</i>		
From continuing and discontinued operations			
Basic per share		(HK3.09 cents)	HK48.33 cents
Diluted per share		<u>(HK3.09 cents)</u>	<u>HK45.30 cents</u>
From continuing operations			
Basic per share		(HK0.41 cents)	HK50.45 cents
Diluted per share		<u>(HK0.41 cents)</u>	<u>HK47.29 cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*Year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>(Loss)/profit for the year</b>		<u>(241,781)</u>	<u>3,779,374</u>
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Revaluation gain of prepaid land lease payment upon reclassification to investment property	<i>15</i>	–	142,324
Income tax arising from revaluation gain thereof		<u>–</u>	<u>(34,219)</u>
		<u>–</u>	<u>108,105</u>
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		<u>25,357</u>	<u>2,767</u>
		<u>25,357</u>	<u>2,767</u>
Other comprehensive income for the year, net of tax		<u>25,357</u>	<u>110,872</u>
<b>Total comprehensive (loss)/income for the year</b>		<u>(216,424)</u>	<u>3,890,246</u>
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the Company	<i>38</i>	(216,424)	3,890,246
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(216,424)</u>	<u>3,890,246</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	2,152	3,138
Investment property	15	<u>156,154</u>	<u>166,223</u>
Total non-current assets		<u>158,306</u>	<u>169,361</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	21	146,926	145,555
Restricted cash	22	26,547	26,520
Cash and cash equivalents	22	<u>9,869</u>	<u>1,315</u>
		183,342	173,390
Assets of a disposal group classified as held for sale	6(b)	<u>2,655,804</u>	<u>2,861,227</u>
Total current assets		<u>2,839,146</u>	<u>3,034,617</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	24	5,850	5,850
Accounts payable	25	217,731	217,731
Other payables and accruals	26	742,850	774,100
Fixed rate guaranteed senior notes	28	882,329	882,329
Guaranteed senior convertible notes	29	441,753	441,753
Guaranteed senior payment-in-kind notes	30	88,657	88,657
Liability portion of convertible preferred shares	31	435,325	420,717
Notes payable	32	202,896	202,896
Tax payable		1,008	1,069
Amounts due to the ultimate holding company	33	898,854	947,503
Amount due to the immediate holding company	33	2,526	87
Loans from the immediate holding company	34	<u>3,000</u>	<u>3,000</u>
		3,922,779	3,985,692
Liabilities directly associated with the assets classified as held for sale	6(b)	<u>2,855,067</u>	<u>2,865,369</u>
Total current liabilities		<u>6,777,846</u>	<u>6,851,061</u>
<b>NET CURRENT LIABILITIES</b>		<u>(3,938,700)</u>	<u>(3,816,444)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(3,780,394)</u>	<u>(3,647,083)</u>

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Amount due to the immediate holding company	33	–	456
Loans from the ultimate holding company	34	96,392	102,293
Loans from the immediate holding company	34	140,240	48,681
Deferred tax liabilities	35	<u>32,032</u>	<u>34,121</u>
Total non-current liabilities		<u>268,664</u>	<u>185,551</u>
<b>Net liabilities</b>		<u>(4,049,058)</u>	<u>(3,832,634)</u>
<b>DEFICIENCY IN ASSETS</b>			
<b>Deficiency attributable to owners of the Company</b>			
Share capital	36	78,206	78,206
Deficits	38	<u>(4,127,264)</u>	<u>(3,910,840)</u>
<b>Deficiency in assets</b>		<u>(4,049,058)</u>	<u>(3,832,634)</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Notes	Attributable to owners of the Company		Total deficiency in assets HK\$'000
		Share capital (Note 36) HK\$'000	Deficits (Note 38) HK\$'000	
At 1 January 2015		78,206	(3,910,840)	(3,832,634)
Loss for the year		–	(241,781)	(241,781)
Other comprehensive income for the year:				
Exchange differences on translation of foreign operations		–	25,357	25,357
Total comprehensive loss for the year		–	(216,424)	(216,424)
At 31 December 2015		<u>78,206</u>	<u>(4,127,264)</u>	<u>(4,049,058)</u>
At 1 January 2014		78,206	(7,802,532)	(7,724,326)
Profit for the year		–	3,779,374	3,779,374
Other comprehensive income/(loss) for the year:				
Revaluation gain of prepaid land lease payment upon reclassification to investment property	15	–	142,324	142,324
Income tax arising from revaluation gain thereof	35	–	(34,219)	(34,219)
Exchange differences on translation of foreign operations		–	2,767	2,767
Total comprehensive income for the year		–	3,890,246	3,890,246
Released upon deconsolidation of subsidiaries	7(a)	–	1,446	1,446
At 31 December 2014		<u>78,206</u>	<u>(3,910,840)</u>	<u>(3,832,634)</u>



## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before tax from:			
Continuing operations		(32,111)	3,945,724
Discontinued operation	<i>6(b)</i>	(211,025)	(167,692)
Adjustments for:			
Depreciation of property, plant and equipment		49,708	48,736
Amortisation of prepaid land/seabed lease payments	<i>6(c)</i>	7,112	7,315
Interest income		(28)	(29)
Finance costs	<i>8</i>	168,412	158,337
Loss on disposal/write off of items of property, plant and equipment	<i>9</i>	–	261
Impairment of accounts receivable	<i>9, 20</i>	–	180
Impairment of prepayments, deposits and other receivables	<i>9, 21</i>	–	2,361
Gain on deconsolidation of subsidiaries	<i>7(a)</i>	–	(4,134,534)
Impairment losses on amounts due from deconsolidated subsidiaries	<i>7(d)</i>	–	135,461
Loss arising on change in fair value of investment property	<i>15</i>	505	510
Recognition of financial guarantee contracts		–	113,101
Reversal of finance cost		–	(213,229)
Reversal of guaranteed senior payment-in-kind notes		–	(11,320)
		<u>–</u>	<u>(11,320)</u>
		(17,427)	(114,818)

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Decrease in prepayments, deposits and other receivables		330	2,152
Increase in accounts payable		378	608
(Decrease)/increase in other payables and accruals		(70,623)	41,163
Increase in amounts due to the ultimate holding company		<u>—</u>	<u>3,822</u>
Cash used in operations		(87,342)	(67,073)
Interest received		<u>28</u>	<u>29</u>
Net cash flows used in operating activities		<u>(87,314)</u>	<u>(67,044)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		<u>(54)</u>	<u>(48)</u>
Net cash flows used in investing activities		<u>(54)</u>	<u>(48)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Inception of loans from the immediate holding company		89,609	48,681
Inception of loans from the ultimate holding company		6,393	—
Increase in restricted cash		<u>(27)</u>	<u>(23)</u>
Net cash flows generated from financing activities		<u>95,975</u>	<u>48,658</u>

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		8,607	(18,434)
Cash and cash equivalents at the beginning of the year		1,446	19,891
Effect of foreign exchange rate changes, net		<u>(64)</u>	<u>(11)</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u><u>9,989</u></u>	<u><u>1,446</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		9,869	1,315
Cash and bank balances attributable to discontinued operation	<i>6(b)</i>	<u>120</u>	<u>131</u>
<b>Cash and cash equivalents as stated in the consolidated statement of cash flows</b>		<u><u>9,989</u></u>	<u><u>1,446</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents per consolidated statement of cash flows		9,989	1,446
Cash and bank balances attributable to discontinued operation	<i>6(b)</i>	<u>(120)</u>	<u>(131)</u>
<b>Cash and cash equivalents as stated in the consolidated statement of financial position</b>		<u><u>9,869</u></u>	<u><u>1,315</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***31 December 2015***1. Corporate information**

Titan Petrochemicals Group Limited (the “Company”) was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Bermuda Companies Act 1981 (the “Act”).

The registered office of the Company was located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company was located at Suite 4902, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 51.

The Company and its subsidiaries (collectively, the “Group”) discontinued its shipbuilding and building of ship repair facilities operations in 2010 as detailed in note 6.

The immediate holding company and the ultimate holding company are Fame Dragon International Investment Limited (“Fame Dragon”, incorporated in Hong Kong) and Guangdong Zhenrong Energy Co., Ltd (“GZE”, incorporated in the People’s Republic of China (the “Mainland China” or the “PRC”)) respectively.

**2.1 Basis of preparation**

These consolidated financial statements of the Group 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. These consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for the investment property, which has been measured at fair value. All the assets and liabilities as at 31 December 2015 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 6. These consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

***Loss of access to books and records of the Group***

The directors of the Company (the “Directors”) have used their best endeavors to locate all the financial and business records of the Group. The access to most of the books and records of its subsidiaries which operated in Singapore have not been able to be located as a consequence of the relocation of the operating office and servers, together with the resignations of key management and most of the former operating and accounting personnel have once left the Group. Compounding the difficulties in obtaining information is the fact that most of the Singapore and certain British Virgin Islands (the “BVI”) subsidiaries were put into liquidation in 2013 and 2014 and the records have since been under the control of the Liquidators. As a result, the Directors have been unable to obtain sufficient information to satisfy themselves regarding the treatment of various transactions and balances of the Group for the year ended 31 December 2014.

***Going concern basis***

During the year ended 31 December 2015, the Group incurred losses of HK\$241,781,000, and as of that date, the Group had net current liabilities and net liabilities of HK\$3,938,700,000 and HK\$4,049,058,000 respectively. These conditions together with events set out below, indicate the existence of a material uncertainty which may cast significant effect on the Group's ability to continue as a going concern.

Major events in which the Group are involved are summarised below:

***a) Material Proceedings******Bermuda proceedings***

On 9 July 2012 (Bermuda time), Saturn Petrochemical Holdings Limited ("SPHL") served on the Company a petition (the "SPHL Petition") at the Supreme Court of Bermuda (the "Bermuda Court") for an order, among other things, to wind up and to appoint a provisional liquidator against the Company.

On 23 July 2013 (Bermuda time), the Bermuda Court ordered (i) the SPHL Petition be struck out, and the Company be awarded the costs of the SPHL Petition up to the date upon which the skeleton argument for the strike-out application was filed; (ii) KTL Camden Inc. ("Camden") (the "Camden Petition") was allowed to be substituted as the petitioner in place of SPHL.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of Mr. Garth Calow and Ms. Alison Tomb, both of PricewaterhouseCoopers, as the joint provisional liquidators ("JPLs") of the Company with limited powers.

On 14 February 2014 (Bermuda time), the powers of the JPLs were varied by the Bermuda Court.

The winding up petition against the Company by Camden was adjourned to 1 April 2016 (Bermuda time), further details of which are set out in note 42.

***b) Debt restructuring***

The Directors have adopted the going concern basis in the preparation of the consolidated financial statements and have implemented measures to improve the working capital, liquidity and cash flow position of the Group.

The Company has been engaging in discussions with the Group's creditors, potential creditors as well as investors or potential investors in relation to the debt restructuring and fund raising (by way of debt financing and equity financing) proposals. Certain agreements in relation to the debt restructuring and fund raising have been entered into with the relevant parties (details of the agreements are set out in the announcements of the Company dated 25 November 2013, 5 May 2014 and 30 May 2014). As announced by the Company on 30 May 2014, the Company has submitted a resumption proposal on 5 May 2014 and has entered into certain agreements in relation to its business development and debt restructuring.

As further set out in note 49, the resumption proposal submitted to the Stock Exchange lapsed on 18 September 2015. As announced by the Company on 5 November 2015, the Company has submitted another resumption proposal on 16 October 2015 (Bermuda time) (the "Resumption Proposal"). In support of the Resumption Proposal, the Company has also entered into certain agreements and certain supplemental agreements in relation to its business development and debt restructuring.

Further details of the agreements will be disclosed in a separate announcement to be released by the Company.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company (the “Restructuring”) will be successfully completed and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue to operate as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. 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 continues 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.

## **2.2 Changes in accounting policies and disclosures**

The Group has adopted the following amended HKFRSs and HKASs issued by the HKICPA which became effective for accounting periods beginning on or after 1 January 2015.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

### ***Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions***

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees’ periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees’ periods of service.

The Directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group’s consolidated financial statements as the Group does not have any defined benefit plans.

***Annual Improvements to HKFRSs 2010-2012 Cycle***

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below. The amendments to HKFRS 2 (i) change the definitions of “vesting condition” and “market condition”; and (ii) add definitions for “performance condition” and “service condition” which were previously included within the definition of “vesting condition”. The amendments to HKFRS 2 are effective for share based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group’s consolidated financial statements.

***Annual Improvements to HKFRSs 2011-2013 Cycle***

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- a) the property meets the definition of investment property in terms of HKAS 40; and
- b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

### 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not early applied the following new and revised HKFRSs and HKASs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>4</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of assessing the potential impact of the above new and revised HKFRSs upon initial application but is not yet in a position to state whether the above HKFRSs will have a significant impact on the Group's results of operations and financial position.

#### **HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at



amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### ***HKFRS 15 Revenue from Contracts with Customers***

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

#### ***HKFRS 16 Leases***

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors will assess the impact of the application of HKFRS 16. However, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

#### ***Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations***

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group’s consolidated financial statements.

#### ***Amendments to HKAS 1 – Disclosure Initiative***

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

***Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

***Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants***

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

***Amendments to HKAS 27 Equity Method in Separate Financial Statements***

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

***Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

***Annual Improvements to HKFRSs 2012-2014 Cycle***

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained profits at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

## **2.4 New Hong Kong Companies Ordinance (Cap. 622)**

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the new Hong Kong Companies Ordinance (Cap. 622). The main impact relates to the presentation and disclosure of certain information in the consolidated financial statements.

## **2.5 Summary of significant accounting policies**

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### ***Subsidiaries***

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a) the contractual arrangement with the other vote holders of the investee;
- b) rights arising from other contractual arrangements; and
- c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### ***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value which changes in fair value are either recognised in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

#### ***Impairment of non-financial assets***

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/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

#### ***Related parties***

- a) A person or a close member of that person's family is related to the Group if that person:
  - i) has control or joint control of the Group;
  - ii) has significant influence over the Group; or

- iii) is a member of the key management personnel of the Group or of a parent of the Group;
- b) an entity is related to the Group if any of the following conditions applies:
  - i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - iii) both entities are joint ventures of the same third party;
  - iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
  - vi) the entity is controlled or jointly controlled by a person identified in (a);
  - vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### ***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 and disposal groups 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 statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.



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

Buildings	20 to 45 years
Machinery	5 to 20 years
Leasehold improvements	The shorter of the lease terms and 6 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.

Residual values, useful lives and the depreciation method are reviewed and adjusted, if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents shipyard and ship repair under construction, 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.

#### ***Investment property***

Investment property is a property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. All of the Group's property interests held for capital appreciation purposes are accounted for as an investment property and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

#### ***Non-current assets and disposal groups held for sale***

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets or a disposal group must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or a disposal group and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (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. Property, plant and equipment classified as held for sale are not depreciated or amortised.

***Discontinued operation***

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

***Licenses***

Licenses 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 licenses may be impaired. The amortisation period and the amortisation method for the licenses with a finite useful life are reviewed at least at each financial year end.

***Leases***

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 statement of profit or loss on the straight-line basis over the lease terms.

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

If a prepaid land/seabed lease payment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in asset revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

***Financial assets******Initial recognition and measurement***

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs.

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

The Group's financial assets include pledged deposits and restricted cash, cash and cash equivalents and other receivables and deposits.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

a) 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 as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss.

***Impairment of financial assets***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of the impairment loss identified 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the other revenue/expenses in the consolidated statement of profit or loss.

***Derecognition of financial assets***

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

***Financial liabilities****Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts and other payables, amounts due to the ultimate holding company, amount due to the immediate holding company, loans from the ultimate holding company, loans from the immediate holding company, interest-bearing bank and other loans, fixed rate guaranteed senior notes (the "Senior Notes Due 2012"), guaranteed senior convertible notes (the "Convertible Notes Due 2015"), guaranteed senior payment-in-kind notes (the "PIK Notes Due 2015"), notes payable (the "K-Line Notes Due 2013") and liability portion of the Company's convertible preferred shares (the "Titan preferred shares").

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

## a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

## b) Loans and borrowings

After initial recognition, interest-bearing bank and other loans, loans from the ultimate holding company and loans from the immediate holding company are subsequently measured at amortised cost, using the effective interest rate 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 statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

## c) Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

***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 statement of profit or loss.

***Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transactions costs. For financial instrument where there is no active market, the fair value is determined using appropriate 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.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

***Titan preferred shares***

The components of Titan preferred shares that exhibit characteristics of a liability are recognised as liabilities in the consolidated statement of financial position, net of transaction costs. On issuance of the Titan preferred shares, the fair value of the liability portion is determined by using a market rate for an equivalent non-convertible share to discount future expected cash flows; and this amount is carried as a non-current financial liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the equity component of the Titan preferred shares. The carrying amount of the conversion option is not remeasured in subsequent years. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

The transaction costs are apportioned between the liability and equity components of the Titan preferred shares based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

***Convertible Notes Due 2015 and K-Line Notes Due 2013***

If the conversion option of notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the notes is measured at fair value and presented as part of the notes. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability and the portion relating to the derivative component is recognised immediately in the consolidated statement of profit or loss.

***Ship stores and spare parts***

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

***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

***Cash and cash equivalents***

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

For the purpose of the consolidated statement of financial position, 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 end of the reporting period 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 statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

***Income tax***

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

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

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 the percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage;
  - ii) from time chartering, in the period in which the vessels are let and on the straight-line basis over the lease terms; and
  - iii) from the lease of storage facilities, on the straight-line basis over the lease terms;
- c) from shipbuilding, on the percentage of completion basis, which is determined on the completion proportion method of each individual shipbuilding contract; and
- d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.



***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 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 a binomial model.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 statement of profit or loss 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or services 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transactions 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

***Other employee benefits******Paid leave carried forward***

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

***Pension schemes***

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss 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 "CP Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the CP Scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CP Scheme.

The employees of the subsidiary in Singapore are members of the Central Provident Fund (the “CPF”) operated by the government of Singapore. That subsidiary and the employees are required to contribute a certain percentage of their payroll to the CPF. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPF. The subsidiary has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

#### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### ***Foreign currencies***

These financial statements are presented in HK\$, 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

Difference arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which the cumulative amount is reclassified to the consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

The functional currencies of certain subsidiaries are currencies other than HK\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into HK\$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries with functional currencies other than HK\$ are translated into HK\$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into HK\$ at the weighted average exchange rates for the year.

***Financial guarantee***

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the date of the consolidated statement of financial position and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgement of management of the Group.

***Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**3. Significant accounting judgements and estimates**

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

***Judgements***

In the process of applying the Group's consolidated 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 consolidated financial statements:

***Income tax***

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

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

#### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that could have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value, of those cash flows.

#### *Impairment of loans and receivables*

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

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

#### *Useful lives and residual values of property, plant and equipment*

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. The Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. These estimates are based on the historical experience of the actual useful lives of assets of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period based on changes in circumstances. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. Additional or reduction to depreciation is made if the estimated residual values of items of property, plant and equipment are different from the previous estimations.

*Net realisable value of inventories*

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

*Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 6(b), 15 and 45 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

**4. Revenue**

The Group did not generate any revenue during the year ended 31 December 2015 (2014: HK\$Nil).

**5. 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 storage and transportation); and (b) supply of oil products and provision of bunker refueling services. In 2010, the Group classified its shipbuilding operation as being discontinued for the reason as detailed in note 6(a).

Management monitors the results of its operating segments separately for the purposes of making decisions about resources allocations and performance assessments. Segment performance is evaluated based on reportable segment (loss)/profit, which is a measure of adjusted (loss)/profit before tax from continuing operations. The adjusted (loss)/profit before tax from continuing operations is measured consistently with the Group's (loss)/profit 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.

The accounting policies of the operating segments are the same as the Group's accounting policies described in the Company's Annual Report for the year ended 31 December 2015.

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. There were no intersegment sales in the current year (2014: HK\$Nil).

## Year ended 31 December 2015

	Provision of logistic services		Supply of oil products and provision of bunker refueling services	Continuing operations	Discontinued operation	Unallocated HK\$'000	Consolidated HK\$'000
	Offshore storage HK\$'000	Transportation HK\$'000	refueling services HK\$'000	Total HK\$'000	Shipbuilding HK\$'000		
<b>Segment revenue</b>							
- Revenue from external customers	-	-	-	-	-	-	-
<b>Segment results</b>	-	-	(69)	(69)	(65,524)	-	(65,593)
Adjusted for:							
- Interest income	-	-	-	-	-	28	28
- Other revenue	-	-	-	-	-	33	33
- Other gain	-	-	-	-	-	54,910	54,910
- Other expenses	-	-	-	-	-	(63,597)	(63,597)
	-	-	(69)	(69)	(65,524)	(8,626)	(74,219)
Add: Depreciation and amortisation	-	-	-	-	55,838	982	56,820
Operating loss before interest, tax, depreciation and amortisation ("LBITDA")	-	-	(69)	(69)	(9,686)	(7,644)	(17,399)
Loss arising on change in fair value of investment property	-	-	-	-	-	(505)	(505)
LBITDA	-	-	(69)	(69)	(9,686)	(8,149)	(17,904)
Depreciation and amortisation	-	-	-	-	(55,838)	(982)	(56,820)
Finance costs	-	-	-	-	(145,501)	(22,911)	(168,412)
<b>Loss before tax</b>	-	-	(69)	(69)	(211,025)	(32,042)	(243,136)

## Year ended 31 December 2014

	Provision of logistic services		Supply of oil products and provision of bunker refueling services	Continuing operations	Discontinued operation	Unallocated	Consolidated
	Offshore storage	Transportation		Total	Shipbuilding		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>							
- Revenue from external customers	-	-	-	-	-	-	-
<b>Segment results</b>	142	67	(1,363)	(1,154)	(31,941)	-	(33,095)
Adjusted for:							
- Interest income	-	-	-	-	1	28	29
- Other revenue	-	-	-	-	-	178,323	178,323
- Other gain	-	-	-	-	-	2,085	2,085
- Other expenses	-	-	-	-	-	(209,536)	(209,536)
	142	67	(1,363)	(1,154)	(31,940)	(29,100)	(62,194)
Add: Depreciation and amortisation	-	-	41	41	54,650	1,360	56,051
Operating earnings before interest, tax, depreciation and amortisation ("EBITDA")/ (LBITDA)	142	67	(1,322)	(1,113)	22,710	(27,740)	(6,143)
Impairment losses on amounts due from deconsolidated subsidiaries	-	-	-	-	-	(135,461)	(135,461)
Gain on deconsolidation of subsidiaries	-	-	-	-	-	4,134,534	4,134,534
Loss arising on change in fair value of investment property	-	-	-	-	-	(510)	(510)
EBITDA/(LBITDA)	142	67	(1,322)	(1,113)	22,710	3,970,823	3,992,420
Depreciation and amortisation	-	-	(41)	(41)	(54,650)	(1,360)	(56,051)
Finance costs	-	-	-	-	(135,752)	(22,585)	(158,337)
<b>Profit/(loss) before tax</b>	<b>142</b>	<b>67</b>	<b>(1,363)</b>	<b>(1,154)</b>	<b>(167,692)</b>	<b>3,946,878</b>	<b>3,778,032</b>

## Year ended 31 December 2015

	Provision of logistic services		Supply of oil products and provision of bunker refueling services HK\$'000	Continuing operations	Discontinued operation	Consolidated HK\$'000
	Offshore storage HK\$'000	Transportation HK\$'000		Total HK\$'000	Shipbuilding HK\$'000	
<b>Other segment information</b>						
Depreciation and amortisation	-	-	-	-	55,838	55,838
Unallocated depreciation and amortisation				982		982
				<u>982</u>		<u>982</u>
Capital expenditures*	-	-	-	-	-	-
Unallocated capital expenditures				54		54
				<u>54</u>		<u>54</u>
Impairment of accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Impairment of prepayments, deposits and other receivables	-	-	-	-	-	-
Unallocated impairment of prepayments, deposits and other receivables				-		-
				<u>-</u>		<u>-</u>

\* Capital expenditure consists of additions to property, plant and equipment.



## Year ended 31 December 2014

	Provision of logistic services		Supply of oil products and provision of bunker refueling services HK\$'000	Continuing operations	Discontinued operation	Consolidated HK\$'000
	Offshore storage HK\$'000	Transportation HK\$'000		Total HK\$'000	Shipbuilding HK\$'000	
<b>Other segment information</b>						
Depreciation and amortisation	-	-	41	41	54,650	54,691
Unallocated depreciation and amortisation				1,360		1,360
				<u>1,401</u>		<u>56,051</u>
Capital expenditures*	-	-	-	-	19	19
Unallocated capital expenditures				29		29
				<u>29</u>		<u>48</u>
Impairment of accounts receivable	<u>-</u>	<u>-</u>	<u>180</u>	<u>180</u>	<u>-</u>	<u>180</u>
Impairment of prepayments, deposits and other receivables	-	-	-	-	-	-
Unallocated impairment of prepayments, deposits and other receivables				2,361		2,361
				<u>2,361</u>		<u>2,361</u>

\* Capital expenditure consists of additions to property, plant and equipment.

*Geographical information*

	Mainland China		Other Asia Pacific countries		Consolidated	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
<b>a) Revenue</b>						
Revenue from external customers	-	-	-	-	-	-
Attributable to discontinued operation – shipbuilding	-	-	-	-	-	-
Revenue from continuing operations	-	-	-	-	-	-
<b>b) Other information</b>						
Segment assets	2,816,998	3,032,569	180,454	171,409	2,997,452	3,203,978
Segment liabilities	<u>3,192,033</u>	<u>3,216,717</u>	<u>3,854,477</u>	<u>3,819,895</u>	<u>7,046,510</u>	<u>7,036,612</u>
Capital expenditures	<u>-</u>	<u>19</u>	<u>54</u>	<u>29</u>	<u>54</u>	<u>48</u>
Impairment of accounts receivable	<u>-</u>	<u>180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180</u>
Impairment of prepayments, deposits and other receivables	<u>-</u>	<u>1,147</u>	<u>-</u>	<u>1,214</u>	<u>-</u>	<u>2,361</u>

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

***Information about major customers***

The Group did not generate any revenues for the years ended 31 December 2015 and 2014, thus, no customers nor transactions have exceeded 10% of the Group's total revenue.

**6. Discontinued operation**

***a) Shipbuilding – Titan Quanzhou Shipyard Co., Ltd. (“Titan Quanzhou Shipyard” or “TQS”)***

On 11 December 2010, the Company entered into a sale and purchase agreement with Grand China Logistics Holding (Group) Company Limited (“Grand China Logistics”) (the “GCL Sale and Purchase Agreement”) in relation to the disposal of its 95% equity interest in Titan Quanzhou Shipyard at a consideration of RMB1,865,670,000 (equivalent to approximately HK\$2,241,011,000) or a maximum reduced consideration of RMB1,465,670,000 (equivalent to approximately HK\$1,760,538,000) if Titan Quanzhou Shipyard's profit targets for the two years ending 31 December 2012 were not met. Pursuant to a supplemental agreement signed in 2011, such net profit targets were cancelled and the consideration for the proposed disposal was fixed at RMB1,665,670,000 (equivalent to approximately HK\$2,000,774,000).

However, only RMB740,000,000 was received from Grand China Logistics in connection with the GCL Sale and Purchase Agreement and, accordingly the equity interests in Titan Quanzhou Shipyard have not yet been transferred to Grand China Logistics.

On 30 May 2012, Grand China Logistics commenced legal proceedings against the Company, Titan TQSL Holding Company Ltd (“Titan TQSL” or “TQSL Holding”) and Titan Petrochemicals (Fujian) Ltd (“Titan Fujian”) seeking, among other things, the termination of the GCL Sale and Purchase Agreement and repayment of the aggregate amount of RMB740,000,000 (equivalent to approximately HK\$888,875,000) paid in accordance with the GCL Sale and Purchase Agreement.

On 10 June 2013, the Company received a notification that Grand China Logistics had assigned all of its interests, rights and obligations in respect of the sale and purchase of the 95% equity interest in Titan Quanzhou Shipyard to GZE and on 26 December 2013 上海市第一中級人民法院 (Shanghai No.1 Intermediate People's Court) (the “Shanghai Intermediate Court”) ordered the discontinuation of proceedings.

On 5 May 2014, the Company, Titan Fujian and TQSL Holding entered into an agreement (as supplemented and amended by the supplemental agreements on 27 February 2015, 28 May 2015, 30 July 2015 and 16 October 2015) (the “Shipyard Termination Agreement”) with GZE, pursuant to which the parties conditionally agreed that the GCL Sale and Purchase Agreement be terminated and that, in lieu of the repayment of the RMB740,000,000 originally paid by Grand China Logistics to Titan Fujian and TQSL Holding, the Company would issue 9,382,164,000 new ordinary shares of the Company (the “Shares”) at the issue price of HK\$0.10 to GZE.

The Shipyard Termination Agreement will only be effective upon the satisfaction of certain conditions.

As disclosed in the Company's announcements dated 28 May 2015, 7 August 2015 and 5 November 2015, on 28 May 2015, 30 July 2015 and 16 October 2015, the Company, Titan Fujian and Titan TQSL entered into supplemental agreements, pursuant to which the parties agreed to extend the long stop date of the Shipyard Termination Agreement to 31 July 2015, 31 August 2015, 30 April 2016 respectively.

Further details in respect of the above were included in the announcement on 5 November 2015. Further announcement(s) will be made by the Company as and when appropriate.

As at 31 December 2015 and 2014, the assets and liabilities related to the discontinued operation, shipbuilding and building of ship repair facilities, have been 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”. The results for the years ended 31 December 2015 and 2014 are included in the consolidated statement of profit and loss as “Loss for the year from discontinued operation”.

**b) Financial information on Titan Quanzhou Shipyard**

The combined results of Titan Quanzhou Shipyard for the year are presented below.

	Notes	2015 HK\$'000	2014 HK\$'000
Other revenue		20	50,256
Other gain		11,542	687
General and administrative expenses		(77,086)	(82,883)
Finance costs	8	<u>(145,501)</u>	<u>(135,752)</u>
<b>Loss before tax</b>	6(c)	(211,025)	(167,692)
Income tax credit	12	<u>1,229</u>	<u>1,229</u>
<b>Loss for the year from discontinued operation</b>		<u><u>(209,796)</u></u>	<u><u>(166,463)</u></u>

The major classes of assets and liabilities of Titan Quanzhou Shipyard classified as held for sale as at 31 December 2015 and 2014 are as follows:

	2015 HK\$'000	2014 HK\$'000
<b>Assets</b>		
Property, plant and equipment (Note a)	2,299,402	2,488,687
Prepaid land/seabed lease payments (Note b)	293,982	306,345
Inventories	42,053	44,627
Prepayments, deposits and other receivables	20,247	21,437
Cash and cash equivalents	<u>120</u>	<u>131</u>
Assets of a disposal group classified as held for sale	<u>2,655,804</u>	<u>2,861,227</u>
<b>Liabilities</b>		
Interest-bearing bank and other loans	250,333	265,658
Accounts payable (Note c)	88,806	93,861
Other payables and accruals (Note d)	424,447	416,533
Amounts due to the ultimate holding company	193,532	83,949
Loans from the ultimate holding company	1,839,975	1,946,165
Deferred tax liabilities	<u>57,974</u>	<u>59,203</u>
Liabilities directly associated with the assets classified as held for sale	<u>2,855,067</u>	<u>2,865,369</u>
<b>Net liabilities directly associated with the disposal group</b>	<u><u>(199,263)</u></u>	<u><u>(4,142)</u></u>

Notes:

- a) At 31 December 2015, included in the assets of a disposal group classified as held for sale, the Group's construction in progress, buildings and machinery with net carrying values of HK\$785,296,000 (2014: HK\$833,371,000), HK\$435,246,000 (2014: HK\$438,260,000) and HK\$83,513,000 (2014: HK\$118,659,000), respectively, were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group (notes 24 and 34).

The recoverable amounts of the property, plant and equipment classified as held for sale for as at 31 December 2015 and 2014 were determined based on a valuation performed by an independent valuer not connected to the Group. The recoverable amount was calculated by either or combination of (i) the cost approach with reference to the cost to reproduce or replace in new condition of the valued assets in accordance with current market prices for similar assets, with allowance for accrued depreciation as evidence by observed condition or obsolescence present; or (ii) the sales comparison approach with reference to the prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the valued assets relative to the market. The fair value less costs to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

- b) Prepaid land/seabed lease payments represent outlays in respect of the acquisition of land/seabed use rights that are accounted for as operating leases. These land/seabed lease payments are held on a long term basis and are situated in Mainland China.

At 31 December 2015, the prepaid land/seabed lease payments under the consolidated statement of financial position and under assets of a disposal group classified as held for sale with an aggregate net carrying value of HK\$254,811,000 (2014: HK\$265,557,000) were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group (notes 24 and 34).

The recoverable amounts of the prepaid land/seabed lease payments classified as held for sale as at 31 December 2015 and 2014 were determined based on a valuation performed by an independent valuer not connected to the Group. The recoverable amount was calculated by direct comparison approach. The fair value less cost to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

- c) Included in the trade payables of Titan Quanzhou Shipyard amounted to approximately HK\$34,728,000 (2014: HK\$36,854,000) were claimed from various suppliers in respect of legal actions brought to the courts of the PRC against Titan Quanzhou Shipyard.
- d) Included in the other payables and accruals of Titan Quanzhou Shipyard amounted to approximately HK\$35,698,000 (2014: HK\$32,335,000) were claimed from various parties in respect of legal actions brought to the courts of the PRC against Titan Quanzhou Shipyard.

The combined net cash flows incurred by Titan Quanzhou Shipyard are summarised as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>Net cash (outflow)/inflow from:</b>		
Operating activities	(6,409)	(77)
Investing activities	–	(19)
Financing activities	<u>6,394</u>	<u>–</u>
<b>Net cash outflow</b>	<u><u>(15)</u></u>	<u><u>(96)</u></u>

**c) Loss before tax**

The Group's loss before tax is arrived at after (crediting)/charging the amounts in discontinued operation as set out below.

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Employee benefits expenses (excluding directors' remuneration):		
Wages and salaries	4,263	5,344
Pension scheme contributions	<u>1,491</u>	<u>869</u>
	<u>5,754</u>	<u>6,213</u>
Depreciation	48,726	47,520
Amortisation of prepaid land/seabed lease payments	7,112	7,130
Minimum lease payments under operating leases:		
Leasehold buildings	57	74
Auditors' remuneration	–	51
Foreign exchange differences, net	(11,542)	(687)
Bank interest income	<u>–</u>	<u>(1)</u>

**7. Deconsolidation of subsidiaries**

During the year ended 31 December 2014, ten wholly owned subsidiaries of the Group that were incorporated in the BVI and three wholly owned subsidiaries of the Group that were incorporated in Singapore have been placed into liquidation.

Titan Storage Limited (“TSL”), Estonia Capital Ltd., Titan Mars Limited, Sino Ocean Development Limited, Brookfield Pacific Ltd., Roswell Pacific Ltd., Titus International Ltd., Wynham Pacific Ltd., Wendelstar International Ltd. and Sewell Global Ltd. were placed into voluntary liquidation on 25 April 2014. Titan Leo Pte. Ltd., Neptune Associated Shipping Pte Ltd and Petro Titan Pte. Ltd. were placed into voluntary liquidation on 29 April 2014.

Accordingly, the Group had deconsolidated these subsidiaries as the Directors considered that the Group's control over these subsidiaries had been lost during the year ended 31 December 2014 and there were no subsidiaries being deconsolidated during the year ended 31 December 2015.

The gain on deconsolidation of these subsidiaries and the net cash outflow arising on deconsolidation of subsidiaries were set out as below.

**a) Gain on deconsolidation of subsidiaries**

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Prepayments, deposits and other receivables		–	11,679
Amounts due from deconsolidated fellow subsidiaries		–	2,087,170
Accounts payable		–	(133,710)
Amounts due to the intermediate holding company		–	(134,987)
Amounts due to fellow subsidiaries		–	(476)
Amounts due to deconsolidated fellow subsidiaries		–	(5,918,946)
Other payables and accruals		–	(46,710)
<b>Net liabilities of deconsolidated subsidiaries attributable to the Group</b>		<u>–</u>	<u>(4,135,980)</u>
Release of exchange fluctuation reserve	38	–	(1,446)
Net liabilities of deconsolidated subsidiaries attributable to the Group		–	<u>4,135,980</u>
Gain on deconsolidation of subsidiaries		–	<u>4,134,534</u>
<b>b) Net cash outflow arising on deconsolidation of subsidiaries</b>			
Cash and cash equivalents of deconsolidated subsidiaries		–	–
<b>c) Amounts due to deconsolidated subsidiaries were included in the consolidated statement of financial position as follows:</b>			
Other payables and accruals	26	–	390,121
Liabilities directly associated with the assets classified as held for sale		–	<u>114,000</u>
		–	<u>504,121</u>
<b>d) Impairment losses:</b>			
Impairment losses on amounts due from deconsolidated subsidiaries ( <i>Note</i> )		–	<u>135,461</u>

*Note:*

There was no impairment made for the amounts due from deconsolidated subsidiaries for the year ended 31 December 2015.

During the year ended 31 December 2014, impairments have been made for the amounts due from deconsolidated subsidiaries due to the amounts are highly unrecoverable and which are determined by reference to the estimation of future cash flows expected to be generated from the deconsolidated subsidiaries. Accordingly, impairment losses of HK\$135,461,000 were recognised during the year ended 31 December 2014.

**8. Finance costs**

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Interest on:			
Bank and other loans		25,159	17,180
Loans from the immediate holding company		1,983	516
Loans from the ultimate holding company		126,662	125,133
Dividends on the Titan preferred shares	31	14,608	14,607
Other finance costs		<u>–</u>	<u>901</u>
Total interest expenses		<u>168,412</u>	<u>158,337</u>
Attributable to continuing operations		22,911	22,585
Attributable to discontinued operation	6(b)	<u>145,501</u>	<u>135,752</u>
		<u>168,412</u>	<u>158,337</u>

**9. (Loss)/profit before tax**

The Group's (loss)/profit before tax is arrived at after (crediting)/charging the amounts in continuing operations as set out below.

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Employee benefits expenses (excluding directors' remuneration):			
Wages and salaries		9,516	9,280
Pension scheme contributions		<u>405</u>	<u>324</u>
		<u>9,921</u>	<u>9,604</u>
Depreciation		982	1,216
Amortisation of prepaid land/seabed lease payments		–	185
Minimum lease payments under operating leases:			
Leasehold buildings		4,664	4,751
Auditors' remuneration		1,192	2,029
Loss on disposal/write off of items of property, plant and equipment		–	261
Foreign exchange differences, net		(54,910)	(2,294)
Impairment of accounts receivable	20	–	180
Impairment of prepayments, deposits and other receivables		–	2,361
Bank interest income		<u>(28)</u>	<u>(28)</u>



**10. Directors' remuneration**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is detailed as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Fees	<u>1,186</u>	<u>1,238</u>
Other emoluments:		
Salaries, allowances and benefits-in-kind	8,134	9,878
Pension scheme contributions	<u>69</u>	<u>68</u>
	<u>8,203</u>	<u>9,946</u>
	<u><u>9,389</u></u>	<u><u>11,184</u></u>

During the years ended 31 December 2015 and 2014, no emoluments have been paid by the Group to any of the directors as an inducement to join or upon joining the Group as compensation for loss of office.

The emoluments of the Directors for the year ended 31 December 2015 are set out below.

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits-in-kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
<b>Executive directors:</b>				
Mr. Tang Chao Zhang*	–	1,200	18	1,218
Dr. Zhang Weibing (appointed on 23 July 2015)	–	799	9	808
Mr. Zhao Xu Guang* (resigned on 16 September 2015)	–	2,736	14	2,750
Mr. Wong Siu Hung Patrick (resigned on 30 September 2015)	–	2,568	14	2,582
Mr. Fu Yong Yuan (resigned on 30 September 2015)	–	831	14	845
<b>Non-executive directors:</b>				
Mr. Fan Qinghua ( <i>Chairman</i> )	250	–	–	250
Mr. Hu Zhong Shan (resigned on 30 September 2015)	188	–	–	188
<b>Independent non-executive directors:</b>				
Mr. Lau Fai Lawrence	240	–	–	240
Ms. Xiang Siying (appointed on 23 July 2015)	98	–	–	98
Mr. Hu Hongwei (appointed on 11 November 2015)	28	–	–	28
Ms. Hsu Wai Man Helen (appointed on 18 December 2015)	8	–	–	8
Mr. Foo Meng Kee (resigned on 30 September 2015)	195	–	–	195
Mr. Cheung Hok Fung Alexander (resigned on 21 March 2015)	53	–	–	53
Mr. Lau Yiu Kit (appointed on 23 March 2015 and resigned on 30 September 2015)	<u>126</u>	<u>–</u>	<u>–</u>	<u>126</u>
<b>Total</b>	<u><u>1,186</u></u>	<u><u>8,134</u></u>	<u><u>69</u></u>	<u><u>9,389</u></u>

The emoluments of the Directors for the year ended 31 December 2014 are set out below.

	Fees HK\$'000	Salaries, allowances and benefits-in-kind HK\$'000	Pension scheme contributions HK\$'000	Total emoluments HK\$'000
<b>Executive directors:</b>				
Mr. Zhao Xu Guang ( <i>Chairman</i> )*	–	3,800	17	3,817
Mr. Tang Chao Zhang*	–	1,200	17	1,217
Mr. Wong Siu Hung Patrick	–	3,678	17	3,695
Mr. Fu Yong Yuan	–	1,200	17	1,217
<b>Non-executive directors:</b>				
Mr. Hu Zhong Shan	250	–	–	250
Mr. Fan Qinghua	250	–	–	250
<b>Independent non-executive directors:</b>				
Mr. Foo Meng Kee	260	–	–	260
Mr. Lau Fai Lawrence (appointed on 13 March 2014)	193	–	–	193
Mr. Cheung Hok Fung Alexander (appointed on 24 March 2014 and resigned on 21 March 2015)	186	–	–	186
Mr. John William Crawford (contract expired on 27 February 2014)	59	–	–	59
Mr. Abraham Shek Lai Him (contract expired on 27 February 2014)	40	–	–	40
<b>Total</b>	<u>1,238</u>	<u>9,878</u>	<u>68</u>	<u>11,184</u>

\* *Mr. Zhao Xu Guang ceased to act as chief executive on 16 September 2015. Mr. Tang Chao Zhang was appointed as chief executive on 16 September 2015.*

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

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

#### 11. Five highest paid employees

The five highest paid employees during the year included five (2014: four) directors, details of whose remuneration is disclosed in note 10 above. There is no remaining highest paid non-director for the year ended 31 December 2015. Details of the remuneration of the remaining one non-director, highest paid employee who is neither a director or senior management of the Company for the year ended 31 December 2014 are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits-in-kind	–	650
Pension scheme contributions	–	17
	<u>–</u>	<u>667</u>

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

	Number of employees	
	2015	2014
HK\$500,001 to HK\$1,000,000	—	1
	<u>—</u>	<u>1</u>

During the years ended 31 December 2015 and 2014, no emoluments have been paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group as compensation for loss of office.

## 12. Income tax credit

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:

	2015	2014
Hong Kong	16.5%	16.5%
Singapore	17.0%	17.0%
Mainland China	<u>25.0%</u>	<u>25.0%</u>

### *Hong Kong*

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong for the year ended 31 December 2015 (2014: HK\$Nil).

### *Singapore*

No provision for taxation has been made as the subsidiaries in Singapore did not generate any assessable profit for the year ended 31 December 2015 (2014: HK\$Nil).

### *Mainland China*

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Regulation in the Implementation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Current tax:			
Hong Kong:			
Underprovision in prior years		—	14
		<u>—</u>	<u>14</u>
Deferred tax:			
Credit for the year	35	(126)	(127)
		<u>(126)</u>	<u>(113)</u>

A reconciliation of the tax credit applicable to the (loss)/profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax credit at the effective tax rate is as follows:

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
(Loss)/profit before tax		(243,136)	3,778,032
Tax at the statutory tax rates		(58,686)	608,295
Adjustments in respect of current tax of previous periods		–	14
Income not subject to tax		(11,962)	(724,209)
Expenses not deductible for tax		<u>69,293</u>	<u>114,558</u>
Income tax credit at the Group's effective rate		<u>(1,355)</u>	<u>(1,342)</u>
Represented by:			
Tax credit attributable to continuing operations		(126)	(113)
Tax credit attributable to discontinued operation	<i>6(b)</i>	<u>(1,229)</u>	<u>(1,229)</u>
		<u>(1,355)</u>	<u>(1,342)</u>
<b><i>Income tax recognised in other comprehensive income</i></b>			
	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Deferred tax			
Arising on income and expenses recognised in other comprehensive income:			
Revaluation of investment property	35	<u>–</u>	<u>34,219</u>
Total income tax recognised in other comprehensive income		<u>–</u>	<u>34,219</u>

**13. Basic and diluted (loss)/earnings per share attributable to owners of the company*****From continuing and discontinued operations***

The calculation of the basic and diluted (loss)/earnings per Share attributable to owners of the Company is based on the following data:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>(Loss)/earnings</b>		
(Loss)/earnings for the purpose of basic (loss)/earnings per Share		
(Loss)/profit for the year attributable to owners of the Company	(241,781)	3,779,374
Effect of dilutive potential ordinary shares:		
Dividends on Titan preferred shares ( <i>Note</i> )	<u>          –</u>	<u>          14,607</u>
(Loss)/earnings for the purpose of diluted (loss)/earnings per Share	<u><u>(241,781)</u></u>	<u><u>3,793,981</u></u>
<b><i>Number of shares</i></b>		
	<b>2015</b>	<b>2014</b>
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per Share	7,820,554,682	7,820,554,682
Effect of dilutive potential ordinary shares:		
Titan preferred shares ( <i>Note</i> )	<u>          –</u>	<u>          555,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per Share	<u><u>7,820,554,682</u></u>	<u><u>8,375,554,682</u></u>

***From continuing operations***

The calculation of the basic and diluted (loss)/earnings per Share from continuing operations attributable to owners of the Company is based on the following data:

(Loss)/earnings figures are calculated as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
(Loss)/profit for the year attributable to owners of the Company	(241,781)	3,779,374
<i>Add:</i>		
Loss for the year from discontinued operation	<u>          209,796</u>	<u>          166,463</u>
(Loss)/earnings for the purpose of basic (loss)/earnings per Share from continuing operations	(31,985)	3,945,837
Effect of dilutive potential ordinary shares:		
Dividends on Titan preferred shares ( <i>Note</i> )	<u>          –</u>	<u>          14,607</u>
(Loss)/earnings for the purpose of diluted (loss)/earnings per Share from continuing operations	<u><u>(31,985)</u></u>	<u><u>3,960,444</u></u>

*Note:*

As the Company failed to redeem the Titan preferred shares, the convertible right was deemed to continue for the purpose of calculating diluted (loss)/earnings per Share. No adjustment have been made to the basic loss per Share amounts presented for the year ended 31 December 2015 as the Titan preferred shares outstanding had an anti-dilutive effect on the basic loss per Share amounts presented.

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per Share.

***From discontinued operation***

Basic loss per Share for the discontinued operation is HK2.68 cents per Share (2014: HK2.12 cents) and diluted loss per Share for the discontinued operation is HK2.68 cents per Share (2014: HK1.99 cents), based on the loss for the year from the discontinued operation of HK\$209,796,000 (2014: HK\$166,463,000) and the denominators detailed above for both basic and diluted (loss)/earnings per Share.

**14. Property, plant and equipment**

<b>31 December 2015</b>	<b>Leasehold improvements HK\$'000</b>	<b>Furniture, equipment and motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2014 and 1 January 2015:			
Cost	3,277	11,786	15,063
Accumulated depreciation and impairments	<u>(3,127)</u>	<u>(8,798)</u>	<u>(11,925)</u>
Net carrying amount	<u>150</u>	<u>2,988</u>	<u>3,138</u>
At 1 January 2015, net of accumulated depreciation and impairments	150	2,988	3,138
Additions	–	54	54
Depreciation provided during the year	(58)	(924)	(982)
Exchange realignments	<u>–</u>	<u>(58)</u>	<u>(58)</u>
At 31 December 2015, net of accumulated depreciation and impairments	<u>92</u>	<u>2,060</u>	<u>2,152</u>
At 31 December 2015:			
Cost	3,277	11,524	14,801
Accumulated depreciation and impairments	<u>(3,185)</u>	<u>(9,464)</u>	<u>(12,649)</u>
Net carrying amount	<u>92</u>	<u>2,060</u>	<u>2,152</u>

<b>31 December 2014</b>	<b>Leasehold improvements HK\$'000</b>	<b>Furniture, equipment and motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2013 and 1 January 2014:			
Cost	3,895	16,773	20,668
Accumulated depreciation and impairments	<u>(3,648)</u>	<u>(12,233)</u>	<u>(15,881)</u>
Net carrying amount	<u>247</u>	<u>4,540</u>	<u>4,787</u>
At 1 January 2014, net of accumulated depreciation and impairments	247	4,540	4,787
Additions	–	29	29
Disposals/written off	–	(452)	(452)
Depreciation provided during the year	(96)	(1,120)	(1,216)
Exchange realignments	<u>(1)</u>	<u>(9)</u>	<u>(10)</u>
At 31 December 2014, net of accumulated depreciation and impairments	<u>150</u>	<u>2,988</u>	<u>3,138</u>
At 31 December 2014:			
Cost	3,277	11,786	15,063
Accumulated depreciation and impairments	<u>(3,127)</u>	<u>(8,798)</u>	<u>(11,925)</u>
Net carrying amount	<u>150</u>	<u>2,988</u>	<u>3,138</u>

**15. Investment property**

	<i>Notes</i>	<b>2015 HK\$'000</b>	<b>2014 HK\$'000</b>
<b>FAIR VALUE</b>			
At 1 January		166,223	–
Transfer from prepaid land/seabed lease payments	16	–	24,275
Revaluation gain of prepaid land/seabed lease payments upon reclassification to investment property		–	142,324
Loss arising on change in fair value of investment property		(505)	(510)
Exchange realignments		<u>(9,564)</u>	<u>134</u>
At 31 December		<u>156,154</u>	<u>166,223</u>
Unrealised loss on property revaluation included in profit or loss		<u>505</u>	<u>510</u>

The Group's property interests held under operating leases for investment purpose are measured using the fair value model and are classified and accounted for as investment property. That investment property is held on a long-term basis and is situated in Mainland China.

In the prior year, a piece of land located in Fujian, subsequent to initial recognition, was stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation was recognised so as to write off the cost of land over its estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. According to the Board resolution dated 2 May 2014, the use of the land in Fujian changed from own use to investment purpose. As a result, the land has been reclassified as an investment property and the measurement method subsequent to initial recognition has been changed to fair values. Any change in fair value of the land after reclassification is included in profit or loss for the year in which they arise.

At 31 December 2015, the investment property under the consolidated statement of financial position with an aggregate net carrying value of HK\$156,154,000 (2014: HK\$166,223,000) were pledged to the interest-bearing bank and other loans granted to the Group (note 24).

The fair value of the investment property is determined at the end of each reporting period based on its market value and by adopting direct comparison method. Direct comparison method assumes the property is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

The fair values of the Group's investment property as at 31 December 2015 and 2014 have been arrived at on the basis of a valuation carried out on the respective dates by an independent valuer not connected to the Group. The investment property located in Mainland China with medium term lease categorised as Level 2 fair value measurement was determined by making reference to the comparable market transactions/asking prices as available in the relevant markets where appropriate. The fair value less costs to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

There were no transfers among Level 1, Level 2 and Level 3.

Property valuation as at 31 December 2015 was carried out by Access Partner Consultancy & Appraisals Limited, an independent qualified professional valuer, in respect of the Group's investment property in Mainland China.

The valuation report for the property as at 31 December 2015 is signed by the associate director of Access Partner Consultancy & Appraisals Limited, who is the member of The Hong Kong Institute of Surveyors. The valuation was performed in accordance with "The HKIS Valuation Standards 2012 Edition" published by The Hong Kong Institute of Surveyors.

#### 16. Prepaid land/seabed lease payments

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January		–	24,558
Amortisation provided during the year		–	(185)
Transfer to investment property	15	–	(24,275)
Exchange realignments		–	(98)
		<u>–</u>	<u>(98)</u>
At 31 December		<u>–</u>	<u>–</u>

#### 17. Licenses

	<i>HK\$'000</i>
<b>31 December 2015</b>	
At 1 January 2015 and 31 December 2015, net of accumulated amortisation and impairments	<u>–</u>
At 31 December 2015:	
Cost	–
Accumulated amortisation and impairments	<u>–</u>
Net carrying amount	<u>–</u>
At 31 December 2014:	
Cost	–
Accumulated amortisation and impairments	<u>–</u>
Net carrying amount	<u>–</u>



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

During the year ended 31 December 2014, the subsidiary which hold the licenses was placed into liquidation on 25 April 2014 and accordingly, the cost and accumulated amortisation of the licenses were written off.

## 18. Goodwill

	<i>HK\$'000</i>
<b>31 December 2015</b>	
At 1 January 2015 and 31 December 2015, net of accumulated impairments	—
At 31 December 2015:	
Cost	16,568
Accumulated impairments	<u>(16,568)</u>
Net carrying amount	<u>—</u>
At 31 December 2014:	
Cost	16,568
Accumulated impairments	<u>(16,568)</u>
Net carrying amount	<u>—</u>

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

	Oil supply		Shipbuilding and ship repair		Total	
	2015	2014	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

- Oil supply cash-generating unit; and
- Shipbuilding and ship repair cash-generating unit.

## 19. Inventories

At 31 December 2015, the Group had supplies of HK\$42,053,000 (2014: HK\$44,627,000) for shipbuilding and building of ship repair facilities operations, which amount is included in assets of a disposal group classified as held for sale at 31 December 2015 as set out in note 6(b).

## 20. Accounts receivable

	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable	1,616	1,627
Impairments	<u>(1,616)</u>	<u>(1,627)</u>
	<u>—</u>	<u>—</u>

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.

There is no aged analysis of accounts receivable as at 31 December 2015 and 2014, as the accounts receivable were fully impaired.

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

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January		1,627	14,259
Released upon deconsolidation of subsidiaries		–	(12,812)
Impairment losses recognised	9	–	180
Exchange realignments		<u>(11)</u>	<u>–</u>
At 31 December		<u><u>1,616</u></u>	<u><u>1,627</u></u>

Included in the above impairment of accounts receivable is a provision for individually impaired accounts receivable of HK\$1,616,000 (2014: HK\$1,627,000) with a carrying amount before provision of HK\$1,616,000 (2014: HK\$1,627,000). The Group does not hold any collateral or other credit enhancements over these balances.

There is no aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired as the accounts receivable were fully impaired.

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there has been no recent history of default and expected to be recovered in full.

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

## 21. Prepayments, deposits and other receivables

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Receivables from the liquidator of Titan Group Investment Limited (“TGIL”)	103,360	137,813
Receivable – Escrow account ( <i>Note a</i> )	34,452	–
Prepayment of expenses	4,422	3,047
Deposits	1,220	1,081
Others	<u>3,472</u>	<u>3,614</u>
	<u><u>146,926</u></u>	<u><u>145,555</u></u>

*Note:*

- a) As at 31 December 2015, included in the Receivable – Escrow account was the dividend received from liquidator of TGIL of HK\$34,452,000 during 2015, being placed into an escrow account nominated by the JPLs pursuant to an order dated 14 February 2014. Further detail in respect of the above arrangement is included in the Company's announcement dated 18 February 2014.

During the year ended 31 December 2015, the Group did not recognise any impairment loss (2014: HK\$2,361,000) on prepayments, deposits and other receivables in continuing operations, based on estimated irrecoverable amounts determined by reference to past experience.

## 22. Cash and cash equivalents and restricted cash

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cash and bank balances	9,869	1,315
Restricted cash	<u>26,547</u>	<u>26,520</u>
	<u>36,416</u>	<u>27,835</u>
Less: Restricted cash:		
Bank balances	(19)	(19)
Time deposit	<u>(26,528)</u>	<u>(26,501)</u>
	<u>(26,547)</u>	<u>(26,520)</u>
Cash and cash equivalents	<u><u>9,869</u></u>	<u><u>1,315</u></u>

At 31 December 2015, including those classified under assets of a disposal group classified as held for sale, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$999,000 (2014: HK\$387,000). 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 authorised banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are usually made for one week, and earn interest at the market short term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent default history.

## 23. Non-cash transactions

In addition to non-cash transactions disclosed elsewhere in these consolidated financial statements, the Group entered into the following non-cash financing activities which are not reflected in the consolidated statement of cash flows:

- a) During the year ended 31 December 2015, a loan from the immediate holding company was paid and settled from the immediate holding company directly to a third party payable amounting to HK\$1,950,000. This constituted a non-cash transaction in 2015.
- b) During the year ended 31 December 2014, an entrusted loan included in liabilities directly associated with the assets classified as held for sale amounting to RMB360,000,000 (equivalent to approximately HK\$458,692,000) was fully settled by a pledged deposit of the same amount held under a subsidiary of the Company. This constituted a non-cash transaction in 2014.

**24. Interest-bearing bank and other loans**

	2015			2014		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank and other loans – unsecured	0.00	2012	5,850	0.00	2012	5,850
			<u>5,850</u>			<u>5,850</u>
				<b>2015</b>	<b>2014</b>	
				HK\$'000	HK\$'000	
Interest-bearing bank and other loans repayable: Within one year				<u>5,850</u>	<u>5,850</u>	

As at 31 December 2015, the Group, including those classified as held for sale, was in default on repayment of an unsecured bank borrowing with overdue portion in principal amount of HK\$5,850,000 (2014: HK\$5,850,000). The Company was continually in discussions with the bank on the terms of the settlement of such defaulted loan.

Certain of the Group's interest-bearing bank and other loans, including those classified as held for sale are secured by:

- i) investment property with an aggregate carrying value of HK\$156,154,000 (2014: HK\$166,223,000).
- ii) buildings with an aggregate net carrying value of HK\$52,795,000 (2014: HK\$58,086,000); and
- iii) prepaid land/seabed lease payments with an aggregate net carrying value of HK\$8,673,000 (2014: HK\$9,258,000);

The carrying amounts of the Group's current and floating rate loans approximate to their fair values.

**25. Accounts payable**

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

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

	2015	2014
	HK\$'000	HK\$'000
Over 12 months	<u>217,731</u>	<u>217,731</u>
	<u>217,731</u>	<u>217,731</u>

**26. Other payables and accruals**

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Amounts due to deconsolidated subsidiaries		388,139	390,121
Amounts due to a deconsolidated jointly-controlled entity		164,606	174,665
Financial guarantee contracts	27	113,155	113,155
Receipt in advance		23,400	23,400
Provision and accrual of expenses		4,677	6,831
Others		<u>48,873</u>	<u>65,928</u>
		<u>742,850</u>	<u>774,100</u>

Included in the other payables and accruals as at 31 December 2015 was a provision related to a claim from a former director against the Company amounted to approximately HK\$1,167,000 (2014: HK\$Nil).

**27. Financial guarantee contracts**

At 31 December 2015, the carrying value of financial guarantee contracts arising from financial guarantees granted by the Company to (i) a bank for a loan to a subsidiary of the Group, (ii) shipowners for charter hire expenses of a subsidiary of the Group which was put into liquidation in 2014 and (iii) the K-Line Notes Due 2013, aggregated amounted to HK\$321,996,000 (2014: HK\$321,996,000). During the year ended 31 December 2014, TSL, a deconsolidated subsidiary of the Group, was placed into the liquidation. The Group had deconsolidated TSL as the Directors considered that the Group's control over TSL had been lost. Accordingly, the financial guarantees of HK\$113,155,000 provided by the Company to TSL in respect of charter expenses of vessels were no longer considered as the guarantees to the subsidiary of the Group. It was recognised as financial guarantee contracts under "Other payables and accruals" in the consolidated statement of financial position as set out in note 26. The remaining financial guarantee contracts amounting to HK\$208,841,000 (2014: HK\$208,841,000) are eliminated on consolidation and are reflected in the Company's statement of financial position as set out in note 50(a).

**28. Fixed rate guaranteed senior notes (the "Senior Notes Due 2012")**

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 Senior Notes Due 2012 (the "Subsidiary Guarantors") with Deutsche Bank Trust Company Americas as the original trustee and the trustee subsequently changed to the Bank of New York Mellon in 2010, the Company issued the Senior Notes Due 2012 in the aggregate principal amount of US\$400,000,000 (equivalent to approximately HK\$3,120,000,000) with directly attributable transaction costs of HK\$90,709,000. The Senior Notes Due 2012 were due on 18 March 2012 with a lump sum repayment, unless redeemed earlier pursuant to specified terms. 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.

The obligations of the Company under the Senior Notes Due 2012 are guaranteed by the Subsidiary Guarantors and the pledge of shares of certain Subsidiary Guarantors. The list of subsidiaries comprising the Subsidiary Guarantors and the shares pledged are more fully described in the Company's announcement dated 11 March 2005 together with details of the principal terms of the Senior Notes Due 2012.

On the maturity date, 19 March 2012, the Company was unable to repay overdue principal and interest on the Senior Note Due 2012 in the amount of US\$105,870,000 (equivalent to approximately HK\$825,786,000) and US\$4,499,000 (equivalent to approximately HK\$35,092,000) respectively.

As a result of the above, a cross default was triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US\$750,000 (equivalent to approximately HK\$5,850,000). An early redemption event was also triggered in respect of the Titan preferred shares and the TGIL convertible preferred shares (the "TGIL preferred shares") and caused the TGIL warrants issued to Saturn Storage Limited ("SSL") to become exercisable.

The Senior Notes Due 2012, Convertible Notes Due 2015 and PIK Notes Due 2015 are collectively defined as "Existing Notes".

Pursuant to a Bermudan scheme of arrangement (the “Creditors’ Scheme”), all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US\$1.00 of the amount of their claims arising under the Existing Notes:

- i) US\$0.10 in cash and US\$0.30 in new Shares to be issued by the Company; or
- ii) US\$0.20 in cash and US\$0.10 in new Shares to be issued by the Company.

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors’ committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the terms of the Creditors’ Scheme. Further details in respect of the above are included in the Company’s announcement dated 1 September 2014.

On 22 October 2014, separate meetings of Existing Notes Creditors and of Non-Note Creditors (as defined in the Creditors’ Scheme) (the “Scheme Meetings”) were held to consider and approve the Creditors’ Scheme. At both Scheme Meetings, a majority in number of all creditors of the Company bound by the Creditors’ Scheme (the “Scheme Creditors”) present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors’ Scheme. Accordingly, the Creditors’ Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company’s announcement dated 22 October 2014.

On 5 November 2014 (Bermuda time), the Creditors’ Scheme was sanctioned by the Bermuda Court. The Creditors’ Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company’s announcement dated 6 November 2014.

Pursuant to the terms of the Creditors’ Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors’ Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors’ Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors’ Scheme. Further details in respect of the above are included in the Company’s announcement dated 12 November 2014.

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors’ Scheme (as set out in the Creditors’ Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company’s announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

The effective interest rate on the Senior Notes Due 2012 was 0.00% per annum in 2015 (2014: 0.00%). The outstanding principal in respect of the Senior Notes Due 2012 as at 31 December 2015 was US\$105,870,000 (equivalent to approximately HK\$825,786,000) (2014: US\$105,870,000 (equivalent to approximately HK\$825,786,000)), while the fair value of the Senior Notes Due 2012 as at 31 December 2015 and 2014 was US\$5,722,000 (equivalent to approximately HK\$44,634,000) and US\$9,528,000 (equivalent to approximately HK\$74,321,000), respectively.

Except for the reversal of overprovision of interest on Senior Notes Due 2012 for prior years in 2014, the Company has not recognised any gain derived from the Creditors’ Scheme for the years ended 31 December 2015 and 2014.

**29. Guaranteed senior convertible notes (the “Convertible Notes Due 2015”)**

The Company issued US\$78,728,000 (equivalent to approximately HK\$614,078,000) aggregate principal amount of the Convertible Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered the Senior Notes Due 2012. The Convertible Notes Due 2015 were due on 13 July 2015 with a single repayment at 151.621% of their 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 the Convertible Notes Due 2015, subject to adjustments. This implies an initial conversion price (subject to adjustments) of US\$0.0916 (equivalent to approximately HK\$0.7145) per conversion share. Conversion may occur on any day prior to (and including) the seventh business day prior to the maturity date of the Convertible Notes Due 2015.

Pursuant to the terms of the Convertible Notes Due 2015 indenture, the obligations of the Company under the Convertible Notes Due 2015 are guaranteed by certain Subsidiary Guarantors and a pledge of the Subsidiary Guarantors shares. Details of the principal terms of the Convertible Notes Due 2015 are more fully described in the Company’s announcement dated 9 June 2010.

On 31 December 2015, the outstanding principal of the Convertible Notes Due 2015 was US\$47,960,000 (equivalent to approximately HK\$374,088,000) (2014: US\$47,960,000 (equivalent to approximately HK\$374,088,000)).

On 6 September 2012, an event of default occurred under the Convertible Notes Due 2015 upon the winding up petition against the Company remained undismissed or unstayed for a period of 60 consecutive days as set out in note 42.

Pursuant to the Creditors’ Scheme, all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US\$1.00 of the amount of their claims arising under the Existing Notes:

- i) US\$0.10 in cash and US\$0.30 in new Shares to be issued by the Company; or
- ii) US\$0.20 in cash and US\$0.10 in new Shares to be issued by the Company.

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors’ committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the terms of the Creditors’ Scheme. Further details in respect of the above are included in the Company’s announcement dated 1 September 2014.

On 22 October 2014, the Scheme Meetings were held to consider and approve the Creditors’ Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors’ Scheme. Accordingly, the Creditors’ Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company’s announcement dated 22 October 2014.

On 5 November 2014 (Bermuda time), the Creditors’ Scheme was sanctioned by the Bermuda Court. The Creditors’ Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company’s announcement dated 6 November 2014.

Pursuant to the terms of the Creditors’ Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors’ Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors’ Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors’ Scheme. Further details in respect of the above are included in the Company’s announcement dated 12 November 2014.

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors' Scheme (as set out in the Creditors' Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company's announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

During the years ended 31 December 2015 and 2014, none of the Convertible Notes Due 2015 were converted into ordinary shares.

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 0.00% per annum in 2015 (2014: 0.00%).

Except for the reversal of overprovision of interest on Convertible Notes Due 2015 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

### **30. Guaranteed senior payment-in-kind notes (the "PIK Notes Due 2015")**

The Company issued US\$14,193,000 (equivalent to approximately HK\$110,705,000) aggregate principal amount of the PIK Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered the Senior Notes Due 2012. The PIK Notes Due 2015 were due on 13 July 2015 with a single repayment of the principal, unless earlier repurchase pursuant to the terms of the PIK Notes Due 2015 indenture. The PIK Notes Due 2015 bear interest at the rate of 8.50% 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.

Pursuant to the terms of the PIK Notes Due 2015 indenture, the obligations of the Company under the PIK Notes Due 2015 are guaranteed by certain Subsidiary Guarantors and a pledge of the Subsidiary Guarantors shares. Details of the principal terms of the PIK Notes Due 2015 are more fully described in the Company's announcement dated 9 June 2010.

On 6 September 2012, an event of default under the terms of the PIK Notes Due 2015 occurred upon the winding up petition against the Company remained undismissed or unstayed for a period of 60 consecutive days as set out in note 42.

Pursuant to the Creditors' Scheme, all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US\$1.00 of the amount of their claims arising under the Existing Notes:

- i) US\$0.10 in cash and US\$0.30 in new Shares to be issued by the Company; or
- ii) US\$0.20 in cash and US\$0.10 in new Shares to be issued by the Company,

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors' committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 1 September 2014.

On 22 October 2014, the Scheme Meetings were held to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.



On 5 November 2014 (Bermuda time), the Creditors' Scheme was sanctioned by the Bermuda Court. The Creditors' Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

Pursuant to the terms of the Creditors' Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors' Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors' Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 12 November 2014.

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors' Scheme (as set out in the Creditors' Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company's announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

The PIK Notes Due 2015 are carried at amortised cost with an effective interest rate of 0.00% per annum in 2015 (2014: 0.00%). At 31 December 2015, the outstanding principal of the PIK Notes Due 2015 was US\$10,912,751 (equivalent to approximately HK\$85,119,458) (2014: US\$10,912,751 (equivalent to approximately HK\$85,119,458)).

Except for the reversal of overprovision of interest on PIK Notes Due 2015 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

### 31. Convertible preferred shares

	<i>Notes</i>	<b>Equity portion HK\$'000</b>	<b>Liability portion HK\$'000</b>
<b>Titan preferred shares</b>			
At 1 January 2014		–	406,110
<i>Add:</i> Dividends on Titan preferred shares (classified as financial liabilities)	8	–	14,607
At 31 December 2014 and 1 January 2015		–	420,717
<i>Add:</i> Dividends on Titan preferred shares (classified as financial liabilities)	8	–	14,608
At 31 December 2015		–	435,325

In 2007, the Company issued 555,000,000 Titan preferred shares at the stated value of HK\$0.56 per share. The fair values of the liability portion of the Titan preferred shares was estimated at the issuance date.

On 4 July 2012, the Company received from SPHL a notice to redeem all of the outstanding 555,000,000 Titan preferred shares held by it at a redemption amount equal to the notional value of the Titan preferred shares (being HK\$310,800,000) together with any accrued and unpaid dividends.

On 10 October 2013, SPHL entered into certain arrangements, including the execution of an instrument of transfer, a declaration of trust and an irrevocable power of attorney by SPHL in favour of Docile Bright Investments Limited ("DBIL"), a wholly owned subsidiary of GZE whereby DBIL became entitled to the benefit of all interests arising under or in connection with the Titan preferred shares.

The Company and DBIL (as the lawful attorney of SPHL) subsequently entered into a deed dated 22 August 2014 (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015 and 16 October 2015) (the “Listco Preferred Shares Modification Deed”) in relation to, among others, the extension of the redemption period of the Titan Preferred Shares and the restriction of the conversion of the Titan Preferred Shares. The Listco Preferred Shares Modification Deed will be conditional upon the fulfillment of certain conditions.

As disclosed in the Company’s announcements dated 28 May 2015, 7 August 2015 and 5 November 2015, on 28 May 2015, 30 July 2015 and 16 October 2015, the Company and DBIL entered into supplemental agreements, pursuant to which the parties agreed to extend the long stop date for the satisfaction of the conditions under the Listco Preferred Shares Modification Deed to 31 July 2015, 31 August 2015 and 30 April 2016 respectively.

Further details in respect of the above was included in the announcement on 5 November 2015. Further announcement(s) will be made by the Company as and when appropriate.

### **32. Notes payable (the “K-Line Notes Due 2013”)**

On 5 August 2008, the Group signed an agreement with Kawasaki Kisen Kaisha, Ltd. (“K-Line”) for K-Line to purchase notes for US\$25,000,000 (equivalent to approximately HK\$195,000,000) with an interest rate of 1% per annum. Prior to 31 March 2013, at the sole option of the Company, the notes were exchangeable for up to 5% of the issued share capital of one of its subsidiaries, Titan TQSL, which holds Titan Quanzhou Shipyard in Mainland China.

At maturity, the notes are required to be repaid in full in cash equal to the greater of (i) 110% of the principal amount plus all accrued but unpaid interest; and (ii) the fair market value of 5.5% of the issued share capital of Titan TQSL on a fully diluted basis (the “Applicable Redemption Amount”). The Group had the right to redeem the notes in full prior to maturity date at the Applicable Redemption Amount, while K-Line had a right of early redemption at the Applicable Redemption Amount in the event of a change of control.

The K-Line Notes Due 2013 comprised a financial liability at amortised cost and an embedded derivative. As at 31 December 2015, the fair value of the embedded derivatives asset was HK\$Nil (2014: HK\$Nil).

On 31 March 2013, the Company did not redeem the K-Line Notes Due 2013 in full at cash at the Applicable Redemption Amount.

On 17 April 2014, K-Line, Titan Shipyard Holdings Limited (“Shipyard Holdings”) and the Company entered into a support agreement, pursuant to which K-Line agreed to support the Restructuring and the Creditors’ Scheme and agreed to effect the compromise of its claims in respect of the K-Line Notes Due 2013 either within the Creditors’ Scheme or pursuant to a separate settlement agreement conditional upon the Creditors’ Scheme becoming effective. On 8 October 2014, the same parties entered into a settlement agreement whereby K-Line agreed to accept a payment equivalent to US\$0.1 in cash in respect of every US\$1.00 of the principal outstanding under the K-Line Notes Due 2013 and interest as at 9 July 2012.

Except for the reversal of overprovision of interest on K-Line Notes Due 2013 for prior years in 2014, the Company has not recognised any gain derived from the Creditors’ Scheme for the years ended 31 December 2015 and 2014.

## 33. Amounts due to the ultimate/immediate holding company

	2015 HK\$'000	2014 HK\$'000
<b>Current</b>		
Amounts due to the ultimate holding company		
– Partial receipt of the disposal consideration of Titan Quanzhou Shipyard	888,875	943,291
– Interest payable	<u>9,979</u>	<u>4,212</u>
	898,854	947,503
Amount due to the immediate holding company		
– Interest payable	<u>2,526</u>	<u>87</u>
	<u>901,380</u>	<u>947,590</u>
<b>Non-current</b>		
Amount due to the immediate holding company		
– Interest payable	<u>–</u>	<u>456</u>

Interest payable to the ultimate holding company were unsecured, interest-free and settled within one year. Other amounts due to the ultimate holding company was unsecured, interest-free and had no fixed terms of repayment.

Amount due to the immediate holding company was unsecured, interest-free and settled within one year.

## 34. Loans from the ultimate/immediate holding company

	2015			2014		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Unsecured loan						
– immediate holding company (Note b)	2.00	Repayable on demand	<u>3,000</u>	2.00	Repayable on demand	<u>3,000</u>
			<u>3,000</u>			<u>3,000</u>
<b>Non-current</b>						
Unsecured loans						
– ultimate holding company (Note a)	6.24	2021-2022	96,392	6.09-7.03	2021-2022	102,293
– immediate holding company (Note b)	2.00	2017-2018	<u>140,240</u>	2.00	2016	<u>48,681</u>
			<u>236,632</u>			<u>150,974</u>
				<b>2015</b>		<b>2014</b>
				HK\$'000		HK\$'000
Loans repayable:						
Within one year or repayable on demand				3,000		3,000
In the second to fifth years, inclusive				217,353		110,057
After five years				<u>19,279</u>		<u>40,917</u>
				<u>239,632</u>		<u>153,974</u>

*Notes:*

- a) The loans from the ultimate holding company denominated in RMB with the amount of RMB80,247,000 (equivalent to approximately HK\$96,392,000) (2014: RMB80,247,000 (equivalent to approximately HK\$102,293,000)) are unsecured, repayable beyond one year and carry an interest rate at basic lending rate of the People's Bank of China under same period and same grade per annum.
- b) i) On 12 March 2013, the Company entered into a loan agreement with Fame Dragon pursuant to which Fame Dragon agreed to provide interim financing on request of the Company of up to approximately HK\$62,240,000 at an interest rate of 2% per annum payable on maturity (the "First Loan Agreement"), subject to the dismissal, stay or adjournment of the hearing of the SPHL Petition and the application of provisional liquidators, in order to allow time for the Company to implement the debt restructuring proposal. Details of the above was set out in the Company's announcement dated 15 March 2013.
- However, certain events of default occurred under the First Loan Agreement, most notably the appointment of Mr. Garth Calow and Ms. Alison Tomb as the JPLs of the Company with limited powers on 18 October 2013 (Bermuda time). Accordingly, the loans from the immediate holding company under the First Loan Agreement of HK\$3,000,000 were then presented as current liabilities as at 31 December 2015 and 2014.
- ii) On 13 March 2014, the Company entered into a loan agreement with Fame Dragon pursuant to which Fame Dragon agreed to provide an interim financing on request of the Company of up to approximately HK\$62,240,000 at an interest rate of 2% per annum payable on maturity (the "Second Loan Agreement") subject to certain conditions precedent being satisfied. Details of the Second Loan Agreement were set out in the Company's announcement dated 11 March 2014. As at 31 December 2015, the loans from the immediate holding company under the Second Loan Agreement of HK\$62,240,000 (31 December 2014: HK\$48,681,000) were repayable beyond one year.
- iii) On 27 February 2015, the Company entered into another loan agreement with Fame Dragon in relation to the provision of an uncommitted term loan of US\$10,000,000 at an interest rate of 2% per annum by Fame Dragon to the Company (the "2015 Loan Agreement"). As at 31 December 2015, the loans from the immediate holding company under the 2015 Loan Agreement of HK\$78,000,000 (31 December 2014: HK\$Nil) were repayable beyond one year.
- c) The loans from the ultimate holding company denominated in RMB with the amount of RMB1,531,803,000 (equivalent to approximately HK\$1,839,975,000) (2014: RMB1,526,742,000 (equivalent to approximately HK\$1,946,165,000)) classified as disposal group held for sale (note 6(b)) are repayable beyond one year and carry an interest rate at the basic lending rate of the People's Bank of China per annum, in which RMB1,526,742,000 (equivalent to approximately HK\$1,833,896,000) (2014: RMB1,526,742,000 (equivalent to approximately HK\$1,946,165,000)) are secured by:
- i) construction in progress with an aggregate carrying value of HK\$785,296,000 (2014: HK\$833,371,000);
- ii) prepaid land/seabed lease payments with an aggregate net carrying value of HK\$246,138,000 (2014: HK\$256,299,000);
- iii) buildings with an aggregate net carrying value of HK\$382,451,000 (2014: HK\$380,174,000); and
- iv) machinery with an aggregate net carrying value of HK\$83,513,000 (2014: HK\$118,659,000).

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

	Carrying amount		Fair value	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Loans from the ultimate holding company	96,392	102,293	116,875	107,528
Loans from the immediate holding company	<u>140,240</u>	<u>48,681</u>	<u>148,350</u>	<u>49,965</u>
	<u>236,632</u>	<u>150,974</u>	<u>265,225</u>	<u>157,493</u>

The fair values of the loans from the ultimate holding company and immediate holding company of the Group are estimated by discounting the expected future cash flows at prevailing interest rates.

### 35. Deferred tax liabilities

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

	Notes	Investment property	
		2015 HK\$'000	2014 HK\$'000
At 1 January		34,121	-
Deferred tax charged to other comprehensive income	12	-	34,219
Deferred tax credited to the consolidated statement of profit or loss	12	(126)	(127)
Exchange realignment		<u>(1,963)</u>	<u>29</u>
At 31 December		<u>32,032</u>	<u>34,121</u>

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

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

At 31 December 2015 and 2014, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is unlikely that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2015 and 2014, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no material liabilities for additional taxes should such amounts be remitted.

At 31 December 2015, the continuing operations of the Group and the Company have unused tax losses of HK\$80,225,000 (2014: HK\$84,503,000) and HK\$1,587,000 (2014: HK\$28,894,000), respectively, available for offset against future profits. Among such, HK\$33,795,000 (2014: HK\$60,752,000) may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

**36. Share capital****Shares**

	Notes	2015		2014	
		Number of shares	Nominal value of shares HK\$'000	Number of shares	Nominal value of shares HK\$'000
<b>Authorised:</b>					
Ordinary shares of HK\$0.01 each at 31 December (Note a)		80,000,000,000	800,000	14,445,000,000	144,450
Convertible preferred shares of HK\$0.01 each at 31 December	31	<u>555,000,000</u>	<u>5,550</u>	<u>555,000,000</u>	<u>5,550</u>
<b>Issued and fully paid:</b>					
Ordinary shares of HK\$0.01 each at 1 January and 31 December		<u>7,820,554,682</u>	<u>78,206</u>	<u>7,820,554,682</u>	<u>78,206</u>
Convertible preferred shares of HK\$0.01 each at 1 January and 31 December		<u>555,000,000</u>	<u>5,550</u>	<u>555,000,000</u>	<u>5,550</u>

**Notes:**

- a) By an ordinary resolution passed at the special general meeting held on 22 June 2015, the Company's authorised ordinary share capital was increased to HK\$800,000,000 by the creation of an additional 65,555,000,000 ordinary shares of HK\$0.01 each, ranking pari passu with the existing Shares in all respects.
- b) During the years ended 31 December 2015 and 2014, none of the Convertible Notes Due 2015 were converted into ordinary shares.
- c) All ordinary shares rank pari passu in all respects.

**Share option scheme**

Details of the Company's share option schemes and the movements in share options issued by the Company are included in note 37 to the consolidated financial statements.

**37. Share option scheme**

The Company adopted a share option scheme pursuant to an ordinary resolution passed on 31 May 2002 (as amended on 24 June 2010) (the "2002 Share Option Scheme").

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 June 2011, the Company adopted a new share option scheme (the "New Share Option Scheme") and terminated the 2002 Share Option Scheme (the 2002 Share Option Scheme and the New Share Option Scheme, collectively, are referred to as the "Schemes").

**a) Summary of the Schemes****i) Purposes of the Schemes**

The purposes of the Schemes are to provide a flexible means of attracting and retaining talent together with giving incentive to, rewarding and motivating the participants who have made or may make contributions to the long term success of the Group.

*ii) Participants in the Schemes*

Pursuant to the 2002 Share Option Scheme, the Company may grant options to (i) full time employees and directors of the Company and its subsidiaries; and (ii) any suppliers, consultants, agents and advisors of the Group.

Pursuant to the New Share Option Scheme, the participants include (i) directors (including executive directors, non-executive directors or independent non-executive directors) of any member of the Group or any invested entity; (ii) employees and executives (whether full time or part-time) of any member of the Group or any invested entity; and (iii) consultants, advisers, business partners, joint venture partners, agents, suppliers and customers to any member of the Group or any invested entity.

*iii) Total number of ordinary shares available for issue under the Schemes*

The Shares which may be issued upon exercise of all options to be granted under the Schemes shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of approval of the New Share Option Scheme (i.e. 780,240,218 Shares, which represents approximately 9.98% of the issued share capital of Company at the date of approval of the financial statements).

The maximum number of Shares which may be issued upon exercise of outstanding options granted and yet to be exercised under the Schemes shall not exceed 30% of the total number of Shares in issue from time to time.

*iv) Maximum entitlement of each participant*

Pursuant to the Schemes, the maximum number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

*v) Time of exercise of options*

Pursuant to the Schemes, an option may be exercisable at any time during the option period, which to be determined by the Board at its absolute discretion, but in any event no later than 10 years from the date of the offer.

*vi) Amount payable on acceptance*

Pursuant to the Schemes, a non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option.

*vii) Basis of determining the subscription price*

Pursuant to the Schemes, the subscription price shall be determined by the board of directors at its discretion and shall not be less than the highest of:

- i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of the offer;
- ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and
- iii) the nominal value of a Share.

viii) *Remaining life of the Schemes*

The 2002 Share Option Scheme has no remaining life as it was terminated on 20 June 2011 but the provisions of the 2002 Share Option Scheme shall in all other respects remain in full force and effect and options granted during the life of the 2002 Share Option Scheme may continue to be exercisable in accordance with its respective terms of issue.

The New Share Option Scheme will continue to be in full force and effect for a period of 10 years commencing on 20 June 2011.

b) *Share Option Movements*i) *2002 Share Option Scheme*

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme held by employees and directors during the year:

Name or category of participant	Number of share option				At 31 December 2015	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2015	Granted during the year	Lapsed during the year	Exercised during the year				
<b>Director</b>								
Mr. Wong Siu Hung Patrick (resigned on 30 September 2015)	10,000,000	-	(10,000,000)	-	-	1 February 2008	1 February 2010 to 31 January 2015	0.45
	10,000,000	-	(10,000,000)	-	-	1 February 2008	1 February 2011 to 31 January 2016	0.45
	<u>20,000,000</u>	<u>-</u>	<u>(20,000,000)</u>	<u>-</u>	<u>-</u>			
<b>Other employees</b>								
In aggregate	450,000	-	(450,000)	-	-	1 February 2008	1 February 2010 to 31 January 2015	0.45
	5,070,000	-	(2,390,000)	-	2,680,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	5,100,000	-	(1,740,000)	-	3,360,000	1 February 2008	1 February 2012 to 31 January 2017	0.45
	5,620,000	-	(1,780,000)	-	3,840,000	1 February 2008	1 February 2013 to 31 January 2018	0.45
	<u>16,240,000</u>	<u>-</u>	<u>(6,360,000)</u>	<u>-</u>	<u>9,880,000</u>			
	<u>36,240,000</u>	<u>-</u>	<u>(26,360,000)</u>	<u>-</u>	<u>9,880,000</u>			



The following table discloses movement of the Company's share options under the 2002 Share Option Scheme in the prior year:

Name or category of participant	Number of share option					At 31 December 2014	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2014	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2014				
<b>Director</b>									
Mr. Wong Siu Hung Patrick	10,000,000	-	-	-	10,000,000	1 February 2008	1 February 2010 to 31 January 2015	0.45	
	10,000,000	-	-	-	10,000,000	1 February 2008	1 February 2011 to 31 January 2016	0.45	
	<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000,000</u>				
<b>Other employees</b>									
In aggregate	1,450,000	-	(1,000,000)	-	450,000	1 February 2008	1 February 2010 to 31 January 2015	0.45	
	6,230,000	-	(1,160,000)	-	5,070,000	1 February 2008	1 February 2011 to 31 January 2016	0.45	
	5,420,000	-	(320,000)	-	5,100,000	1 February 2008	1 February 2012 to 31 January 2017	0.45	
	6,000,000	-	(380,000)	-	5,620,000	1 February 2008	1 February 2013 to 31 January 2018	0.45	
	<u>19,100,000</u>	<u>-</u>	<u>(2,860,000)</u>	<u>-</u>	<u>16,240,000</u>				
	<u>39,100,000</u>	<u>-</u>	<u>(2,860,000)</u>	<u>-</u>	<u>36,240,000</u>				

\* Options granted on 1 February 2008 were vested to grantees in four tranches. 20% of such options were vested on 1 February 2010 with an exercise period from 1 February 2010 to 31 January 2015; 40% of such options were vested on 1 February 2011 with an exercise period from 1 February 2011 to 31 January 2016; 20% of such options were vested on 1 February 2012 with an exercise period from 1 February 2012 to 31 January 2017 and 20% of such options were vested on 1 February 2013 with an exercise period from 1 February 2013 to 31 January 2018. The closing price of the Company's shares on 31 January 2008 (i.e. the date before grant) was HK\$0.435.

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

During the year, no share options were cancelled under the 2002 Share Option Scheme.

At the end of the reporting period, the Company had outstanding share options for the subscription of 9,880,000 ordinary shares under the 2002 Share Option Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 9,880,000 additional ordinary shares of the Company and additional share capital of HK\$98,800 and share premium of HK\$4,347,200 (before issue expenses).

#### ii) New Share Option Scheme

No share options have been granted pursuant to the New Share Option Scheme since its adoption.

c) *Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:*

	2015		2014	
	Weighted average exercise price per share HK\$	Number of shares issuable under options	Weighted average exercise price per share HK\$	Number of shares issuable under options
At 1 January	0.450	36,240,000	0.450	39,100,000
Lapsed	<u>0.450</u>	<u>(26,360,000)</u>	<u>0.450</u>	<u>(2,860,000)</u>
At 31 December	<u>0.450</u>	<u>9,880,000</u>	<u>0.450</u>	<u>36,240,000</u>

None (2014: None) of the 9,880,000 outstanding options (2014: 36,240,000) has been exercised during the year ended 31 December 2015.

No diluted loss per share for the year ended 31 December 2015 has been presented as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year ended 31 December 2015.

No diluted earnings per share for the year ended 31 December 2014 has been presented as the exercise price of the share options outstanding during the year was higher than the average market price of the Company's shares for the year ended 31 December 2014.

**38. Deficits**

	Share premium	Contributed surplus	Share option reserve	PRC statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2013 and 1 January 2014	2,473,241	18,261	6,236	175	-	150,650	(10,451,095)	(7,802,532)
Total comprehensive income for the year	-	-	-	-	108,105	2,767	3,779,374	3,890,246
Released upon deconsolidation of subsidiaries	7(a)	-	-	-	-	1,446	-	1,446
Transfer to accumulated losses upon lapse of share options after vesting periods	-	-	(452)	-	-	-	452	-
At 31 December 2014 and 1 January 2015	<u>2,473,241</u>	<u>18,261</u>	<u>5,784</u>	<u>175</u>	<u>108,105</u>	<u>154,863</u>	<u>(6,671,269)</u>	<u>(3,910,840)</u>
Total comprehensive income/(loss) for the year	-	-	-	-	-	25,357	(241,781)	(216,424)
Transfer to accumulated losses upon lapse of share options after vesting periods	-	-	(4,087)	-	-	-	4,087	-
At 31 December 2015	<u>2,473,241</u>	<u>18,261</u>	<u>1,697</u>	<u>175</u>	<u>108,105</u>	<u>180,220</u>	<u>(6,908,963)</u>	<u>(4,127,264)</u>

**Share premium**

The application of share premium is governed by Section 40 of the Act. The share premium account may be distributed in the form of fully paid bonus shares.

**Contributed surplus**

The contributed surplus arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the excess of 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.

**Share option reserve**

The share option reserve comprises the fair value of the share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or lapse.

**PRC statutory reserve**

PRC statutory reserve represents the application of 10% of profit after taxation, calculation in accordance with the accounting standards and regulations applicable to subsidiaries of the Company established in the PRC. When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

**Asset revaluation reserve**

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 upon reclassification to investment property.

**Exchange fluctuation reserve**

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (HK\$) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

**39. Operating lease arrangements****As lessee**

The Group leases an office premise and a warehouse under operating lease arrangements. At 31 December 2015, leases for office premise and warehouse are negotiated for terms ranging from one to three years (2014: one to three years).

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
<b>Office premise, warehouse and staff quarters*</b>		
Within one year	4,277	3,897
In the second to fifth years, inclusive	<u>8,230</u>	<u>–</u>
	<u>12,507</u>	<u>3,897</u>

\* At 31 December 2014, such commitments were associated with the disposal group classified as held for sale.

**40. Commitments**

	2015 HK\$'000	2014 HK\$'000
Commitments for shipbuilding and ship repair facilities in Mainland China*	<u>817,928</u>	<u>867,953</u>

\* At 31 December 2015 and 2014, such commitments were associated with the disposal group classified as held for sale.

**41. Guarantees**

As at 31 December 2015, guarantees with aggregated amounts of HK\$321,996,000 (2014: HK\$321,996,000) were given by the Company to (i) a bank for a loan to a subsidiary of the Group, (ii) shipowners for charter hire expenses to a deconsolidated subsidiary of the Group which was put into liquidation in 2014 and (iii) the K-Line Notes Due 2013.

As at 31 December 2015, an amount of HK\$321,996,000 (2014: HK\$321,996,000) has been recognised in the Company's statement of financial position as disclosed in note 50(a).

As at 31 December 2015, guarantees in the aggregate amount of HK\$113,155,000 (2014: HK\$113,155,000) had been provided to a deconsolidated subsidiary to ship owners for the charter hire expenses. They had been utilised and recognised as liabilities in the consolidated statement of financial position.

Other than those as disclosed above, the Group and the Company had no other material guarantees outstanding as at 31 December 2015 and 2014.

**42. Contingent liabilities*****Material Arbitrations******Arbitrations between KTL Mayfair Inc. (“Mayfair”) and the Company and the Arbitrations between Mayfair and TSL***

Mayfair served notices of appointment of arbitrator on both TSL and the Company on 16 July 2013.

The claims relate to disputes between the Company/TSL and Mayfair in relation to the alleged breaches by TSL of a bareboat charter party contract executed in 2010 (the “Charterparty”), including but not limited to the Company/TSL’s failure to pay hire and contractual interest on hire; and the alleged failure to insure the Mayfair vessel. The total amount of Mayfair’s claim is US\$23,021,040.61 and SG\$5,296,30. TSL and the Company have also counterclaimed against Mayfair for US\$20,755,188.89.

On 5 May 2014, the Company announced that the Company and TSL entered into a settlement agreement (the “Settlement Agreement”) with Camden, Edinburgh Navigation S.A. (“Edinburgh”) and Mayfair (collectively, the “Creditors”) on 2 May 2014, pursuant to which the parties have agreed:

- a) on the amounts of the claims by Camden, Edinburgh and Mayfair (collectively, the “Creditor Debt”) to be recognised as unsecured claims (the “Agreed Claim Amounts”) in the Restructuring by way of the Creditors’ Scheme as announced by the Company on 25 November 2013;
- b) that subject to and upon receipt by the Creditors of the full cash payment under the Creditors’ Scheme of US\$0.10 for every US\$1.00 of the Agreed Claim Amounts (the “Settlement Payment”), the parties will be released from all liabilities arising out of or in connection with the Creditor Debt, the Creditor Debt Documents and the subject matter thereof and any previous arrangement between the Company, TSL and the Creditors in relation to the Arbitration Proceedings;
- c) that promptly and in any event within three business days of the date of the Settlement Agreement, the parties will take all steps reasonably required to effect a stay of the Arbitration Proceedings; and
- d) that promptly and in any event within three business days of the date of the Settlement Payment has been made, the parties will take all steps to inform the arbitral tribunal that the Arbitration Proceedings have been settled and/or terminated.

Further, each of the Creditors has agreed under the Settlement Agreement that:

- i) during the Support Period, it will take any actions that are reasonably required to facilitate the Restructuring, including taking all reasonable steps necessary to vote in favour of the Creditors’ Scheme;
- ii) until expiry of the Support Period or such other period as agreed between the parties, it will not oppose any application by the Company for any adjournment of the petition for the winding up of the Company pending before the Bermuda Court; and
- iii) subject to the terms of the Settlement Agreement, it will not, during the Support Period, commence any legal or Arbitration Proceedings or insolvency proceedings against the Company or any of its subsidiaries in relation to the Creditor Debt Documents.

“Support Period”, under the Settlement Agreement means the period between the date of the Settlement Agreement and the date upon which the Settlement Agreement terminates, being the earlier of:

- 1) 31 December 2014 (or such later date as may be agreed between the parties);
- 2) the date on which a final non appealable order of a governmental body of competent jurisdiction first comes into effect prohibiting the implementation and consummation of the Restructuring;
- 3) the date on which an order is made in any jurisdiction for the winding up of the Company;
- 4) the Company’s failure, within 5 business days of receipt of a notice from any of the Creditors notifying the Company its intention to treat the Settlement Agreement as having terminated, to withdraw a condition, term or modification of the Restructuring proposed by the Company to the Bermuda Court or the Company’s unsecured creditors, the addition of which condition or term to the Restructuring or which modification of the Restructuring would affect certain rights of the Company’s unsecured creditors under the Creditors’ Scheme as set out in the Settlement Agreement; and
- 5) the date on which the scheme document is deposited with the Bermuda Registrar of Companies following sanction of the Creditors’ Scheme by the Bermuda Court and approval by qualifying majorities of creditors.

The Scheme Meetings were held on 22 October 2014 as scheduled to consider and, if thought fit, approve the Creditors’ Scheme. Mayfair present and voting by proxy has voted in favour of the Creditors’ Scheme. Accordingly the Creditors’ Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company’s announcement dated 22 October 2014.

The Creditors’ Scheme was sanctioned by the Bermuda Court on 5 November 2014 and became effective and binding on all Scheme Creditors (as defined in the Creditors’ Scheme) upon a copy of the Order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on 5 November 2014. Further details in respect of the above are included in the Company’s announcement dated 6 November 2014.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date of the Creditors’ Scheme of the Company to 1 April 2016 (Bermuda time). Further details in respect of the above are included in the Company’s announcement dated 16 March 2016.

***Arbitration between the Company and Edinburgh; Arbitration between the Company and Camden; Arbitration between Edinburgh and TSL and Arbitration between Camden and TSL***

The Company served notices of arbitration on Edinburgh and Camden on 20 July 2013. Edinburgh and Camden subsequently served notices of appointment of an arbitrator on TSL on 26 November 2013.

The parties involved in the aforesaid arbitrations are (i) the Company, TSL and Edinburgh and (ii) the Company, TSL and Camden. The claims relate to disputes arising out of the charterparty agreements (the “Charterparty Agreements”) executed in 2010 entered into between TSL and Edinburgh/Camden in relation to the vessels MT Titan Aries/MT Titan Venus (the “Vessels”). In 2012, Frontline Management SA (“Frontline”) as agents of the Vessels demanded the Vessels to be re-delivered sooner. TSL agreed to such redelivery relying on Frontline’s representation that Frontline would arrange a suitable time charter arrangement such that TSL’s oil storage business would not be affected (the “New Arrangement”). However, Frontline, later refused to carry on with the New Arrangement. The Company is now claiming that the conduct of Edinburgh/Camden has resulted in TSL not being able to perform its oil storage business and suffered loss as a result. The total amount of claim against each of Edinburgh and Camden is US\$20,755,188.89. Edinburgh and Camden have also counterclaimed against the Company and TSL for US\$7,449,911.02 and US\$6,425,312.50 respectively.

On 5 May 2014, the Company announced that the Company and TSL entered into the Settlement Agreement with the Creditors on 2 May 2014, pursuant to which the parties have agreed:

- a) on the Agreed Claim Amounts in the Restructuring by way of the Creditors' Scheme as announced by the Company on 25 November 2013;
- b) that subject to and upon receipt by the Creditors of the full cash payment under the Creditors' Scheme of US\$0.10 for every US\$1.00 of the Settlement Payment, the parties will be released from all liabilities arising out of or in connection with the Creditor Debt, the Creditor Debt Documents and the subject matter thereof and any previous arrangement between the Company, TSL and the Creditors in relation to the Arbitration Proceedings;
- c) that promptly and in any event within three business days of the date of the Settlement Agreement, the parties will take all steps reasonably required to effect a stay of the Arbitration Proceedings; and
- d) that promptly and in any event within three business days of the date of the Settlement Payment has been made, the parties will take all steps to inform the arbitral tribunal that the Arbitration Proceedings have been settled and/or terminated.

Further, each of the Creditors has agreed under the Settlement Agreement that:

- i) during the Support Period, it will take any actions that are reasonably required to facilitate the Restructuring, including taking all reasonable steps necessary to vote in favour of the Creditors' Scheme;
- ii) until expiry of the Support Period or such other period as agreed between the parties, it will not oppose any application by the Company for any adjournment of the petition for the winding up of the Company pending before the Bermuda Court; and
- iii) subject to the terms of the Settlement Agreement, it will not, during the Support Period, commence any legal or Arbitration Proceedings or insolvency proceedings against the Company or any of its subsidiaries in relation to the Creditor Debt Documents.

“Support Period”, under the Settlement Agreement means the period between the date of the Settlement Agreement and the date upon which the Settlement Agreement terminates, being the earlier of:

- 1) 31 December 2014 (or such later date as may be agreed between the parties);
- 2) the date on which a final non appealable order of a governmental body of competent jurisdiction first comes into effect prohibiting the implementation and consummation of the Restructuring;
- 3) the date on which an order is made in any jurisdiction for the winding up of the Company;
- 4) the Company's failure, within 5 business days of receipt of a notice from any of the Creditors notifying the Company its intention to treat the Settlement Agreement as having terminated, to withdraw a condition, term or modification of the Restructuring proposed by the Company to the Bermuda Court or the Company's unsecured creditors, the addition of which condition or term to the Restructuring or which modification of the Restructuring would affect certain rights of the Company's unsecured creditors under the Creditors' Scheme as set out in the Settlement Agreement; and
- 5) the date on which the scheme document is deposited with the Bermuda Registrar of Companies following sanction of the Creditors' Scheme by the Bermuda Court and approval by qualifying majorities of creditors.

The Scheme Meetings were held on 22 October 2014 as scheduled to consider and, if thought fit, approve the Creditors' Scheme. Edinburgh and Camden present and voting by proxy has voted in favour of the Creditors' Scheme. Accordingly the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

The Creditors' Scheme was sanctioned by the Bermuda Court on 5 November 2014 and became effective and binding on all Scheme Creditors (as defined in the Creditors' Scheme) upon a copy of the Order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on 5 November 2014. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date of the Creditors' Scheme of the Company to 1 April 2016 (Bermuda time). Further details in respect of the above are included in the Company's announcement dated 16 March 2016.

### ***Bermuda Proceedings***

On 4 July 2012, the Company received from SPHL a notice to redeem all of the outstanding 555,000,000 Titan preferred shares held by it at a redemption amount equal to the notional value of the Titan preferred shares (being HK\$310,800,000) together with any accrued and unpaid dividends. Redemption monies are payable 30 business days after the date of the redemption notice.

On 9 July 2012 (Bermuda time), SPHL served on the Company the SPHL Petition at the Bermuda Court for an order, among other things, to wind up and to appoint a provisional liquidator against the Company. Further details in respect of the above are included in the Company's announcement dated 12 July 2012. The SPHL Petition, which remained undismissed or unstayed for a period of 60 consecutive days (i.e. on or before 6 September 2012 (Bermuda time)), caused an event of default to occur under the Convertible Notes Due 2015 and the PIK Notes Due 2015.

The Company made an application to the Bermuda Court to strike out the SPHL Petition on the grounds that SPHL is not a creditor or contributory of the Company and/or has no interest in such a winding up of the Company and/or the proceedings are an abuse of process. The strike out application was heard in the Bermuda Court on 1 May 2013 (Bermuda time).

On 10 May 2013 (Bermuda time), the Bermuda Court handed down its ruling in relation to the Company's application to strike out the SPHL Petition and found that it would exercise its discretion to strike out the SPHL Petition (the "10 May Decision"). The Bermuda Court further ordered that the actual striking out of the SPHL Petition be adjourned to 23 July 2013 in order to facilitate the hearing of an application by Camden to be substituted as the petitioner (the "Camden Substitution Application"). Further details in respect of the above are included in the Company's announcement dated 13 May 2013.

Camden claimed that TSL, a subsidiary of the Company, failed to pay certain hiring charges to Camden pursuant to a bareboat charter party contract and that the Company was liable to Camden for such hiring charges plus interest thereon in the sum of approximately US\$6,853,032 (up to 16 April 2013) pursuant to a deed of guarantee issued by the Company in favour of Camden.

Subsequently, SPHL made an application to the Bermuda Court for leave to appeal the 10 May Decision (the "SPHL Leave Application"). Further details in respect of the above are included in the Company's announcement dated 25 July 2013.

On 19 July 2013 (Bermuda time), the Company made an application to the Bermuda Court seeking to (a) stay the SPHL Petition pending arbitration between the Company and Camden or (b) strike out the SPHL Petition on the basis that it was an abuse of process (the "Titan Stay Application").



The Camden Substitution Application, the SPHL Leave Application and the Titan Stay Application were all heard by the Bermuda Court on 23 July 2013 (Bermuda time). At the hearing, the Bermuda Court made the following orders:

- i) the SPHL Petition was struck out, and the Company was awarded the costs of the petition against SPHL from the date upon which its skeleton argument for the Striking Out Application was filed;
- ii) SPHL was granted leave to appeal the 10 May Decision;
- iii) the Titan Stay Application was dismissed;
- iv) Camden was allowed to be substituted as the petitioner in place of SPHL and granted leave to amend the Camden Petition, Camden was also awarded its costs against the Company of the Camden Substitution Application; and
- v) the hearing of the Camden Petition was adjourned to 16 August 2013.

Further details in respect of the above are included in the Company's announcement dated 25 July 2013.

On 29 July 2013 (Bermuda time), Camden made an application to the Bermuda Court by way of an ex parte summons (on notice) seeking an interim injunction (the "Interim Injunction") restraining the Company from, among others, taking any action or consenting to any action to be taken by any subsidiary to transfer any rights, titles or interests in relation to certain assets and agreements of the Company, without the approval of the Bermuda Court or 7 days' written notice to Camden.

Camden also made an application for the appointment of provisional liquidators in the Company on 6 August 2013 (Bermuda time) (the "PLs Application").

The Company made an application with the Bermuda Court on 6 August 2013 (Bermuda time) for leave to appeal the judgment of the Bermuda Court dated 23 July 2013 in relation to the substitution of Camden as the petitioner in place of SPHL on the grounds of a dispute as to Camden's claim (the "Leave to Appeal Application").

The Camden Petition, the application for the Interim Injunction, the PLs Application and the Leave to Appeal Application were all heard by the Bermuda Court on 16 August 2013 (Bermuda time) and no order was made for the appointment of provisional liquidators or to wind up the Company at that hearing. The following orders were made by the Bermuda Court:

- i) until the first hearing in the matter following the hearing of 16 August 2013, an injunction was granted restraining the Company, whether alone or in concert with others, acting through its directors, officers, employees, servants, agents or otherwise, from (i) disposing of any property, including things in action, belonging to the Company, save the payment of salaries, rent, utilities, professional fees or other similar payments in the ordinary course of its business; or (ii) consenting to or approving the disposal of property, including things in action, belonging to any subsidiary (as defined in section 86 of the Act) of the Company, without the approval of the Bermuda Court or without 7 days' written notice of the same to Camden (the "Interim Injunction Order"); and
- ii) the Company shall pay Camden's costs of the application for the Interim Injunction.

Further details in respect of the above are included in the Company's announcement dated 20 August 2013.

On 30 August 2013, the Bermuda Court ordered that the Company and Camden to agree on setting up an informal committee of creditors (the "Informal Committee") to facilitate information exchange between the Company and its creditors, failing which the Bermuda Court would make an order in this regard. No agreement was reached between the Company and Camden and hence, the Bermuda Court made an order on 10 September 2013 for the set up of the Informal Committee.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of Mr. Garth Calow and Ms. Alison Tomb, both of PricewaterhouseCoopers, as the JPLs of the Company with the powers as set out in the Company's announcement dated 22 October 2013.

The Company made an application for a stay, and filed a motion for leave to appeal, in respect of the order of the Bermuda Court appointing JPLs, both of which were rejected by the Bermuda Court at a hearing on 5 November 2013. Further applications for stay and leave to appeal were made by the Company.

On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the JPLs appointed to the Company on 18 October 2013 (the "Discharge Application").

The Camden Petition and the Discharge Application were heard by the Bermuda Court on 13 December 2013 (Bermuda time) and the following orders were made by the Bermuda Court:

- i) the Camden Petition and the Discharge Application be adjourned to 31 January 2014 (Bermuda time);
- ii) costs of the hearing be awarded to the JPLs to be paid out of the assets of the Company on an indemnity basis; and
- iii) the costs of hearing of Camden as the petitioner be reserved.

For the purposes of being able to properly advise the Bermuda Court on the feasibility of the restructuring proposals, the Bermuda Court has required the Company to consult and agree an extension of the powers for the JPLs (the "Extension of the JPLs' Powers") and report back to the Bermuda Court accordingly. Further details in respect of the above are included in the Company's announcement dated 18 December 2013.

On 14 February 2014, the order made by the Bermuda Court on 18 October 2013 (Bermuda time) in relation to the appointment of the JPLs of the Company was varied as follows:

- i) the JPLs would have the following powers (among others):
  - 1) to consult with the Company in respect of, and review, on an ongoing basis, all issues relating to feasibility of the restructuring proposal of the Company or any variation thereof, including with respect to the necessary steps which need to be taken, and conditions to be met, in order for such restructuring proposal to be successfully implemented;
  - 2) to consider the terms of any scheme of arrangement proposed by the Company under the provisions of section 99 of the Act and, if so advised, to report to the Bermuda Court thereon at or before the hearing of the application to convene a scheme meeting. In this regard the Company shall at least seven days prior to any application being made to the Bermuda Court to convene a scheme meeting provide to the JPLs a final draft of the Company's application to convene a scheme meeting;
  - 3) to review the financial position of the Company and in particular to assess the feasibility of any restructuring proposal of the Company;
  - 4) to monitor the continuation of the business of the Company by the existing Board;
  - 5) to monitor, consult with and otherwise liaise with the creditors and shareholders of the Company in determining whether any restructuring proposal will be successfully implemented; and
  - 6) to see, review and copy books, papers, writings, documents and records in the possession or control of the Company situate in Bermuda or in any other jurisdiction, solely insofar as reasonably necessary to permit the JPLs to exercise and discharge their powers and functions;

- ii) save as specifically set out in the order, the JPLs will have no general or additional powers or duties with respect to the property or records of the Company, and the Board will continue to manage the Company's affairs in all respects and exercise the powers conferred upon it by the Company's Memorandum of Association and Bye-laws, provided always that, should the JPLs consider at any time that the Board is not acting in the best interests of the Company and its creditors, the JPLs shall have the power to report the same to the Bermuda Court and seek such directions from the Bermuda Court as the JPLs are advised are appropriate;
- iii) the JPLs shall be entitled to receive advance materials, receive advance notice of, and, at the expense of the Company, attend all Board meetings and such meetings of management as the JPLs request;
- iv) the Company shall at all times comply with the Funding Terms referred to the letter, dated 13 February 2014, from the JPLs to the Company; and
- v) the Company shall procure that any necessary instructions are given to the liquidator of TGIL (the "Liquidator") to ensure that any dividends payable by the Liquidator after the date of the order be paid into an account to be nominated by the JPLs to be held in such account for the benefit of creditors until otherwise directed by the Bermuda Court.

Further details in respect of the above are included in the Company's announcement dated 18 February 2014.

On 28 February 2014 (Bermuda time), at which the Bermuda Court ordered a further adjournment of the Camden Petition to 7 March 2014 (Bermuda time) to allow GZE to consider if it would be willing to fund the costs of the Company's debt restructuring on an unsecured basis, and if GZE was not willing to do so, the Company would be wound up. Further details in respect of the above are included in the Company's announcement dated 4 March 2014 and 6 March 2014 respectively.

At the hearing held on 7 March 2014 (Bermuda time), a draft unsecured loan agreement (the "Loan Agreement") to be entered into between the Company and Fame Dragon, in relation to the provision of an unsecured loan by Fame Dragon to the Company was presented to the Bermuda Court. The Bermuda Court ordered that:

- a) the Company be permitted to enter into the Loan Agreement with Fame Dragon;
- b) the Camden Petition be adjourned to 17 April 2014; and
- c) the Company and the JPLs of the Company be awarded 90% of the costs of the hearing as against Camden in any event of the cause.

Further details in respect of the above are included in the Company's announcement dated 11 March 2014.

At the hearing held on 17 April 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 16 May 2014 (Bermuda time). Further details are included in the Company's announcement dated 22 April 2014.

At the hearing held on 16 May 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 11 July 2014 (Bermuda time). Further details in respect of the above are included in the Company's announcement dated 19 May 2014.

At the hearing held on 4 June 2014, SPHL filed a notice of withdrawal of the appeal dated 29 May 2014.

At the hearing held on 11 July 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 8 August 2014 (Bermuda time). The Bermuda Court further ordered that the costs and fees of the JPLs and their advisors were to be paid out of the liquidation account. Further details in respect of the above are included in the Company's announcement dated 15 July 2014.

At the hearings held on 8 August 2014 (Bermuda time), 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time), 11 March 2016 (Bermuda time) and 1 April 2016 (Bermuda time), respectively. Further details in respect of the above are included in the Company's announcement dated 11 August 2014, 6 October 2014, 3 November 2014, 25 November 2014, 19 January 2015, 16 March 2015, 30 March 2015, 13 April 2015, 11 May 2015, 2 June 2015, 30 July 2015, 17 August 2015, 31 August 2015, 7 September 2015, 9 September 2015, 12 October 2015, 25 November 2015, 18 January 2016 and 16 March 2016 respectively.

### ***BVI Proceedings***

On 18 June 2012, the Company received from SSL two notices to exercise its redemption rights under the TGIL preferred shares and TGIL convertible unsecured notes (the "TGIL Notes Due 2014"), and SSL applied for an order to appoint joint and several liquidators for, and to liquidate TGIL.

On 17 July 2012 (BVI time), the Eastern Caribbean Supreme Court (the "BVI Court") ordered (the "Order") the liquidation of TGIL and that Russell Crumpler of KPMG (BVI) Limited together with, Edward Middleton and Patrick Cowley of KPMG be appointed as joint and several liquidators of TGIL with standard powers under the BVI Insolvency Act 2003. The fourth liquidator, Stuart Mackellar of Zolfo Cooper (BVI) Limited, was appointed with limited powers.

On 18 July 2012 (BVI time), Titan Oil Storage Investment Limited ("TOSIL"), a wholly owned subsidiary of the Company and a shareholder of TGIL, filed a notice of appeal at the Court of Appeal of the Eastern Caribbean Supreme Court (the "BVI Court of Appeal") against the above order and applied for a stay of execution thereof pending the determination of the appeal. The stay application was subsequently withdrawn. Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

The BVI Court of Appeal was stayed until 20 March 2013 (BVI time) by consent of TOSIL as appellant and SSL and TGIL as respondents. It is intended that the Appeal will be withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

The liquidators of TGIL have made a numbers of distributions to creditors of TGIL, but continue to hold certain funds pending the resolution of certain tax issues.

### ***Hong Kong Proceedings***

On 19 July 2012, the Company received from SSL a writ of summons (the "Writ") issued in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region (the "Hong Kong High Court") with an indorsement of claim against the Company and other parties including its wholly owned subsidiary, TOSIL, and two directors of the Company. SSL alleged in the Writ among other things (a) breach of the amended and restated investor rights agreement (the "IRA") in respect of TGIL dated 17 July 2009; and (b) misrepresentations regarding the financial position of TGIL, and its subsidiaries. SSL seek, among other remedies, specific performance of the IRA, injunctive relief, declaratory relief, an indemnity, damages, interest and costs (the "Hong Kong Proceedings"). Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

On 14 September 2012, the Company received a statement of claim filed by SSL in connection with the Writ. Further details in respect of the above are included in the Company's announcement dated 19 September 2012.

On 10 November 2012, the Hong Kong High Court, among other things, stayed the proceedings for a period of 90 days which was then subsequently extended until 15 March 2013.

On 15 November 2013, SSL was ordered by the Hong Kong High Court to provide security in various sums for the Defendants' costs of the proceedings. SSL was ordered by the Hong Kong High Court to provide security for the defendants' costs of the proceedings. SSL failed to provide such security and the proceedings remained stayed.

The Company has obtained the permission from the Bermuda Court to enter into a deed of settlement with SSL and other relevant parties relating to the Hong Kong proceedings on 12 December 2014. Further details in respect of the above are included in the Company announcement dated 2 January 2015.

The Hong Kong High Court fixed a second case management conference for hearing on 21 November 2014 and further adjourned to 13 March 2015, 7 July 2015 and 17 November 2015. On 6 January 2016, the Hong Kong High Court ordered (by consent) that (i) the second case management conference due to be heard on 23 February 2016 be vacated and adjourned to 12 April 2016; and (ii) attempting the finalisation of the global settlement among the parties. Further details in respect of the above are included in the Company's announcement dated 25 November 2014, 30 March 2015, 24 June 2015, 4 December 2015 and 11 January 2016 respectively.

#### ***Other Proceedings***

Details of other proceedings are disclosed in the note 6 and note 26 to the consolidated financial statements.

### **43. Material related party transactions**

Save as disclosed elsewhere in these consolidated financial statements and in the directors' report under heading of "Connected Transactions", the Group had the following material transactions with related parties during 2015 and 2014:

#### ***i) Guarantees to GZE***

At 31 December 2015, a personal guarantee and security of certain shares of the Company were provided by one of the former directors of the Company to GZE in connection with loans of RMB1,526,742,000 (equivalent to approximately HK\$1,833,896,000) (2014: RMB1,526,742,000 (equivalent to approximately HK\$1,946,165,000)) granted to Titan Quanzhou Shipyard.

#### ***ii) Loans from the ultimate holding company***

At 31 December 2015, 崧洒海鑫石油有限公司 (Shengsi Haixin Petroleum Co., Ltd) ("Shengsi Haixin") had a loan from GZE in the principal amount of RMB36,367,000 (equivalent to approximately HK\$43,684,000) (2014: RMB36,367,000 (equivalent to approximately HK\$46,358,000)) and interest accrued of RMB3,765,000 (equivalent to approximately HK\$4,522,000) (2014: RMB1,497,000 (equivalent to approximately HK\$1,909,000)). The interest on the loan was RMB2,268,000 (equivalent to HK\$2,865,000) for the year ended 31 December 2015 (2014: RMB2,182,000 (equivalent to HK\$2,780,000)). The loan was unsecured, carried at basic lending rate of the People's Bank of China under same period and same grade and repayable beyond one year.

At 31 December 2015, 广州泰山石化有限公司 (Guangzhou Titan Petrochemicals Co., Ltd) ("Guangzhou Titan") had a loan from GZE in the principal amount of RMB43,880,000 (equivalent to approximately HK\$52,708,000) (2014: RMB43,880,000 (equivalent to approximately HK\$55,935,000)) and interest accrued of RMB4,543,000 (equivalent to approximately HK\$5,457,000) (2014: RMB1,807,000 (equivalent to approximately HK\$2,303,000)). The interest on the loan was RMB2,736,000 (equivalent to HK\$3,456,000) for the year ended 31 December 2015 (2014: RMB2,968,000 (equivalent to HK\$3,781,000)). The loan was guaranteed by 泉州振戎石化码头有限公司 (formerly known as 泉州泰山石化码头发展有限公司), 广州南沙振戎仓储有限公司 (formerly known as 南方石化仓储(广州南沙)有限公司) and 广州南沙泰山石化发展有限公司) and Titan Quanzhou Shipyard, carried at basic lending rate of the People's Bank of China under same period and same grade and repayable beyond one year.

On 28 October 2013, the Company received a notice issued by the Guangdong Province branch of China Cinda Asset Management Co., Ltd (“China Cinda”) to Titan Quanzhou Shipyard whereby China Cinda informed Titan Quanzhou Shipyard that it has transferred to GZE the rights and interests in (i) the Indebtedness owed by Titan Quanzhou Shipyard; and (ii) the collateral and guarantee granted in respect of the Indebtedness in (i) above. At 31 December 2015, the loan due to GZE was RMB1,526,742,000 (equivalent to approximately HK\$1,833,896,000) (31 December 2014: RMB1,526,742,000 (equivalent to approximately HK\$1,946,165,000)) and interest accrued of RMB158,056,000 (equivalent to approximately HK\$189,854,000) (31 December 2014: RMB62,857,000 (equivalent to approximately HK\$80,125,000)). The interest on the loan was RMB95,199,000 (equivalent to HK\$120,264,000) for the year ended 31 December 2015 (2014: RMB93,060,000 (equivalent to HK\$118,572,000)). The loan was secured, carried at basic lending rate of the People’s Bank of China under same period and same grade and repayable beyond one year.

Further details in respect of above are included in the Company’s announcements dated 29 October 2013, 14 January 2014, 6 March 2014 and 1 April 2014.

At 31 December 2015, Titan Quanzhou Shipyard had another loan from GZE in the principal amount of RMB5,061,000 (equivalent to approximately HK\$6,079,000) (31 December 2014: RMBNil) and interest accrued of RMB61,000 (equivalent to approximately HK\$74,000) (2014: RMBNil). The interest on the loan was RMB61,000 (equivalent to HK\$77,000) for the year ended 31 December 2015 (2014: RMBNil). The loan was unsecured, carried at basic lending rate of the People’s Bank of China under the same period and same grade and repayable beyond one year.

**iii) Loans from the immediate holding company**

At 31 December 2015, the Group had loans from Fame Dragon in the principal amount of HK\$143,240,000 (2014: HK\$51,681,000), interest accrued of HK\$2,526,000 (2014: HK\$543,000). The interest on the loans was HK\$1,983,000 for the year ended 31 December 2015 (2014: HK\$516,000).

The loans were unsecured, carried interest at 2% per annum and were repayable from 3 to 5 years from the dates of entering into the loan agreements. The accrued interest is interest-free, unsecured and was settled within one year. However, as the Company has triggered the events of default as detailed in note 34, the loans from the immediate holding company of HK\$3,000,000 under the First Loan Agreement was then presented as current liabilities as at 31 December 2015 and 2014.

Further details in respect of above are included in the Company’s announcements dated 6 March 2014, 11 March 2014 and 1 April 2014.

**iv) Amounts due to the ultimate holding company**

At 31 December 2015, the Group had an amount due to GZE of RMB740,000,000 (equivalent to approximately HK\$888,875,000) (2014: RMB740,000,000 (equivalent to approximately HK\$943,291,000)) in respect of the Company entered into an assignment of the sale and purchase of the 95% equity interest in Titan Quanzhou Shipyard with GZE. The balance was unsecured, interest-free and had no fixed terms of repayment.

Further details in respect of above are included in the Company’s announcements dated 25 November 2013, 30 December 2013, 14 January 2014 and 5 February 2014.

**v) Advances from/to the Company owned by Mr. Tsoi Tin Chun**

At 31 December 2015, the Group had an amount due from a Company which is owned by Mr. Tsoi Tin Chun (the former Chairman and director of the Company) of RMB874,000 (equivalent to approximately HK\$1,050,000) (2014: RMB874,000 (equivalent to approximately HK\$1,114,000)), however, based on estimated irrecoverable amounts determined by reference to past experience, the Group had recognised an impairment loss of RMB874,000 (equivalent to approximately HK\$1,114,000) for the year ended 31 December 2014. At 31 December 2015, the Group also had an amount due to a Company which is owned by Mr. Tsoi Tin Chun (the former Chairman and director of the Company) of RMB14,319,000 (equivalent to approximately HK\$17,200,000) (2014: RMB14,319,000 (equivalent to approximately HK\$18,253,000)) which were unsecured, interest-free and had no fixed terms of repayment.

vi) *Compensation of key management personnel of the Group*

	2015 HK\$'000	2014 HK\$'000
Short term employee benefits	9,320	11,116
Post-employment benefits	<u>69</u>	<u>68</u>
Total compensation paid to key management personnel	<u>9,389</u>	<u>11,184</u>

Further details of directors' emoluments are included in note 10 to the consolidated financial statements.

44. **Financial instruments by category**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**Financial assets**

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets included in deposits and other receivables	-	-	142,503	142,508	142,503	142,508
Restricted cash	-	-	26,547	26,520	26,547	26,520
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>9,869</u>	<u>1,315</u>	<u>9,869</u>	<u>1,315</u>
	<u>-</u>	<u>-</u>	<u>178,919</u>	<u>170,343</u>	<u>178,919</u>	<u>170,343</u>

*Financial liabilities*

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable	-	-	217,731	217,731	217,731	217,731
Financial liabilities included in other payables and accruals	-	-	738,365	767,475	738,365	767,475
Interest-bearing bank and other loans	-	-	5,850	5,850	5,850	5,850
Loans from the ultimate holding company	-	-	96,392	102,293	96,392	102,293
Loans from the immediate holding company	-	-	143,240	51,681	143,240	51,681
Amounts due to the ultimate holding company	-	-	898,854	947,503	898,854	947,503
Amount due to the immediate holding company	-	-	2,526	543	2,526	543
Senior Notes Due 2012	-	-	882,329	882,329	882,329	882,329
Convertible Notes Due 2015	-	-	441,753	441,753	441,753	441,753
PIK Notes Due 2015	-	-	88,657	88,657	88,657	88,657
Liability portion of Titan preferred shares	-	-	435,325	420,717	435,325	420,717
K-Line Notes Due 2013	-	-	202,896	202,896	202,896	202,896
	<u>-</u>	<u>-</u>	<u>4,153,918</u>	<u>4,129,428</u>	<u>4,153,918</u>	<u>4,129,428</u>

**45. Fair value and fair value hierarchy**

The fair values of the financial assets and liabilities are included at the amounts at which instruments could be exchanged in current transactions between willing parties, other than in a forced or liquidation sale. The methods and assumptions as set out below were used to estimate the fair values:

The fair values of financial assets included in deposits and other receivables, restricted cash, cash and cash equivalents, accounts payable, financial liabilities included in other payables and accruals, interest-bearing bank and other loans, loans from the ultimate holding company, loans from the immediate holding company, amounts due to the ultimate holding company, amount due to the immediate holding company, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, liability portion of Titan preferred shares and K-Line Notes Due 2013 approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the liability portion of the Titan preferred shares are estimated using equivalent market interest rates for similar instruments. There is no non-current position of the above financial instruments.



***Fair value hierarchy***

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

***Assets and liabilities measured at fair value:***

The Group did not have any financial assets nor liabilities measured at fair value as at 31 December 2015 and 2014.

**46. Financial risk management objectives and policies**

The Group's principal financial instruments comprise interest-bearing bank and other loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K-Line Notes Due 2013, loans from the immediate holding company, loans from the ultimate holding company, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise and/or retain funds for the Group's operations. The Group has various other financial assets and liabilities such as deposits and other receivables and accounts payable, which arise directly from its operations.

The Group is principally exposed to interest rate risks, credit risks, liquidity risks and foreign currency risks. The Directors review and agree policies for managing each of these risks and they are summarised below.

***Interest rate risks***

The Group's exposure to the risks of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

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

The table set out below demonstrates the sensitivity to a reasonably possible change in interest rates in the current year, with all other variables held constant, of the Group's (loss)/profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	(Increase)/ decrease in loss before tax (decrease)/ increase in profit before tax HK\$'000
<b>2015</b>		
RMB	26	(689)
RMB	<u>(26)</u>	<u>689</u>
<b>2014</b>		
RMB	29	(757)
RMB	<u>(29)</u>	<u>757</u>

#### ***Credit risks***

Credit risks arise from the inability of a counterparty to meet payment terms. It is the Group's policy to minimise such credit exposures by careful assessment of customer credit worthiness. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risks of the Group's other financial assets, which comprise cash and cash equivalents, restricted cash and deposits and other receivables, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of such instruments. The Company is also exposed to credit risks through the granting of financial guarantees, further details of which are disclosed in note 41 to the consolidated financial statements.

Apart from receivable from the liquidator of TGIL and escrow account (as stated in note 21), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to that the receivable from the liquidator of TGIL and escrow account did not exceed 5% of the Group's total assets at any time during the year.

The credit risk on cash and cash equivalents and restricted cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative data in respect of the Group's exposure to credit risks arising from accounts receivable are disclosed in note 20 to the consolidated financial statements.

**Liquidity risks**

The Group's treasury department oversees the Group's cash flow positions on a regular basis to ensure the cash flow of the Group is closely monitored.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

	Weighted average		On demand or within one year		Over one year		Total		Total carrying amount	
	effective interest rate		2015	2014	2015	2014	2015	2014	2015	2014
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable	-	-	217,731	217,731	-	-	217,731	217,731	217,731	217,731
Financial liabilities included in other payables and accruals	-	-	738,365	767,475	-	-	738,365	767,475	738,365	767,475
Interest-bearing bank and other loans	0.00	0.00	5,850	5,850	-	-	5,850	5,850	5,850	5,850
Loans from the ultimate holding company	6.24	6.09-7.03	-	-	96,392	102,293	96,392	102,293	96,392	102,293
Loans from the immediate holding company	2.00	2.00	3,000	3,000	140,240	48,681	143,240	51,681	143,240	51,681
Amounts due to the ultimate holding company	-	-	906,193	953,881	20,796	23,046	926,989	976,927	898,854	947,503
Amount due to the immediate holding company	-	-	3,556	147	7,191	1,950	10,747	2,097	2,526	543
Senior Notes Due 2012	0.00	0.00	882,329	882,329	-	-	882,329	882,329	882,329	882,329
Convertible Notes Due 2015	0.00	0.00	441,753	441,753	-	-	441,753	441,753	441,753	441,753
PIK Notes Due 2015	0.00	0.00	88,657	88,657	-	-	88,657	88,657	88,657	88,657
Liability portion of Titan preferred shares	4.70	4.70	435,325	420,717	-	-	435,325	420,717	435,325	420,717
K-Line Notes Due 2013	0.00	0.00	202,896	202,896	-	-	202,896	202,896	202,896	202,896
			<u>3,925,655</u>	<u>3,984,436</u>	<u>264,619</u>	<u>175,970</u>	<u>4,190,274</u>	<u>4,160,406</u>	<u>4,153,918</u>	<u>4,129,428</u>

**Foreign currency risks**

Several subsidiaries of the Company have foreign currency costs and expenses, which expose the Group to foreign currency risk.

The Group is mainly exposed to the effects of fluctuation in RMB and Singapore dollar (the "SG\$").

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB to HK\$ and SG\$ to HK\$ exchange rate, with all other variables held constant, of the Group's (loss)/profit before tax due to changes in the fair values of monetary assets and liabilities.

	%	Decrease/ (increase) in loss before tax increase/ (decrease) in profit before tax HK\$'000
<b>2015</b>		
If RMB weakens against HK\$	5.76	51,224
If SG\$ weakens against HK\$	6.50	<u>20</u>
		<u>51,244</u>
If RMB strengthens against HK\$	5.76	(51,224)
If SG\$ strengthens against HK\$	6.50	<u>(20)</u>
		<u>(51,244)</u>
<b>2014</b>		
If RMB weakens against HK\$	2.51	23,679
If SG\$ weakens against HK\$	4.31	<u>109</u>
		<u>23,788</u>
If RMB strengthens against HK\$	2.51	(23,679)
If SG\$ strengthens against HK\$	4.31	<u>(109)</u>
		<u>(23,788)</u>

### ***Capital management***

The primary objectives of the Group's capital management are to secure its ability to continue as a going concern and to maintain capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using gearing ratios, which is total debts divided by total assets, including the respective items classified as held for sale. The gearing ratios as at the end of the reporting periods were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest-bearing bank and other loans	256,183	271,508
Senior Notes Due 2012	882,329	882,329
Convertible Notes Due 2015	441,753	441,753
PIK Notes Due 2015	88,657	88,657
K-Line Notes Due 2013	202,896	202,896
Loans from the ultimate holding company	1,936,367	2,048,458
Loans from the immediate holding company	<u>143,240</u>	<u>51,681</u>
Total debts	<u>3,951,425</u>	<u>3,987,282</u>
Total assets	<u>2,997,452</u>	<u>3,203,978</u>
Gearing ratio	<u>132%</u>	<u>124%</u>

#### 47. Dividends

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015 (2014: Nil).

#### 48. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year presentation. In the opinion of the Directors, such reclassifications provide a more appropriate presentation on the consolidated financial statements.

#### 49. Events after the reporting period

##### *Listing status*

As disclosed in the announcement of the Company dated 26 November 2013, the Listing Division of the Stock Exchange issued a letter on 22 November 2013 to inform the Company that they have decided to place the Company in the second stage of delisting under Practice Note 17 to the Listing Rules and required the Company to submit a viable resumption proposal at least 10 business days before the second stage of delisting expires (i.e. 5 May 2014).

The Company has submitted the resumption proposal on 5 May 2014 (and the updated versions of the resumption proposal in response to the comments from the Stock Exchange have been submitted on 10 June 2014, 22 August 2014, 16 September 2014, 10 October 2014 and 25 November 2014 respectively). As disclosed in the Company's announcement dated 2 December 2014, the Board announced that as informed by a letter dated 1 December 2014, the Stock Exchange has decided to allow the Company to proceed with the resumption proposal subject to satisfying the conditions by 31 May 2015.

Since the completion of the subscription agreement signed with Paliburg Company Limited (the "Paliburg Subscription Agreement") and Victory Stand Limited (the "Victory Stand Subscription Agreement") did not take place by 4 September 2015, the open offer proposed to be put forward by the Company on the basis of one offer share for every two existing shares held by the qualifying shareholders on the record date with issuance of the Warrants on the same terms as those being offered to the subscribers for no additional consideration to the qualifying shareholders who take up the offer shares on the basis of one warrant for one of offer share taken up (the "First Open Offer") would not proceed and the agreements entered into pursuant to the Restructuring would not become unconditional and had therefore been lapsed and the whitewash waiver granted by the Securities and Futures Commission of Hong Kong and approved at the special general meeting of the Company held on 22 June 2015 was invalidated accordingly.

As a result of the lapse of the First Open Offer and the agreements entered into pursuant to the Restructuring, and that the second stage of delisting had expired and the resumption proposal submitted to the Stock Exchange lapsed, on 18 September 2015, the Listing Division of the Stock Exchange issued a letter to the Company informing the Company that they have decided to place the Company in the third stage of delisting under Practice Note 17 to the Listing Rules. The third stage of delisting will expire on 1 April 2016 and at the end of the third stage of delisting, if the Company does not provide a resumption proposal in accordance with the requirement of the Stock Exchange, the Stock Exchange will proceed with cancellation of the Company's listing.

According to the letter, the Company is required to submit a viable resumption proposal to the Stock Exchange at least 10 business days before the third stage of delisting expires to addressing to the following:

- i) the Company must demonstrate sufficient operations or assets under Rule 13.24;
- ii) the Company must publish all outstanding financial results and address any audit qualifications (if any); and
- iii) the Company must have the winding up petition against the Company withdrawn or dismissed and the JPLs.

The Company has submitted the Resumption Proposal on 16 October 2015 (Bermuda time). In response to the comments from the Stock Exchange in respect of the Resumption Proposal, the Company has submitted to the Stock Exchange updated versions of the Resumption Proposal on 17 November 2015, 31 December 2015 and 25 January 2016. In support of the Resumption Proposal, the Company has also entered into certain agreements and certain supplemental agreements in relation to its business development and debt restructuring. Further announcement(s) will be made by the Company as and when appropriate.

On 14 March 2016, the Company received a letter from the Stock Exchange to allow the Company to proceed with the Resumption Proposal subject to satisfying of certain conditions by 15 July 2016, including among others:

- i) completion of all transactions contemplated under the Resumption Proposal; and
- ii) the Company must have the winding up petition withdrawn or dismissed and the provisional liquidators discharged.

The Stock Exchange may raise further comments or impose additional conditions on the Resumption Proposal.

#### ***Creditors' Scheme***

By an order dated 15 September 2014, the Bermuda Court directed the Scheme Meetings of the Scheme Creditors which were then held on 22 October 2014. The Bermuda Court has ordered the Scheme Meetings with the Existing Notes Creditors and Non-Note Creditors respectively. During the Scheme Meetings, a majority in number of the Scheme Creditors present and voting, representing not less than three-fourths in value of the accepted claims of the Scheme Creditors present and voting, have voted in favour to the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings.

By an order dated 5 November 2014 (Bermuda time), the Bermuda Court sanctioned the proposed Creditors' Scheme between the Company and its Scheme Creditors. The Creditors' Scheme became effective and binding on the Company and all of the Scheme Creditors on 5 November 2014 (Bermuda time), upon the delivery of a copy of the order to the Bermuda Registrar of Companies.

Pursuant to the terms of the Creditors' Scheme, the Bar Time was set on 5 February 2015. In order to be entitled to receive consideration under the Creditors' Scheme in respect of any accepted liabilities:-

- i) Each Existing Notes Creditor must ensure that a duly completed account holder letter is prepared by the relevant account holder and lodged with the information agent prior to the Bar Time; and
- ii) Each Non-Note Creditor must ensure that a duly completed notice of claim is submitted to the information agent prior to the Bar Time.

The Scheme Creditors who fail to submit an account holder letter or notice of claim prior to the Bar Time shall have no entitlement to Scheme Consideration under the Scheme.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date to 1 April 2016. Details of the above were set in the Company's announcement dated 22 September 2014, 22 October 2014, 6 November 2014, 12 November 2014, 18 February 2015, 3 March 2015, 9 March 2015, 16 March 2015, 30 March 2015, 13 April 2015, 11 May 2015, 2 June 2015, 30 July 2015, 17 August 2015, 31 August 2015, 7 September 2015, 9 September 2015, 12 October 2015, 25 November 2015, 18 January 2016 and 16 March 2016 respectively.

## 50. Statement of financial position and deficits of the Company

## a) Statement of financial position of the Company

	2015 HK\$'000	2014 HK\$'000
<b>NON-CURRENT ASSET</b>		
Interests in subsidiaries	—	—
<b>CURRENT ASSETS</b>		
Amounts due from subsidiaries	—	—
Prepayments, deposits and other receivables	3,957	2,539
Cash and cash equivalents	8,058	295
Total current assets	<u>12,015</u>	<u>2,834</u>
<b>CURRENT LIABILITIES</b>		
Amounts due to subsidiaries	2,767	2,767
Other payables and accruals	265,273	285,573
Financial guarantee contracts	321,996	321,996
Fixed rate guaranteed senior notes	882,329	882,329
Guaranteed senior convertible notes	441,753	441,753
Guaranteed senior payment-in-kind notes	88,657	88,657
Liability portion of convertible preferred shares	435,325	420,717
Amounts due to the ultimate holding company	888,875	943,291
Amount due to the immediate holding company	2,526	87
Loans from the immediate holding company	3,000	3,000
Total current liabilities	<u>3,332,501</u>	<u>3,390,170</u>
<b>NET CURRENT LIABILITIES</b>	<u>(3,320,486)</u>	<u>(3,387,336)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>(3,320,486)</u>	<u>(3,387,336)</u>
<b>NON-CURRENT LIABILITIES</b>		
Amount due to the immediate holding company	—	456
Loans from the immediate holding company	140,240	48,681
Total non-current liabilities	<u>140,240</u>	<u>49,137</u>
<b>Net liabilities</b>	<u>(3,460,726)</u>	<u>(3,436,473)</u>
<b>DEFICIENCY IN ASSETS</b>		
Share capital	78,206	78,206
Deficits	<u>(3,538,932)</u>	<u>(3,514,679)</u>
<b>Deficiency in assets</b>	<u>(3,460,726)</u>	<u>(3,436,473)</u>



**b) Movement in the Company's deficit**

	Share premium HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31 December 2013 and 1 January 2014	2,473,241	60,916	6,236	(6,020,536)	(3,480,143)
Total comprehensive loss for the year	-	-	-	(34,536)	(34,536)
Transfer to accumulated losses upon lapse of share options after vesting period	-	-	(452)	452	-
At 31 December 2014 and 1 January 2015	<u>2,473,241</u>	<u>60,916</u>	<u>5,784</u>	<u>(6,054,620)</u>	<u>(3,514,679)</u>
Total comprehensive loss for the year	-	-	-	(24,253)	(24,253)
Transfer to accumulated losses upon lapse of share options after vesting period	-	-	(4,087)	4,087	-
At 31 December 2015	<u>2,473,241</u>	<u>60,916</u>	<u>1,697</u>	<u>(6,074,786)</u>	<u>(3,538,932)</u>

**51. Principal subsidiaries**

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
<b>Directly held</b>				
Titan Oil (Asia) Ltd.	BVI	Ordinary US\$1	100	Investment holding
Titan FSU Investment Limited	BVI	Ordinary US\$1,000	100	Investment holding
TOSIL	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
Shipyards Holdings	BVI	Ordinary US\$1	100	Investment holding
Create Treasure Limited	BVI	Ordinary US\$1	100	Investment holding
Titan Fujian <sup>#</sup>	Mainland China	US\$30,000,000	100	Investment holding
<b>Indirectly held</b>				
Titan Resources Management Limited	BVI/Hong Kong	Ordinary US\$1	100	Provision of consultancy services
Ascend Success Investments Limited	Hong Kong	Ordinary HK\$1	100	Provision of financing services
Brilliance Glory Limited	Hong Kong	Ordinary HK\$2	100	Supply of oil products
石狮市益泰润滑油贸易 有限责任公司	Mainland China	RMB28,000,000	100	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Shengxi Haixin	Mainland China	RMB50,000,000	100	Supply of oil products
Titan TQSL	BVI	Ordinary US\$10,000	100	Investment holding
Titan Quanzhou Shipyard <sup>†</sup>	Mainland China	RMB1,040,879,823	100	Shipbuilding and ship repair
Guangzhou Titan	Mainland China	RMB50,000,000	100	Supply of oil products

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

† Registered as a sino-foreign owned enterprise under 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 11 December 2010, the Company entered into the GCL Sale and Purchase Agreement to dispose of its 95% equity interest in a subsidiary, Titan Quanzhou Shipyard. As separately disclosed, this disposal has not yet been completed at the date of this report.

Shares of certain subsidiaries held by the Group were pledged to the note holders of the Senior Notes Due 2012 (note 28), the Convertible Notes Due 2015 (note 29) and the PIK Notes Due 2015 (note 30).

## 52. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2016.

## 2. INDEBTEDNESS STATEMENT

At the close of business on 31 March 2016, being the latest practicable date for ascertaining this information prior to the printing of this circular, the Restructured Group had aggregate outstanding borrowings of approximately HK\$4,687 million, accounts payable of approximately HK\$307 million, amounts due to the ultimate holding company of approximately HK\$897 million (including RMB740 million (equivalent to approximately HK\$893 million) under the Shipyard Termination Agreement), amounts due to deconsolidated companies of approximately HK\$490 million, amount due to the deconsolidated jointly-controlled entity of approximately HK\$165 million and other payables and accruals of approximately HK\$486 million respectively.

Borrowings comprised of guaranteed and secured loan and accrued interests from the ultimate holding company of approximately HK\$1,843 million and approximately HK\$220 million respectively, guaranteed and unsecured loan and accrued interests from the ultimate holding company of approximately HK\$97 million and approximately HK\$12 million respectively, unsecured and unpledged loan and accrued interests from the ultimate holding company of approximately HK\$9 million and approximately HK\$0.2 million, guaranteed and unsecured bank loan of approximately HK\$6 million, unsecured loans and its accrued interest from the immediate holding company of approximately HK\$155 million and approximately HK\$3 million, the 2012 Senior Notes with a par value of HK\$826 million and a carrying value of approximately HK\$882 million, Listco Convertible Notes with a par value of HK\$374 million and a carrying value approximately HK\$442 million, PIK Notes Due 2015 with a par value of HK\$85 million and a carrying value of approximately HK\$89 million, K-Line Notes with a par value of HK\$195 million and a carrying value of approximately HK\$203 million, and Listco Preferred Shares with a par value of HK\$310.8 million and a carrying value of HK\$439 million, other secured loans and its accrued interest of approximately HK\$165 million and approximately HK\$25 million respectively and other unsecured loan and its accrued interest of approximately HK\$87 million and approximately HK\$10 million.

The Restructured Group's borrowings were secured by the construction in progress, machinery, buildings, prepaid land/seabed lease payments, investment property, shares of certain subsidiaries, certain Company's shares owned by a related party of the Company, personal guarantees executed by a related party and a former director of the Company and corporate guarantees executed by the Company and its subsidiaries.

Save as aforesaid and elsewhere as disclosed in the circular and apart from normal trade payables in the ordinary course of business, other payables and accruals, none of the entities of the Group had any debt securities which are issued and outstanding, or authorised or otherwise created but unissued term loans, other borrowings or indebtedness including bank overdrafts loans or other similar indebtedness liabilities under acceptances (other than normal trade bills) acceptance credits or hire purchase commitments, mortgage, charges, activities or other material contingent liabilities as at the close of business on 31 March 2016.

**3. WORKING CAPITAL STATEMENT**

The Directors are of the opinion that, after taking into account of the proceeds from the Open Offer and Subscription, cash flow from operation of the Group, the Group would have sufficient working capital to satisfy its present requirements of the next twelve months from the date of Resumption.

**4. MATERIAL CHANGES**

The Directors confirm that, save as the impact of the Resumption Proposal, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the last published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

**5. FINANCIAL AND TRADING PROSPECT**

As mentioned above, trading in the Shares on the Stock Exchange was suspended since 9:00 a.m. on 19 June 2012.

Subject to the completion of the transactions contemplated under the Restructuring and the trading in the Shares being resumed, it is expected that the financial position of the Company will be regularised. With the enhanced financial position, the existing business of the Company is expected to be continued in an expanded scale.

## 6. AUDIT QUALIFICATIONS

The below sets forth the qualification opinions as extracted from the annual reports of the Company for each of the three year ended 31 December 2013, 2014 and 2015:

### For the year ended 31 December 2013

#### a) *Scope limitation – Subsidiaries operated in Singapore*

Included in the consolidated financial statements of the Group is financial information in respect of subsidiaries which operated in Singapore (the “Singapore Subsidiaries”). As disclosed in note 2.1 to the consolidated financial statements, partial books and records of the Singapore Subsidiaries were unable to be located as a consequence of the re-location of their office and servers, the resignations of key management, operation and accounting personnel and records have been under the control of liquidators. Consequently, we were unable to obtain sufficient appropriate audit evidence in respect of the financial information of the Singapore Subsidiaries as set out below which has been included in the consolidated financial statements of the Group for the year ended 31 December 2013:

*HK\$'000*

#### *Included in the consolidated statement of profit or loss:*

Revenue	14,348
Other revenue	1,969
Impairment of accounts receivable	887

#### *Included in the consolidated statement of financial position:*

Accounts payable	20,609
Other payables and accruals	45,609

#### *Included in the gain on deconsolidation of subsidiaries:*

Amounts due from fellow subsidiaries	4,359,097
Amounts due from deconsolidated fellow subsidiaries	2,881,216
Amount due to the intermediate holding company	113,064
Amounts due to fellow subsidiaries	5,300,502
Amounts due to deconsolidated fellow subsidiaries	2,896,711
Cash and cash equivalents	630
Accounts payable	132,997
Other payables and accruals	33,291

We were unable to obtain sufficient appropriate audit evidence regarding the above because (i) there was inadequate documentary evidence available for us to verify the identity and nature of the above transactions and balances; (ii) we were unable to carry out any effective confirmation procedures for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to carry out any substantive procedures in relation to the above transactions and balances; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions and balances were free from material misstatement. Consequently, we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant transactions, inter-group transactions, contingent liabilities, commitments, related party transactions and subsequent events relating to the Singapore Subsidiaries and the Group. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's net liabilities as at 31 December 2013, the gain on deconsolidation of subsidiaries and the loss and cash flows of the Group for the year ended 31 December 2013 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the Singapore Subsidiaries.

***b) Scope limitation – Other payables and accruals***

Included in the other payables and accruals in the consolidated statement of financial position of the Group as at 31 December 2013 were other payables of approximately HK\$1,094,000 (the "Other Payables"). We were unable to obtain sufficient appropriate audit evidence regarding the Other Payables because (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Other Payables; (ii) we were unable to carry out any effective confirmation procedures in relation to the Other Payables for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Payables were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables, the Group's net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

**c) *Scope limitation – Assets and liabilities of a disposal group classified as held for sale***

**1) *Scope limitation – Reversal of impairment of property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale***

As disclosed in note 5 to the financial statements and included in the consolidated statement of financial position as at 31 December 2013 was the property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale (the “Property, Plant and Equipment and Prepaid Lease Payments”) with net carrying amounts of approximately HK\$2,545,476,000 and HK\$313,822,000 respectively and related deferred tax liabilities of approximately HK\$60,432,000. The directors are of the opinion that the carrying amounts of the Property, Plant and Equipment and Prepaid Lease Payments in the consolidated statement of financial position were lower than their fair values less cost to sell amounts and therefore, reversal of impairment losses on the Property, Plant and Equipment and Prepaid Lease Payments of approximately HK\$499,508,000 was made during the year ended 31 December 2013. Fair values less costs to sell were determined by the cost approach and the sales comparison approach and were used to determine the amounts of the Property, Plant and Equipment and Prepaid Lease Payments with reference to valuation reports. However, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used in arriving at the amounts of the Property, Plant and Equipment and Prepaid Lease Payments as at the end of the reporting period and therefore, as to whether the carrying amounts and the reversal of impairment losses on the Property, Plant and Equipment and Prepaid Lease Payments for the year ended 31 December 2013 are fairly stated. Any adjustment to the carrying amounts and reversal of impairment losses on the Property, Plant and Equipment and Prepaid Lease Payments for the year ended 31 December 2013 would have a consequential impact on the loss from discontinued operations for the year ended 31 December 2013, the balances of the Group’s assets and liabilities of a disposed group classified as held for sale, the Group’s net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

2) *Scope limitation – Prepayments, deposits and other receivables of a disposal group classified as held for sale*

As disclosed in note 5 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2013 were prepayments, deposits and other receivables in respect of Titan Quanzhou Shipyard Company Limited (“QZ Shipyard”), which is the disposal group classified as held for sale, of approximately HK\$52,590,000 and included in the consolidated statement of profit or loss for the year ended 31 December 2012 was impairment of the prepayments, deposits and other receivables of QZ Shipyard of approximately HK\$107,013,000 (the “Prepayments, Deposits and Other Receivables of the QZ Shipyard”). We were unable to obtain sufficient appropriate audit evidence regarding the Prepayments, Deposits and Other Receivables of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Prepayments, Deposits and Other Receivables of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Prepayments, Deposits and Other Receivables of the QZ Shipyard for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the Prepayments, Deposits and Other Receivables of the QZ Shipyard were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Prepayments, Deposits and Other Receivables of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group’s assets of a disposal group classified as held for sale, the Group’s net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

3) *Scope limitation – Accounts and bills payables of a disposal group classified as held for sale*

As disclosed in note 5 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2013 were accounts and bills payables of the QZ Shipyard of approximately HK\$93,624,000 owed to suppliers of the QZ Shipyard (the “Accounts and Bills Payables of the QZ Shipyard”). We were unable to obtain sufficient appropriate audit evidence regarding the Accounts and Bills Payables of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Accounts and Bills Payable of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to Accounts and Bills Payables of the QZ Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Accounts and Bills Payables of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group’s liabilities directly associated with the assets classified as held for sale, the Group’s net liabilities as at



31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

*4) Scope limitation – Other payables and accruals of a disposal group classified as held for sale*

As disclosed in note 5 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2013 were other payables and accruals of the QZ Shipyard of approximately HK\$572,608,000 (the “Other Payables and Accruals of the QZ Shipyard”). We were unable to obtain sufficient appropriate audit evidence regarding the Other Payables and Accruals of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Other Payables and Accruals of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Other Payables and Accruals of the QZ Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Payables and Accruals of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group’s liabilities directly associated with the assets classified as held for sale, the Group’s net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

***d) Scope limitation – Amounts due from/to holding companies of a deconsolidated jointly-controlled entity***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2013 was amount due to a deconsolidated jointly-controlled entity of approximately HK\$175,298,000 (the “Amounts with the Deconsolidated Jointly-Controlled Entity”). As disclosed in note 10 to the consolidated financial statements, included in the net assets of the jointly-controlled entity deconsolidated during the year ended 31 December 2012 were amounts due from holding companies of approximately HK\$171,454,000, amounts due to holding companies of approximately HK\$164,249,000 and impairment on amount due from the deconsolidated jointly-controlled entity of approximately HK\$161,412,000 (the “Amounts with Holding Companies”). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts with the Deconsolidated Jointly-Controlled Entity and the Amounts with Holding Companies because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts with the Deconsolidated Jointly-Controlled Entity and the Amounts with Holding Companies; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts with the Deconsolidated Jointly-Controlled Entity and the Amounts with Holding Companies for the purpose of our audit; and (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amount

due from the deconsolidated jointly-controlled entity were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts with the Deconsolidated Jointly-Controlled Entity and the Amounts with Holding Companies were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2013, the loss from discontinued operations of the Group for the year ended 31 December 2012, the Group's net liabilities as at 31 December 2013, and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

***e) Scope limitation – Amounts due from/to deconsolidated subsidiaries***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2013 was amounts due to deconsolidated subsidiaries of approximately HK\$4,222,659,000 (the "Amounts due to Deconsolidated Subsidiaries"). Included in the consolidated statement of profit or loss for the year ended 31 December 2013 was impairment of amounts due from deconsolidated subsidiaries of approximately HK\$5,384,435,000 (the "Impairment of Amounts due from Deconsolidated Subsidiaries"). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts due to Deconsolidated Subsidiaries because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amounts due from the deconsolidated subsidiaries were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2013, the Group's net liabilities as at 31 December 2013, and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

***f) Scope limitation – Financial guarantee contracts and commitments***

As disclosed in note 41 and 40 to the consolidated financial statements were financial guarantee contracts issued and commitments committed by the Group. We are unable to obtain sufficient appropriate audit evidence regarding the financial guarantee contracts and commitments committed by the Group because (i) we were unable to verify whether all financial guarantee contracts and commitments committed by the Group were included in the consolidated financial statements of the Group and the financial statements of the Company as at 31 December 2012 and 2013; (ii) we were unable to satisfy

ourselves the measurements of the financial guarantee contracts and commitments for the years ended 31 December 2012 and 2013 were appropriate; (iii) we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant financial guarantee contracts and commitments committed by the Company and the Group; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's and the Company's net liabilities at 31 December 2012 and 2013 respectively, the Company's interests in subsidiaries and consequently net loss and cash flows of the Group and the Company for the years ended 31 December 2012 and 2013, and the related disclosures thereof in the consolidated financial statements.

***g) Scope limitation – Events after the reporting period***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 January 2014 to the date of this auditors' report as required under the Hong Kong Standard on Auditing 560 "Subsequent Events" issued by the HKICPA. There were no practical alternative procedures that we could perform over the significant transactions which occurred during the period from 1 January 2014 to the date of this auditors' report.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

***h) Scope limitation – Related party transactions***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the related party transactions disclosures because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the related party transactions which may have occurred during the year ended 31 December 2013 as required under the Hong Kong Standard on Auditing 550 "Related Parties" issued by the HKICPA. There were no practical alternative procedures that we could perform over the related party transactions which occurred during the year ended 31 December 2013.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2013 and consequently net loss and cash flows of the Group for the year ended 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

***i) Scope limitation – Opening balances and corresponding figures***

In light of the matters above, there was inadequate documentary evidence available for us to verify the opening balances and corresponding figures for the year ended 31 December 2012. In addition, the auditors' report dated 14 February 2014 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2012 was disclaimed in view as a result of scope limitation based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

As a result of the above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities as at 31 December 2012 and 2013 and its results for the years ended 31 December 2012 and 2013, and the presentation and disclosure thereof in the consolidated financial statements.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Company and the Group as at 31 December 2013 and 2012 and the financial performance and cash flows of the Group for the years then ended, and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant subsequent events related to the Company and the Group.

***j) Material uncertainties relating to the going concern basis***

As disclosed in note 2.1 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK\$4,570,232,000 for the year ended 31 December 2013 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$7,750,671,000 and its total liabilities exceeded its total assets by approximately HK\$7,724,326,000.

As disclosed in notes 26, 28, 29, 30, 31 and 32 to the consolidated financial statements, the Group was in default on repayments of secured interest-bearing bank loans of approximately HK\$654,347,000, fixed rate guaranteed senior notes of approximately HK\$962,062,000, guaranteed senior convertible notes of approximately HK\$499,693,000, guaranteed senior payment-in-kind notes of approximately HK\$100,243,000, convertible preferred shares of approximately HK\$406,110,000 and notes payable of approximately HK\$227,292,000.

As disclosed in note 42 to the consolidated financial statements, the Group was involved in several legal proceedings. One of the legal proceedings is that KTL Camden Inc. ("KTL") has claimed that a subsidiary of the Company failed to pay certain hiring charges pursuant to a bareboat charter party contract and that the Company was liable to KTL for such hiring charges plus interest thereon in the sum of approximately

US\$6,853,032 pursuant to a deed of guarantee issued by the Company in favour of KTL. On 23 July 2013, the Supreme Court of Bermuda (the “Bermuda Court”) allowed KTL to be substituted as the petitioner in place of Saturn Petrochemical Holdings Limited (“SPHL”) and on 6 August 2013, KTL also made an application for the appointment of provisional liquidators in the Company. On 18 October 2013, the Bermuda Court ordered the appointment of the joint provisional liquidators of the Company. On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the joint provisional liquidators appointed to the Company (the “Discharge Application”). On 13 December 2013, the Bermuda Court ordered that the Camden Petition and the Discharge application be adjourned to 31 January 2014. Further hearings before the Bermuda Court took place on 31 January 2014 (Bermuda time), 14 February 2014 (Bermuda time), 28 February 2014 (Bermuda time), 7 March 2014 (Bermuda time) and 17 April 2014 (Bermuda time) and the Camden Petition and Discharge Application further adjourned to 16 May 2014 (Bermuda time).

These conditions indicate the existence of material uncertainties which may 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 favourable outcomes of the steps being taken by the directors of the Company as described in note 2.1 to the consolidated financial statements. 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 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 consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors of the Company in the preparation of the consolidated financial statements on a going concern basis were fair and reasonable and, accordingly, we were unable to satisfy ourselves that the use of the going concern assumption was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the use of the going concern assumption, which might have a consequential significant effect on the Group’s and the Company’s net liabilities as at 31 December 2013 and the loss of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

## For the year ended 31 December 2014

*(a) Scope limitation – Subsidiaries operated in Singapore*

During the year ended 31 December 2014, several subsidiaries operated in Singapore were placed into liquidation and the directors of the Group consider that the Group has lost its control over these subsidiaries. The deconsolidation of these subsidiaries operated in Singapore had resulted a gain on deconsolidation of subsidiaries of approximately HK\$4,134,534,000. As disclosed in note 2.1 to the consolidated financial statements, partial books and records of the subsidiaries operated in Singapore were unable to be located as a consequence of the re-location of their office and servers, the resignations of key management, operation and accounting personnel, and any available records have been under the control of liquidators. Consequently, we were unable to obtain sufficient appropriate audit evidence in respect of the balances as set out below which has been included in the gain on deconsolidation of subsidiaries for the year ended 31 December 2014:

	<i>HK\$'000</i>
Prepayments, deposits and other receivables	11,679
Amounts due from deconsolidated fellow subsidiaries	2,087,170
Amounts due to the intermediate holding company	(134,987)
Amounts due to fellow subsidiaries	(476)
Amounts due to deconsolidated fellow subsidiaries	(5,918,946)
Accounts payable	(133,710)
Other payables and accruals	<u>(46,710)</u>
Net liabilities of deconsolidated subsidiaries attributable to the Group	(4,135,980)
Release of exchange fluctuation reserve	<u>1,446</u>
Gain on deconsolidation of subsidiaries	<u><u>(4,134,534)</u></u>

We were unable to obtain sufficient appropriate audit evidence regarding the above because (i) there was inadequate documentary evidence available for us to verify the identity and nature of the above transactions and balances; (ii) we were unable to carry out any effective confirmation procedures for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to carry out any substantive procedures in relation to the above transactions and balances; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions and balances were free from material misstatement. Consequently, we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant transactions, inter-group transactions, contingent liabilities, commitments, related party transactions and subsequent events relating to the subsidiaries operated in Singapore. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant

effect on the Group's net liabilities as at 31 December 2014, the gain on deconsolidation of subsidiaries and the net profit and cash flows of the Group for the year ended 31 December 2014 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the subsidiaries operated in Singapore.

***(b) Scope limitation – Impairment of other receivables***

Included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 was impairment of other receivables of approximately HK\$1,214,000 (the "Impairment of Other Receivables"). We were unable to obtain sufficient appropriate audit evidence regarding the Impairment of Other Receivables because (i) there was inadequate documentary evidence available for us to verify the identity and nature of the other receivables; (ii) we were unable to carry out any effective confirmation procedures in relation to the other receivables for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the other receivables were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Impairment of Other Receivables were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the impairment of other receivables, the balances of the Group's other receivables, the Group's net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

***(c) Scope limitation – Assets and liabilities of a disposal group classified as held for sale***

***1) Scope limitation – Property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale***

As disclosed in note 6 to the financial statements and included in the consolidated statement of financial position as at 31 December 2014 was the property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale (the "Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments") with net carrying amounts of approximately HK\$2,488,687,000 and HK\$306,345,000 respectively and related deferred tax liabilities of approximately HK\$59,203,000. The directors are of the opinion that the carrying amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments included in the consolidated statement of financial position were lower than their fair values less cost to sell amounts and therefore, no impairment on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments was made during the year ended 31 December 2014. Fair values less costs to sell were determined by the cost approach and the sales comparison approach and were used to determine the amounts of the Property, Plant and Equipment and Prepaid Land/

Seabed Lease Payments with reference to valuation reports. However, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used in arriving at the amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at the end of the reporting period and therefore, as to whether the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2014 are fairly stated. Any adjustment to the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2014 would have a consequential impact on the loss from discontinued operation for the year ended 31 December 2014, the balances of the Group's assets and liabilities of a disposed group classified as held for sale, the Group's net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

2) *Scope limitation – Prepayments, deposits and other receivables of a disposal group classified as held for sale*

As disclosed in note 6 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2014 were prepayments, deposits and other receivables in respect of Titan Quanzhou Shipyard Company Limited ("QZ Shipyard"), which is the disposal group classified as held for sale, of approximately HK\$21,437,000 (the "Prepayments, Deposits and Other Receivables of the QZ Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Prepayments, Deposits and Other Receivables of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Prepayments, Deposits and Other Receivables of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Prepayments, Deposits and Other Receivables of the QZ Shipyard for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the Prepayments, Deposits and Other Receivables of the QZ Shipyard were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Prepayments, Deposits and Other Receivables of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets of a disposal group classified as held for sale, the Group's net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.



3) *Scope limitation – Accounts and bills payables of a disposal group classified as held for sale*

As disclosed in note 6 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2014 were accounts and bills payables of the QZ Shipyard of approximately HK\$93,861,000 owed to suppliers of the QZ Shipyard (the “Accounts and Bills Payables of the QZ Shipyard”). We were unable to obtain sufficient appropriate audit evidence regarding the Accounts and Bills Payables of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Accounts and Bills Payables of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to Accounts and Bills Payables of the QZ Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Accounts and Bills Payables of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group’s liabilities directly associated with the assets classified as held for sale, the Group’s net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

4) *Scope limitation – Other payables and accruals of a disposal group classified as held for sale*

As disclosed in note 6 to the financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2014 were other payables and accruals of the QZ Shipyard of approximately HK\$416,533,000 (the “Other Payables and Accruals of the QZ Shipyard”). We were unable to obtain sufficient appropriate audit evidence regarding the Other Payables and Accruals of the QZ Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Other Payables and Accruals of the QZ Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Other Payables and Accruals of the QZ Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Payables and Accruals of the QZ Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group’s liabilities directly associated with the assets classified as held for sale, the Group’s net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

***(d) Scope limitation – Amounts due from/to holding companies of a deconsolidated jointly-controlled entity***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2014 was amounts due to a deconsolidated jointly-controlled entity of approximately HK\$174,665,000 (the “Amounts with the Deconsolidated Jointly-Controlled Entity”). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts with the Deconsolidated Jointly-Controlled Entity because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts with the Deconsolidated Jointly-Controlled Entity; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts with the Deconsolidated Jointly-Controlled Entity for the purpose of our audit; and (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amount due from the deconsolidated jointly-controlled entity were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts with the Deconsolidated Jointly-Controlled Entity were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group’s other payables and accruals as at 31 December 2014, the Group’s net liabilities as at 31 December 2014, and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

***(e) Scope limitation – Amounts due from/to deconsolidated subsidiaries***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2014 was amounts due to deconsolidated subsidiaries of approximately HK\$390,121,000 (the “Amounts due to Deconsolidated Subsidiaries”). Included in the consolidated statement of profit or loss for the year ended 31 December 2014 was impairment of amounts due from deconsolidated subsidiaries of approximately HK\$135,461,000 (the “Impairment of Amounts due from Deconsolidated Subsidiaries”). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts due to Deconsolidated Subsidiaries because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amounts due from the deconsolidated subsidiaries were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts due to Deconsolidated Subsidiaries and the Impairment of Amounts due from Deconsolidated Subsidiaries were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group’s other payables and

accruals as at 31 December 2014, the Group's net liabilities as at 31 December 2014, and consequently net profit and cash flows of the Group for the year ended 31 December 2014 and the related disclosures thereof in the consolidated financial statements.

***(f) Scope limitation – Financial guarantee contracts and commitments***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2014 was financial guarantee liabilities of approximately HK\$113,155,000 and as disclosed in notes 43 and 42 to the consolidated financial statements were financial guarantee contracts issued and commitments committed by the Group. We were unable to obtain sufficient appropriate audit evidence regarding the financial guarantee contracts and commitments committed by the Group because (i) we were unable to verify whether all financial guarantee contracts and commitments committed by the Group were included in the consolidated financial statements of the Group and the financial statements of the Company as at 31 December 2013 and 2014; (ii) we were unable to satisfy ourselves the measurements of the financial guarantee contracts and commitments for the years ended 31 December 2013 and 2014 were appropriate; (iii) we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant financial guarantee contracts and commitments committed by the Company and the Group; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's and the Company's net liabilities at 31 December 2013 and 2014 respectively, the Company's interests in subsidiaries and consequently net profit and cash flows of the Group and the Company for the years ended 31 December 2013 and 2014, and the related disclosures thereof in the consolidated financial statements.

***(g) Scope limitation – Events after the reporting period***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 January 2015 to the date of this auditors' report as required under the Hong Kong Standard on Auditing 560 "Subsequent Events" issued by the HKICPA. There were no practical alternative procedures that we could perform over the significant transactions which occurred during the period from 1 January 2015 to the date of this auditors' report.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

***(h) Scope limitation – Related party transactions***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the related party transactions disclosures because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the related party transactions which may have occurred during the year ended 31 December 2014 as required under the Hong Kong Standard on Auditing 550 “Related Parties” issued by the HKICPA. There were no practical alternative procedures that we could perform over the related party transactions which occurred during the year ended 31 December 2014.

Any adjustments that might have been found necessary may have an effect on the Group’s net liabilities as at 31 December 2014 and consequently net profit and cash flows of the Group for the year ended 31 December 2014, and the related disclosures thereof in the consolidated financial statements.

***(i) Scope limitation – Opening balances and corresponding figures***

In light of the matters above, there was inadequate documentary evidence available for us to verify the opening balances and corresponding figures for the year ended 31 December 2013. In addition, the auditors’ report dated 30 April 2014 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2013 was disclaimed in view as a result of scope limitation based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

As a result of the above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group’s assets and liabilities as at 31 December 2013 and 2014 and its results for the years ended 31 December 2013 and 2014, and the presentation and disclosure thereof in the consolidated financial statements.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Company and the Group as at 31 December 2014 and 2013 and the financial performance and cash flows of the Group for the years then ended, and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant subsequent events related to the Company and the Group.

***(j) Material uncertainties relating to the going concern basis***

As disclosed in note 2.1 to the consolidated financial statements, as at 31 December 2014, the Group's current liabilities exceeded its current assets by approximately HK\$3,816,444,000 and its total liabilities exceeded its total assets by approximately HK\$3,832,634,000.

As disclosed in notes 26, 30, 31, 32, 33 and 34 to the consolidated financial statements, the Group was in default on repayments of interest-bearing bank and other loans of approximately HK\$5,850,000, fixed rate guaranteed senior notes of approximately HK\$882,329,000, guaranteed senior convertible notes of approximately HK\$441,753,000, guaranteed senior payment-in-kind notes of approximately HK\$88,657,000, convertible preferred shares of approximately HK\$420,717,000 and notes payable of approximately HK\$202,896,000.

As disclosed in note 44 to the consolidated financial statements, the Group was involved in several legal proceedings. One of the legal proceedings is that KTL Camden Inc. ("KTL") has claimed that a subsidiary of the Company failed to pay certain hiring charges pursuant to a bareboat charter party contract and that the Company was liable to KTL for such hiring charges plus interest thereon in the sum of approximately US\$6,853,032 pursuant to a deed of guarantee issued by the Company in favour of KTL. On 23 July 2013, the Supreme Court of Bermuda (the "Bermuda Court") allowed KTL to be substituted as the petitioner in place of Saturn Petrochemical Holdings Limited ("SPHL") and on 6 August 2013, KTL also made an application for the appointment of provisional liquidators in the Company. On 18 October 2013, the Bermuda Court ordered the appointment of the joint provisional liquidators of the Company. On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the joint provisional liquidators appointed to the Company (the "Discharge Application"). On 13 December 2013, the Bermuda Court ordered that the Camden Petition and the Discharge application be adjourned to 31 January 2014. The proceedings is still ongoing and further hearings before the Bermuda Court took place on 31 January 2014 (Bermuda time), 14 February 2014 (Bermuda time), 28 February 2014 (Bermuda time), 7 March 2014 (Bermuda time), 17 April 2014 (Bermuda time), 16 May 2014 (Bermuda time), 11 July 2014 (Bermuda time), 8 August 2014 (Bermuda time), 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time) and 27 March 2015 (Bermuda time).

These conditions indicate the existence of material uncertainties which may 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 favourable outcomes of the steps being taken by the directors of the Company as described in note 2.1 to the consolidated financial statements. 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 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 consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors of the Company in the preparation of the consolidated financial statements on a going concern basis were fair and reasonable and, accordingly, we were unable to satisfy ourselves that the use of the going concern assumption was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the use of the going concern assumption, which might have a consequential significant effect on the Group's and the Company's net liabilities as at 31 December 2014 and the profit of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

**For the year ended 31 December 2015**

**a) *Scope limitation – Assets and liabilities of a disposal group classified as held for sale***

**1) *Scope limitation – Property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale***

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position as at 31 December 2015 was the property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale (the "Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments") with net carrying amounts of approximately HK\$2,299,402,000 and HK\$293,982,000 respectively and related deferred tax liabilities of approximately HK\$57,974,000. The directors are of the opinion that the carrying amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments included in the consolidated statement of financial position were lower than their fair values less cost to sell amounts and therefore, no impairment on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments was made during the year ended 31 December 2015. Fair values less costs to sell were determined by the cost approach and the sales comparison approach and were used to determine the amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments with reference to valuation reports. However, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used in arriving at the amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at the end of the reporting period and therefore, as to whether the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2015 are fairly stated. Any adjustment to the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2015 would have a consequential impact on the loss from discontinued

operation for the year ended 31 December 2015, the balances of the Group's assets and liabilities of a disposed group classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

2) *Scope limitation – Prepayments, deposits and other receivables of a disposal group classified as held for sale*

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were prepayments, deposits and other receivables in respect of Titan Quanzhou Shipyard Co., Ltd. ("Titan Quanzhou Shipyard"), which is the disposal group classified as held for sale, of approximately HK\$20,247,000 (the "Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Prepayments, Deposits and Other Receivables of the Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets of a disposal group classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

3) *Scope limitation – Accounts payables of a disposal group classified as held for sale*

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were accounts payables of Titan Quanzhou Shipyard of approximately HK\$88,806,000 owed to suppliers of Titan Quanzhou Shipyard (the "Accounts Payables of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Accounts Payables of Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Accounts Payables of Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to Accounts Payables of Titan Quanzhou Shipyard for the purpose of our audit; and (iii)

there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Accounts Payables of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's liabilities directly associated with the assets classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

*4) Scope limitation – Other payables and accruals of a disposal group classified as held for sale*

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were other payables and accruals of Titan Quanzhou Shipyard of approximately HK\$395,159,000 (the "Other Payables and Accruals of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Other Payables and Accruals of the Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Other Payables and Accruals of Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Other Payables and Accruals of Titan Quanzhou Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Payables and Accruals of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's liabilities directly associated with the assets classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

*b) Scope limitation – Amounts due from/to holding companies of a deconsolidated jointly-controlled entity*

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was amounts due to a deconsolidated jointly-controlled entity of approximately HK\$164,606,000 (the "Amounts with the Deconsolidated Jointly-Controlled Entity"). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts with the Deconsolidated Jointly-Controlled Entity because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts with the Deconsolidated Jointly-Controlled Entity; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts with the Deconsolidated Jointly-Controlled Entity for the purpose of our audit; and (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amount due from the deconsolidated jointly-controlled entity were appropriate; and (iv) there were no



alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts with the Deconsolidated Jointly-Controlled Entity were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2015, the Group's net liabilities as at 31 December 2015, and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

***c) Scope limitation – Amounts due from/to deconsolidated subsidiaries***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was amounts due to deconsolidated subsidiaries of approximately HK\$388,139,000 (the "Amounts due to Deconsolidated Subsidiaries"). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts due to Deconsolidated Subsidiaries because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts due to Deconsolidated Subsidiaries; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts due to Deconsolidated Subsidiaries for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts due to Deconsolidated Subsidiaries were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2015, the Group's net liabilities as at 31 December 2015, and consequently net loss and cash flows of the Group for the year ended 31 December 2015 and the related disclosures thereof in the consolidated financial statements.

***d) Scope limitation – Financial guarantee contracts and commitments***

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was financial guarantee liabilities of approximately HK\$113,155,000 and as disclosed in notes 41 and 40 to the consolidated financial statements were financial guarantee contracts issued and commitments committed by the Group. We were unable to obtain sufficient appropriate audit evidence regarding the financial guarantee contracts and commitments committed by the Group because (i) we were unable to verify whether all financial guarantee contracts and commitments committed by the Group were included in the consolidated financial statements of the Group and the financial statements of the Company as at 31 December 2014 and 2015; (ii) we were unable to satisfy ourselves the measurements of the financial guarantee contracts and commitments for the years ended 31 December 2014 and 2015 were appropriate; (iii) we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant financial guarantee contracts and commitments committed by the Company and the Group; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net liabilities at

31 December 2014 and 2015 respectively, the Company's interests in subsidiaries and consequently net loss and cash flows of the Group for the years ended 31 December 2014 and 2015, and the related disclosures thereof in the consolidated financial statements.

***e) Scope limitation – Events after the reporting period***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 January 2016 to the date of this auditors' report as required under the Hong Kong Standard on Auditing 560 "Subsequent Events" issued by the HKICPA. There were no practical alternative procedures that we could perform over the significant transactions which occurred during the period from 1 January 2016 to the date of this auditors' report.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

***f) Scope limitation – Related party transactions***

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the related party transactions disclosures because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the related party transactions which may have occurred during the year ended 31 December 2015 as required under the Hong Kong Standard on Auditing 550 "Related Parties" issued by the HKICPA. There were no practical alternative procedures that we could perform over the related party transactions which occurred during the year ended 31 December 2015.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

***g) Scope limitation – Opening balances and corresponding figures***

In light of the matters above, there was inadequate documentary evidence available for us to verify the opening balances and corresponding figures for the year ended 31 December 2014. In addition, the auditors' report dated 31 March 2015 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2014 was disclaimed in view as a result of scope limitation based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

As a result of the above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities as at 31 December 2014 and 2015 and its results for the years ended 31 December 2014 and 2015, and the presentation and disclosure thereof in the consolidated financial statements.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Group as at 31 December 2015 and 2014 and the financial performance and cash flows of the Group for the years then ended, and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant subsequent events related to the Group.

***h) Material uncertainties relating to the going concern basis***

As disclosed in note 2.1 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK\$241,781,000 for the year ended 31 December 2015 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$3,938,700,000 and its total liabilities exceeded its total assets by approximately HK\$4,049,058,000.

As disclosed in notes 24, 28, 29, 30, 31 and 32 to the consolidated financial statements, the Group was in default on repayments of interest-bearing bank and other loans of approximately HK\$5,850,000, fixed rate guaranteed senior notes of approximately HK\$882,329,000, guaranteed senior convertible notes of approximately HK\$441,753,000, guaranteed senior payment-in-kind notes of approximately HK\$88,657,000, convertible preferred shares of approximately HK\$435,325,000 and notes payable of approximately HK\$202,896,000.

As disclosed in note 42 to the consolidated financial statements, the Group was involved in several legal proceedings. One of the legal proceedings is that KTL Camden Inc. ("Camden") has claimed that a deconsolidated subsidiary of the Company failed to pay certain hiring charges pursuant to a bareboat charter party contract and that the Company was liable to Camden for such hiring charges plus interest thereon in the sum of approximately US\$6,853,032 pursuant to a deed of guarantee issued by the Company in favour of Camden. On 23 July 2013, the Supreme Court of Bermuda (the "Bermuda Court") allowed Camden to be substituted as the petitioner in place of Saturn Petrochemical Holdings Limited ("SPHL") and on 6 August 2013, Camden also made an application for the appointment of provisional liquidators in the Company. On 18 October 2013, the Bermuda Court ordered the appointment of the joint provisional liquidators of the Company. On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the joint provisional liquidators appointed to the Company (the "Discharge Application"). On 13 December 2013, the Bermuda Court ordered that the

Camden Petition and the Discharge application be adjourned to 31 January 2014. The proceedings is still ongoing and further hearings before the Bermuda Court took place on 31 January 2014 (Bermuda time), 14 February 2014 (Bermuda time), 28 February 2014 (Bermuda time), 7 March 2014 (Bermuda time), 17 April 2014 (Bermuda time), 16 May 2014 (Bermuda time), 11 July 2014 (Bermuda time), 8 August 2014 (Bermuda time), 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time).

These conditions indicate the existence of material uncertainties which may 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 favourable outcomes of the steps being taken by the directors of the Company as described in note 2.1 to the consolidated financial statements. 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 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 consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors of the Company in the preparation of the consolidated financial statements on a going concern basis were fair and reasonable and, accordingly, we were unable to satisfy ourselves that the use of the going concern assumption was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the use of the going concern assumption, which might have a consequential significant effect on the Group's net liabilities as at 31 December 2015 and the net loss of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

**A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

The accompanying unaudited pro forma consolidated statement of financial position (collectively the “**Unaudited Pro Forma Financial Information**”) of the Group has been prepared to illustrate the effect of the Restructuring might have affected the financial position of the Group. Capitalised terms used herein shall have the same meaning as those defined in this circular unless the context otherwise requires.

The Unaudited Pro Forma Financial Information of the Group as at 31 December 2015 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2015, as if the Restructuring had been completed on 31 December 2015.

The Unaudited Pro Forma Financial Information of the Group is prepared based on a number of assumptions, estimates, uncertainties and the currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information of the Group, it may not give a true picture of the actual financial position of the Group that would have been attained had the Restructuring actually occurred on the date indicated herein.

Furthermore, the Unaudited Pro Forma Financial Information of the Group does not purport to predict the Group’s future financial position. The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information of the Group as set out in the circular and other financial information included elsewhere in this circular.



## B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Consolidated statement of financial position of the Group as at 31 December 2015	Reclassification of discontinued operations continuing operations	Adjusted consolidated statement of financial position of the Group as at 31 December 2015	Gross proceed from Open Offer	Gross proceed from the Subscriber	Legal & professional fee on Open Offer Subscription	GZE Standby Working Capital Facility Agreement from GZE (Oct 2015)	2015 Loan Agreement from Fame Dragon (Feb 2015)	Working Capital Loan Agreement from GZE (Aug 2014)	Settlement for Existing Notes Creditors	Settlement of Unsecured Claims
	Note 1	Note 2	Note 3	Note 4a	Note 4b	Note 5	Note 6	Note 7	Note 8	Note 9	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Liabilities directly associated with the assets classified as held for sale	2,855,067	(2,855,067)	-								
Total current liabilities	6,777,846		4,600,276								
<b>Net current (liabilities)/assets</b>	<b>(3,938,700)</b>		<b>(4,354,514)</b>								
<b>Total assets less current liabilities</b>	<b>(3,780,394)</b>		<b>(1,602,824)</b>								
<b>Non-current liabilities</b>											
Interest-bearing bank and other loans	-	250,333	250,333								
Other payables and accruals	-	29,288	29,288								
Liabilities portion of convertible preferred shares	-		-								
Loans from the ultimate holding company	96,392	1,839,975	1,936,367								
Loans from the immediate holding company	140,240		140,240								
Deferred tax liabilities	32,032	57,974	90,006						65,992		
Total non-current liabilities	268,664		2,446,234				180,000				
Net (liabilities)/assets	(4,049,058)		(4,049,058)								
<b>(Deficiency in assets)/Equity (Deficiency)/Equity attributable to owners of the Company</b>											
Share capital	78,206		78,206	26,069						19,209	
(Deficits)/Reserves	(4,127,264)		(4,127,264)	234,616	(2,504)					1,182,398	333,043
(Deficiency in assets)/Total equity	(4,049,058)		(4,049,058)								

## B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Creditors' Settlement Agreement Note 10	Shipyard Termination Agreement Note 11	Legal & professional fee on Debt Restructuring Note 12	Listco Preferred Shares Modification Note 13	Deconsolidation of Oil Finance Note 14	Compromise agreement in TQSL Holding Note 15	Creditors' scheme of TRML Note 16	Assumption Agreement Note 17	GZE and Fame loans from Dragon up to 15 July 2016 Note 18a	Accrual of interest expense of GZE and Fame Dragon as at 15 July 2016 to ordinary shares of the Company Note 18b	Conversion of interest payable to Dragon as at 15 July 2016 to ordinary shares of the Company Note 18c	Adjusted Group
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	HK\$'000
	(20,884)	(888,875)	(37,110)	(20,525)	(9,038)	(81,863)	65,169	1,768	(265,076)	(4,294)	3,000	(Unaudited)
<b>Non-current assets</b>												
Property, plant and equipment												2,301,554
Prepaid land/leased lease payments												293,982
Investment property												156,154
Total non-current assets												2,751,690
<b>Current assets</b>												
Inventories												42,053
Prepayments, deposits and other receivables				(2)								167,171
Restricted cash												26,547
Cash and cash equivalents	(20,884)		(37,110)	(20,525)	(9,038)	(81,863)						501,414
Assets of a disposal group classified as held for sale												737,185
Total current assets												737,185
<b>Current liabilities</b>												
Interest-bearing bank and other loans	(5,850)											6,943
Accounts payable												298,676
Other payables and accruals (Note 19(a) and (b))	(95)											-
Fixed rate guaranteed senior notes												-
Guaranteed senior convertible notes												-
Guaranteed senior payment-in-kind notes												-
Liability portion of convertible preferred shares	(202,896)											-
Notes payable												-
Tax payable												1,008
Amounts due to the ultimate holding company		(888,875)										3,604
Amount due to the immediate holding company												-
Loans from the immediate holding company												313,231



## B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Creditors' Settlement Agreement Note 10 HK\$'000 (Unaudited)	Shipyard Termination Agreement Note 11 HK\$'000 (Unaudited)	Legal & professional fee on Debt Restructuring Note 12 HK\$'000 (Unaudited)	Listco Preferred Shares Modification Note 13 HK\$'000 (Unaudited)	Deconsolidation of Oil Finance Note 14 HK\$'000 (Unaudited)	Compromise agreement in TQSL Holding Note 15 HK\$'000 (Unaudited)	Creditors' scheme of TRML Note 16 HK\$'000 (Unaudited)	Assumption Agreement Note 17 HK\$'000 (Unaudited)	GZE and Fame Dragon up to 15 July 2016 Note 18a HK\$'000 (Unaudited)	Accrual of interest expense from loans from GZE and Fame Dragon as at 15 July 2016 to ordinary shares of the Company Note 18b HK\$'000 (Unaudited)	Conversion of interest payable to GZE and Fame Dragon as at 15 July 2016 to ordinary shares of the Company Note 18c HK\$'000 (Unaudited)	Adjusted Group HK\$'000 (Unaudited)
Liabilities directly associated with the assets classified as held for sale												-
Total current liabilities												313,231
Net current (liabilities)/assets												423,954
Total assets less current liabilities												3,175,644
<b>Non-current liabilities</b>												
Interest-bearing bank and other loans												250,333
Other payables and accruals												29,288
Liabilities portion of convertible preferred shares				375,525								375,525
Loans from the ultimate holding company												2,182,359
Loans from the immediate holding company												179,240
Deferred tax liabilities												90,006
Total non-current liabilities												3,106,751
Net (liabilities)/assets												68,893
<b>(Deficiency in assets)/Equity (Deficiency)/Equity attributable to owners of the Company</b>												
Share capital		93,822	140									26,937
(Deficits)/Reserves	187,957	795,053	(37,250)	59,800	20,522	79,583	324,259	302,847	(66,937)	242,433		(237,444)
(Deficiency in assets)/Total equity												68,893

HK\$

Unaudited adjusted consolidated net tangible liabilities of the Group attributable to owners of the Company per Share prior to completion of the Restructuring (*Note 20*) (0.518)

Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Restructuring (*Note 21*) 0.002

### C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

*Notes:*

1. The adjusted consolidated statement of financial position of the Group as at 31 December 2015 is extracted from the Group's audited consolidated financial statements for the year ended 31 December 2015.
2. The pro forma adjustment represents reclassification of the "Assets of a disposal group classified as held for sale" and the "Liabilities directly associated with the assets classified as held for sale" recognised in the consolidated statement of financial position as at 31 December 2015 into respective assets and liabilities of the Group assuming the Shipyard Termination Agreement has been entered into between the Company, TQSL Holding, TPFL and GZE and the conditions precedent are satisfied as at 31 December 2015, for which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement to be terminated with immediate effect.
3. The pro forma adjustment represents the estimated proceeds of approximately HK\$260,685,156 from the Open Offer in the proportion of one Offer Share for every three existing shares in which 2,606,851,560 Offer Shares will be issued under the Open Offer (based on 7,820,554,682 shares in issue as at the Latest Practicable Date and assuming no share options would be exercised) at the subscription price of HK\$0.1 per Share.
4. The pro forma adjustment represents the issue of Subscription Shares to the Subscriber, assuming the Subscription has taken place on 31 December 2015:
  - (a) The pro forma adjustment represents the estimated proceeds from the Subscription Agreement of approximately HK\$260,000,000 which is based on 2,600,000,000 Shares to be issued at the subscription price of HK\$0.1 per Share. As a result of the Subscription Agreement, the Company's share capital and share premium will be increased by approximately HK\$26,000,000 and approximately HK\$234,000,000 respectively.
  - (b) The pro forma adjustment represents the estimated legal and professional fee incurred for the Open Offer and the Subscription of approximately HK\$2,504,000.

5. The pro forma adjustment represents the drawdown of the GZE standby working capital facility of approximately HK\$180,000,000.
6. The pro forma adjustment represents the drawdown of the remaining loan facility of approximately US\$5,000,000 (equivalent to approximately HK\$39,000,000) as at 31 December 2015 granted from Fame Dragon in respect of the 2015 Loan Agreement entered into between Fame Dragon and the Company on 27 February 2015 (as supplemented and amended on 16 October 2015 and 15 January 2016), assuming taking place on 31 December 2015. The total facility is US\$15,000,000 (equivalent to approximately HK\$117,000,000).
7. The pro forma adjustment represents the drawdown of the remaining loan facility of approximately RMB54,939,000 (equivalent to approximately HK\$65,992,000) as at 31 December 2015 granted from GZE in respect of the Working Capital Loan Agreement entered into between GZE and TQS on 22 August 2014 (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015, 16 October 2015 and 29 April 2016). The total facility is RMB60,000,000 (equivalent to approximately HK\$72,071,000).
8. The pro forma adjustment represents the settlement of the Existing Notes Creditors (including both principal and interests) of the Company as at 31 December 2015 by way of the Creditors' Scheme, under which the Listco Convertible Notes of approximately HK\$441,753,000, PIK Notes Due 2015 of approximately HK\$88,657,000 and 2012 Senior Notes of approximately HK\$882,329,000 will be compromised and discharged, and in return:
  - (i) a cash payment of HK\$211,132,000 out of the proceeds from the Subscription will be paid to the Existing Notes Creditors; and
  - (ii) 1,920,886,282 Creditors Shares will be issued at the issuing price of HK\$0.1 per Note Creditors Shares with the par value of HK\$0.01 each, pursuant to which the Company's share capital will be increased by approximately HK\$19,209,000 and its share premium account will be increased by approximately HK\$172,880,000 respectively.

For those Existing Notes Creditors who fail to submit the completed account holder letter to the Information Agent prior to the Bar Time (5 February 2015) will not be entitled to receive any scheme consideration and will have its liabilities compromised and discharged fully.

Upon the discharge of the liabilities arising from the Company's Existing Notes Creditors under the Creditors' Scheme, the Company will recognise a net gain of approximately HK\$1,009,518,000, representing the difference between the total liabilities of approximately HK\$1,412,739,000 to be compromised and discharged under the Creditors' Scheme and the total settlement amount of approximately HK\$403,221,000 to be made (including the cash settlement and the issue of the Note Creditors Shares).

9. The pro forma adjustment represents the settlement of the Unsecured Creditors of the Company as at 31 December 2015 by way of the Creditors' Scheme (including Frontline Settlement Agreement), under which the accounts payables of approximately HK\$217,731,000 and other payables and accruals of approximately HK\$148,895,000 will be compromised and discharged, and in return a cash payment of HK\$33,583,000 out of the proceeds from the Subscription will be paid to the Unsecured Creditors.

Upon the discharge of the liabilities arising from the Unsecured Creditors of the Company under the Creditors' Scheme, the Company will recognise a net gain of approximately HK\$333,043,000, representing the difference between the total liabilities owed to the Unsecured Creditors of the Company of approximately HK\$366,626,000 to be compromised and discharged under the Creditors' Scheme and the total cash settlement amount of approximately HK\$33,583,000 to be made.

10. The pro forma adjustment represents the settlement of the other compromised creditors of the Company as at 31 December 2015, under which the interest-bearing bank loan of approximately HK\$5,945,000 (including principal and interest payable) and notes payables of approximately HK\$202,896,000 will be compromised and discharged, and in return a cash payment of HK\$20,884,000 out of the proceeds from the Subscription will be paid to those other compromised creditors.

Upon the discharge of the liabilities arising from those other compromised creditors of the Company under the arrangements, the Company will recognise a net gain of approximately HK\$187,957,000 to be compromised and discharged under the arrangements and the total cash settlement amount of approximately HK\$20,884,000 to be made.

11. The deposit received of RMB740,000,000 (equivalent to approximately HK\$888,875,000) originally paid by Grand China Logistics to the Group was assigned to GZE. The Company will issue 9,382,164,000 new Shares at the settlement price of HK\$0.1 each in lieu of repayment of such amount, assuming the Shipyard Termination Agreement has taken place on 31 December 2015. The Company's share capital will be increased by approximately HK\$93,822,000 and its share premium account will be increased by approximately HK\$844,394,000 respectively. The Company will recognise a loss of approximately HK\$49,341,000 upon settlement of the deposit received.
12. The pro forma adjustment represents the estimated legal and professional fee incurred for the Debt Restructuring of approximately HK\$38,510,000, assuming it has taken place on 31 December 2015. As a professional fee of HK\$1,400,000 to be charged by Lego will be settled by issuing 14,000,000 new Consideration Shares at the settlement price of HK\$0.1 each, the Company's share capital will be increased by HK\$140,000 and its share premium will be increased by HK\$1,260,000 respectively.
13. The pro forma adjustment represents upon the Company entering into the Listco Preferred Shares Modification Deed with DBIL, a company assigned by Saturn Petrochemical, the original Listco Preferred Shares holder, the redemption period of the Listco Preferred Shares is extended to any time on or after the 3rd year when the Restructuring become effective, assuming the Restructuring has become effective as at 31 December 2015. The Listco Preferred Shares is therefore reclassified as non-current liabilities as at 31 December 2015 accordingly.

Upon entering into the Listco Preferred Shares Modification Deed, the Company will recognise a net gain of approximately HK\$59,800,000, representing the difference between the fair value of the liability component of the Listco Preferred Shares with the outstanding dividend payables to the Listco Preferred Shares holders of approximately HK\$375,525,000 and the total settlement of the original Listco Preferred Shares of approximately HK\$435,325,000, assuming the Listco Preferred Shares Modification Deed has become effective on 31 December 2015.

14. The pro forma adjustment represents deconsolidation of Titan Oil Finance Limited ("Oil Finance"), an indirect wholly-owned subsidiary of the Company, upon Oil Finance have been placed into liquidation. The deconsolidation of Oil Finance will lead to a decrease in other receivables of approximately HK\$2,000, a decrease in cash and cash equivalents of approximately HK\$1,000, a decrease in amounts due to deconsolidated subsidiaries in Singapore of approximately HK\$20,524,000 and a decrease in other payables and accruals of approximately HK\$1,000 and a gain on deconsolidation of Oil Finance of approximately HK\$20,522,000 will be recognised in reserves of the Group, assuming it has taken place on 31 December 2015.
15. The pro forma adjustment represents the settlement of the amounts due to the deconsolidated subsidiaries in Singapore under TQSL Holding, an indirect wholly-owned subsidiary of the Company, as at 31 December 2015 by way of entering into a compromise agreement made between TQSL Holding and the liquidators in Singapore, under which the amounts due to the deconsolidated subsidiaries in Singapore of approximately HK\$79,583,000 will be compromised and settled by the third party's loan for an amount of approximately HK\$796,000, which the repayment of such third party's loan to be funded by internal resources within the Group.

Upon entering into the above compromise arrangement with the liquidators in Singapore, the Company will recognise a net gain of approximately HK\$78,787,000, representing the difference between the amounts due to the deconsolidated subsidiaries in Singapore of approximately HK\$79,583,000 to be compromised and discharged under the compromise arrangement and the amount to be compromised and settled by the third party's loan of approximately HK\$796,000, which the repayment of such third party's loan will be funded by internal resources within the Group. As the Group had already paid and recognised HK\$796,000 in profit or loss for the year ended 31 December 2015, a gain of HK\$79,583,000 will be fully recognised upon completion of the compromise arrangement.

16. The pro forma adjustment represents the settlement of the amounts due to the deconsolidated subsidiaries in Singapore under TRML, an indirect wholly-owned subsidiary of the Company, as at 31 December 2015 by way of a creditor scheme, under which the amounts due to the deconsolidated subsidiaries in Singapore of approximately HK\$333,297,000 will be compromised and settled by the internal resources within the Group of approximately HK\$9,038,000.

Upon the above creditor scheme, the Company will recognise a net gain of approximately HK\$324,259,000, representing the difference between the amounts due to the deconsolidated subsidiaries in Singapore of approximately HK\$333,297,000 to be compromised and discharged under the creditor scheme and the amount to be compromised and settled by the internal resources within the Group of approximately HK\$9,038,000.

17. The pro forma adjustment represents upon the Company entering into the Assumption Agreement with Fame Dragon in respect of assigning all remaining outstanding debts due by TQS to Fame Dragon, the Company will in return issuing the Assumption Consideration Shares to Fame Dragon, assuming the Assumption Agreement has taken place on 31 December 2015. The outstanding debts owed by TQS as at 31 December 2015 with accounts payables of approximately HK\$81,863,000 and other payables of approximately HK\$256,938,000 will be compromised and discharged, and in return 3,595,420,415 Assumption Consideration Shares with par value of HK\$0.01 each will be issued at the issuing price of HK\$0.1 each, pursuant to which the Company's share capital will be increased by approximately HK\$35,954,000 and its share premium account will be increased by approximately HK\$323,588,000 respectively.

Upon the discharge of the liabilities arising from TQS under the above arrangement, the Company will recognise a net loss of approximately HK\$20,741,000 representing the difference between the total liabilities of approximately HK\$338,801,000 to be compromised and discharged under the above arrangement and the settlement amount of approximately HK\$359,542,000 by way of issuing the Assumption Consideration Shares to be made.

18. These pro forma adjustments represent the conversion of interest payable of the loans from GZE and Fame Dragon into ordinary shares of the Company, assuming the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement taking place on 31 December 2015:

(a) The pro forma adjustment represents additional interest expense of the loans from GZE and Fame Dragon from 31 December 2015 to 15 July 2016. Accordingly, the amounts due to the ultimate holding company and the amounts due to the immediate holding company will be increased by approximately HK\$65,169,000 and HK\$1,768,000 respectively.

(b) The pro forma adjustment represents the conversion of interest payable of the loans from GZE and Fame Dragon as at 15 July 2016 amounting to approximately HK\$265,076,000 and HK\$4,294,000 respectively into 2,693,701,426 new Shares at the issue price of HK\$0.1 per share. The Company's share capital will be increased by approximately HK\$26,937,000 and its share premium account will be increased by approximately HK\$242,433,000.

19. After taking account of the above pro forma adjustments, included in other payables and accruals consist of the amounts due to a deconsolidated jointly-controlled entity and amounts due to deconsolidated subsidiaries amounting to approximately HK\$164,606,000 and HK\$55,774,000 respectively.

(a) In respect of the amounts due to a deconsolidated jointly-controlled entity of HK\$164,606,000, upon completion of the liquidation of TGIL, the amounts will be net off with the amounts due from a deconsolidated jointly-controlled entity amounting to approximately HK\$148,286,000 (which had been fully impaired as at 31 December 2015). The remaining balance will be settled by the internal resources of the Group.

(b) In respect of the amounts due to deconsolidated subsidiaries amounting to HK\$55,774,000, the balances will be fully written off upon completion of the liquidation of these deconsolidated subsidiaries, or the Company plans to implement the restructuring of the PRC subsidiaries, including but not limited to winding up the PRC subsidiaries (upon the discharge of Provisional Liquidators).

20. The number of shares used for the calculation of the unaudited adjusted consolidated net tangible liabilities of the Group attributable to the owners of the Company per Share as at 31 December 2015 and prior to completion of the Restructuring is based on 7,820,554,682 Shares in issue as at 31 December 2015.
21. The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Restructuring is based on 30,633,578,365 Shares in issue upon completion of the Restructuring, which represents:
- (i) 7,820,554,682 Shares in issue as at 31 December 2015;
  - (ii) 2,606,851,560 Offer Shares to be issued as at 31 December 2015;
  - (iii) 2,600,000,000 Subscription Shares to be issued at 31 December 2015;
  - (iv) 1,920,886,282 new Shares to be issued under the Creditors' Scheme as at 31 December 2015;
  - (v) 9,382,164,000 new Shares to be issued under the Shipyard Termination Agreement as at 31 December 2015;
  - (vi) 3,595,420,415 new Shares to be issued under the Assumption Agreement as at 31 December 2015;
  - (vii) 2,693,701,426 new Shares to be issued under the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement as at 31 December 2015; and
  - (viii) 14,000,000 new Consideration Shares to be issued for settlement of professional fee for a third party as at 31 December 2015.

2,606,851,560 Offer Shares was calculated assuming no outstanding convertible securities being exercised and converted respectively on or before the Record Date.

**D. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Group.



國衛會計師事務所有限公司  
**Hodgson Impey Cheng Limited**

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

13 May 2016

The Board of Directors  
Titan Petrochemicals Group Limited  
(Provisional Liquidators appointed)  
4902 Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN  
AN INVESTMENT CIRCULAR**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Titan Petrochemicals Group Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2015, and related notes as set out on pages II -1 to II -10 of the circular issued by the Company dated 13 May 2016. The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in page II -1.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the restructuring on the Group’s financial position as at 31 December 2015 as if the restructuring had taken place at 31 December 2015. As part of this process, information about the Group’s financial position, has been extracted by the directors from the Group’s consolidated financial statements for the year ended 31 December 2015, on which an audit report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling 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” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express 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.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.



The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled 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  
**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*  
**Wong Sze Wai, Basilia**  
Practising Certificate Number: P05806  
Hong Kong

**A. PROFIT FORECAST FOR THE THREE YEARS ENDING 31 DECEMBER 2016, 2017 AND 2018**

**(A) PROFIT FORECASTS**

Profit forecasts for the year ending 31 December	2016 approximately	2017 approximately	2018 approximately
Forecast consolidated profit attributable to the Shareholders for the year ending 31 December ( <i>Note 1</i> )	HK\$1,676.0 million ( <i>Note 3</i> )	HK\$48.5 million ( <i>Note 4</i> )	HK\$426.6 million ( <i>Note 4</i> )
Forecast consolidated (loss)/profit (excluding exceptional items) attributable to the Shareholders for the year ending 31 December ( <i>Note 2</i> )	HK\$(298.1) million ( <i>Note 5</i> )	HK\$48.5 million	HK\$426.6 million
Unaudited pro forma forecast profit per new Share for the year ending 31 December ( <i>Note 2</i> )	HK\$0.055	HK\$0.002	HK\$0.014

*Notes:*

1. The basis and assumptions on which the above consolidated profit forecast for the years ending 31 December 2016, 2017 and 2018 has been prepared are summarised in the section below.
2. The number of Shares of 30,633,578,365 used for the calculation of the unaudited pro forma forecast profit per Share for the years ending 31 December 2016, 2017 and 2018 after completion of the Restructuring represents:
  - (i) 7,820,554,682 Shares in issue as at 31 December 2015;
  - (ii) 2,606,851,560 Offer Shares to be issued;
  - (iii) 2,600,000,000 Subscription Shares to be issued;
  - (iv) 1,920,886,282 new Shares to be issued under the Creditors' Scheme;
  - (v) 9,382,164,000 new Shares to be issued under the Shipyard Termination Agreement;
  - (vi) 3,595,420,415 new Shares to be issued under the Assumption Agreement upon Resumption;
  - (vii) 2,693,701,426 new Shares to be issued under the Debt Rescheduling Agreements, the Interim Financing Agreements and the Working Capital Loan Agreement; and
  - (viii) 14,000,000 Consideration Shares to be issued.

2,606,851,560 Offer Shares was calculated assuming no outstanding convertible securities being exercised and converted respectively on or before the Record Date.

3. Forecast consolidated profit attributable to the Shareholders for the year ending 31 December 2016 is mainly attributable to the revenue generated from the first order of oil rig construction (being the Group's principal activity after Resumption) upon the completion of the Restructuring (the "First Order") (with the production of which is expected to be commenced in the fourth quarter of 2016), netting off respective costs of sales, and the non-recurring gains (the "Non-Recurring Gains") (including but not limited to the net gains arising from (i) the extension of redemption period of the Listco Preferred Shares; (ii) the deconsolidation of a subsidiary of the Company less the impairment loss on amount due from a deconsolidated subsidiary; (iii) subsidiaries creditors' scheme; and (iv) Debt Restructuring).
4. Assuming no Non-Recurring Gains incurred, the forecast consolidated profit attributable to the Shareholders for the year ending 31 December 2017 represents solely the operating results for the years ending 31 December 2017 and 2018, being revenue netting off respective costs of sales, of the First Order and two new orders (which is expected to commence production in the second and fourth quarter in 2017 respectively) for the year ending 31 December 2017 of the First Order, two new orders in 2017 and three additional new orders in 2018 (which is expected to commence production in the second quarter, fourth quarter and fourth quarter in 2018 respectively).
5. The figures represented the operating profit of the Group, excluding the net gains arising from (i) the extension of redemption period of the Listco Preferred Shares; (ii) the deconsolidation of a subsidiary of the Company less the impairment loss on amount due from a deconsolidated subsidiary; (iii) subsidiaries creditors' scheme; and (iv) Debt Restructuring.

## (B) BASIS AND ASSUMPTIONS

The forecast consolidated profits attributable to Shareholders for the years ending 31 December 2016, 2017 and 2018 is prepared by the Directors with the following bases:

1. The forecast consolidated profits attributable to Shareholders for the years ending 31 December 2016, 2017 and 2018 are prepared based on the audited consolidated accounts of the Group for the year ended 31 December 2015. The forecast has been prepared based on the accounting policies consistent in all material respects of those presently adopted by the Group as set out in the audited financial statements of the Company for the year ended 31 December 2015.
2. For the financial years ending 31 December 2016, 2017 and 2018 (the "**Forecast Period**"), the Group is engaged in the offshore and marine engineering business.
3. The production of the first three orders of oil rig construction (being the Group's principal activity after Resumption) will be commenced and generate revenue as and when expected during the Forecast Period. Revenue and respective costs of sales will be recognised based on stage and percentage of completion.

For the year ending 31 December 2016, it is expected that the construction work of a semi-submersible pursuant to the GZE Purchase Order MOU will commence and start revenue recognition of such order accordingly in December 2016. The order is expected to be delivered in and generate revenue until the fourth quarter of 2019.

For the year ending 31 December 2017, it is expected that (i) the construction work of a semi-submersible pursuant to the FTSD Purchase Order Framework Agreement will commence and start revenue recognition of such order accordingly in May 2017 and expected to be delivered in and generate revenue until the second quarter of 2020; and (ii) the construction work of a jackup rig pursuant to the FTSD Purchase Order Framework Agreement will commence and start revenue recognition of such order accordingly in December 2017 and expected to be delivered in and generate revenue until the first quarter of 2020.

For the year ending 31 December 2018, it is expected that (i) a semi-submersible pursuant to the GZE Purchase Order MOU will commence and start revenue recognition of such order accordingly in May 2018 and expected to be delivered in and generate revenue until the third quarter of 2020; (ii) semi-submersible pursuant to the GZE Purchase Order MOU will commence and start revenue recognition of such order accordingly in December 2018 and expected to be delivered in and generate revenue until the fourth quarter of 2020; and (iii) the construction work of a jack-up rig pursuant to the FTSD Purchase Order Framework Agreement will commence and start revenue recognition of such order accordingly in December 2018 and expected to be delivered in and generate revenue until the first quarter of 2021.

4. A fixed annual fee of US\$2,000,000 (or pro rata if less than twelve calendar months) will be incurred from the commencement of production of the First Order according to the Management Services Agreement throughout the Forecast Period.
5. A variable fee, being 3% (or such other percentage as FELS and TQS may mutually agree in writing from time to time) of the revenue of TQS for such year as shown in its audited financial statements in respect of such year less the aggregate amount of any fees paid by TQS during such year to FELS or any of its related corporations for carrying out sub-contracted work under any customer contract and for the use of any design and specialisation, any name, mark, service mark or logo of FELS or any of its related corporations. The variable fee with respect to any year will only be payable by TQS to FELS if the earnings before interest, taxes, depreciation and amortisation of TQS as shown in its audited financial statement in respect of that year reaches an agreed threshold as stated in the Management Services Agreement. For prudence sake, it is assumed that no subcontracting fee is paid by TQS to FELS in the years ending 31 December 2016, 2017 and 2018 so that the variable fee to be incurred for the year ending 31 December 2016, 2017 and 2018 will be at the maximum.
6. General administration expenses are estimated in accordance with the activities as stipulated in the Forecast Period and the best estimation for future costs expected to be incurred with reference to the historical cost.

7. Legal and professional fee are estimated based on the mandate signed and the best estimation for future costs expected to be incurred with reference to the historical fees charged.
8. Finance costs are estimated according to the terms of financing agreements entered into and expected to be entered into.
9. The scheme consideration is estimated as stipulated in the subsection headed “B. UPDATE ON DEBT RESTRUCTURING – Creditors’ Scheme” in section headed “Letter from the Board” in this circular.

The major assumptions for the preparation of the forecast consolidated profit attributable to Shareholders for the year ending 31 December 2016, 2017 and 2018 including but not limited to:

1. Trading of Shares will be resumed in July 2016.
2. The winding up petition will be withdrawn in July 2016.
3. The deconsolidation of a subsidiary and the subsidiaries creditors’ scheme will be in place in 2016.
4. Completion of the Debt Restructuring of the Group will take place in 2016.
5. Completion of Listco Preferred Shares Modification Deed will take place in 2016.
6. There will be no material changes in existing political, legal, fiscal, market or economic condition in Hong Kong, the PRC and other countries in which the Group carries on business throughout the Forecast Period.
7. There will be no material changes in the laws, regulations and policies in Hong Kong, the PRC, or elsewhere which affect the business that the Group carries on throughout the Forecast Period.
8. There will be no material changes in inflation rates, interest rates, construction material prices and foreign exchange rates from those currently prevailing throughout the Forecast Period.
9. There will be no material changes in the bases or rates of taxation, surcharges or government levies applicable to the operations of the Group throughout the Forecast Period.
10. There will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its facilities throughout the Forecast Period.

11. There will be no abnormal or extraordinary items, save for the gain result from the restructuring, the scheme of arrangement of TRML and deconsolidation of subsidiaries and resumption professional fees, occur during the Forecast Period.
12. The Directors and key senior management of the Group will continue to involve in the development and operation of the Group and the Group will be able to retain its key senior management and personnel during the Forecast Period.
13. There will be no interruption of the Group's operations that will adversely affect the trading, financial and prospects of the Group as a result of any other circumstances beyond management control.
14. No major litigation costs will be incurred during the Forecast Period.
15. The Group's operation will not materially and adversely affected by any of the risk factors set out in subsection headed "M. Risk Factors" in section headed "Letter from the Board" in this circular.

The Company will comply with Rule 13.24B of the Listing Rules if any matters or event, which would have material impact on the profit forecast, occur during the Forecast Period and will publish announcement(s) as and when appropriate.

**B. LETTER FROM THE REPORTING ACCOUNTANTS ON PROFIT FORECAST**

*The following is the text of a report received from HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group for the sole purpose of inclusion in this circular.*



國衛會計師事務所有限公司  
**Hodgson Impey Cheng Limited**

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

13 May 2016

The Board of Directors  
Titan Petrochemicals Group Limited  
(Provisional Liquidators appointed)  
4902 Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs

In accordance with our engagement letter dated 7 October 2015, we have performed the procedures agreed with you which are set out below on the memorandum of profit and cash flow forecasts for the years ending 31 December 2016, 2017 and 2018 (the “**Forecast**”) of Titan Petrochemicals Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) dated 13 May 2016. The Forecast has been prepared by the directors of the Company (the “**Directors**”) in connection with resumption proposal submitted to the Stock Exchange of Hong Kong Limited (the “**Resumption Proposal**”) dated 13 May 2016. Our engagement was conducted in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The procedures were performed solely to assist you in providing the Forecast in connection with the Resumption Proposal.

For the purpose of this report, the procedures performed are summarised as follows:

1. Check whether the Forecast, so far as the accounting policies and calculations are concerned, is properly compiled in accordance with the basis of the assumptions set out in the Forecast;
2. Check whether the Forecast is made by the directors of the Company, after care and consideration by the board of directors of the Company;



3. Check whether the Forecast is made in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA; and
4. Check the arithmetical calculations of the Forecast.

Based on the information and documents made available to us, we report our findings below:

- a. The Forecast, so far as the accounting policies and calculations are concerned, is properly compiled in accordance with the basis of the assumptions set out in the Forecast;
- b. The Forecast is made by the directors of the Company, after care and consideration by the Board of Directors;
- c. The Forecast is made in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA; and
- d. The arithmetical calculations of the Forecast are correct.

Because the above procedures did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, we do not express any assurance on the Forecast.

Had we performed additional procedures or had we performed an assurance engagement in respect of the Forecast in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is for your information only, and is not to be used for any other purpose or to be distributed to any other parties and we expressly disclaim any liability or duty to any other party in this respect. This report relates only to the items specified above and does not extend to the financial statements of the Group, taken as a whole.

Yours faithfully

**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*

**Wong Sze Wai, Basilia**  
Practising Certificate Number: P05806  
Hong Kong

## C. REPORT FROM THE FINANCIAL ADVISERS ON THE PROFIT FORECAST



13 May 2016

The Board of Directors  
Titan Petrochemicals Group Limited  
(Provisional Liquidators appointed)  
4902 Sun Hung Kai Centre  
30 Harbour Road, Wanchai  
Hong Kong

Dear Sirs,

We refer to the profit forecast of Titan Petrochemicals Group Limited (Provisional Liquidators appointed) (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), for three financial years ending 31 December 2016, 2017 and 2018 (the “**Profit Forecast**”) as set out in the circular dated 13 May 2016 issued by the Company to the Shareholders (the “**Circular**”) and of which this letter forms part. Terms used in this letter, unless otherwise defined, shall have the same meanings as those used in the Circular.

We are engaged to assist the directors of the Company (the “**Directors**”) and the joint and several provisional liquidators of the Company (the “**Provisional Liquidators**”) (together, the “**Parties**”), to comply with paragraph 29(2) of Appendix 1b of the Listing Rules and Rule 10 of the Takeovers Code. We are not reporting on the arithmetical calculations of the Profit Forecast and the adoption of accounting policies thereof. We have reviewed the forecasts in deriving the Profit Forecast for which the Directors are solely responsible, and have discussed with the Parties the information and documents provided by the Directors which formed part of the bases and assumptions, which are set out in section A in Appendix III to the Circular, upon which the Profit Forecast has been prepared. We have also considered the letter from Hodgson Impey Cheng Limited dated 13 May 2016 addressed to the Company regarding the calculations and accounting policies upon which the underlying profit forecast to the Profit Forecast have been made.

Our work has been undertaken for the purpose of reporting solely to the Board under paragraph 29(2) of Appendix 1b of the Listing Rules and Rule 10 of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

On the basis of the foregoing, we are of the opinion that the Profit Forecast, for which the Directors are solely responsible, (i) has been made with due care and consideration by the Directors, and (ii) has been made by the Directors after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**  
**Gary Mui**  
*Chief Executive Officer*

*The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Access Partner Consultancy & Appraisals Limited, an independent professional valuer, in connection with its valuation as of 31 March 2016 of the properties held by the Group.*



Unit C, 9/F Lucky Plaza  
315-321 Lockhart Road  
Wanchai, Hong Kong

13 May 2016

The Board of Directors  
**Titan Petrochemicals Group Limited**  
(Provisional Liquidators appointed)  
4902 Sun Hung Kai Centre  
30 Harbour Road, Wanchai  
Hong Kong

Dear Sirs/Madams,

**Valuation of (i) lands and various buildings located at No. 1 Shipyard Road, Jingfeng Town, Hui'an County, Quanzhou City, Fujian Province, the People's Republic of China (the "PRC") and (ii) a parcel of land located at Western side of Houzhu Port and Southern side of Beixing Community in Donghai Street, Fengze District, Quanzhou City, Fujian Province, the PRC**

#### **INSTRUCTION**

In accordance with your instructions for Access Partner Consultancy & Appraisals Limited ("Access Partner" or "we") to value captioned properties (the "Properties") held by Titan Petrochemicals Group Limited (the "Company") and/or its subsidiaries (collectively as the "Group") in the PRC, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as of 31 March 2016 (the "Date of Valuation").

## **1. PURPOSE OF VALUATION**

This report is prepared solely for the use of the directors and management of the Company. In addition, Access Partner acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 13 May 2016 (the "Circular").

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

## **2. BASIS OF VALUATION**

Our valuation has been based on market value, which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

## **3. VALUATION METHODOLOGY**

Due to the specific purpose for which the buildings of the Properties have been constructed, there are no readily identifiable market comparables. Thus the buildings have been valued on the basis of Depreciated Replacement Cost Approach ("DRC"). Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental and other relevant factors; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". In practice, DRC may be used as a substitute for the valuation of specialised property due to the lack of market comparables available in the relevant markets.

Regarding to the land portion of the Properties, we have adopted the Direct Comparison Approach by making reference to the comparable market transactions/asking prices as available in the relevant markets where appropriate.

## **4. TITLE INVESTIGATION**

We have been provided with copies of extracts of title documents relating to the Properties. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group's PRC legal advisor, Beijing B&D (Guangzhou) Law Firm (北京市北斗鼎銘(廣州)律師事務所) in respect of the titles to the Properties in the PRC. All documents have been used for reference only.

In valuing the Properties, we have relied on the advice given by the Group and its PRC legal advisor that the Group has valid and enforceable titles to the Properties which are freely transferable, and have free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

## **5. MAJOR ASSUMPTIONS**

Our valuation has been made on the assumption that the sellers sell the Properties in the market in its existing conditions without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the Properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the Properties and no allowance has been made for the Properties to be sold in one lot or to a single purchaser.

Our valuation does not necessarily represent the amount that might be realised from the disposition of the Properties.

## **6. SOURCES OF INFORMATION**

In valuing the Properties, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of the Properties, particulars of occupation, areas, ages of buildings and all other relevant matters which can affect the values of the Properties. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and no reason to suspect that any material information has been withheld.

## **7. VALUATION CONSIDERATION**

We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made in respect of the Properties. However, in the course of our inspection, we did not note any serious defect. We are not, however, able to report that whether the Properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the building facilities of the Properties.

No detailed measurement have been carried out by us to verify the correctness/accuracy of the areas (neither site nor floor) in respect of the Properties under consideration but we have assumed that the site/floor areas shown on the title documents handed to us are correct. Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuation for any charge, mortgage or amount owing on any of the Properties being appraised nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the Properties, we have complied with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the management of the Company, the potential tax liabilities which may arise from the sale of the Properties in the PRC, such as PRC business tax (tax rate is equivalent to 5% of sales revenue), PRC land appreciation tax (tax rate is equivalent to 30%-60% of the net appreciation amount) and PRC corporate income tax (tax rate is 25%). It is unlikely that such kinds of the tax liabilities will be crystallised in the near future due to the fact that the Group has no intention to dispose of or transfer the relevant property interests. In the course of our valuation, we have neither verified nor taken into account the tax liabilities.

## **8. REMARKS**

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

Our valuation certificates are hereby enclosed for your attention.

Yours faithfully,  
For and on behalf of  
**Access Partner Consultancy & Appraisals Limited**

**Raymond Chan**  
MHKIS  
Associate Director

*Note:*

*Mr. Chan is a member of Hong Kong Institute of Surveyors. He has had over 10 years' valuation experience in Hong Kong and the PRC.*

## SUMMARY OF VALUES

<b>No. Property</b>	<b>Market Value in Existing State as of 31 March 2016</b>
<b>Group I – Property held and occupied by the Group</b>	
1. Lands and various buildings located at No.1 Shipyard Road, Jingfeng Town, Hui'an County, Quanzhou City, Fujian Province, the PRC	RMB483,000,000
<b>Group II – Property held for investment by the Group</b>	
2. A parcel of land located at Western side of Houzhu Port and Southern side of Beixing Community in Donghai Street, Fengze District, Quanzhou City, Fujian Province, the PRC	RMB130,000,000
Grand-total:	<u>RMB613,000,000</u>



## VALUATION CERTIFICATE

## Group I – Property held and occupied by the Group

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as of 31 March 2016
1.	Lands and various buildings located at No.1 Shipyard Road, Jingfeng Town, Hui'an County, Quanzhou City, Fujian Province, the PRC  位於中國福建省泉州市惠安縣淨峰鎮船廠大道1號的土地及多幢樓宇	The property comprises a total of 5 parcels of land with a total site area of approximately 1,123,857.20 sq.m. and various buildings erected thereon, which were completed between 2007 and 2010.  The total gross floor area of the property is about 86,048.37 sq.m.. Details are stipulated in Note 2.  The land use rights of the property have been granted for various terms with expiry date between 9 September 2055 and 3 August 2059 for industrial use.	As of the Date of Valuation, the property is occupied by the Group as a multi-functional shipyard to provide ship repairing, ship building and offshore engineering business and related facilities.	RMB483,000,000

## Notes:

1. Pursuant to 5 State-owned Land Use Rights Certificates, the land use rights of the property with a total site area of approximately 1,123,857.20 sq.m. have been issued by Hui'an County People's Government (惠安縣人民政府) to Titan Quanzhou Shipyard Co., Ltd (泉州船舶工業有限公司) ("Titan Quanzhou Shipyard"), an indirect wholly-owned subsidiary of the Company, for various terms for industrial use. The details of which are as follows:

Land Use Rights Certificate No.	Expiry Date	Site Area (sq.m.)
Hui Guo Yong (2005) Chu Zi No.070004	13 September 2055	148,374
Hui Guo Yong (2005) Chu Zi No.070005	9 September 2055	487,614
Hui Guo Yong (2008) Chu Zi No.070008	23 May 2058	445,000
Hui Guo Yong (2007) Chu Zi No.070004	25 January 2057	33,000
Hui Guo Yong (2009) Chu Zi No.070003	3 August 2059	9,869.2
Total:		<u>1,123,857.20</u>

2. Pursuant to 6 Building Ownership Certificates issued by Hui'an County Planning Board (惠安縣規劃建設局), various buildings of the property with a total gross floor area of approximately 86,048.37 sq.m. are legally owned by the Group. The details of which are (not consistent to valuation report for the presentation) as follows:

Building Ownership Certificate	Use	Gross Floor Area (sq.m.)
Fang Quan Zhen Hui Jing Zi No.00301	Staff Quarters	20,939.24
Fang Quan Zhen Hui Jing Zi No.00302	Factory	23,191.52
Fang Quan Zhen Hui Jing Zi No.00303	Workshop	8,019.31
Fang Quan Zhen Hui Jing Zi No.00304	Workshop	4,375.02
Fang Quan Zhen Hui Jing Zi No.00312	Factory	21,302.55
Fang Quan Zhen Hui Jing Zi No.00313	Composite Building	8,220.73
Total:		<u>86,048.37</u>

3. Our inspection was performed by Mr. Ng Chun Fai, who has over 7 years' valuation experience, in January 2016.
4. Pursuant to 4 Banking Facility Contracts (流動資金借款合同) – No. HT820041130400004, HT820041130400005, HT820041130400006 and HT820041130400007, the land use rights of the property with an area of approximately 33,000 sq.m. and 9,869.2 sq.m. under the State-owned Land Use Rights Certificate – Hui Guo Yong (2007) Chu Zi No. 070004 and Hui Guo Yong (2009) Chu Zi No. 070003 respectively and buildings under the Building Ownership Certificates – Fang Quan Zhen Hui Jing Zi No. 00301 and 00313 are subject to a mortgage in favour of Chidian Branch, Bank of Quanzhou Limited (泉州銀行股份有限公司池店支行) (“BQ”), as security to guarantee the principal obligation for an amount of RMB40,000,000.

Pursuant to a Loan Transfer Agreement (債權轉讓協議) dated 28 November 2014 signed between BQ and Fujian Wonderful Energy Co., Ltd. (福建旺得福能源有限公司) (“Fujian Wonderful”) an independent third party of the Group, the mortgage (together with the underlying security, which means the abovementioned land use rights and the building certificates) had been transferred from BQ to Fujian Wonderful as security to guarantee the total obligation for an amount of RMB42,184,617.02.

5. Pursuant to (i) a Certified Letter of Other Rights over Land (土地他項權利證明書) – Hui Tu Ta Xiang (2014) No. 53 issued by the Bureau of Land Resources of Hui'an County (惠安縣國土資源局) dated 28 May 2014 and (ii) a Certified Letter of Construction in Progress Pledge (在建工程抵押登記證明) – Hui Fang Jian (2013) Zi No. 2481 issued by the Hui'an County Planning Board (惠安縣規劃建設局) dated 13 November 2013, the land use right of the property with an area of approximately 445,000 sq.m. and 487,614 sq.m. under the State-owned Land Use Rights Certificate – Hui Guo Yong (2008) Chu Zi No. 070008 and Hui Guo Yong (2005) Chu Zi No. 070005 respectively and the certificates of construction planning – Land Use Permit (建設用地規劃許可証) No. 04060, Building Permit (建設工程規劃許可証) No. 350521200800021 and Construction Permit (建築工程施工許可証) No. 350521200805220401 (collectively the “Planning Certificates”, which had become to the Building Ownership Certificates – Fang Quan Zhen Hui Jing Zi No. 00303 and 00312 as informed by the Group) are subject to a mortgage in favour of Guangdong Zhenrong Energy Co., Ltd. (廣東振戎能源有限公司) (“GZE”), the controlling shareholder of the Company, transferred originally from Fuzhou Branch, Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司福州分行) (“Pudong Bank”), as security to guarantee the principal obligation for an amount of RMB161,260,000 and RMB177,880,000 respectively.
6. As per our latest market research, the land with industrial use in the subject locality has a unit rate ranging from RMB200 per sq.m. to RMB400 per sq.m..

7. We have been provided with a legal opinion on the titles to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:
- a) Regarding to Note 4, the transfer of the mortgage from BQ to Fujian Wonderful is valid under the PRC law;
  - b) Regarding to Note 5, the transfer of the mortgage from Pudong Bank to GZE is valid under the PRC law;
  - c) The Group is in possession of proper legal titles to the property and, subject to prior approval of the mortgagors, Fujian Wonderful and GZE respectively, entitled to transfer the property with legal protection under the PRC law; and
  - d) Except for the aforesaid mortgages, the property is not subject to other mortgages or any other material encumbrances.

## VALUATION CERTIFICATE

## Group II – Property held for investment by the Group

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as of 31 March 2016
2.	A parcel of land located at Western side of Houzhu Port and Southern side of Beixing Community in Donghai Street, Fengze District, Quanzhou City, Fujian Province, The PRC  位於中國福建省泉州市豐澤區東海街道北星社區南側、後渚港區西側的一幅土地	The property comprises a parcel of land with a site area of approximately 26,557.60 sq.m. for the maximum plot ratio of 3.5.  The land use right of the property has been granted for a term expiring on 1 March 2058 for office and utilities use.	As at the Date of Valuation, the property is bare site.	RMB130,000,000

## Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Quan Guo Yong (2008) No.200187 issued by Quanzhou City People’s Government (泉州市人民政府) in June 2008, the land use right of the property with a site area of approximately 26,557.60 sq.m. has been granted to Titan Petrochemicals (Fujian) Ltd. (泰山石化(福建)有限公司)(“TPFL”), a wholly-owned subsidiary of the Company, for a term expiring on 1 March 2058 for office and utilities use.
- Pursuant to 4 Banking Facility Contracts (國內訂單融資協議) – No. 14080111-2012 (Hui’an) Zi No. 0115, 0116, 0142 and 0149, the land use right of the property with an area of approximately 26,557.60 sq.m. under the State-owned Land Use Rights Certificate – Quan Guo Yong (2008) No. 200187 is subject to a mortgage in favour of Hui’an Branch, Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司惠安支行)(“ICBC”), as security to guarantee the principal obligation for an amount of RMB82,899,981.17.  
  
Pursuant to a Loan Transfer Agreement (債權轉讓協議) – Gong Fu Zhai Quan Zhuan Xie (2014) No. 001 dated 24 July 2014 signed between ICBC and Fujian Wonderful, an independent third party of the Group, the mortgage (together with the underlying security, which means the abovementioned land use right) had been transferred from ICBC to Fujian Wonderful as security to guarantee the total obligation for an amount of RMB94,330,288.95.
- Our inspection was performed by Mr. Ng Chun Fai, who has over 7 years’ valuation experience, in January 2016.
- As per our latest market research, the land with similar use in the subject locality has a unit rate ranging from RMB1,100 per sq.m. to RMB2,700 per sq.m..

5. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:
  - a) Regarding to Note 2, the transfer of the mortgage from ICBC to Fujian Wonderful is valid under the PRC law;
  - b) The Group is in possession of a proper legal title to the property and, subject to prior approval of the mortgagor, Fujian Wonderful, entitled to transfer the property with legal protection under the PRC law; and
  - c) Except for the aforesaid mortgage, the property is not subject to other mortgages or any other material encumbrances.

*Details of the amendments made to the schedule to Bye-Laws pursuant to the special resolution of the Company dated 22 June 2015 are as follows:*

## SCHEDULE TO BYE-LAWS

All Preferred Shares shall carry equal rights and rank *pari passu* with one another and carry the rights set out in paragraphs 2 to 11 below.

### 1. Definitions

1.1 In this Schedule, (i) the provisions of Bye-law 1 shall not apply and (ii) the following terms shall have the following meanings, unless the context otherwise requires:

“Affiliates” means with respect to any person/company, any other person/company that, directly or indirectly, controls, is controlled by, or is under common control with, such person/company;

“Approved Investment Bank” means an investment bank of international standing and repute selected by the Directors;

“associate” has the meaning ascribed to it under the Listing Rules;

“Auditor” means the auditors for the time being of the Company;

“authorised denominations” means 10,000,000 Preferred Shares or integral multiples thereof;

“Bye-laws” means at any time the bye-laws of the Company at that time;

“Business Day” means any day (other than a Saturday, Sunday, public holiday or a day on 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;

~~“Change of Control Redemption Event” means any of the events set out in paragraphs (i) to (iv) of the definition of “Redemption Event”;~~

“Companies Act” means the Companies Act 1981 of Bermuda;

“connected person” has the meaning ascribed to it under the Listing Rules;

“controlling shareholder” has the meaning ascribed to it under the Listing Rules;

“Conversion Date” means the Business Day following the day on which an effective Conversion Notice shall have been delivered;

“Conversion Notice” means a written notice delivered to the Company at its Specified Office indicating that a Preferred Shareholder elects to convert the number of Preferred Shares as specified therein pursuant to Paragraph 3.2;

“Conversion Number” means, in relation to any Preferred Share, such number of Ordinary Shares as may, upon exercise of the Conversion Right, be subscribed at the Conversion Price in force on the relevant Conversion Date;

“Conversion Period” means, in respect of any Preferred Share, the period from: the first anniversary after the date of issue of the Preferred Shares (or such earlier date as may be approved by the Directors) until (and including) the day prior to the Redemption Date (if any) in respect of that Preferred Share;

“Conversion Price” means, at any time, an amount in Hong Kong dollars per Ordinary Share equal to HK\$0.56 subject to adjustments set out in Paragraph 4;

“Conversion Right” in respect of a Preferred Share means the right of its holder, subject to the provisions of the Bye-laws and the Bermuda Companies Act and to any other applicable fiscal or other laws or regulations, to convert all or any of its Preferred Shares, each of which shall be deemed to have a value equal to the Notional Value, into the Conversion Number of Ordinary Shares;

“Director(s)” means at any time the director(s) of the Company at that time;

“Effective” means when an office copy of the order of the Supreme Court of Bermuda sanctioning the Scheme is delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Bermuda Companies Act 1981;

“Equity Share Capital” means the issued share capital of the Company excluding any part thereof which does not either as respects dividends or as respects capital carry any right to participate beyond a specified amount or beyond an amount calculated by reference to a specified rate in a distribution;

“Financial Debt” means borrowings and other indebtedness by way of overdraft, acceptance credit or similar facilities, loan stocks, bonds, debentures, notes, debt or inventory financing, project financing, finance leases or sale and lease back arrangements or any other arrangements the purpose of which is to borrow money, together with forex, interest rate or other swaps, hedging obligations, bills of exchange, recourse obligations on factored debts and obligations under other derivative instruments but excludes (i) any obligations under the Preferred Shares and the Warrants; and; (ii) Short Term Working Capital Debt ~~and (iii) any such indebtedness or arrangements between members of the Titan Group (excluding the ProjectCo and its Subsidiaries from time to time);~~

“Fully Diluted Share Capital” means, at any relevant time, the total number of Ordinary Shares then outstanding, assuming the issuance, conversion, exchange or exercise in full of all the then outstanding Preferred Shares and Warrants and any share options or awards that have been issued under any employee incentivisation plan that has been adopted or approved by Titan;

“Group” means the Company and its Subsidiaries from time to time;

~~“Indenture” means the indenture dated as of March 17, 2005 between the Company and the Subsidiary Guarantors (as defined therein) and Zhen Rong Titan Company Limited and Deutsche Bank Trust Company Americas in respect of the Notes;~~

~~“Investor Rights Agreement” means the investor rights agreement to be entered into between WP and the Company;~~

“Listing Rules” means the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;

“Market Price” has the meaning as defined in Paragraph 4.2;

“Member” or “Shareholder” means each person entered in the register of members of the Company as the registered holder of shares in the capital of the Company and includes a registered holder of Ordinary Shares and/or Preferred Shares as the context may indicate;

“Notes” means the US\$400,000,000 8.50% Guaranteed Senior Notes Due 2012 issued by the Company;

“Notional Value” means at any time the value of HK\$0.56 attributed to each Preferred Share, subject to adjustment for any consolidation or sub-division of Preferred Shares in accordance with Paragraph 4.1(i) mutatis mutandis;

“Ordinary Shares” or “Ordinary Capital” means the shares of par value HK\$0.01 each in the capital of the Company existing on the date hereof and all other (if any) stock or shares from time to time and for the time being rank pari passu therewith and all other (if any) shares or stock in the Equity Share Capital resulting from any subdivision, consolidation or reclassification of shares;

“Preferred Dividend” means the cumulative preferential dividend payable pursuant to Paragraph 2.1;

“Preferred Shares” means the convertible preferred shares of par value HK\$0.01 each in the capital of the Company, the rights and obligations of which are set out in this schedule to these Bye-laws;

“Preferred Shareholder” means Shareholders of the Preferred Shares;



~~“ProjectCo” means Titan Group Investment Limited or, in the event of a reorganization involving the PRC oil storage business of the Titan Group, any company holding all or substantially all of ProjectCo’s assets (excluding ProjectCo);~~

~~“ProjectCo Ordinary Shares” means the ordinary shares of US\$1.00 each in the capital of ProjectCo;~~

~~“ProjectCo Preferred Shares” means the redeemable convertible preferred shares of US\$1.00 each in the capital of ProjectCo;~~

~~“ProjectCo Fully Diluted Share Capital” means, at any relevant time, the total number of ProjectCo Ordinary Shares then outstanding, assuming the issuance, conversion, exchange or exercise in full of all the then outstanding ProjectCo Preferred Shares and any share options or awards that have been issued under any employee incentivisation plan that has been adopted or approved by ProjectCo and excluding, for the avoidance of doubt, the ProjectCo Ordinary Shares to be issued pursuant to the ProjectCo Warrant;~~

~~“ProjectCo Warrant” means the warrant issued to Warburg Pincus (Bermuda) Private Equity IX, L.P. entitling it, in certain circumstances, to subscribe for such number of ProjectCo Ordinary Shares as to give it 50.1% of the voting rights in ProjectCo;~~

~~“Record Date” means the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights;~~

~~“Redemption Event” means any of the following events:~~

- ~~(i) Titan Oil ceasing to directly or indirectly through its subsidiaries or nominees to own 35% or more of the Ordinary Shares;~~
- ~~(ii) Titan Oil ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of the Company (other than in circumstances where WP or its associates is or are together such single largest shareholder);~~
- ~~(iii) Mr. Tsoi Tin Chun ceasing to be a controlling shareholder of Titan Oil (other than as a result of a temporary reduction of shareholding to facilitate a vendor top-up placing by the Company);~~
- ~~(iv) the Company ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of ProjectCo (other than as a result of an exercise of the 2007 Warrant).~~

- (~~iv~~) the Company is insolvent or is unable due to lack of financial resources or facilities to pay any indebtedness which has become due and payable;
- (~~iv~~i) any person (other than a holder of Preferred Shares) presents a petition or takes any other step to appoint a liquidator, provisional liquidator, manager, receiver, administrator, administrative receiver or other similar officer in respect of any assets of the Company and any such proceedings remains undismissed for a period of 45 consecutive days;
- (~~iv~~ii) the Company convenes a meeting of its creditors to consider, or makes or proposes to its creditors generally, any arrangement or composition with, or any assignment for the benefit of, its creditors generally; or
- (~~iv~~iii) a court of competent jurisdiction makes an order or a resolution of the Company is passed, for the dissolution, winding-up, liquidation or administration of the Company; ~~or~~
- (ix) ~~without prejudice to any of the events set out in sub-paragraphs (i) to (viii) above, any Event of Default (as defined in the Indenture) occurs.~~

“Register of Members” means the register of the holders of Ordinary Shares and the Preferred Shareholders kept by the Company and includes any branch register;

“Restructuring” means the resumption proposal of the Company submitted to the Stock Exchange under the Practice Note 17 of the Listing Rules, in relation to the restructuring of the Company involving, among others, a restructuring of the debts at the level of the Company by a scheme of arrangement with the Company’s creditors, an open offer of new Ordinary Shares and Warrants to be made by the Company to its Shareholders, the subscription by certain investors of new Ordinary Shares and Warrants issued by the Company and the issue of new Ordinary Shares to the Company’s controlling Shareholder to settle certain debts;

“Scheme” means the scheme of arrangement under section 99 of the Bermuda Companies Act 1981 entered into between the Company and the Scheme Creditors;

“Scheme Creditors” means creditors of the Company under the Scheme;

“Settlement Date” means the date specified by the Company in the completion notice when scheme consideration shall be distributed to creditors of the Scheme in accordance with the terms of the Scheme following satisfaction (or waiver) of each of the conditions of the Scheme;

“Share Incentive Scheme” means any share award scheme approved in general meeting by the shareholders of the Company for the issue or grant to directors or employees or consultants of the Company and/or any of its Subsidiaries or any other persons as specified therein of awards (free of charge or for a nominal sum) Ordinary Shares or options to subscribe for Ordinary Shares;

“Share Option Scheme” means any scheme approved in general meeting by the shareholders of the Company for the issue or grant to directors or employees or consultants of the Company and/or any Subsidiary or any other persons as specified therein of options to subscribe for Ordinary Shares;

~~“Shipyard Transaction” means one or more transactions between the Company or its wholly owned subsidiary and Titan Oil as contemplated in the Memorandum of Understanding between them dated March 28, 2007 referred to in the Company’s announcement dated March 28, 2007;~~

“Short Term Working Capital Debt” means any Working Capital Debt with a term of less than three months;

“Specified Office” means Suite 490+2, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong or such other office in Hong Kong as the Company may notify the holders of the Preferred Shares in writing;

“Stock Exchange” means the Stock Exchange of Hong Kong Limited;

“Subsidiary” means a company which is for the time being and from time to time a subsidiary (within the meaning of Chapter 1 of the Listing Rules) of the Company;

~~“Titan Oil” means Titan Oil Pte., Ltd., a company incorporated in Singapore;~~

“Warrants” means the warrants to subscribe for Ordinary Shares in accordance with the warrant instrument(s), of the Company issued or to be issued under or in connection with the Restructuring;

“Working Capital Debt” means, at any time, the aggregate of (i) import letters of credit, trust receipts with a term of less than three months and accounts payable, less the aggregate of (ii) export letters of credit and accounts receivable; and

~~“WP” means Warburg Pincus Private Equity IX, L.P or any of its Subsidiaries holding Preferred Shares.~~

1.2 References to “Paragraphs” are to the Paragraphs hereof.

## 2. As regards income

- 2.1 The holders of the Preferred Shares shall be entitled in priority to any distribution in respect of any other class of shares to a fixed cumulative preferential dividend at the rate of 4.70% per annum (the “Rate”) on the Notional Value of each Preferred Share held.

Subject to applicable laws, the Preferred Dividend shall be paid out of the profits of the Company as shown on its accounts as available for distributions, on 30th June and 31st December in each year to the persons who are registered as holders of Preferred Shares on the day that is fourteen days prior to (but not including) the relevant date (or, if that fourteenth day is not a Business Day, the last preceding day which is a Business Day) in respect of the 6-month period ending on (but not including) that 30th June or 31st December as the case may be, except that the first such payment shall be payable on the 30th June or 31st December, as the case may be, (or, if that is not a Business Day, the last preceding day which is a Business Day) next following the date of issue of the Preferred Share, and shall be payable in respect of the period from the date of issue to (but not including) such 30th June or 31st December, as the case may be.

To the extent that such Preferred Dividends are not paid on the Preferred Shares they shall accumulate at the Rate and any such arrears (as accumulated) shall be paid to holders of the Preferred Shares on the next 30th June or 31st December (as the case may be) on which the Company may, in accordance with applicable laws, pay such arrears (as accumulated). To the extent that any such arrears are not paid to holders of the Preferred Shares, such arrears of Preferred Dividends shall continue to accumulate at the Rate and shall be payable to holders of the Preferred Shares *pari passu* between themselves, in preference to any other distribution in respect of any other class of shares. The Preferred Shares shall not confer any further rights to participate in the profits of the Company.

- 2.2 Subject to Paragraph 2.3 below, a Preferred Share shall carry the right to the Preferred Dividend in respect of all periods up to the end of the 6-month period ending on (but excluding) 30th June or 31st December as the case may be, on or immediately preceding the Conversion Date in respect of that Preferred Share but not in respect of any subsequent period. However, no Preferred Share the Conversion Date for which falls prior to the 30th June or 31st December, as the case may be, next following the date of issue of the Preferred Share, shall carry the right to any Preferred Dividend.

- 2.3 Any Preferred Share which is redeemed or converted shall carry the right to the Preferred Dividend calculated down to and exclusive of the date upon which such Preferred Share is redeemed or converted.
- 2.4 The amount of any Preferred Dividend payable in respect of a period of less than six months shall be calculated on the basis of a 365-day year and the actual number of days elapsed.
- 2.5 The Preferred Shares shall rank senior to all existing and future classes of ordinary shares and preferred shares, and shall be subordinated and junior to all indebtedness.

### **3. As regards conversion**

- 3.1 Subject to the provisions of this schedule and to compliance with all fiscal and other laws and regulations applicable thereto, a Preferred Shareholder shall have the Conversion Right in respect of each Preferred Share held by him. After the expiry of the Conversion Period, any Conversion Rights which have not been exercised shall lapse and the Preferred Shares shall cease to be valid for any purpose.
- 3.2 The Preferred Shares shall be convertible at the option of the holders thereof, at any time after issue and without the payment of any additional sum, into the number of fully paid Ordinary Shares calculated by applying the then Conversion Price as adjusted in accordance with Paragraph 4. Such conversion shall take effect on the Business Day on which the Conversion Notice together with certificate(s) for the Preferred Shares to be converted is delivered to the Company and if any such notice is delivered on a day that is not a Business Day it shall be deemed given on the next Business Day thereafter.
- 3.3 A Conversion Notice shall not be effective if:-
  - (i) the Conversion Date in respect of the Conversion Notice does not fall within the Conversion Period;
  - (ii) it is not accompanied by the share certificates in respect of the relevant Preferred Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require);

- (iii) it is not accompanied by banker's cashier orders or similar instruments payable to the Company in respect of all taxes and stamp, issue and registration duties (if any) arising on conversion;
  - (iv) it does not include a declaration and confirmation that the beneficial owner of the relevant Preferred Shares, and of the relevant Ordinary Shares, is not a resident or national of any foreign jurisdiction where the exercise of the conversion rights attached to the relevant Preferred Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the relevant Preferred Shares or relevant Ordinary Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable; or
  - (v) in the case of a Conversion Notice, the Conversion Date of which would result in conversion taking place at a time when it is either not possible or not practicable to amend the Register of Members to reflect the conversion of the Preferred Shares before such register is closed for determining Preferred Shareholders' entitlement to receive the Preferred Dividend payable in respect of the relevant six-month period, it is not accompanied by a banker's cashier order or similar instrument payable to the Company in an amount equal to the Preferred Dividend thereon which the registered holder is to receive.
- 3.4 Conversion of the Preferred Shares shall be effected in such manner as the Directors shall, subject to the Bye-laws and as may be authorized by law, from time to time determine.

Without prejudice to the generality of the foregoing, any Preferred Share may be converted by redemption on the relevant Conversion Date out of (i) the capital paid up on the Preferred Share or (ii) any share premium account of the Company or (iii) the funds of the Company which would otherwise be available for dividend or distribution or (iv) the proceeds of a fresh issue of shares made for the purpose, or any combination of (i), (ii), (iii) and/or (iv) in respect of the par value or any premium payable or such redemption as may be permitted by the Companies Act and each Conversion Notice shall be deemed to authorise and instruct the Directors to retain any redemption moneys otherwise payable to the converting Preferred Shareholder giving such notice and, in respect of each Preferred Share the subject of the Conversion Notice, to apply the same in the subscription on such converting Shareholder's behalf of the Conversion Number of Ordinary Shares (subject to the treatment of fractions described in Paragraph 4.9) and, to the extent that conversion shall be effected out of the proceeds of a fresh issue of shares, where appropriate, each Conversion Notice shall be deemed:

- (i) to appoint as agent of such converting Preferred Shareholder any person selected by the Directors with authority to apply an amount equal to the redemption moneys in respect of the relevant Preferred Shares in subscribing on such converting Preferred Shareholder's behalf for the Conversion Number of Ordinary Shares (subject to the treatment of fractions described in Paragraph 4.9); and
- (ii) to authorise and instruct the Directors following the allotment of such Ordinary Shares to pay the said redemption moneys to such agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such converting Preferred Shareholder;

provided that if the converting Preferred Shareholder has a registered address in any territory where in the absence of a registration statement or any other special formalities the allotment or delivery of any relevant Ordinary Shares would or might in the opinion of the Directors be unlawful or impracticable under the laws of such territory or any relevant jurisdiction, then the Company shall as soon as reasonably practicable either (i) allot the relevant Ordinary Shares to one or more third parties selected by the Company or (ii) allot the relevant Ordinary Shares to the relevant Preferred Shareholder and then, on his behalf, sell them to one or more third parties selected by the Company, in each case for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment or allotment and sale, the Company shall pay the converting Preferred Shareholder an amount equal to the consideration received by it (net of expenses of sale if applicable) if the net amount exceeds HK\$100.

- 3.5 Each Preferred Shareholder irrevocably authorises the Company to effect the transactions required by Paragraph 3.4 above and for this purpose the Company may appoint any person to execute transfers, renunciations or other document on behalf of the relevant Preferred Shareholder and generally may make all arrangements which appear to it to be necessary or appropriate in connection therewith.

The Company shall allot and issue the relevant Ordinary Shares or, as the case may be, send the amount to which he is entitled pursuant to Paragraph 3.4 above to the converting Preferred Shareholder and shall procure that certificates in respect of the relevant Ordinary Shares, together with a new certificate for any unconverted Preferred Shares comprised in the certificate(s) surrendered by him, are issued as soon as practicable and in any event not later than 28 days after the relevant Conversion Date.

If and whenever any conversion takes place after the occurrence of any event falling within any sub-paragraph of Paragraph 4 but before the amount of the relevant adjustment to the Conversion Price (if any) shall have been calculated, Paragraph 3.4 above shall:

- (i) initially have effect in connection with that conversion as if the expression “relevant Ordinary Shares” referred to the Ordinary Shares which the Company would be obliged to issue if the Conversion Price was not to be adjusted in respect of the relevant event; and
- (ii) apply again in connection with that conversion following the calculation of the amount of that adjustment as if the expression “relevant Ordinary Shares” referred to the additional Ordinary Shares (if any) which the Company is obliged to issue in consequence of that adjustment.

3.6 The Company shall, on the Conversion Date of a Preferred Share:

- (i) enter the name of the relevant Preferred Shareholder as the holder of the relevant number of Ordinary Shares resulting from the conversion of the Preferred Shares in, and make any other necessary and consequential changes to, the Register of Members; and
- (ii) deliver, as soon as practicable but in any event within 10 Business Days of entry in the Register of Members, to the holder or as it directs, free of charge, such number of share certificate(s) in respect of the relevant Ordinary Shares as may have been notified by such holder prior to the Conversion Date (or if no such notification has been made, one share certificate in respect of such holder’s entire holding of Ordinary Shares as at the Conversion Date).

3.7 Except where the Company has allotted or sold the relevant Ordinary Shares pursuant to the proviso to Paragraph 3.4 in relation to conversion by redemption, the Company shall, as soon as reasonably practicable, account to the converting Preferred Shareholder for all distributions paid or made on the relevant Ordinary Shares as referred to in Paragraph 3.9.

3.8 If, so long as the Conversion Right in respect of any of the Preferred Shares remains exercisable, a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved (otherwise than for the purposes of a reconstruction, merger or consolidation the terms whereof have previously been approved by the Preferred Shareholder as a class in the manner provided in Paragraph 10), notice thereof shall forthwith be given by the Company to the relevant Preferred Shareholders and each Preferred Shareholder shall (whether or not the Conversion Right(s) attaching to his Preferred Share(s)) are then otherwise exercisable) be entitled, at any time after the passing of such resolution or (as the case may be) the making of such order, until the expiration of 6 weeks after the date of such notice (but not thereafter),



to elect (by giving a Conversion Notice duly completed and executed together with the certificates, statements and other items listed in Paragraphs 3.3(ii) to (v) so far as applicable and otherwise complying with Paragraph 3.3) to be treated as if all or any of his Preferred Share(s) had been converted immediately prior to the passing of such resolution or, as the case may be, the making of such order.

In that event, such Preferred Shareholder shall be entitled to be paid as per Paragraph 6 below.

On the expiry of the said period of 6 weeks, any outstanding Preferred Shares shall cease to be capable of conversion. Subject as provided in this Paragraph 3.8, the Conversion Right shall lapse in the event of a resolution being passed or an order of a court of competent jurisdiction being made that the Company be wound up or dissolved (otherwise than as aforesaid).

- 3.9 The Ordinary Shares resulting from the conversion of the relevant Preferred Shares shall carry the right to receive all dividends and other distributions declared, made or paid upon the ordinary share capital of the Company by reference to any Record Date on or after the Conversion Date and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares then in issue and fully paid.
- 3.10 Until such time as the Preferred Shares have been converted into Ordinary Shares, the Company shall:
- (i) at all times keep available for issue and free of all liens, charges, options, mortgages, pledges, claims, equities, encumbrances and other third-party rights of any nature, and not subject to any pre-emptive rights out of its authorised but unissued share capital, such number of authorised but unissued Ordinary Shares as would enable all Preferred Shares to be converted into Ordinary Shares and any other rights of conversion into, subscription for or exchange into Ordinary Shares to be satisfied in full; and
  - (ii) not make any issue, grant or distribution or take any other action if the effect would be that on the conversion of the Preferred Shares to Ordinary Shares it would be required to issue Ordinary Shares at a price lower than the par value thereof.

#### 4. Adjustments of Conversion Rights and/or Conversion Price

4.1 Subject as herein provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions (but shall however not be adjusted below the nominal value of the Ordinary Shares) and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of the Paragraphs 4.1(i) to (vii) inclusive below, it shall fall within the first of the applicable sub-paragraphs of this Paragraph 4.1 to the exclusion of the remaining sub-paragraphs:

- (i) if and whenever an Ordinary Share by reason of any consolidation or sub-division becomes of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective;
- (ii) if and whenever the Company shall issue and/or allot (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or Reserves as defined in Paragraph 4.2, (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue and/or allotment shall be adjusted by multiplying it by the nominal amount of the issued and paid up Ordinary Capital immediately before such issue and/or allotment and dividing the result by the aggregate of such nominal amount and the nominal amount of the Ordinary Capital issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the Record Date for such issue and/or allotment;
- (iii) if and whenever the Company makes any Capital Distribution (as defined in Paragraph 4.2) to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its Subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying the following fraction:

$$\frac{A - B}{A}$$

Where:

A = the Market Price last preceding the date of the Capital Distribution/the Announcement or, as the case may be, of the grant; and

B = the fair market value on the day of such Announcement or, as the case maybe, of the grant, as determined in good faith by an Approved Investment Bank, of the portion of the Capital Distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

- (a) if in the opinion of the relevant Approved Investment Bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant the amount of the closing price which should properly be attributed to the value of the Capital Distribution or Rights); and
- (b) the provisions of this Paragraph 4.1(iii) shall not apply in relation to the issue and/or allotment of Ordinary Shares paid up out of profits or Reserves and issued and/or allotted in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the Record Date for the Capital Distribution or grant.

- (iv) if and whenever the Company offers to holders of Ordinary Shares any Ordinary Shares (other than the Preferred Shares) for subscription by way of Rights, or shall grant to holders of Ordinary Shares any options or warrants to subscribe for Ordinary Shares, at a price which is less than the Market Price at the date of the Announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the Announcement of such offer or grant by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such Announcement plus the number of Ordinary Shares which the aggregate of the amount (if any) payable for the Rights, options or warrants and of the amount payable for the total number of Ordinary Shares comprised therein would purchase at such Market Price and the denominator is the number of Ordinary Shares in issue on such date of the Announcement plus the aggregate number of Ordinary Shares offered for subscription or comprised in the options or warrants (such adjustment to become effective (if appropriate, retrospectively) from the commencement of the day next following the Record Date for the offer or grant) provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the Preferred Shareholder (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange) as if he had exercised the Conversion Rights pursuant to his Preferred Shares in full on the day immediately preceding the Record Date for such offer or grant;

- (v) (a) if and whenever the Company or any other member of the Group shall issue and/or allot wholly for cash any securities (other than the Preferred Shares and the Warrants) which by their terms are convertible into or exchangeable for or carry rights of subscription for Ordinary Shares, and the Total Effective Consideration per Ordinary Share initially receivable for such securities is less than the Market Price at the date of the Announcement of the terms of issue and/or allotment of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue and/or allotment by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of the issue and/or allotment plus the number of Ordinary Shares which the Total Effective Consideration receivable for the securities issued would purchase at such Market Price and the denominator is the number of Ordinary Shares in issue immediately before such date of the issue and/or allotment plus the number of Ordinary Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate, retrospectively) from the close of business in Hong Kong on the Business Day immediately preceding whichever is the earlier of the date on which the issue and/or allotment is announced and the date on which the issuer determines the conversion or exchange rate or subscription price; and
- (b) if and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in Paragraph 4.1(v)(a) are modified so that the Total Effective Consideration per Ordinary Share initially receivable for such securities shall be less than the Market Price at the date of the Announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such modification plus the number of Ordinary Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange rate or subscription price would purchase at the Market Price at the date of the Announcement of such proposals and of which the denominator is the number of Ordinary Shares in issue immediately before such date of modification plus the number of Ordinary Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by, such securities at the modified conversion or exchange rate or subscription price. Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange or subscription terms.

For the purposes of this Paragraph 4.1(v), the “Total Effective Consideration” receivable for the securities issue shall be deemed to be the aggregate consideration receivable by the issuer for any such securities plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Ordinary Share initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue and/or allotment.

- (vi) If and whenever the Company shall issue and/or allot wholly for cash any Ordinary Shares (other than Ordinary Shares issued to Directors or employees of the Company or any of its Subsidiaries or their personal representatives pursuant to any Share Option Scheme or Share Incentive Scheme or on conversion of the Preferred Shares or the exercise of the subscription rights under the Warrants) or at a price per Ordinary Share which is less than the Market Price current at the date of the Announcement of the terms of such issue and/or allotment, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such Announcement by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such Announcement plus the number of Ordinary Shares which the aggregate amount payable for the issue and/or allotment would purchase at such Market Price and the denominator is the number of the Ordinary Shares in issue immediately before such date of the Announcement plus the number of Ordinary Shares so issued. Such adjustment shall become effective on the date of the issue and/or allotment; and

(vii) if and whenever the Company shall purchase any Ordinary Shares or securities convertible into shares or any rights to acquire Ordinary Shares (excluding any such purchases made on the Stock Exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong (or equivalent authority) and the Directors consider that it may be appropriate to make an adjustment to the Conversion Price, the Directors shall appoint an Approved Investment Bank to consider whether, for any reason whatsoever as a result of such purchases, an adjustment should be made to the Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if such Approved Investment Bank shall consider in its opinion that it is appropriate to make an adjustment to the Conversion Price, an adjustment to the Conversion Price shall be made in such manner as such Approved Investment Bank shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day immediately preceding the date on which such purchases by the Company are made.

4.2 For the purposes of Paragraph 4.1:

“Announcement” includes the release of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Stock Exchange and “date of announcement” means the date on which the announcement is first so released, delivered or transmitted;

“Capital Distribution” (without prejudice to the generality of that phrase) includes distributions in cash or in specie. Any dividends charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution provided that any such dividend shall not automatically be so deemed if:

- (i) it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Ordinary Shares for all periods after that ended 31 December 2006 as shown in the audited consolidated financial statements of the Company and its Subsidiaries for each such period; or
- (ii) to the extent that (i) above does not apply the rate of the dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the financial statements for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the Auditors appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially; or
- (iii) it is a Preferred Dividend;

“Market Price” means the 95% of the average of the closing prices of one Ordinary Share on the Stock Exchange for the twenty consecutive dealing days ending on the last dealing day preceding the day on or as of which the market price is to be ascertained;

“Ordinary Shares” means ordinary shares of par value HK\$0.01 each of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company, and includes, for the purposes of any issue, distribution or grant pursuant to subparagraphs 4.1(iii), (iv), (v), (vi) or (vii), any such ordinary shares of the Company as, when fully paid, shall be ordinary shares of the Company;

“Reserves” includes unappropriated profits; and

“Rights” includes rights in whatsoever form issued.

4.3 The provisions of Paragraphs 4.1 shall not apply to:

- (i) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares or upon exercise of any rights (including the Conversion Rights and the Ordinary Shares which falls to be issued upon the exercise of the subscription rights to the Warrants) to acquire Ordinary Shares;
- (ii) an issue of Ordinary Shares or other securities of the Company or any Subsidiary wholly or partly convertible into, or carrying rights to acquire, Ordinary Shares to the Directors or employees of the Company or any of its Subsidiaries pursuant to a Share Option Scheme or Share Incentive Scheme or to such other persons who are eligible under such schemes;
- (iii) an issue by the Company of Ordinary Shares or an issue by the Company or any Subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
- (iv) an issue of fully-paid Ordinary Shares by way of capitalisation of all or part of any subscription rights reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into, or rights to acquire, Ordinary Shares;
- (v) an issue of Ordinary Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Ordinary Shares so issued is capitalized and the Market Value of such Ordinary Shares is not more than 105 per cent of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash; and

(vi) an issue, offer or grant of Ordinary Shares or other securities (including rights or options) (i) pursuant to the Restructuring and the transactions contemplated under the resumption proposal and (ii) pursuant to the exercise of any Warrants as issued under the Restructuring.

~~(vi) any issue of Ordinary Shares pursuant to or in connection with the Shipyard Transaction.~~

- 4.4 Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into Ordinary Shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Conversion Price. In addition to any determination which may be made by the Directors, every adjustment to the Conversion Price shall be certified to be fair and appropriate either (at the option of the Company) by the Auditors or by an Approved Investment Bank. In giving any certificate or making any adjustment hereunder, the Auditors or the Approved Investment Bank shall be deemed to be acting as experts and not as arbitrators and, in the absence of manifest error, their decision shall be conclusive and binding on the Company and the Preferred Shareholder and all persons claiming through or under them respectively.
- 4.5 Notwithstanding anything contained in these Bye-laws, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this clause would be less than one cent and any adjustment that would otherwise be required then to be made shall not be carried forward.
- 4.6 If the Company or any Subsidiary shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire Ordinary Shares, the Company shall appoint an Approved Investment Bank to consider whether any adjustment to the Conversion Price is appropriate and if such Approved Investment Bank certifies that any such adjustment is appropriate, the Conversion Price shall be adjusted accordingly and the provisions of Paragraphs 4.4 and 4.5 shall apply.



- 4.7 Notwithstanding the provisions of Paragraphs 4.1, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment shall take effect on a different date or at a different time from that provided for under the said provisions, the Company may appoint an Approved Investment Bank to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would not or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such Approved Investment Bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from such other date and/or time as shall be certified by such Approved Investment Bank to be, in its opinion, appropriate (including, retrospectively).
- 4.8 Whenever the Conversion Price is adjusted as herein provided, the Company shall give notice to the Preferred Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as any of the Conversion Rights remains exercisable, make available for inspection by the Preferred Shareholders at its principal office in Hong Kong a signed copy of the said certificate of the Auditors or (as the case may be) of the relevant Approved Investment Bank and a certificate signed by a director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price on the effective date thereof and shall, on request, send a copy thereof to the Preferred Shareholder.
- 4.9 Fractions of Ordinary Shares will not be issued on conversion of the Preferred Shares and accordingly, for the purpose of determining the number of Ordinary Shares to be issued on Conversion (i) all Preferred Shares which in respect of each exercise of Conversion Right a holder hereof shall be aggregated and (ii) the number of Ordinary Shares to be issued upon conversion of the Preferred Shares shall be rounded down if otherwise fractions of Ordinary Shares would be issued pursuant to any conversion of Preferred Shares under the preceding provisions of Paragraphs 3 and 4.

## 5. Redemption

5.1 At any time on or after the 3rd anniversary of the actual date when the Restructuring becoming Effective and the Settlement Date having occurred~~the 5th anniversary of the date of issue of the Preferred Shares:~~

- (i) a Preferred Shareholder may deliver a notice in writing at least 30 Business Days before the Redemption Date to the Company at its Specified Office together with certificate(s) for the Preferred Shares to be redeemed requiring the Company to redeem all but not part only of the outstanding Preferred Shares then registered in its name at the redemption amount per Preferred Share equal to the Notional Value; or
- (ii) the Company may deliver a notice in writing at least 30 Business Days before the Redemption Date to the Preferred Shareholder at its last known address on the Register of Members notifying that all but not part only per Preferred Share equal to the Notional Value of the outstanding Preferred Shares then registered in its name shall be redeemed at the redemption price of per Preferred Share equal to 175% of the Notional Value,

whereupon subject to the requirements of the Companies Act, the Company shall pay to the Preferred Shareholder within 30 Business Days from receipt of such notice or the earliest date permitted under the Bermuda Companies Act whichever is later, the aforesaid redemption amount together with any Preferred Dividend on the Preferred Shares so to be redeemed that have accumulated (but have remained unpaid) from day to day thereon up to the date immediately prior to the Redemption Date.

5.2 Subject to paragraph 5.3 and the requirements of the Companies Act, a Preferred Shareholder may within any period of 90 Business Days (unless otherwise agreed in writing between the Company and the relevant Preferred Shareholder and as may be extended pursuant to Paragraph 5.4) from the date on which it becomes aware of any Redemption Event having occurred (whichever is the earlier) by notice in writing to the Company delivered to the Company at its Specified Office together with certificate(s) for the Preferred Shares to be redeemed require the Company to redeem all of its then outstanding Preferred Shares, whereupon subject to the requirements of any applicable laws, the Company shall pay to the relevant Preferred Shareholder within 10 Business Days from receipt of such notice or the earliest date permitted any applicable laws whichever is later, a redemption amount per Preferred Share equal to the greater of:

- (i) 175% of the Notional Value; and

- (ii) the Market Price of the number of Ordinary Shares which would be issued to the relevant Preferred Shareholder if one Preferred Share was converted into Ordinary Shares upon the date of notice of redemption,

in either case, together with any Preferred Dividend on the Preferred Shares so to be redeemed that have accrued (but have remained unpaid) from day to day thereon up to the date immediately prior to the Redemption Date.

~~5.3 The right of a Preference Shareholder to require redemption pursuant paragraph 5.2 shall not be capable of exercise if and for as long as any of the Notes remain outstanding except, in the case of a Change of Control Redemption Event, a Change of Control Triggering Event (as defined in the Indenture) has occurred and the Company has completed the repurchase of such Notes as are required to be repurchased following a Change of Control (as defined in the Indenture) pursuant to section 4.13 of the Indenture.~~

~~5.4 If a Redemption Event has occurred and, pursuant to Paragraph 5.3, a Preference Shareholder may not require redemption, the period of 90 Business Days referred to in Paragraph 5.2 shall be deemed to be extended until either no Notes remain outstanding, or in the case of a Change of Control Redemption Event, a change of Control Triggering Event (as defined in the Indenture) has occurred and the Company has completed the repurchase of such Notes as are required to be repurchased following a Change of Control (as defined in the Indenture) pursuant to section 4.13 of the Indenture.~~

5.5.3 The Company shall notify each Preferred Shareholder as soon as it becomes aware of any Redemption Event having occurred.

## **6. As regards liquidation preference**

On a distribution of assets of the Company among its members on a return of capital on liquidation or otherwise, each Preferred Shareholder shall be entitled, in proportion to the numbers of Preference Shares held by that Preferred Shareholder and in priority to any holder of any other class of shares in the capital of the Company, to receive an amount equal to the greater of:

- (i) the sum of the amount equal to the issue price of the Preferred Shares held by that Preferred Shareholder; or
- (ii) the aggregate Market Price of the number of Ordinary Shares which would be issued to that Preferred Shareholder if the number of Preferred Shares outstanding and held by it were converted into Ordinary Shares upon the date of the distribution of assets of the Company, in either case, together with any Preferred Dividend that have accumulated (but has remained unpaid) from day to day thereon up to the date immediately prior to the Redemption Date.

in either case, together with the portion of the Preferred Dividend on the Preferred Shares so to be redeemed that has accumulated (but has remained unpaid) from the last payment date therefor from day to day thereon up to the date immediately prior to the Redemption Date.

**7. As regards Voting Rights**

The Preferred Shares shall not carry any voting rights.

**8. As regards Transfers**

The Preferred Shares shall not be capable of transfer save for a transfer to Guangdong Zhenrong Energy Co., Ltd. or its Affiliates.

**9. Payments**

9.1 Payment of all amounts in respect of the Preferred Shares under the terms and conditions thereof shall be made on the due dates into such bank account as the holder of the relevant Preferred Shares may notify the Company by at least 5 Business Days' prior notice in writing delivered to the Company at the Specified Office from time to time. All payments made by the Company in respect of the Preferred Shares pursuant to the terms and conditions of this By-law shall be made in Hong Kong dollars in immediately available funds.

9.2 If the due date for payment of any amount in respect of the Preferred Shares is not a Business Day, the Preferred Shareholder will be entitled to payment on the next following Business Day in the same manner but without any compensation or adjustment for late payment.

9.3 Any Preferred Shareholder who has failed to claim distributions or other property or rights within 6 years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights which shall be forfeited and reverted to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights nor be accountable for any income or other benefits derived therefrom.

**10. Restrictive Covenants**

10.1 For so long as any of the Preferred Shares are in issue ~~and subject to Paragraph 10.2 below~~, the Company shall not without first obtaining the approval of the Preferred Shareholders in accordance with Paragraph 11:

- (a) authorize, create, allot, issue or permit to exist any class of share capital that is senior to, or in parity with or has preference in any respect over the Preferred Shares as to distribution, liquidation or return of capital (which for the avoidance of doubt excludes any issue of Ordinary Shares);

- (b) reclassify, re-designate, or convert any equity or equity linked securities into, securities of the Company which rank senior to, or in parity with or have preference in any respect over the Preferred Shares as to distribution, liquidation or return of capital (which for the avoidance of doubt excludes issue of Ordinary Shares);
- (c) amend, alter or repeal any provision of the Bye-laws of the Company which abrogates or adversely affect any rights of the holders of the Preferred Shares; or
- ~~(d) borrow, lease, issue any guarantee, issuing any trust receipts, undertake any trade or project financing or incur any other form of financial obligation which would either result in:
  - (i) the aggregate Financial Debt of the Group (excluding the ProjectCo Group) increasing by more than US\$20 million in any one Financial Year (including any extension of the term of any Short Term Working Capital Debt to a term greater than three months); or
  - (ii) the aggregate amount of the Working Capital Debt of the Group (excluding the ProjectCo Group) increasing above US\$350 million; or~~
- (de) amend, alter or repeal this Paragraph 10.1.

~~10.2 The restrictions under Paragraph 10.1 (other than Paragraph 10.1(c)) shall terminate immediately upon the earlier of:~~

- ~~(a) the termination of the Investor Rights Agreement;~~
- ~~(b) WP holding less than 7.5% of the Fully Diluted Share Capital of the Company;~~
- ~~(c) Warburg Pincus (Bermuda) Private Equity IX, L.P holding less than 20% of the ProjectCo Fully Diluted Share Capital.~~

## 11. Approval

Where any consent or approval of Preferred Shareholders generally is required (including any consent or approval of any waiver of rights), that consent or approval may be given by resolution passed at a duly convened meeting of Preferred Shareholders or in writing signed by the holders of more than 50% in nominal value of the then outstanding Preferred Shares, and for this purpose any such consent or approval may be in the form of one or more instruments each signed by one or more Preferred Shareholders. Any consent or approval so obtained shall be binding on all Preferred Shareholders whether or not they are in favour.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (save for the information relating to GZE) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

The directors of GZE, namely Xiong Shaohui, Luo Jie, Xia Yingyan, Li Tongnan and, Fan Qinghua, and the directors of Fame Dragon, namely Tang Chao Zhang and Chen Bingyan, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (save for the information relating to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

## 2. SHARE CAPITAL

The issued share capital of the Company as at the Latest Practicable Date and following completion of the restructuring, were and are expected to be as follows:

<i>Authorized:</i>		<i>HK\$</i>
80,000,000,000	Total Shares of HK\$0.01 each	800,000,000
<u>555,000,000</u>	Total convertible preferred shares	<u>5,550,000</u>
<u><u>80,555,000,000</u></u>		<u><u>805,550,000</u></u>

<i>Issued and fully paid shares:</i>		<i>HK\$</i>
7,820,554,682	Shares in issue as at the Latest Practicable Date	78,205,546.82
7,200,000	New Shares to be issued upon exercise of the Share Options	72,000.00
555,000,000	New Shares to be issued upon conversion of the Listco Preferred Shares	5,550,000.00
2,609,251,560	New Shares to be issued under the Open Offer	26,092,515.60
2,600,000,000	New Shares to be issued under the Subscription	26,000,000.00
9,382,164,000	New Shares to be issued under the Shipyard Termination Agreement	93,821,640.00
3,595,420,415	New Shares to be issued under the Assumption Agreement	35,954,204.15
14,000,000	New Shares to be issued under upon issue of the Consideration Shares	140,000.00
1,920,886,282	New Shares to be issued under the Creditors' Scheme	19,208,862.82
2,693,701,426	New Shares to be issued under the Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement	26,937,014.26
3,365,953,671	New Shares to be issued upon the exercise of the subscription rights of the FELS Warrants	33,659,536.71
<u>34,564,132,036</u>	Total Shares	<u>345,641,320.36</u>

All of the Shares, Offer Shares, Subscription Shares, Shipyard Termination Shares, Assumption Consideration Shares, Consideration Shares and shares to be issued under (i) the Creditors' Scheme; (ii) Shipyard Termination Agreement; (iii) Assumption Agreement; and (iv) Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement; the new Shares to be issued upon (a) conversion of Listco Preferred Shares; and (b) exercise of the Share Options and FELS Warrant Shares to be issued upon exercise of the FELS Warrants respectively, will rank *pari passu* in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other shares of the Company in issue on the date of issue. Subject to as provided in the Bye-Laws and the applicable laws, the Company shall not alter the rights attached to the Shares to be issued under the Creditors' Scheme, Debt Rescheduling Agreements, Interim Financing Agreements and Working Capital Loan Agreement, Offer Shares, Subscription Shares, Shipyard Termination Shares, Assumption Consideration Shares, Consideration Shares, Listco Preferred Shares, FELS Warrant Shares and the new Shares without passing a special resolution by the Shareholders.

As at the Latest Practicable Date, the Company has (i) outstanding Share Options entitling the holders thereof to subscribe for a total of 7,200,000 Shares; (ii) outstanding Listco Preferred Shares entitling the holder thereof to convert those shares into 555,000,000 Shares based on the conversion ratio of 1:1; and (iii) the Listco Convertible Notes in the outstanding principal amount of US\$47,960,000 entitling holders thereof to convert those notes into 523,483,348 Shares based on the conversion rate of 10,915 Shares per US\$1,000.

Save for the above, no options, warrants, derivatives or any equity or debt securities of the Company or other securities convertible or exchangeable into Shares or any other derivatives was outstanding or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital. None of the equity or debt securities of the Company is listed or dealt in any other stock exchange and listing or permission to deal in the Shares or loan capital of the Company is not being, or proposed to be, sought on any other stock exchange.

The Company has not issued any new Shares since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up. The Shares are listed on the Main Board of the Stock Exchange.

As at the Latest Practicable Date, none of the capital of any member of the Group (i) has been altered since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, or (ii) is under option, or agreed conditionally or unconditionally to be put under option.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.



### 3. DISCLOSURE OF INTERESTS

#### Interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) pursuant to the requirement of the Takeovers Code were as follows:

#### (a) Interests of Directors

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had registered any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

#### (b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive 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% 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 or had any options in respect of such capital are set out below:

***Long positions:***

Name	Capacity	Number of shares and underlying shares	Approximate percentage (%) of shareholding (Note 6)
Mr. Tsoi Tin Chun	Interest of controlled corporations	3,556,353,661	45.47
Ms. Tsoi Yuk Yi	Interest of spouse	3,556,353,661 (Note 1)	45.47
Titan Oil Pte Ltd	Interest of a controlled corporation/Beneficial owner	3,556,353,661 (Note 1)	45.47
Great Logistics Holdings Limited	Interest of controlled corporations/Beneficial owner	3,224,477,760 (Note 1)	41.23
Moral Base Investment Limited	Beneficial owner	1,000,000,000	12.79
Mr. Wong Chi Leung	Interest of a controlled corporation/Interest of spouse	1,000,000,000 (Note 2)	12.79
Ms. Wong Kwok Ying	Interest of a controlled corporation/Interest of spouse	1,000,000,000 (Note 2)	12.79
Grand China Logistics Holding (Group) Company Limited	Beneficial owner	500,000,000 (Note 4)	6.39
Haikou Meilan International Airport Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 4)	6.39
Hainan Development Holdings Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 4)	6.39

Name	Capacity	Number of shares and underlying shares	Approximate percentage (%) of shareholding (Note 6)
He Xiaoqun	Interest of controlled corporations	22,391,891,062 (Note 3)	286.18
Liang Wei	Interest of controlled corporations	22,391,891,062 (Note 3)	286.18
Xia Yingyan	Interest of controlled corporations	22,391,891,062 (Note 3)	286.18
Hainan Li Jin Investment Company Limited	Interest of controlled corporations	22,391,891,062 (Note 3)	286.18
Zhuhai Zhenrong Company	Interest of controlled corporations	22,391,891,062 (Note 3)	286.18
GZE	Interest of controlled corporations/Beneficial owner	7,194,716,431 14,642,174,631 (Note 3)	286.18
	Interest of controlled corporations	555,000,000 Listco Preferred Shares	
Fame Dragon	Beneficial owner	7,194,716,431	92.00
DBIL	Beneficial owner	555,000,000 Listco Preferred Shares	7.1
Chang Xin	Beneficial owner	2,600,000,000 Subscription Shares	100

*Note 1:* Among these interest, 332,514,799 shares were held by Titan Shipyard Investment Company Limited (“TSICL”) and 31,262,759 shares were held by Vision Jade Investments Limited (“Vision Jade”). TSICL and Vision Jade were wholly-owned subsidiaries of Great Logistics Holdings Limited (“Great Logistics”) which held 2,860,700,202 shares and which, in turn, was a wholly-owned subsidiary of Titan Oil. Titan Oil directly held 331,875,901 shares and Titan Oil Pte Ltd (“Titan Oil”) was owned as to 95% by Mr. Tsoi Tin Chun (“Mr Tsoi”) and as to 5% by Ms. Tsoi Yuk Yi (“Ms. Tsoi”), the spouse of Mr. Tsoi.

By virtue of the SFO, Mr. Tsoi and Ms. Tsoi were deemed to be interested in the shares of the Company held by Titan Oil, Great Logistics, TSICL and Vision Jade as at 30 June 2014.

On 30 August 2012, (i) Titan Oil, Great Logistics, TSICL and Vision Jade (all of which were beneficially owned by Mr. Tsoi, a director of the Company at the time, and his spouse and referred to below as the “Tsoi Companies”) entered into four sale and purchase agreements with Fame Dragon, in relation to the sale by the Tsoi Companies of an aggregate of 3,556,353,661 ordinary shares of the Company, and (ii) the irrevocable voting proxies in respect of the 3,556,353,661 ordinary shares of the Company were given by the Tsoi Companies in favour of Fame Dragon.

*Note 2:* Pursuant to the SFO, Mr. Wong Chi Leung (“Mr. Wong”) and Ms. Wong Kwok Ying (“Ms. Wong”), spouse of Mr. Wong, were deemed to be interested in shares of the Company held by Moral Base Investment Limited (“Moral Base”), which was legally and beneficially owned as to 50% by Mr. Wong and as to 50% by Ms. Wong.

*Note 3:* DBIL is wholly-owned by Guandong Zhenrong (Hong Kong) Company Limited which in turn is wholly-owned by GZE. On 10 October 2013, DBIL entered the preferred sale and purchase agreement and DBIL became entitled to the benefit of all interests arising under or in connection with the preferred shares of 555,000,000 shares. Zhuhai Zhen Rong Company (a PRC state-owned enterprise) and Hainan Li Jin Investment Co., Ltd. (“Hainan Li Jin”) were interested in 44.3% and 35% respectively in the share capital of GZE, and were deemed under the SFO to be interested in the shares in which GZE had an interest. Hainan Li Jin was owned as to 34% by Xia Ying Yan, as to 33% by He Xiao Qun and as to 33% by Liang Wei.

In addition, GZE and parties acting in concert with it entered into the underwriting Agreement, the Shipyard Termination Agreement, Debt Rescheduling Agreements and Working Capital Loan Agreement. Fame Dragon entered into the Assumption Agreement and Interim Financing Agreements and thus GZE is deemed to be interested in the Shares to be issued under the Assumption Agreement, Shipyard Termination Agreement, the underwriting Agreement, the Debt Rescheduling Agreements, Working Capital Loan Agreement and Interim Financing Agreements.

Fame Dragon is wholly owned by Guangdong Zhenrong (Hong Kong) Company Limited which in turn is wholly-owned by GZE. Fame Dragon agreed under four sale and purchase agreements signed with TSICL, Vision Jade, Great Logistics and Titan Oil (collectively, the “Vendors”) to acquire in aggregate 3,556,353,661 ordinary shares and the Vendors had given irrevocable proxies to Fame Dragon so that the voting rights of such shares had been transferred to Fame Dragon on 30 August 2012.

Fame Dragon entered into the Underwriting Agreement and is deemed to be interested in the Shares to be issued.

*Note 4:* Based on the disclosure of interests notices filed with the Stock Exchange on 23 December 2010, Grand China Logistics Holding (Group) Company Limited (“Grand China Logistics”) was interested in 500,000,000 shares of the Company.

Pursuant to the SFO, as Haikou Meilan International Airport Co., Ltd. (“Haikou Meilan”) together with its fellow corporations namely Yangtze River Investment Holding Co., Ltd. and Bohai International Trust Co., Ltd. were interested in more than one-third of the equity interest in Grand China Logistics, Haikou Meilan was deemed to be interested in the shareholding interest of Grand China Logistics in the Company.

Pursuant to the SFO, as Hainan Development Holdings Co., Ltd (“Hainan Development”) together with its fellow corporations namely Grand China Air Co., Ltd. and Hainan Airlines Co., Ltd., which in turn were interested in more than one-third of the equity interest in Haikou Meilan, Hainan Development was deemed to be interested in the shareholding interests of Grand China Logistics in the Company.

Grand China Logistics, Haikou Meilan and Hainan Development were deemed to be ceased to have interests in the ordinary shares of the Company. Due to the failure of Grand China Logistics to make stage payments when they fell due under a sale and purchase agreement dated 11 December 2010, the condition was not satisfied on or before the long-stop date in December 2011 and the subscription agreement date 11 December 2010 has lapsed.

Save as disclosed above, the Directors and the chief executive 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 or 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% 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.

#### **Other interests in the Company**

As at the Latest Practicable Date,

- a) neither the Company or any Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- b) no person had prior to the posting of this Circular, irrevocably committed himself/herself/itself to vote for or against the Whitewash Waiver and/or the Special Deal or to take up Shares to be provisionally allotted under the Open Offer.

During the period from the 6 months prior to the date of Announcement and up to the Latest Practicable Date, none of the Directors had dealt for value in shares, convertible securities, warrants, options and derivatives of the Company.

**Interest in GZE**

None of the Company or any of the Directors had any interest in the shares, warrants, options, derivatives, and securities carrying conversion or subscription rights into shares of GZE. During the period from the 6 months prior to the date of Announcement and up to the Latest Practicable Date, none of the Company or any Directors had dealt for value in shares, convertible securities, warrants, options and derivatives of GZE.

**4. DIRECTORS' INTERESTS IN ASSET**

As at the Latest Practicable Date, none of the Directors had: (a) any direct or indirect interests in any assets which have been since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (b) any subsisting material interest in any contract or arrangement which is significant in relation to the business of the Group.

**5. MARKET PRICES**

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Day; (ii) the last trading day on which dealings took place in each of the calendar months during the period commencing six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; and (iii) the Latest Practicable Date.

<b>Date</b>	<b>Closing price of the Shares HK\$</b>
18 June 2012 (the Last Trading Day)	0.246
31 October 2015	Suspended
30 November 2015	Suspended
31 December 2015	Suspended
31 January 2016	Suspended
28 February 2016	Suspended
31 March 2016	Suspended
7 April 2016 (the last business day before the Announcement)	Suspended
Latest Practicable Date	Suspended

Trading in the Shares has been suspended since 9:00 a.m. on 19 June 2012 and remains suspended during the period commencing six months immediately preceding the date of the Announcement and the last closing price before the Suspension was HK\$0.246 on 18 June 2012.

## **6. ADDITIONAL DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, save for what has been disclosed in this circular:

- (a) none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the restructuring, the Special Deal and/or the Whitewash Waiver;
- (b) none of the Directors has entered into any agreement or arrangement with any other person which is conditional on or dependent upon the outcome of the restructuring, the Special Deal and/or the Whitewash Waiver or otherwise connected with the restructuring, the Special Deal and/or the Whitewash Waiver;
- (c) no material contract was entered into by GZE, Fame Dragon and parties acting in concert with any of them in which any Director has a material personal interest;
- (d) there was no agreement, arrangement or understanding between GZE and any other person to transfer, charge or pledge the beneficial interests in the Shares acquired in pursuance of the Restructuring;
- (e) there was no agreement, arrangement or understanding between Fame Dragon and any other person to transfer, charge or pledge the beneficial interests in the Shares acquired in pursuance of the Restructuring;
- (f) there was no agreement, arrangement or understanding (including any compensation arrangement) between GZE or any person acting in concert with it and any Director, recent Director, Shareholders or recent Shareholders of the Company which had any connection with or dependence upon the Restructuring, the Special Deal and/or the Whitewash Waiver;
- (g) no Shares, convertible securities, warrants, options and derivatives in the Company were owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by any advisor to the Company as specified in class (2) of the definition of associate under the Takeovers Code;

- (h) no Shares, convertible securities, warrants, options and derivatives in the Company were owned or controlled by a person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate and neither the Company nor such person who is an associate of the Company have entered into such an arrangement;
- (i) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company; and
- (j) there is no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate, and any other person.

During the period from 6 months prior to the date of the Announcement and up to the Latest Practicable Date,

- (a) none of the subsidiaries of the Company, any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company;
- (b) no person has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) or the definition of associate in the Takeovers Code has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company; and
- (c) no fund managers (other than exempt fund managers) managing funds on a discretionary basis which are connected with the Company had dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company.



**7. MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Group within 2 years immediately preceding the date of the Announcement and up to the Latest Practicable Date, which are or may be material:

- (a) 2015 Loan Agreement;
- (b) Assumption Agreement;
- (c) Deed of Undertaking;
- (d) First Loan Agreement;
- (e) Frontline Settlement Agreement;
- (f) FTSD Purchase Order Framework Agreement;
- (g) GZE Excess Liabilities Undertaking;
- (h) GZE Purchase Order MOU;
- (i) GZE Standby Working Capital Facility Agreement;
- (j) Haixin Debt Rescheduling Agreement;
- (k) K-Line Settlement Agreement;
- (l) K-Line Support Agreement;
- (m) Listco Preferred Shares Modification Deed;
- (n) Loan Rescheduling Agreements;
- (o) Management Services Agreement;
- (p) Second Loan Agreement;
- (q) Shipyard Debt Rescheduling Agreement;
- (r) Shipyard Termination Agreement;
- (s) Subscription Agreement;
- (t) TPG Debt Rescheduling Agreement;
- (u) Underwriting Agreement; and
- (v) Working Capital Loan Agreement.

## 8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation. As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies, which:

- (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement;
- (b) are continuous contracts with a notice period of 12 months or more; or
- (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 9. LITIGATION

### **Bermuda Proceedings**

Saturn Petrochemical filed the SPHL Petition. The SPHL Petition was subsequently struck out by the Bermuda Court, and Camden (the petitioner in the winding up proceedings) was substituted as the petitioner in place of Saturn Petrochemical upon its application to the Bermuda Court.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of the Provisional Liquidators to the Company to, among other powers and duties, consider the terms of any scheme of arrangements proposed by the Company and to assess the feasibility of any restructuring proposal of the Company.

The hearing of the winding up petition by Camden was adjourned to 3 June 2016 (Bermuda time) and the long stop date of the Creditors' Scheme will be extended to 15 July 2016 (Bermuda time).

It is expected that upon the successful resumption and trading of the Shares and completion of the restructuring, the Provisional Liquidators will be discharged and the winding up petition will be dismissed or withdrawn by Camden.

### **Hong Kong Proceedings**

On 19 July 2012, Saturn Storage initiated proceedings in the Hong Kong High Court against the Company and other parties including TOSIL and two directors of the Company in respect of, among other things, (i) alleged breaches of the amended and restated investor rights agreement in respect of TGIL dated 17 July 2009; and (ii) alleged misrepresentations regarding the financial position of TGIL, and its subsidiaries.

The Hong Kong High Court fixed a second case management conference for hearing on 21 November 2014 and subsequently vacated and adjourned the case management conference on a number of occasions to 13 March 2015, 7 July 2015, 17 November 2015, 23 February 2016 and, most recently, to 12 April 2016, to allow the parties to continue settlement discussions. On 8 April 2016, settlement has been reached in respect of Saturn Storage's claims against the Company and TOSIL in the Hong Kong proceedings, pursuant to which Saturn Storage's afore-said claims were dismissed by the Hong Kong Court of First Instance on 8 April 2016, with Saturn Storage, the Company and TOSIL each bearing its own costs, save for HK\$70,000 to be paid by Saturn Storage to the Company and TOSIL pursuant to an order for security for costs made on 15 November 2013.

On 31 December 2015, Mr. Wong Siu Hung Patrick (the "Plaintiff") filed a claim in the Labour Tribunal in Hong Kong against TRML for the sum of HK\$1,046,551.15 allegedly due to the termination of the employment contract between the Plaintiff and the TRML (the "Claim"). The Plaintiff was a former executive director of the Company. He resigned as an executive director of the Company and also ceased to act as the Company's authorised representative and the directors of the wholly-owned subsidiaries of the Company on 30 September 2015. The Claim was subsequently transferred to the Hong Kong High Court and the Company was joined as second defendant.

Pursuant to the directions of Hong Kong High Court dated 13 April 2016, the Plaintiff filed and served the Statement of Claim on 25 April 2016, in which the Claim amount was revised to HK\$1,069,251.28. TRML and the Company will defend the Claim and will file and serve the Defence and Counterclaim (if any) accordingly.

### **BVI Proceedings**

On 18 June 2012 (BVI time), Saturn Storage filed an application with the BVI Court to liquidate TGIL.

On 17 July 2012 (BVI time), the BVI Court ordered the liquidation of TGIL and that Russell Crumpler of KPMG (BVI) Limited, Edward Middleton and Patrick Cowley of KPMG be appointed as joint and several liquidators of TGIL with standard powers under the BVI Insolvency Act 2003. The fourth liquidator, Stuart Mackellar of Zolfo Cooper (BVI) Limited, was appointed with limited powers.

On 18 July 2012 (BVI time), TOSIL, a wholly-owned subsidiary of the Company and a shareholder of TGIL, filed a notice of appeal at the BVI Court of Appeal against the liquidation order.

The liquidation procedure of TGIL has commenced and the liquidation is not completed as at the Latest Practicable Date.

The Company, TGIL, TOSIL and Saturn Storage have been in negotiations which is in advance stages. TOSIL will withdraw the appeal against the liquidation order before the BVI Court of Appeal.

### **PRC Proceedings**

On 30 May 2012, TPFL received a summons issued by Shanghai Intermediate Court with Grand China Logistics as plaintiff and the Company, TQSL Holding and TPFL as defendants, that seeks an order for, among other things, termination of the Shipyard Sale and Purchase Agreement and repayment to Grand China Logistics of an aggregate of RMB740 million together with accrued interest or for the Company to fulfil its obligation under its guarantee to repay such amount.

On 23 August 2012, TPFL filed a statement of counterclaim against Grand China Logistics with the Shanghai Intermediate Court to seek, among other remedies, specific performance by Grand China Logistics of the Shipyard Sale and Purchase Agreement.

On 10 June 2013, the Company received a notification from Grand China Logistics dated 7 June 2013 informing the Company that it had entered into an assignment with GZE pursuant to which it would assign to GZE all of its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement.

On 23 December 2013, the Shanghai Intermediate Court ordered the discontinuation of the proceedings in relation to the counterclaim lodged by TPFL against Grand China Logistics on the grounds that, following such assignment, Grand China Logistics was no longer the appropriate defendant for the counterclaim as it had transferred all its interests, rights and obligations in respect of the Shipyard Sale and Purchase Agreement to GZE. On 26 December 2013, the Shanghai Intermediate Court approved the application by Grand China Logistics to the withdrawal of the claim initiated by Grand China Logistics against the Company, TQSL Holding and TPFL in relation to the Shipyard Sale and Purchase Agreement.

On 5 May 2014, the Company entered into the Shipyard Termination Agreement with GZE, pursuant to which the parties conditionally agreed that the Shipyard Sale and Purchase Agreement be terminated and with respect to the amount of RMB740,000,000 that was originally paid by Grand China Logistics to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares to GZE in lieu of repayment of such amount. The Shipyard Termination Agreement will only be effective upon the satisfaction of certain conditions. None of the conditions can be waived, and if such conditions are not fulfilled on or before 31 August 2016 (or such later date as may be agreed among the parties in writing), the Shipyard Termination Agreement will lapse and become null and void and the parties will be released from all obligations under the agreement, save for any liability arising out of any antecedent breaches.

**10. EXPERTS AND CONSENTS**

The following is the qualifications of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
HLB Hodgson Impey Cheng Limited ("HLB")	Certified Public Accountants
Lego	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Asian Capital	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Access Partner Consultancy & Appraisals Limited ("Access Partner")	An independent professional valuer

Each of HLB, Lego, Asian Capital and Access Partner has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report(s) or letter(s), as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of HLB, Lego, Asian Capital and Access Partner was not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

**11. CORPORATE INFORMATION**

<b>The Company Name</b>	Titan Petrochemicals Group Limited (Provisional Liquidators appointed)
<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM11 Bermuda
<b>Head office and principal place of business</b>	4902 Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong
<b>Legal advisers</b>	DLA Piper Hong Kong 17th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong  Read Smith Richard Butler 20th Floor, Alexandra House 18 Chater Road Central Hong Kong  Marshall Diel & Myers Limited 31 Reid Street Hamilton HM12 Bermuda  Beijing B&D (Guangzhou) Law Firm Unit F3, 27/F., Guangda Building, 689 Tianhe Beilu, Tianhe District, Guangzhou, China
<b>Auditor</b>	HLB Hodgson Impey Cheng Limited <i>Certified Public Accountants</i> 31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong

**Principal bankers**

Bank of China  
Bank of China Tower,  
1 Garden Road, Central,  
Hong Kong

DBS Bank  
18th Floor, The Center,  
99 Queen's Road Central, Central,  
Hong Kong

Industrial and Commercial Bank of  
China Limited Huian Branch  
29 Huixing Road,  
Huian County, Quanzhou City,  
Fujian Province,  
China

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central,  
Hong Kong

Shanghai Pudong Development Bank  
Co., Ltd. Fuzhou Branch,  
222 Hu Dong Road,  
Gulou District, Fuzhou city,  
Fujian Province,  
China

**Hong Kong branch registrars**

Tricor Tengis Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Principal share registrars and  
transfer office**

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

**Authorised representatives**

Mr. Tang Chao Zhang  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

Dr. Zhang Weibing  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

**Company secretary**

Miss Lo Wing Yan Emmy *CPA*



**12. PARTICULARS OF DIRECTORS AND PROPOSED DIRECTORS**

- (a) The business addresses of the Directors are set out below:

*Executive Directors*

Mr. Tang Chao Zhang  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

Dr. Zhang Weibing  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

*Non-executive Director*

Mr. Fan Qing Hua  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

*Independent non-executive Directors*

Mr. Lau Fai Lawrence  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

Ms. Xiang Siying  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

Mr. Hu Hongwei  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

Ms. Hsu Wai Man Helen  
4902, 49/F  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

- (b) The brief biographies of the Directors are set out below:

***Executive Directors***

**Mr. Tang Chao Zhang (“Mr. Tang”)**, aged 41, chief executive and an Executive Director of the Company. He was a vice-president of GZE and is currently a director of Fame Dragon. From 2008 to 2011, Mr. Tang took up the role of vice-president of 廣東振戎石油化工有限公司 (Guangdong Zhenrong Petrochemical Co., Ltd). He is also a director of 雲南振戎潤德珠寶有限公司 (Yunnan Zhenrong Runde Jewellery Ltd). Mr. Tang graduated from Guangdong University of Foreign Studies with a Bachelor of Arts degree in International Marketing. He joined the Group in 2013 and is also a director of certain subsidiaries of the Company.

Save as disclosed above, Mr. Tang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Tang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**Dr. Zhang Weibing (“Dr. Zhang”)**, aged 49, an executive Director and the chairman of the remuneration committee of the Company. He holds a bachelor degree in international economics and a master degree in international finance from University of Beijing and a doctoral degree in international finance from University of Sichuan. Dr. Zhang has through his close associate provided consultancy services to GZE, the controlling shareholder of the Company. Dr. Zhang has 25 years of experience in financial securities industry and was the responsible person of Securities Business of China Agriculture Development Trust and Investment Corporation (中國農村發展信託投資公司), the general manager of China Life Insurance Trust East China (Group) Company (中國人保信託華東(集團)公司), the deputy general manager of Qing Hai Securities Company Limited (青海證券有限責任公司), the general manager of Shanghai Jinhui Information System Company Limited (上海金匯信息系統有限公司), the director of Shanghai Lingyun Industries Development Co. Ltd. (上海凌雲實業發展股份有限公司)(which was approved to issue 境內上市外資股(B股) and listed on the Shanghai Stock Exchange, the executive director of West Australia Resources Pty. Co, the chairman of the board of directors of Haton Polymer & Fibre Corp. Dr. Zhang has extensive experience in corporate governance, initial public offers, merger and acquisitions and equity and debt securities investment. He joined the Group in 2015 and is also a director of certain subsidiaries of the Company.

Save as disclosed above, Dr. Zhang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Dr. Zhang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares with the meaning of Part XV of the SFO.

#### ***Non-executive Director***

**Mr. Fan Qinghua (“Mr. Fan”)** (Chairman), aged 55, was appointed as a non-executive Director of the Company in March 2013 and subsequently appointed as the chairman of the nomination committee and a member of the audit committee of the Company. He is also a director and deputy general manager of GZE and a director of DBIL. From 1992 to 1995, he joined 珠海東大集團公司 (Zhuhui Dongda Group) in the capacity of manager of the finance department and assistant general manager. From 1995 to 1998, he was a senior deputy general manager of 珠海九豐阿科能源有限公司 (Zhuhai Jovoarco Energy Ltd). Mr. Fan is also the chairman of the trade union of GZE. Mr. Fan studied Economic Management and graduated from Henan Normal University.

Save as disclosed above, Mr. Fan has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Fan does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

#### ***Independent non-executive Directors***

**Mr. Lau Fai Lawrence (“Mr. Lau”)**, aged 44, was appointed as an independent non-executive Director in March 2014 and subsequently appointed as the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Lau is currently a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor’s degree in business administration in 1994 and obtained a master’s degree in corporate finance from Hong Kong Polytechnic University in 2007. Mr. Lau is the company secretary of BBMG Corporation, a company listed on the main board of the Stock Exchange. Mr. Lau is an executive director of Central Wealth Financial Group Limited, an independent non-executive director of Artini China Co. Ltd., and an independent non-executive director of Topsearch International (Holdings) Limited, all the above companies are listed on the main board of the Stock Exchange.

Save as disclosed above, Mr. Lau has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Lau does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**Ms. Xiang Siying (“Ms. Xiang”)**, aged 53, was appointed as an independent non-executive Director in July 2015 and subsequently appointed as a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. She holds a Bachelor degree in Agriculture from Beijing Agriculture University (now known as China Agriculture University), Master degree in Economics from 財政部財政科學研究所 and MBA degree from the London Business School. She has extensive experience in all sectors of corporate finance, restructuring and merger and acquisitions practice. She is an independent non-executive director of China Ocean Shipbuilding Industry Group Limited, the shares of which are listed on the Stock Exchange. Ms. Xiang currently is an executive director of CDH Investments, a leading private equity firm in China. Prior to joining CDH Investments, she had worked for China International Capital Corporation Limited since returning to China in early 2004. Before that Ms. Xiang had long career with International Finance Corporation, the private investment arm of the World Bank Group, in Washington, United States of America.

Save as disclosed above, Ms. Xiang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Ms. Xiang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**Mr. Hu Hongwei (“Mr. Hu”)**, aged 36, was appointed as an independent non-executive Director in November 2015 and appointed as a member of the remuneration committee of the Company on 24 March 2016. He holds a Bachelor of Laws (LL.B.) and Master of Laws (LL.M.) from Fudan University. He has extensive experience in legal aspects of cross-border investment, restructuring and mergers and acquisitions practice. Mr. Hu is attorney-at-law admitted to practice in China. He currently is a partner of the Shanghai office of Dentons, a leading multinational law firm. Prior to joining Dentons, he had long career with Clifford Chance, a leading international law firm headquartered in London, United Kingdom and HHP Attorneys-At-Law, a leading chinese commercial law firm. Mr. Hu advised foreign and domestic clients on legal aspects of their investment in China, including mergers and acquisitions, regulatory compliance, intellectual property protection and dispute resolution.

Save as disclosed above, Mr. Hu has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Mr. Hu does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares with the meaning of Part XV of the SFO.

**Ms. Hsu Wai Man Helen (“Ms. Hsu”)**, aged 46, was appointed as an independent non-executive Director in December 2015. She has over 23 years’ experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu had been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is currently an independent non-executive director of Branding China Group Ltd., Perfect Shape (PRC) Holdings Limited, Richly Field China Development Limited and TCL Display Technology Holdings Limited, all are listed on the Stock Exchange. She was an independent non-executive director of China Forestry Holdings Co. Ltd. and Fujian Nuoqi Co., Ltd. and China Kingstone Mining Holdings Limited, listed on the Stock Exchange, and an independent director of SGOCO Group, Ltd., a company listed on the Nasdaq Stock Market.

As disclosed in the announcement of the Company dated 14 April 2016, Ms. Hsu has, due to her other business commitment, tendered her resignation as the independent non-executive Director which will be effective after the SGM, in compliance with Rule 7 of the Takeovers Code.

Save as disclosed above, Ms. Hsu has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed above, Ms. Hsu does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company, nor any interests in the Shares within the meaning of Part XV of the SFO.

**13. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or proposed Directors and/or their respective associates was considered to have an interest in a business which competes or is likely to complete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and their respective associates were appointed to represent the interests of the Company and/or the Group.

**14. GENERAL**

- (i) The registered address of GZE is situated at 35/F, International Finance Place, No. 8 Huaxia Road, Zhujiang New Town, Tianhe District, Guangzhou.
- (ii) The registered address of Fame Dragon is situated at Room 2105, 21/F, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Hong Kong.
- (iii) The registered office of DBIL is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (iv) The registered address of Asian Capital is situated at Suite 601, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (v) The registered address of Lego is situated at Room 1601, 16/F, China Building, 29 Queen's Road Centre, Hong Kong.

If there is any inconsistency between the Chinese name of PRC entities, departments, facilities or titles mentioned in this circular and their English translation, the Chinese version shall prevail. Other than that, the English text of this circular shall prevail over the Chinese text in the case of inconsistency.

**15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any business day (except public holiday and with prior notice) at the principal office of business of the Company in Hong Kong at 4902 Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM in accordance with Note 1 to Rule 8 of the Takeovers Code and will be displayed on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) and on the Company's website (<http://www.petrotitan.com>).

- (i) memorandum of association of the Company and the Bye-Laws;
- (ii) memorandum of association of GZE;

- (iii) memorandum and article of association of Fame Dragon;
- (iv) the annual reports of the Company for the financial years ended 31 December 2013, 2014 and 2015 as set out in the Appendix I to this circular;
- (v) the letter from the Board as set out in this circular;
- (vi) the letter from the LR Independent Board Committee as set out in this circular;
- (vii) the letter from the TC Independent Board Committee as set out in this circular;
- (viii) the letter from the Independent Financial Adviser as set out in this circular;
- (ix) the unaudited pro forma financial information of the Group as set out in Appendix II to this circular;
- (x) the report from HLB Hodgson Impey Cheng Limited on unaudited pro forma financial information of the Group as set out in Appendix II to this circular;
- (xi) the comfort letter from HLB Hodgson Impey Cheng Limited in relation to the statement from the Directors confirming working capital sufficiency for at least 12 months from trading resumption;
- (xii) the report from HLB on profit forecast for the years ending 31 December 2016, 2017 and 2018 as set out in Appendix III to this circular;
- (xiii) the report from Lego on profit forecast for the years ending 31 December 2016, 2017 and 2018 as set out in Appendix III to this circular;
- (xiv) the valuation report on the Properties from Access Partner Consultancy & Appraisals Limited as set out in Appendix IV to this circular;
- (xv) the written consents referred to in the paragraph headed “Expert and Consents” in this appendix;
- (xvi) all material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (xvii) this circular.

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## NOTICE OF THE SGM

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### Titan Petrochemicals Group Limited

(Provisional Liquidators appointed)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1192)

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Titan Petrochemicals Group Limited (the “**Company**”) will be held at 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 30 May 2016 at 11:00 a.m., for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the debt rescheduling agreement dated 5 May 2014 (as amended by supplemental agreement(s)) and entered into between (1) 泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co. Ltd.\*) (“**TQS**”), a sino-foreign equity joint venture established in the PRC and an indirect wholly-owned subsidiary of the Company and (2) 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd.\*) (“**GZE**”), a company incorporated in the PRC and the controlling shareholder of the Company, in relation to loans that were originally made by Shanghai Pudong Development Bank Co. Ltd. Fuzhou Branch to TQS over the period from 2009 to 2011, in which the bank subsequently assigned its rights and interests with respect to those loans and related security interests to China Cinda Asset Management Co., Ltd. which then further assigned those rights and interests to GZE (the “**Shipyard Debt Rescheduling Agreement**”) (copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), and all transactions contemplated thereunder, in accordance with the terms of the Shipyard Debt Rescheduling Agreement, be and is hereby approved, confirmed and ratified; and
- (b) any one or two directors of the Company (the “**Directors**”) be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Shipyard Debt Rescheduling Agreement and the transactions contemplated thereunder, including, *inter alia*, (i) to sign, seal, execute, amend, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Shipyard Debt Rescheduling Agreement; (ii) to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such



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documents, which are not fundamentally different from those as provided under the Shipyard Debt Rescheduling Agreement); and (iii) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Shipyard Debt Rescheduling Agreement PROVIDED THAT such further documents or agreements will be of administrative nature and ancillary to the implementation of the Shipyard Debt Rescheduling Agreement.”

### 2. “THAT

- (a) the shipyard termination agreement dated 5 May 2014 (as amended by supplemental agreement(s)) and entered into between the (1) Company, (2) 泰山石化(福建)有限公司 (Titan Petrochemicals (Fujian) Ltd.\*) (“**TPFL**”), a company incorporated with limited liability in the PRC and a direct wholly-owned subsidiary of the Company, (3) Titan TQSL Holding Company Limited, a company incorporated with limited liability in the BVI and an indirect wholly-owned subsidiary of the Company (“**TQSL Holding**”) and (4) GZE in relation to the termination of a shipyard sale and purchase agreement and with respect to the amount of RMB740,000,000 that was originally paid thereunder by 大新華物流控股(集團)有限公司 (Grand China Logistics Holding (Group) Company Limited\*) to TPFL and TQSL Holding the rights to which were subsequently assigned to GZE, the Company will issue 9,382,164,000 new Shares (the “**Shipyard Termination Shares**”) at the issue price of HK\$0.10 to GZE in lieu of repayment of such amount (the “**Shipyard Termination Agreement**”) (copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder, in accordance with the terms of the Shipyard Termination Agreement, be and are hereby approved, confirmed and ratified; and
- (b) any one or two Directors be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Shipyard Termination Agreement and the transactions contemplated thereunder, including, *inter alia*, (i) to exercise the powers of the Company to allot and issue the Shipyard Termination Shares, such shares ranking *pari passu* in all respects with the shares of the Company in issue on the date of allotment and issue; (ii) to sign, seal, execute, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Shipyard Termination Agreement; (iii) to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Shipyard Termination Agreement); and (iv) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Shipyard Termination

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Agreement PROVIDED THAT such further documents or agreements will be of administrative nature and ancillary to the implementation of the Shipyard Termination Agreement.”

3. “**THAT**

- (a) the assumption agreement dated 20 August 2014 (as amended by supplemental agreement(s)) and entered into between (1) Fame Dragon International Investment Limited (“**Fame Dragon**”), (2) the Company and (3) TQS (the “**Assumption Agreement**”) (copy of which has been produced to the meeting marked “C” and signed by the chairman of the meeting for the purpose of identification) pursuant to which Fame Dragon agrees to assume certain debts payable by TQS in consideration for the Company agreeing to allot and issue not exceeding 3,595,420,415 new shares (the “**Assumption Consideration Shares**”) at an issue price of HK\$0.1 per share and all transactions contemplated thereunder, in accordance with the terms of the Assumption Agreement, be and are hereby approved, confirmed and ratified; and
- (b) any one or two Directors be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Assumption Agreement and the transactions contemplated thereunder, including, *inter alia*, (i) to exercise the powers of the Company to allot and issue the Assumption Consideration Shares, such shares ranking *pari passu* in all respects with the shares of the Company in issue on the date of allotment and issue; (ii) to sign, seal, execute, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Assumption Agreement; (iii) to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Assumption Agreement); and (iv) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Assumption Agreement provided that such further documents or agreements will be of administrative nature and ancillary to the implementation of the Assumption Agreement.”

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## NOTICE OF THE SGM

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4. **“THAT**

- (a) the deed of preferred shares dated 22 August 2014 (as amended by supplemental agreement(s)) (the **“Listco Preferred Shares Modification Deed”**) and entered into between the (1) Company and (2) Docile Bright Investments Limited, in relation to, among others, the extension of the redemption period in respect of the 555,000,000 convertible redeemable preferred shares of HK\$0.01 each (the **“Listco Preferred Shares”**) (copy of which has been produced to the meeting marked “D” and signed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder, in accordance with the terms of the Listco Preferred Shares Modification Deed, be and are hereby approved, confirmed and ratified; and
- (b) any one or two Directors be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Listco Preferred Shares Modification Deed and the transactions contemplated thereunder, including, *inter alia*, (i) to sign, seal, execute, amend, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Listco Preferred Shares Modification Deed; (ii) to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Listco Preferred Shares Modification Deed); and (iii) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Listco Preferred Shares Modification Deed provided that such further documents or agreements will be of administrative nature and ancillary to the implementation of the Listco Preferred Shares Modification Deed.”

5. **“THAT**

subject to the fulfilment of the conditions in the underwriting agreement dated 16 October 2015 (as amended by supplemental agreement) entered into between (1) GZE and the (2) Company (the **“Underwriting Agreement”**), (copy of which has been produced to the meeting marked “E” and signed by the chairman of the meeting for the purpose of identification):

- (a) the allotment and issue by way of open offer (the **“Open Offer”**) of 2,606,851,560 shares of HK\$0.01 each in the capital of the Company (the **“Offer Shares”**) on the basis of one offer share for every three existing shares held by the qualifying shareholders on the record date at the subscription price of HK\$0.10 per Offer Share on the terms and conditions set out in the circular of the Company dated 13 May 2016 (the **“Circular”**) be and is hereby approved, confirmed and ratified;

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- (b) the Underwriting Agreement and all transactions contemplated thereunder, in accordance with the terms of the Underwriting Agreement, be and is hereby approved, confirmed and ratified; and
- (c) any one or two Directors be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Underwriting Agreement and the transactions contemplated thereunder, including, *inter alia*, (i) to exercise the powers of the Company to allot and issue the Offer Shares, such shares ranking *pari passu* in all respects with the shares of the Company in issue on the date of allotment and issue; (ii) to sign, seal, execute, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Underwriting Agreement; (iii) to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Underwriting Agreement); and (iv) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Underwriting Agreement and Debt Rescheduling Agreement provided that such further documents or agreements will be of administrative nature and ancillary to the implementation of the Underwriting Agreement.”

### 6. “**THAT**

- (a) the subscription agreement dated 24 December 2015 and entered into between the Company and Chang Xin Asset Management Corporation (the “**Subscriber**”) (the “**Subscription Agreement**”) (as amended by supplemented agreement) (copy of which has been produced to the meeting marked “F” and signed by the chairman of the meeting for the purpose of identification), pursuant to which the Subscriber conditionally agrees to subscribe for 2,600 million new shares (the the “**Subscription Shares**”) at the subscription price of HK\$0.10 per share and all transactions contemplated thereunder, in accordance with the terms of the Subscription Agreement, be and are hereby approved, confirmed and ratified; and
- (b) any one or two Directors be and is/are hereby authorized on behalf of the Company to take all steps necessary, appropriate, desirable or expedient in his/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to the Subscription Agreement and the transactions contemplated thereunder, including, *inter alia*, (i) to exercise the powers of the Company to allot and issue the Subscription Shares, such shares ranking *pari passu* in all respects with the shares of the Company in issue on the date of allotment and issue; (ii) to sign, seal, execute, perfect, deliver, submit and/or implement any documents, instruments and agreements in connection with or pursuant to the Subscription Agreement; (iii)

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to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Subscription Agreement); and (iv) to exercise all such powers and do all such necessary acts and things to give effect to and/or implement the transactions contemplated under the Subscription Agreement PROVIDED THAT such further documents or agreements will be of administrative nature and ancillary to the implementation of the Subscription Agreement.”

7. **“THAT**

- (a) subject to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission, or any of his delegates giving consent (the **“Consent”**) as special deal under Note 5 to Rule 25 of The Hong Kong Code on Takeovers and Mergers (the **“Takeovers Code”**), and the satisfaction of all conditions attached to such Consent, the settlement to creditors, who are also shareholders of the Company under the scheme of arrangement of the Company be and is hereby approved as special deal; and
- (b) any one or two Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/them PROVIDED THAT such further documents or agreements will be incidental to, ancillary to or in connection with the matters contemplated in and for the completion of the Consent.”

8. **“THAT**

- (a) the terms of the application for a waiver granted or to be granted by the Securities and Futures Commission of Hong Kong to Guangdong Zhenrong Energy Co., Ltd (**“GZE”**) together with parties acting in concert with any of them pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code in respect of the waiver of the obligations of GZE and parties acting in concert with any of them to make a mandatory offer for all the issued shares not already owned or agreed to be acquired by GZE and the parties acting in concert (the **“Whitewash Waiver”**) be and is hereby approved; and
- (b) any one or two Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/them provided that such further documents or agreements will be incidental to, ancillary to or in connection with the matters contemplated in and for the completion of the Whitewash Waiver.”

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9. “**THAT** the allotment and issue of 1,920,886,282 new Ordinary Shares at HK\$0.10 per Ordinary Share to the holders of Existing Notes (as defined in the Circular) under and pursuant to the Creditors’ Scheme (as defined in the Circular) be and is hereby approved, confirmed and ratified.”
10. “**THAT** the issue of warrants by the Company to FELS Offshore Pte. Ltd. (“**FELS Warrants**”) for the subscription of 9.9% of the total issued share capital of the Company after completion of the Debt Restructuring (as defined in the Circular) pursuant to the Management Services Agreement (as defined in the Circular) at the initial subscription price of HK\$0.12 per Ordinary Share be and is hereby approved, confirmed and ratified.”
11. “**THAT**
- (a) conditional on the passing of the ordinary resolutions numbers 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 as set out in the notice of special general meeting of the Company dated 13 May 2016, the exercise by the Directors of all powers of the Company to allot, issue and deal with the new Shares to be issued under the Creditors’ Scheme, Debt Rescheduling Agreements (as defined in the Circular), Working Capital Loan Agreement (as defined in the Circular) and Interim Financing Agreements (as defined in the Circular), the Subscription Shares, the Shipyard Termination Shares, the Assumption Consideration Shares, the Consideration Shares (as defined in the Circular), the Offer Shares and new Ordinary Shares to be issued upon the exercise of the aforesaid FELS Warrants (the “**Specific Mandate**”), which might require the exercise of such powers, at an issue price of HK\$0.10 each per Ordinary Share is hereby approved;
  - (b) any one or two Directors be and are hereby authorised to make or grant offers and agreements in relation to the Specific Mandate.”
12. “**THAT** all the terms of the Restructuring Documents (as defined in the Circular) and the transactions contemplated thereunder, including without limitations provisions requiring the Company to allot, issue and deal with new Shares, be and are hereby approved, confirmed and ratified.”

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13. “**THAT** all decisions, steps and actions taken or procured to be taken on behalf of the Company and/or the Group (as defined in the Circular) at the behest of the board of Directors or any of the Directors (whether acting severally or jointly) in relation to (i) the Debt Restructuring (as defined in the Circular); (ii) the Resumption Proposal (as defined in the Circular); (iii) the Remaining Indebtedness Arrangements (as defined in the Circular); and (iv) the Debt Rescheduling Agreements (as defined in the Circular) and all ancillary transactions relating to any of the same, be hereby unconditionally and irrevocably approved, confirmed and ratified.”

By Order of the Board  
**Titan Petrochemicals Group Limited**  
**Fan Qinghua**  
*Chairman*

Hong Kong, 13 May 2016

\* *for identification purpose only*

*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 4902, 49/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
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 shares any one of such joint holder may vote, either in person or by proxy in respect of such shares as if he/she were 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.