Titan Petrochemicals Group Limited

Stock Code: 1192

Annual Report 2009

About Titan Petrochemicals Group

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

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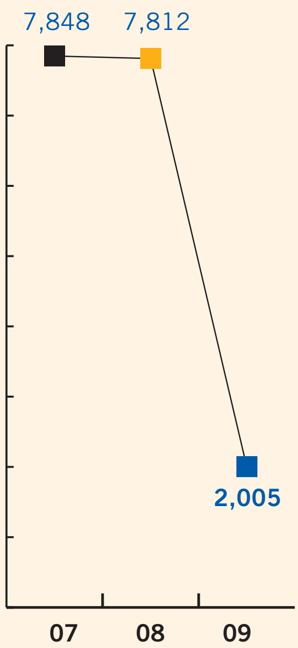
FINANCIAL HIGHLIGHTS

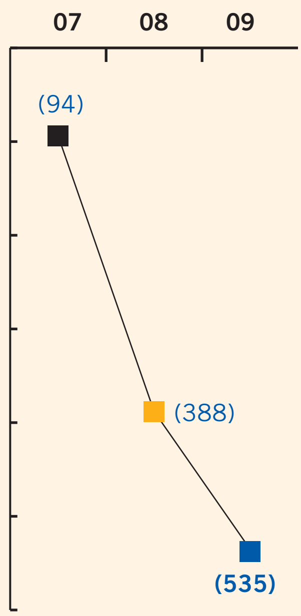
HK$ Million	2009	2008
Revenue	**2,005**	11,093
— continuing operations	**2,005**	7,812
— discontinued operation	**—**	3,281
Gross profit/(loss)	**124**	(484)
Loss for the year — continuing operations	**(535)**	(388)
Loss for the year — discontinued operation	**—**	(1,217)
Loss for the year attributable to owners of the Company	**(536)**	(1,601)
Loss Per Share (HK cents)		
Basic	**(8.24)**	(24.72)
Diluted	**N/A**	N/A
Equity Attributable to owners of the Company	**1,727**	2,149
Total cash position	**530**	594
Current Ratio	**1.04**	1.03
Gearing Ratio	**0.60**	0.51

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

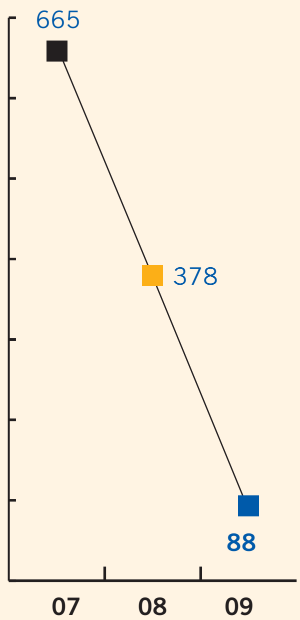
- Floating Storage continues to provide steady income with 6 FSU in operation by year end
- China Terminals grow with rise in revenues by 188.8% and operating EBITDA by 201.9%
- Shipbuilding and Transportation severely affected by recessionary economic conditions
- Continuing asset rationalisation by disposing one single-hulled VLCC in 2009 to provide HK$167 million cash flow for the Group
- Bond Exchange Offer to strengthen Group's financial position



Revenue — continuing operations
HK$ Million



Loss for the year — continuing operations
HK$ Million



EBITDA — continuing operations
HK$ Million

“We press on with the development of our Shipyard, confident that the ship repair business will bring us stability in earnings”

TSOI Tin Chun
Chairman

CHAIRMAN'S STATEMENT

As global markets started picking up the pieces in 2009 from the aftermath of the financial tsunami, many businesses were still affected by the contracting economy. Although it seemed like the worst was over by year end, business confidence remained weak and recovery uneven. Following our business restructuring and record losses in 2008, Titan has moved forward with a firm focus on our Storage and Shipyard businesses. However, with the exception of Floating Storage, all our core businesses are still in developmental stages. Under such conditions and as a result of other factors as set out below, Titan reported a net loss in 2009 of HK$535 million.

During the year, as freight rates saw their worst levels in decades, we were able to generate income for the Group from our single-hulled VLCC fleet by operating them as Floating Storage Units (FSU). We even added to the number of our FSU by the deployment of three more chartered-in VLCCs. The Group's single-hulled coastal tankers however, continued operating and made a loss in the severely depressed market, characterised by an over-supply of tonnage, dominated by double-hulled vessels. Our shipbuilding business was likewise hit by the severe downturn in the shipping market and recorded its first year of loss. In the meantime, we pressed on with the development of our Titan Quanzhou ship repair yard, confident that the eventual operation of this business will bring us the much needed stability in earnings for difficult economic times like these. On the other hand, oil prices remained relatively low, creating a 'contango' market, which benefited our China Terminals and Floating Storage business.

With the imminent 2010 phasing out of single-hulled tankers, the Group went ahead to dispose of its remaining VLCCs in a timely manner. We sold one VLCC for HK$167 million in 2009, and this has since been followed by sales of the remaining three in the first quarter of 2010 for a combined value of HK$371 million. While these resulted in net book losses of HK$138 million and HK$387 million in 2009 and 2010, respectively, the disposals helped the Group to increase its liquidity at a critical time.

As we reported a year ago, we are taking steps to actively manage our liabilities and in early 2009, the Group repurchased and cancelled its senior notes in the principal amount of US$17.82 million (HK$139 million), that produced a gain of US$12 million (HK$91 million). Concurrently, we have been working to restructure our outstanding debt, and in December 2009, the Group announced an Exchange Offer regarding the same notes. The Group also announced on 16 March 2010, an agreement to issue one billion new shares at HK$0.37 to a strategic investor. Subject to certain terms and conditions, the gross proceeds of HK$370 million will be used in funding the proposed Exchange Offer. To the extent that any proceeds of the Subscription are not used to fund the Exchange Offer, we expect to utilise such amount for working capital purposes.

Chairman's Statement

Results

The Group's revenue for the year 2009 was HK$2,005 million, which is an 81.9% decrease compared to 2008, and a 74.3% decrease from revenues from continuing operations in 2008.

The Group's operations continue to record a positive EBITDA of HK$88 million (2008: HK$378 million), which takes into account the loss on disposal of a vessel of HK$138 million (2008: HK$417 million) and gains from repurchases of the senior notes of HK$91 million (2008: HK$339 million).

The Group's net loss was HK$535 million for 2009 compared to the loss of HK$1,606 million, inclusive of losses from discontinued operations, for 2008. The Board has decided not to declare a dividend.

Financial Resources

The Group's total cash position was HK$530 million at 31 December 2009 compared to HK$594 million twelve months ago. The cash is mainly being used for continued investments in the construction of projects in China and repayment of loans. The Group's gearing was 0.60 at the end of 2009, compared to 0.51 at the end of 2008.

Business Review

Shipyard

Revenues for Titan Quanzhou Shipyard in 2009 from our shipbuilding operation, decreased 32.9% to HK$385 million. This was due to a near collapse in the shipping and shipbuilding markets that has led to no new shipbuilding orders. As a result, the Shipyard incurred a segment loss before interest expenses, tax, depreciation and amortisation (LBITDA) of HK$59 million, compared to a segment EBITDA of HK$82 million a year ago.

During the year, Titan delivered four vessels, all of which were 7,000 dwt bunker/transportation tankers. Another two chemical tankers have been delivered since early 2010 and currently, the shipyard is building two vessels for expected delivery later in the year.

Construction of the ship repair facility progressed during the year and we expect the earlier phase consisting of two larger dry docks and up to 1,000m of repair berths, to be ready for operation by the end of 2010.

Floating Storage (Offshore Storage)

FSU revenues increased by 5.4% to HK$510 million, while segment EBITDA decreased by 38.8% to HK$180 million. This was due to the temporary reduction of operational capacity as four of the vessels used for FSU operations went into dry-docking during the year.

To capture the favorable demand for FSU during the year, we added the deployment of three chartered-in VLCCs to expand our business. By the end of 2009, the Group was operating a total of six FSU with a total capacity of approximately 1.6 million tons or 1.433 million cubic meters.

China Terminals (Onshore Storage)

Overall, revenues from the China terminals increased threefold to HK$162 million compared to HK$56 million in 2008. Segment EBITDA also rose 201.9% correspondingly from HK$36 million to HK$108 million. The growth was mainly attributed to higher utilisation rates and increased capacity at our storage facilities in China.

Utilisation rate for the 12-month period for the 590,000 cubic-meter Nansha Terminal Phase I & II fuel oil storage increased to 78% compared to 59% for the previous year. This was achieved despite a 44% increase in storage capacity over 2008.

The 125,300 cubic-meter chemical storage facility in Nansha received its first shipment in June 2009 and have been showing modest growth in utilisation as expected, in its initial months of operation. Overall utilisation rate of our Nansha Terminal based on the total 715,300 cubic meters capacity, on an annualised average was 74%.

Our Phase I Fujian Terminal, consisting of 90,000 cubic meters storage capacity for chemicals, also improved its utilisation rate from 43% to 67% during the year.

The first phase of Yangshan Petrochemical Terminal, near Shanghai, which consists of 420,000 cubic meters of oil storage started operations at the end of 2008. Well-received by international and domestic customers, the facility has seen a good start to its first full year of operation with an average utilisation rate of 73% in 2009.

Transportation and Distribution

Revenues from transportation in 2009 were HK$258 million, a decrease of 79.1% compared to 2008. The fall in revenues were due largely to the deployment of all of our VLCCs for FSU operations, leading to a significant reduction of total fleet capacity from 1.162 million dwt at the beginning of 2009 to 57,119 dwt at year end.

As a result, the Group derived its transportation revenues solely from the operations of its remaining single-hulled fleet of eight coastal tankers during the year. Operating conditions were extremely difficult for Titan as the excess supply of double-hulled tankers squeezed out the single-hulled vessels in what was already a shrinking market.

Subsequently, lower utilisation and depressed freight rates led to a segment LBITDA of HK$85 million for the year, compared to a segment EBITDA of HK$184 million in 2008.

As previously reported, we also sold one single-hulled VLCC in 2009 for a cash consideration of HK$167 million as part of our continued program of asset rationalisation, which has continued in 2010 with further sales of our remaining three VLCCs.

Excluding the discontinued trading operations, revenues in our distribution business declined by 87.4% to HK$690 million and reported segment EBITDA of HK$22 million, as compared to segment LBITDA of HK$11 million in 2008.

Outlook

Since the global financial crisis, many ship owners have cancelled or deferred their shipbuilding plans. Although the market seems to be recovering a little from its bottom, prospects still remain uncertain. While the shipbuilding market remains soft with a scarcity of new orders, the ship repair market remains resilient and stable. This falls in line with our focus this year to continue construction of our ship repair facilities, with the target to commence ship repair operations by the end of 2010/early 2011.

Storage demand in the Singapore and Malaysia region is expected to remain relatively stable. After the disposal of three VLCCs in March 2010, Titan has still three VLCCs operating in the FSU operations. Recently, we chartered-in another VLCC, bringing this figure up to a total of four FSU we are currently operating.

Construction of the 100,000 dwt jetty for the Fujian Terminal continues and will be completed by the middle of this year. The Yangshan terminal near Shanghai is also progressing well, and we expect operations for its 600,000 cubic meter Phase II oil storage facility to start in the second half of 2010. In addition, we anticipate the 80,000 cubic meter fuel oil tanks for Nansha Phase II to be completed by year end. Hence, Titan's existing combined storage capacity of 1.225 million cubic meters will be increased to 1.905 million by the end of this year, which is still one-third of our eventual planned total capacity for all three terminals.

Utilisation for our chemical storage facilities at Nansha and Fujian have seen encouraging growth in recent months, bolstered by an increase of chemical imports in the Mainland. Using our competitive advantages — the superiority of our terminal facilities, efficient services, and improved customer knowledge — we will intensify our marketing efforts in 2010 to develop more businesses for our terminals, whilst pursuing higher utilisation and more term leases.

Summary

Overall, the Group faces a challenging year ahead. With the recent sales of our last three VLCCs, we have limited assets remaining that can be easily disposed to realise their full value. Our operations as they now stand, while steadily producing income, remain relatively small in scale, and will struggle to produce sufficient cash flow to service our debt obligations and fulfill certain financial covenants.

As I have stated before, the development of the Shipyard and our China Terminals still require considerable funding over the next two years to realise our business plan. We will continue to work to secure the necessary financing for this. Nevertheless, the successful completion of the Exchange Offer is very critical to our future success and hence, this is our foremost and urgent priority for 2010. Once this is achieved, I am confident that our investments in stable business like onshore storage in China, ship repair and floating storage operations will pave the way for solid growth prospects for Titan and our shareholders in the future.

Tsoi Tin Chun
Chairman & Chief Executive

Hong Kong, 13 April 2010

DIRECTORS

Mr. TSOI Tin Chun

Chairman of the Board and Chief Executive

Mr. Tsoi, aged 47, founder of Titan Petrochemicals Group Limited (listed on the Hong Kong Stock Exchange as HK1192), has been the Group's Chairman since its inception in May 2002. In January 2008 he also assumed the post of Chief Executive.

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

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

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

Mr. Tsoi firmly believes that entrepreneurs and enterprises have responsibilities to contribute to society. Thus, in June 2006, Titan Oil Pte Ltd initiated construction of Titan Maritime Institute in Fujian, China. This institute is committed in developing itself into a first-class comprehensive full-time higher vocational educational establishment, and aimed at giving supports to inject maritime talents to the domestic and international marine industry. Phase one construction has completed, and school commenced in September 2009 with 431 students admitted. The institute plans to enroll 1,000 students in 2010, and upon full completion of the construction, the number of full-time students will gradually increase to 5,000, offering a wide range of maritime, ship building/repair related vocational training courses to students.

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

Mr. Patrick WONG Siu Hung

Executive Director and
President, Corporate Office

Mr. Wong, aged 54, has been an Executive Director of the Company since May 2008 and is also the President, Corporate Office who is responsible for strategic and operational leadership for all of Titan's business and operations. Mr. Wong has 30 years of working experience in banking, finance, commodity trading and project development. He has held several key positions in the Titan Group from 2002 to 2005, and was senior vice president of Commodity and Trade Finance at Societe Generale in Singapore and worked at commodity trading firms such as Louis Dreyfus where he was chief executive officer of China before rejoining Titan as President. Mr. Wong is an Associate Member of the Chartered Institute of Bankers, United Kingdom and holds a master degree in Applied Finance from Macquarie University, Australia.

Mr. John William CRAWFORD, *JP*
Independent Non-executive Director

Mr. Crawford, aged 67, has been an Independent Non-executive Director of the Company since February 2006 and is also the chairman of the audit committee. He was a founding partner of Ernst & Young, Hong Kong and vice chairman of the firm until his retirement in 1997. During his 25 years in public accounting, he was also the chairman of the audit division and was active in a number of large private and public company takeover and/or restructuring exercises. Mr. Crawford has been involved in various community service areas such as being a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, Mr. Crawford was appointed a Justice of the Peace in Hong Kong. He is a member and was a governor for many years of the Canadian International School of Hong Kong and continues to be active in the promotion of pre-university education. Mr. Crawford is an independent non-executive director and chairman of the audit committee of e-KONG Group Limited and Regal Portfolio Management Limited which is the manager of Regal Real Estate Investment Trust, the shares and units, respectively, of which are listed in Hong Kong. He is also an independent non-executive director of Elixir Gaming Technologies, Inc., a company listed on the America Stock Exchange.

Ms. Maria TAM Wai Chu, *GBS, JP*
Independent Non-executive Director

Ms. Tam, aged 64, has served as an Independent Non-executive Director of the Company since August 2004 and is also the chairman of the remuneration committee and a member of the audit committee. She is a barrister and a Deputy to the National People's Congress of the People's Republic of China. She is a member of the Committee for the Basic Law of the Hong Kong SAR under the Standing Committee of the National People's Congress, Basic Law Promotion Steering Committee, Operations Review Committee and Witness Protection Review Board of the ICAC. Ms. Tam currently serves as an independent non-executive director of Wing On Company International Limited, Minmetals Land Limited, Sinopec Kantons Holdings Limited, Guangnan (Holdings) Limited, Tong Ren Tang Technologies Co. Ltd., Sa Sa International Holdings Limited and Nine Dragons Paper (Holdings) Limited. She was a non-executive director of eSun Holdings Limited from 2000 to 2008. Ms. Tam was educated at the University of London and is a member of Gray's Inn, London.

Mr. Abraham SHEK Lai Him, *SBS, JP*
Independent Non-executive Director

Mr. Shek, aged 64, has been an Independent Non-executive Director of the Company since February 2006 and is also a member of audit committee and remuneration committee. He graduated from the University of Sydney with a Bachelor of Arts degree. Mr. Shek is a member of the Legislative Council for the Hong Kong SAR and a vice chairman of Independent Police Complaints Council. He is also an independent non-executive director and audit committee member of NWS Holdings Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, ITC Corporation Limited, Country Garden Holdings Company Limited and SJM Holdings Limited. He also sits in the board of Eagle Asset Management (CP) Limited and Regal Portfolio Management Limited which is the manager of Champion Real Estate Investment Trust and Regal Real Estate Investment Trust (the units of which are listed in Hong Kong), respectively as an independent non-executive director as well as an audit committee member. He serves as independent non-executive director to Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited and MTR Corporation Limited. Mr. Shek is also the chairman and independent non-executive director of Chuang's China Investments Limited and a director of The Hong Kong Mortgage Corporation Limited. He was an independent non-executive director of See Corporation Limited from 2005 to 2008. From 1987 to 2000, Mr. Shek was the Chief Executive of Land Development Corporation, and was also Commercial Director and a member of Managing Board of Kowloon-Canton Railway Corporation from 1984 to 1987 and 2004 to 2007, respectively.

SENIOR MANAGEMENT

Mr. Allen TU Chung To

Chief Financial Officer

Mr. Tu, aged 48, has over 20 years experience in the finance, accounting and auditing fields. He has been appointed as Chief Financial Officer since December 2008. He was previously the Group Financial Controller and Company Secretary of Titan, from June 2002 until June 2008. Prior to joining Titan, he was Project Financial Manager with Noble Group, from 2001 to 2002. Before that, he was a Senior Audit Manager with Ernst & Young, focusing in initial public offering exercises. Mr. Tu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He holds a Bachelor's Degree in Commerce from the University of Toronto.

Mr. Jeremy TAN Kok Liann

Head, Human Resources

Mr. Tan, aged 35, re-joined Titan in October 2007 as Head, Human Resources. He was previously the HR Director at Titan. Prior to re-joining, he was the Asean HR head for Mercer HR Consulting where he was responsible for HR functions covering Singapore, Malaysia, Thailand, Indonesia and the Philippines. Previously, he held HR manager positions at Network for Electronic Transfers (NETS), Media Corp and United Overseas Bank (UOB), and worked as a HR consultant with Ernst & Young and PricewaterhouseCoopers. Mr. Tan has a Graduate Diploma in HR Management from Singapore Institute of Management (SIM), a Graduate Diploma in Marketing from the Chartered Institute of Marketing (CIM), United Kingdom and a Bachelor of Accountancy from Nanyang Technological University (NTU). He is also a non-practising Certified Public Accountant (CPA) in Singapore.

Mr. TAN Mong Seng

Senior Consultant, Shipyard

Mr. Tan, aged 58, has worked in the marine industry for more than 30 years (particularly in the areas of ship repair, shipbuilding and offshore engineering). Since his appointment in April 2007 as Senior Consultant for Titan, he has been helping to steer the overall business strategy of Titan Quanzhou Shipyard Co., Ltd (TQSL), as well as providing expertise and direction to the shipyard's layout-design and development. Mr. Tan joined Sembawang Shipyard Ltd, Singapore in 1976, and rapidly moved up the management ranks during his career there. In 1987 he was appointed Managing Director and, in 1994, President of Sembawang Shipyard Group. In 1996, he became President of Sembawang Engineering & Construction Group, responsible for the Group's onshore and offshore engineering and construction activities. Mr. Tan subsequently joined Singapore Technologies Marine Ltd in 1998, and was appointed President (Commercial Business) in 1999. After leaving Singapore Technologies in 2004, he started his own consultancy business. Mr. Tan graduated from Glasgow University in United Kingdom with 1st Class Honours in Naval Architecture. In 1993 he attended the Advanced Management Programme in Harvard Business School, USA.

Mr. ZHANG Haiquan

General Manager, Shipbuilding

Mr. Zhang, aged 40, is responsible for the shipbuilding operations and business at Titan Quanzhou Shipyard, since his appointment as General Manager of Shipbuilding in June 2008. He is well-versed in modern shipbuilding technology and work processes, equipped with deep industry knowledge, practical and management experience in safety, quality, design, procurement, project management, workshop fabrication and overall technology standards process control. Prior to Titan, Mr. Zhang worked for 17 years at Dalian Shipbuilding Industry Co, holding various positions including Chief Processing Engineer of the Research Institute's Engineering faculty, Deputy Head of the Manufacture Supervision Division in the Production Department, Project Manager – Product Oil Tanker and Deputy Project Manager – FPSO (Floating Production Offshore). Mr. Zhang graduated with a Bachelor's degree in Shipbuilding Engineering from Dalian University of Technology in 1991.

Mr. LI Xixin

Finance Director, Shipyard

Mr. Li, aged 45, has been Finance Director of Titan Quanzhou Shipyard since April 2008. He has more than 20 years working experience in shipyard operations and finance. Previous positions Mr. Li held include Deputy Finance Head of Dalian New Shipbuilding Heavy Industry, Head of Finance of Dalian Marine Propeller Plant, Finance Manager of COSCO (Dalian) Shipyard Co. Ltd, and Deputy General Manager - Finance of the COSCO Shipyard Group Co. Ltd. Mr. Li is a graduate of Tianjin University with a Degree in Engineering, and completed postgraduate studies at Dongbei University of Finance and Economics and Shanghai National Accounting Institute.

Mr. Karl SANDERS

President, China Terminals

Mr. Sanders, aged 52, has been President of China Terminals since September 2008. Before joining Titan, he worked in the oil logistics and terminal operations industry for 28 years, with hands-on experience in business development and operations management in both China and Europe. Mr. Sanders spent the last decade in China developing petrochemical storage facilities for multinational companies including Stolt Nielsen Terminals, where he was Asia Pacific Director from 2004 to 2008, as well as LBC and Westerlund. Before going to China, he held various senior positions in the European operations of Oiltanking Terminals, the second largest independent oil storage provider globally, where he last served as General Manager and Managing Director.

Mr. LIU Hui Jun

Deputy Managing Director — Guangdong,
Guangzhou Nansha Petrochemicals Development

Mr. Liu, aged 53, joined the Group in February 2007 responsible for the daily administration of all businesses and handling government relations in the Guangdong region. Before joining Titan, he was Vice President at Guangzhou Nansha Assets Management Investment Co. for five years. Prior to this, he was General Manager of The Ministry of Water Resources (HK) Investment Co., from 1996 to 2002, and Vice Director of Zhuhai City West Construction Committee from 1992 to 1996. He has served as Head of Production Department and Vice President of the Survey and Design Institute of Water Conservancy and Hydropower in Anhui since 1986. Mr. Liu is a graduate of the Beijing Normal University, where he majored in economics.

Mr. Saad TAYYAB

Head, Shipping

Mr. Saad aged 50, has served in the Group's shipping division since March 2005. He was previously consulting in Singapore from 2001 to 2005, where he was responsible for the inspection of third party vessels on behalf of companies like Shell, ExxonMobil and ChevronTexaco. He supervised insurance surveys including P&I with respect to client claims and disputes, and was pioneer for establishing and providing training to shore-based establishments like Vopak terminals in Singapore and other leading brands in the oil and chemical industries. He was also served as Senior Auditor and conducted various technical audits for major clients. From 1999 to 2001, Mr. Saad was involved in operation and chartering of crude and product tankers, based in Greece. Prior to this, he had over 15 years of sailing experience on oil and chemical tankers with major companies based in the United Kingdom, Greece and Hong Kong. He has Master Class I from Australia, and is currently doing his MBA.

Mr. WANG Wei

Head of the Singapore office and
General Manager, FSU (Floating Storage Units)

Mr. Wang Wei, aged 45, has served as Head of the Singapore office since October 2009 and has been General Manager of Floating Storage Units (FSU) since September 2005. He has 18 years of extensive experience in the oil trading industry. He was previously with Sinochem in Beijing, where he was responsible for the trading of fuel oils. Prior to that, he acted as a trader for Mitsui & Co. Ltd in China, trading oil products. Mr. Wang graduated with a Bachelor's Degree in Science from Peking University in 1986.

EVENTS OF THE YEAR

January

Titan Quanzhou Shipyard delivers two 7,000 dwt bunker/transportation dual purpose tankers in January. The two tankers were classified by Lloyd's Register.

March

Titan Fujian Petrochemical Terminal successfully upgrades product oil storage tanks to chemical tanks to take advantage of the rising customer demand in the chemical storage market.

June

Adds two more FSU to expand capacity by the further deployment of the chartered-in VLCCs, namely *Ticen Sun and Ticen Ocean.*

June

Titan Nansha Petrochemical Terminal's receives its first chemical shipment. The chemical tanker Kristin unloaded 5,000 metric tons of methanol to the newly commissioned chemical storage tanks.

July

Warburg Pincus, our joint venture partner invests a further US$20 million in Titan's China Terminal business.

July

Titan Quanzhou Shipyard delivers two more 7,000 dwt bunker/transportation dual purpose tankers.

July

Adds another FSU by chartering VLCC *SFakia* to boost its floating storage business, which now operates a total of six FSU.

July

Titan Nansha Petrochemical Terminal achieves safety milestone, achieving a 1,000-day of clear safety record in its operations.

August

Sells single-hulled VLCC *Titan Gemini* for US$21.4 million.

September

Titan Nansha Petrochemical Terminal receives approval from Shanghai Futures Exchange for an additional 50,000 m^3 capacity, bringing total physical delivery terminal capacity to 200,000 m^3.

October

Titan Nansha Petrochemical Terminal launches Petrochemical Fast Loan Package jointly with Shenzhen Development Bank (SDB) and COSCO Logistics, a customised supply chain financing solution which provides customers with more value added services.

October

Platts approves a second Titan FSU as physical delivery point for fuel oil.

December

Shanghai Futures Exchange gives approval for 100,000 m^3 capacity in the Yangshan terminal as physical delivery storage facility for the settlement of its fuel oil futures contracts.

MANAGEMENT DISCUSSION AND ANALYSIS:

OPERATIONS REVIEW

During the year, Titan continued to focus on its core businesses, namely, Floating Storage, China Terminals and the Shipyard businesses, while continuing to scale down its Transportation and Distribution businesses.

Shipyard

Titan Quanzhou Shipyard became a wholly-owned subsidiary of the Group since October 2007. Ideally located on busy shipping lanes off the Taiwan Straits, this unique multifunctional facility will be one of the largest ship repair, offshore engineering and specialised building yards in Asia when fully constructed.

Dry-Docks

Number	Dimensions in meters (m)
1	380 x 80
2	420 x 68
3	280 x 46
4	280 x 46

Slipways

Number	Dimensions in meters (m)
1	180 x 48
2	275 x 48

Workshops

Main Workshops	Floor Areas (square meters)
Hull No. 1 (steel works)	23,000
Hull No. 2 (steel works)	21,000
Painting and Blasting	8,000
Integrated Workshop	4,000
Mechanical and Electrical	19,000

Currently, operations at the Shipyard consist mainly of shipbuilding, which commenced since 2007. The revenues for 2009 decreased by 33% to HK$385 million and segment LBITDA was HK$59 million compared to segment EBITDA of HK$82 million in the previous year. The drop in revenues and resultant loss were attributed to the depressed shipbuilding market that led to no new orders for the year.

The shipbuilding operations delivered four vessels during the year, all of them being 7,000 deadweight ton (dwt) dual purpose bunker-transportation tankers. In January 2010, the yard delivered its first 9,000 dwt chemical tanker, followed by a second one within the first quarter of this year. All vessels have been certified by Lloyd's List. It is currently building two 9,000 dwt chemical tankers, and plans to deliver them in the first half of 2010.

The existing facilities, which are mainly used for ship building, comprise 180m x 48m and 275m x 48m slipways, outfitting berths, a workshop and two gantry cranes, one of 250 tons and the other of 160 tons. The

yard has also started initial afloat repair operations at the jetty since August 2009.

During the year, the Group continued the development of its ship repair facilities. The first phase, which involves the two larger dry docks and up to 1,000 m of repair berths is expected to be completed by the end of 2010, while the remaining two dry docks and the building yard for offshore engineering fabrication will be due for completion in mid 2011.

Upon full completion, Titan Quanzhou Shipyard will have four dry docks, ten jetties, 30 cranes and six large-scale workshops. The ship repair facility will be capable of handling vessels with maximum capacities of up to 300,000 dwt, and will have a maximum annual repair capacity of 250 vessels totaling one million dwt in capacity. With 3,600 meters of berthing, the Shipyard will exceed existing yards currently operating in Singapore and Mainland China, and will permit the docking of the latest generation container ships up to 397 meters.

In addition to state-of-the-art equipment, Titan has put in place a strong quality assurance system, and the yard has successfully obtained ISO9001 certification from Lloyd's Shipping Register in 2008. Furthermore, we have also established the necessary operational procedures and HR management systems to prepare for the commencement of the ship repair business.

Management Discussion and Analysis

Floating Storage (Offshore Storage)

The Group provides year round oil storage, transit and blending services using VLCCs as Floating Storage Units (FSU) at Pasir Gudang and Tanjung Pelapas Anchorage in Malaysia. Occupying strategic locations at the juncture of Singapore and Malaysia on the major shipping route between the Indian Ocean and the Pacific Ocean, our FSU serves vessels passing through Singapore. The ability to provide heating and blending services by our FSU offers us an edge over our competitors.

FSU List (as at 31 March 2010)

	Ship Name	DWT (mt)
1	TICEN OCEAN	284,497
2	TICEN SUN	284,317
3	EDINBURGH	302,493
4	SFAKIA	250,267
Total DWT (mt)		1,121,574

At the beginning of 2009, the Group had four FSU in operation. During the year, one of the VLCCs was sold off, and three VLCCs were subsequently deployed in from Transportation by the Group in the second half, which resulted in a total of six FSU in operation, providing approximately 1.6 million tons or 1.433 million cubic meters of capacity by year end.

Although overall capacity has increased, there was a temporary reduction in capacity due to the dry docking of four FSU in the middle of the year. As a result, while there was a rise in revenues in 2009 from HK$484 million to HK$510 million, segment EBITDA dropped 39% to HK$180 million from HK$293 million in 2008.

In 2009, Titan received approval for a second FSU as a designated delivery point for inclusion into Platts Singapore Fuel Oil Assessments, and this was followed by two more in the beginning of 2010. With the sales of the Group's three owned VLCCs and another VLCC we chartered-in in March 2010, Titan is currently operating four FSU and will be looking to increase its capacity by chartering-in additional VLCCs when suitable opportunities arise.

China Terminals (Onshore Storage)

Titan is concurrently operating and developing three onshore storage facilities at strategic locations in China. In operation are Phases I & II of Titan Nansha Petrochemical Terminal, Phase I of Titan Fujian Petrochemical Terminal and Phase I of Yangshan Terminal. Together they provide a combined storage capacity of 1.225 million cubic meters, of which 1,010,000 cubic meters are oil storage and 215,300 cubic meters are chemical storage.

China Terminals Project Plan Table

	Nansha, Guangdong	Quanzhou, Fujian	Yangshan, Shanghai
Total Planned Capacity	1,800,000 m^3	1,590,000 m^3	2,370,000 m^3
Phase I	410,000 m^3 (completed)	90,000 m^3 (completed)	420,000 m^3 (completed)
Phase II			
— Stage A	305,300 m^3 (completed)	330,000 m^3 (first quarter 2011)	600,000 m^3 (third quarter 2010)
— Stage B	—	270,000 m^3 (fourth quarter 2012)	—
Phase III			
— Stage A	80,000 m^3 (fourth quarter 2010)	900,000 m^3 (after 2012)	1,350,000 m^3 (third quarter 2012)
— Stage B	123,000 m^3 (second quarter 2011)	—	—
Phase IV	881,700 m^3 (third quarter 2012)	—	—
Number of Berths	20 (15 completed)	8 (2 completed)	16 (5 completed)
Planned Maximum Berth Capacity	120,000 dwt	300,000 dwt	300,000 dwt
Current Maximum Berth Capacity	120,000 dwt	13,000 dwt	120,000 dwt
Products	Fuel Oil, Chemicals, Petroleum Products	Crude Oil, Fuel Oil, Chemicals, Petroleum Products	Fuel Oil, Chemicals, Petroleum Products

Management Discussion and Analysis

Revenues from Titan's China terminals tripled from HK$56 million to HK$162 million and segment EBITDA has risen correspondingly threefold from HK$36 million to HK$108 million for the year.

As Phase II fuel oil storage of Nansha Terminal was ready by end of 2008, the capacity available in 2009 increased 44% to 590,000 cubic meters from the beginning of the year. Fuelled by the contango market, business was brisk and the utilisation rate for the fuel oil tanks increased from 59% to 78% on the expanded capacity for the twelve-month period.

Construction of the 125,300 cubic meter chemical storage facility (part of the Phase II Nansha project) was completed in mid 2009 and began operations in the second half. Utilisation rate has climbed up steadily from an average of 22% in August to 41% in December 2009.

For the combined Phase I and II capacity at Nansha Terminal, the average annual utilisation rate in 2009 was higher at 74% compared to 59% in 2008.

Likewise, the chemical storage facility in Fujian has seen improving utilisation with the average annual utilisation rate for 2009 rising to 67% from 43% in 2008. As we reported six months ago, this increase is due to the conversion of 30,000 cubic meters of diesel oil tanks to chemical tanks, which has helped us to capture the rise in demand for chemical storage.

During the year, the Shanghai Futures Exchange designated an additional 150,000 cubic meters

capacity in the Nansha terminal as a physical delivery storage facility for the settlement of its fuel oil futures contracts, bringing the total capacity to 200,000 cubic meters. This further addition of capacity is testament to the growing recognition and acceptance of our facility not only from the Exchange, but from domestic and international customers as well.

Phase I of the Yangshan Petrochemical Terminal near Shanghai, consisting of storage for 260,000 cubic meters of fuel oil, 100,000 cubic meters of diesel and 60,000 cubic meters of gasoline, started operations at the end of 2008. Providing a total of 420,000 cubic meters of storage capacity, this facility has been operating smoothly with an average utilisation of 73% for 2009, a remarkable achievement for its first year of operation. In addition, the Shanghai Futures Exchange also designated a total of 100,000 cubic meters to the terminal as a physical delivery facility for settlement of fuel oil futures contracts.

In 2009, the Group proceeded with the construction of the 100,000 dwt jetty for the Fujian Terminal and this will be ready by the second half of 2010. Work on Phase II of the Yangshan project is also going at full speed, and we expect to add another 600,000 cubic meters capacity for oil storage by year end. In addition, building of Nansha Phase III Stage A for 80,000 cubic meters of fuel oil storage started during the year, and continues with a target completion for the end of 2010 as well.

Transportation and Distribution

In 2009, shipping companies worldwide experienced one of their worst years from the fallout of the global economic crisis. Likewise, oil transportation suffered with the annual average VLCC rates sinking to only World-Scale (WS) 42 for the Middle East-Far East route for the year, compared to WS134 in 2008 and WS79 in 2007. Under such conditions, Titan strategically deployed all VLCCs to the FSU operations. As a result, all of our transportation segment revenues in 2009 were derived from the remaining eight single-hulled coastal tankers instead. The weak tanker market was exacerbated by the market's preferential demand for double-hulled vessels, which meant an even lower utilisation of our single-hulled fleet, which declined from 96% to 69% and impacted our bottom-line.

As a consequence, revenues from transportation for the year were HK$258 million, down from HK$1,234 million the year before, and the operations made a segment LBITDA of HK$85 million compared to 2008's segment EBITDA of HK$184 million.

At the end of 2009, our transportation fleet was comprised of eight coastal tankers with a combined capacity of 57,119 dwt.

As the phase-out of single-hulled vessels gathered speed, the Group sold one single-hulled VLCC for HK$167 million during the year, which resulted in a net book loss of HK$138 million. This was followed by

the subsequent disposal of all three of our remaining VLCCs in March 2010. All four vessels sold were being used as FSU at the time of their disposals.

Revenues for the distribution business, excluding the discontinued oil trading operations decreased 87% to HK$690 million compared to the previous year. Segment EBITDA was HK$22 million as compared to a segment LBITDA, excluding the discontinued oil trading operations, of HK$11 million for 2008.

After the Group's business restructure and discontinuation of our trading operations in 2008, our bunkering (ship-refueling) operations remain scaled-down with Titan on one hand, operating four vessels with a total capacity of approximately 10,000 dwt in the Hong Kong market, and separately, serving the Group's own fleet in Singapore.

Transportation Fleet List (as at 31 March 2010)

	Ship Name	DWT (mt)	Class	Year Built	Flag
1	ALPHA PROSPERITY	7,590	DNV	1995	Singapore
2	ALPHA PRESTIGE	7,574	DNV	1995	Singapore
3	ALPHA POWER	7,503	DNV	1996	Singapore
4	JURONG HERRING	6,902	ABS	1995	Singapore
5	ORCHID	6,901	ABS	1993	Singapore
6	JURONG KRAPU	6,887	ABS	1996	Singapore
7	LANTANA	6,881	ABS	1995	Singapore
8	MIMOSA	6,881	ABS	1995	Singapore
Total DWT (mt)		57,119			

FINANCIAL REVIEW

Financial Results

The Group's total turnover for the year decreased by 81.9% to HK$2,005 million with the cessation of the oil trading business in last year as part of the Group's strategy. The loss before tax on continuing operations was HK$535 million compared to HK$391 million in the previous year. The Group's continuing operations continue to record earnings before interest expenses, tax, depreciation and amortisation (EBITDA) of HK$88 million (2008: HK$378 million). This included an exceptional net loss of HK$138 million which was recorded from the disposal of vessels (2008: HK$417 million) and gains from the repurchases and cancellation of senior notes amounted to HK$91 million (2008: HK$339 million). Finance costs for the Group reflected a decrease from HK$485 million to HK$383 million. The loss before tax for the year of the Group decreased to HK$535 million. The loss for the year attributable to owners of the Company in previous year of HK$1,601 million decreased to HK$536 million this year.

Shipbuilding

The shipbuilding business recorded turnover of HK$385 million in 2009 as compared to HK$574 million in 2008 and the segment loss before interest expenses, tax, depreciation and amortisation (LBITDA) was HK$59 million in 2009 while in 2008 was EBITDA of HK$82 million. The shipbuilding business accounted for 19.2% of Group's revenues in 2009.

Transportation

This business turnover significantly dropped to HK$258 million in 2009 from HK$1,234 million recorded in 2008. Due to the low freight rates during the year caused by the global conditions, the segment EBITDA from the oil transportation business decreased from HK$184 million to LBITDA of HK$85 million. The transportation business accounted for 12.9% of Group's revenues in 2009.

Offshore Oil Storage

The offshore oil storage business recorded turnover of HK$510 million in 2009, as compared to HK$484 million for 2008. Despite of the strong demand in the Singapore and Malaysia region, the segment EBITDA decreased by 38.8% to HK$180 million as compared to HK$293 million in 2008 because several vessels were under drydocking. The offshore oil storage business accounted for 25.4% of Group's revenues in 2009.

Onshore Oil and Chemical Storage

The onshore oil and chemical storage business recorded turnover of HK$162 million in 2009, as compared to HK$56 million for 2008. The EBITDA of this segment increased by 201.9% to HK$108 million as compared to HK$36 million for the prior year as a result of an increase in storage capacity. The onshore oil and chemical storage business accounted for 8.1% of Group's revenues in 2009.

Supply and Distribution

This business turnover, excluding discontinued operation of oil trading, decreased by 87.4% to HK$690 million from HK$5,464 million in 2008 while the contribution improved to the segment EBITDA of HK$22 million as compared to a segment LBITDA of HK$11 million in 2008. The business accounted for 34.4% of Group's revenues in 2009.

Liquidity, Financial Resources, Charges On Assets And Gearing

The Group finances its operations largely through internally generated resources, term loans and trade finance facilities provided by banks in Hong Kong, Singapore and Mainland China. As at 31 December 2009,

a) **The Group had:**

- Cash and bank balances of HK$358 million (2008: HK$351 million), pledged deposits and restricted cash of HK$172 million (2008: HK$230 million) from continuing operations. These were comprised of:
  - — an equivalent of HK$98 million (2008: HK$303 million) denominated in US dollars
  - — an equivalent of HK$4 million (2008: HK$12 million) denominated in Singapore dollars
  - — an equivalent of HK$422 million (2008: HK$262 million) denominated in RMB
  - — HK$6 million (2008: HK$4 million) in Hong Kong dollars
- Interest-bearing bank loans of HK$2,963 million (2008: HK$1,781 million), of which HK$72 million (2008: HK$227 million) were floating rate loans denominated in US dollars. HK$761 million of the Group's bank loans at 31 December 2009 had maturities within one year.

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

- Vessels with an aggregate net carrying value of HK$612 million (2008: HK$928 million) which were disposed of after the reporting period as set out in note 49(a)
- Construction in progress with an aggregate carrying value of HK$478 million (2008: HK$145 million)
- Bank balances and deposits of HK$82 million (2008: HK$178 million)
- Machinery with an aggregate net carrying value of HK$209 million (2008: Nil)
- Buildings with an aggregate net carrying value of HK$58 million (2008: Nil)
- Prepaid land/seabed lease payments with an aggregate net carrying value of HK$906 million (2008: HK$901 million)
- Storage facilities with an aggregate net carrying value of HK$1,059 million (2008: HK$539 million)
- Contracts in progress with an aggregate carrying value of HK$145 million (2008: Nil)
- Several pieces of land owned by related companies in 2008 but it was released in 2009
- Corporate guarantees executed by the Company
- Personal guarantees executed by a director of the Company
- Corporate guarantee executed by a related company in 2008 but it was released in 2009

c) **The fixed rate guaranteed senior notes of HK$2,491 million (2008: HK$2,622 million) were secured by the shares of certain subsidiaries.**

d) **The Group had:**

- Current assets of HK$2,044 million (2008: HK$2,189 million). Total assets of HK$9,446 million (2008: HK$8,999 million)

- Total bank loans of HK$2,963 million (2008: HK$1,781 million)

- No finance lease payables were outstanding at 31 December 2009 (2008: HK$1 million)

- Fixed rate guaranteed senior notes of HK$2,491 million (2008: HK$2,622 million)

- Convertible preferred shares as non-current liability to the extent of the liability portion of HK$645 million (2008: HK$573 million)

- Notes payable as a non-current liability to the extent of the liability portion of HK$204 million (2008: HK$198 million)

- Convertible unsecured notes, issued during the year, as a non-current liability to the extent of the liability portion of HK$68 million

The Group's current ratio was 1.04 (2008: 1.03). The gearing of the Group, calculated as the total bank loans, finance lease payables, fixed rate guaranteed senior notes, notes payable and convertible unsecured notes to total assets, has increased to 0.60 (2008: 0.51).

e) **The Group operates in Hong Kong, Singapore and Mainland China. As its business contracts are mostly settled in US dollars and its reporting currency is Hong Kong dollars, the directors consider that the Group has no significant exposure to foreign exchange, except for currency translation risks on the net assets in foreign operations, in particular in Mainland China. The Group has not used any financial instruments for speculative purposes.**

Contingent Liabilities

At 31 December 2009, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$111 million (2008: HK$306 million).

At 31 December 2009, a HK$39 million guarantee had been given by the Company to a supplier of a subsidiary of the Company in connection with the floating storage business but no amount had been utilised.

In 2009, certain subsidiaries of the Company (collectively the "Claimants") initiated arbitration proceedings against a ship management company for claims relating to certain ship management agreements (collectively the "Agreements"). The ship management company subsequently filed a defence and counterclaim submission in which it alleged that the Claimants repudiated the Agreements and that it has a counterclaim for damages. Based on a legal opinion by the Group's lawyers, there are no merits to the counterclaim by the ship management company and the Claimants have strong prospects of succeeding with their arguments. On this basis and given the status of the proceedings are still at a preliminary stage, the directors of the Company are of the view that no provision for the counterclaim is necessary at this stage.

Employees and Remuneration Policies

As at 31 December 2009, the Group had approximately 1,319 employees, of which approximately 727 employees were working in Mainland China, and 592 employees were based in Singapore and Hong Kong. Remuneration packages, including basic salaries, bonuses and benefits-in-kind, are structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisals. No share options were granted to employees of the Group during the year.

CORPORATE GOVERNANCE REPORT

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

Compliance with the Corporate Governance Code

The Company has applied the principles and complied with code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2009, except for the two specific deviations set out below.

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, Mr. Tsoi Tin Chun, Chairman of the Board, also holds the position of the Group's Chief Executive. Further details are provided in the section headed "Chairman and Chief Executive" below.

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to business meeting commitments overseas, Mr. Tsoi Tin Chun was unable to attend the annual general meeting of the Company held on 26 June 2009. Mr. Patrick Wong Siu Hung, the executive director of the Company, chaired the annual general meeting in accordance with the provisions of the Company's bye-laws.

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

The Board

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

As at 31 December 2009, the Board was comprised of five directors, including two executive directors and three independent non-executive directors. Biographical details of the directors and their respective roles in the Group are set out in the Directors' section of this Annual Report.

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

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

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

Chairman and the Chief Executive

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

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

Currently, Mr. Tsoi Tin Chun, Chairman of the Board, also fulfills the functions/responsibilities of the Chief Executive. He is responsible for and assumes full accountability to the Board for all Group operations and performance. Although the role of Chairman and Chief Executive are performed by the same person, President of the Corporate Office, who provides strategic and operational leadership for the Group, together with the senior management team, assist the Chairman in managing the Group's day-to-day operations. The Board periodically reviews the effectiveness of this arrangement and will take any appropriate action should circumstances necessitate.

Board Meetings

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

Notice of at least 14 days is served for regular Board meetings. During 2009, five full Board meetings were held at which the individual attendance records of the directors were as follows:

	Attendance
Executive directors	
Mr. Tsoi Tin Chun — Chairman & Chief Executive	4/5
Mr. Patrick Wong Siu Hung	5/5
Independent non-executive directors	
Mr. John William Crawford	5/5
Ms. Maria Tam Wai Chu	5/5
Mr. Abraham Shek Lai Him	4/5

Nomination of Directors

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

Directors' Responsibility for Preparing Financial Statements

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

The statement of the auditors with respect to their reporting responsibilities on the financial statements of the Group is set out in the independent auditors' report on pages 41 to 42 of this Annual Report.

Audit Committee

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

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

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

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

- ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;

- oversee the effectiveness of financial reporting systems; and

- ensure ongoing assessments of the Group's internal control systems over financial, operational, compliance and broad risk management processes.

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

	Attendance
Mr. John William Crawford — Chairman	4/4
Ms. Maria Tam Wai Chu	4/4
Mr. Abraham Shek Lai Him	4/4

Financial Statements

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

External Auditors

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

During the year ended 31 December 2009, the audit fees paid/payable to E&Y amounted to approximately HK$3,700,000 and the fees paid/payable to them for non-audit services amounted to approximately HK$4,170,000 which was comprised of taxation services fees of HK$820,000 and other professional fees in relation to interim results review and other special/one-off corporate reporting exercises of HK$3,350,000.

Review of Risk Management and Internal Control Systems

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

Internal Control Environment

System and Procedures

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

- achieve the Group's business objectives of attaining optimal performance and safeguarding assets against unauthorised use or disposition;

- ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication; and

- ensure compliance with the relevant legislation and regulations.

The Board has strived to ensure that management develops and exercises effective internal control systems and procedures suitable for the various businesses in which the Group is engaged. In this regard, key areas covered have included the following:

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

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

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

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

- Adoption and implementation of SAP applications to headquarters and business units to enhance operating processes and financial reporting.

The Board recognizes the need to continue to make improvements and/or upgrades thereon in a number of areas. Various initiatives were undertaken during the year to achieve such objectives, including but not limited to the following:

- The Company engaged an external consultant in 2008 to undertake the internal audit function and to execute an internal audit program through to and including 2010. Audit areas were identified on a priority risk basis, with an emphasis on the shipyard operations and oil storage businesses in the PRC. Audit reviews on the Quanzhou shipyard and the oil storage business units in Nansha and Fujian as well as the floating storage units in Malaysia were completed in 2009. Follow-up reviews on these operations/business units as well as an audit review on the finance/human resource functions will be carried out in 2010.

- During the year, the Audit Committee and management together with the external consultant performing the internal audit function discussed and reviewed the internal audit reports on findings, recommendations and management responses on the audit reviews covering the areas of (i) revenue recognition, purchasing and payments process and control, inventory management, cash and bank management, and subcontractor and infrastructure projects management for the shipyard operations; and (ii) revenue, receivables and collections, contract administration, rates, pricing and quotations as well as customer inventory management for the storage operations and the floating storage units. The internal audit reports highlighted a number of control issues which provided useful recommendations and guidelines to management to implement improvements and to ensure optimum controls, policies and procedures are in place in future. Management recognised the need to address the matters reported and have already rectified or initiated steps to implement improvements to strengthen internal controls based on the recommendations.

Annual Assessment

The Board together with the Audit Committee reviewed the effectiveness of the Group's systems of internal control over financial, operational, compliance issues, and broad-based risk management processes as well as the adequacy of resources in the accounting and financial reporting function.

No suspected frauds or irregularities, or suspected infringement of laws, rules and regulations came to the Committee's attention. As a result of its review efforts and the new initiatives taken to date, the Board is satisfied that the Group in 2009 complied with the code provisions on internal controls as set forth in the CG Code.

Remuneration Committee

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

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

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

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

During 2009, the Remuneration Committee held one meeting and the attendance record was as follows:

	Attendance
Ms. Maria Tam Wai Chu — Chairman	1/1
Mr. Abraham Shek Lai Him	1/1
Mr. Tsoi Tin Chun	0/1

In the meeting, the Committee discussed and reviewed with the Head of Human Resources the Group's overall compensation philosophy, the remuneration policies and structure and human capital issues, as well as the remuneration packages for executive directors and senior management and the annual fees to non-executive directors for 2010.

Details of the emoluments of each director of the Company for the year ended 31 December 2009 are set out on pages 83 to 84 of this Annual Report.

Securities Transactions by Directors and Employees

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

Investors & Shareholders Relations

The Group keeps investors, analysts and fund managers updated on key business developments, Company news and milestones through announcements, media releases, direct email alerts and letters to the shareholders.

To foster effective communications with shareholders, the Company's corporate website (www.petrotitan.com) is available in English, traditional and simplified Chinese to cater to different language needs and, through the website, the Company's annual and interim reports, announcements, news and other investor-related information are easily accessible. In addition to responding to phone-in enquiries, the Company has a dedicated email to handle investor enquiries, especially for the convenience of overseas investors and various stakeholders. (investor@petrotitan.com).

The Board welcomes the views of shareholders on matters affecting the Company and encourages them to attend shareholders' meetings like the Annual General Meeting, to communicate any concerns they may have with the Board and management directly.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 135.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 136. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE PREFERRED SHARES

Details of the movements in the Company's share capital, share options and convertible preferred shares during the year are set out in note 33, note 34 and note 36 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2009, the Company purchased a number of its 8.5% guaranteed senior notes due 2012 in the aggregate principal amount of US$17,816,000 (approximately HK$138,965,000). The guaranteed senior notes are listed on the Singapore Stock Exchange and further details are set out in note 31 to the financial statements.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company did not have reserves available for distribution, calculated in accordance with the provision of the laws of Bermuda. Under the laws of Bermuda, the Company's share premium account of approximately HK$1,940,136,000 as at 31 December 2009 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 9% while purchases from the Group's five largest suppliers accounted for 36% of the total purchases for the year and purchases from the largest supplier included therein amounted to 14%.

DIRECTORS

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

Executive directors
Mr. Tsoi Tin Chun
Mr. Patrick Wong Siu Hung

Independent non-executive directors
Mr. John William Crawford
Mr. Abraham Shek Lai Him
Ms. Maria Tam Wai Chu

In accordance with the Company's bye-laws, Mr. Patrick Wong Siu Hung and Ms. Maria Tam Wai Chu will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The non-executive directors (including independent non-executive directors) are appointed for periods of two years and are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 13 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 44 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

CONNECTED TRANSACTION

On 14 July 2009, the Company, Titan Oil Storage Investment Limited ("TOSIL", a wholly-owned subsidiary of the Company), Titan Group Investment Limited ("TGIL", a non wholly-owned subsidiary of the Company owned as to 50.1% by TOSIL and 49.9% by Saturn Storage) and Saturn Storage Limited ("Saturn Storage", a connected person of the Company by virtue of its being a substantial shareholder of TGIL (as defined in the Listing Rules)) entered into an option agreement under which TOSIL and Saturn Storage are entitled to provide, pro rata to their shareholdings in TGIL, funding of up to HK$312.6 million (US$40.1 million) to TGIL through the subscription of convertible unsecured notes due 2014 to be issued by TGIL ("TGIL Notes"). On 14 July 2009, Saturn Storage exercised its option to subscribe for TGIL Notes in the principal amount of HK$156.0 million (US$20.0 million). TOSIL holds an option to subscribe for TGIL Notes in the principal amount of HK$156.6 million (US$20.1 million) that expires in July 2010. The transaction constituted a possible major disposal and connected transaction of the Company under the Listing Rules. Details of the transaction were disclosed in the Company's announcement and circular dated 14 July 2009 and 25 August 2009, respectively.

Significant related party transactions entered by the Group during the year ended 31 December 2009 are disclosed in note 44 to the financial statements.

MANAGEMENT CONTRACTS

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

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

At 31 December 2009, the interests and short positions of the directors and the chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as set out below.

Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of shares	Approximate % of shareholding
Mr. Tsoi Tin Chun	Interest of controlled corporations/ Interest of spouse	3,822,158,794 (Note 1)	58.24

Short positions in ordinary shares of the Company:

Name of director	Capacity	Number of shares	Approximate % of shareholding
Mr. Tsoi Tin Chun	Interest of controlled corporations	2,397,721,010 (Note 1)	36.54

Options outstanding under the share option scheme of the Company:

Name of director	Capacity	Number of underlying shares (options granted)	Approximate % of shareholding
Mr. Patrick Wong Siu Hung	Beneficial owner	20,000,000 (Note 2)	0.30

Interest in associated corporations:

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

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

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

Note 3: Mr. Tsoi is deemed to be interested in the share of Sea Venture Holdings Pte Ltd. ("Sea Venture") which is held by SV Global Pte. Ltd ("SV Global") as a result of his shareholding in Titan Oil, the ultimate holding company of SV Global. SV Global's issued share capital is beneficially and wholly-owned by Titan Oil. Mr. Tsoi is also a director of SV Global.

Note 4: Mr. Tsoi is deemed to be interested in the shareholding of Fujian Shishi Titan Sailor Administer Co. Ltd. ("Fujian Shishi") as a result of his shareholding in Titan Oil, the holding company of Fujian Shishi. Mr. Tsoi is also a director of Fujian Shishi.

Save as disclosed above, at 31 December 2009, none of the directors or the chief executive had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 34 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2009, so far as is known to the directors and the chief executive of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding
Ms. Tsoi Yuk Yi	Interest of spouse/ Interest of a controlled corporation	3,822,158,794 (Note 5)	58.24
Titan Oil	Interest of a controlled corporation/ Beneficial owner	3,270,311,631 (Note 6)	49.83
Great Logistics	Beneficial owner	2,860,700,202 (Note 7)	43.59
Saturn Petrochemical Holdings Limited	Beneficial owner	857,795,031	13.07
Warburg Pincus & Co.	Interest of a controlled corporation	857,795,031 (Note 8)	13.07
Warburg Pincus IX, LLC	Interest of a controlled corporation	857,795,031 (Note 8)	13.07
Warburg Pincus Partners LLC	Interest of a controlled corporation	857,795,031 (Note 8)	13.07
Warburg Pincus Private Equity IX, L.P.	Interest of a controlled corporation	857,795,031 (Note 8)	13.07
Titan Shipyard	Beneficial owner	426,796,127 (Note 5)	6.50

Short positions:

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding
Ms. Tsoi Yuk Yi	Interest of spouse	2,397,721,010 (Note 5)	36.54
Titan Oil	Beneficial owner/ Interest of a controlled corporation	2,397,721,010 (Note 6)	36.54
Great Logistics	Beneficial owner	2,397,721,010 (Note 7)	36.54
Titan Shipyard	Beneficial owner/ Security interest	975,411,883 (Note 5)	14.86

Note 5: Ms. Tsoi is beneficially interested in 5% of the issued share capital of Titan Oil, which in turn holds the entire issued share capital of Great Logistics. Mr. Tsoi is beneficially interested in 95% of the issued share capital of Titan Oil. As Ms. Tsoi is the spouse of Mr. Tsoi, she is deemed to be interested in the Company's shares held by Great Logistics and Titan Oil. As Titan Shipyard is beneficially and wholly owned by Mr. Tsoi, Ms. Tsoi is deemed to be interested in the shareholding interests of Titan Shipyard in the Company. Mr. Tsoi is a director of Titan Shipyard. Ms. Tsoi is also deemed to be interested in the shareholding interests of Vision Jade in the Company as a result of her shareholding in Vision Jade.

Note 6: Titan Oil is beneficially interested in the entire issued share capital of Great Logistics and, therefore, is deemed to be interested in the Company's shares held by Great Logistics.

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

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

Save as disclosed above, at 31 December 2009, no person, other than the directors and the chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. A detailed Corporate Governance Report is set out on pages 26 to 32 in the Annual Report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$265,000.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in note 49 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and other reporting requirements, and that adequate disclosures have been made.

AUDITORS

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

ON BEHALF OF THE BOARD

Tsoi Tin Chun
Chairman and Chief Executive

Hong Kong
13 April 2010

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the financial statements of Titan Petrochemicals Group Limited set out on pages 43 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2.1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. The Group incurred a loss of HK$535,401,000 during the year ended 31 December 2009. This condition, along with the Group's ability to obtain long-term financing facilities to refinance its capital projects and derive adequate operating cash flow from its ship repair operations, as set forth in note 2.1, indicate the existence of material uncertainties which may cast doubt about the Group's and Company's ability to continue as a going concern.

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

13 April 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CONTINUING OPERATIONS			
Revenue	6	**2,005,249**	7,812,382
Cost of sales		**(1,881,369)**	(7,366,700)
Gross profit		**123,880**	445,682
Other revenue	31	**141,115**	416,337
General and administrative expenses		**(278,153)**	(381,556)
Finance costs	8	**(382,739)**	(453,793)
Share of profits/(losses) of associates, net		**(1,393)**	9,130
Operating profit/(loss) from continuing operations		**(397,290)**	35,800
Losses on disposals of vessels, net	14	**(137,623)**	(416,618)
Restructuring expenses		**—**	(10,150)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	7	**(534,913)**	(390,968)
Tax	11	**(488)**	2,664
Loss for the year from continuing operations		**(535,401)**	(388,304)
DISCONTINUED OPERATION			
Loss for the year from the discontinued operation, oil trading	5(a)	**—**	(1,217,221)
LOSS FOR THE YEAR		**(535,401)**	(1,605,525)
Attributable to:			
Owners of the Company	12 & 35(a)	**(536,087)**	(1,600,557)
Minority interests		**686**	(4,968)
		(535,401)	(1,605,525)
BASIC LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Continuing operations		**(HK8.24 cents)**	(HK5.92 cents)
Discontinued operation, oil trading		**—**	(HK18.80 cents)
Total		**(HK8.24 cents)**	(HK24.72 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Loss for the year		**(535,401)**	(1,605,525)
Other comprehensive income			
Exchange differences on translation of foreign operations		**7,989**	108,204
Unwinding of cashflow hedges		**—**	5,812
Other comprehensive income for the year, net of tax		**7,989**	114,016
Total comprehensive loss for the year, net of tax		**(527,412)**	(1,491,509)
Attributable to:			
Owners of the Company	12	**(528,109)**	(1,486,541)
Minority interests		**697**	(4,968)
		(527,412)	(1,491,509)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,799,417**	4,287,826
Prepaid land/seabed lease payments	15	**985,707**	928,326
Licences	16	**34,899**	37,416
Goodwill	17	**1,086,197**	1,103,564
Interests in associates	19	**369,013**	264,724
Deposits for construction in progress		**118,196**	180,121
Other deposits	21	**9,150**	8,200
Total non-current assets		**7,402,579**	6,810,177
CURRENT ASSETS			
Bunker oil		**23,249**	33,782
Inventories	22	**407,869**	201,964
Accounts and bills receivable	23	**301,899**	224,215
Prepayments, deposits and other receivables	24	**424,198**	602,976
Contracts in progress	25	**356,970**	514,992
Pledged deposits and restricted cash	27	**171,706**	230,363
Cash and cash equivalents	27	**357,825**	351,404
		2,043,716	2,159,696
Assets of a disposal group classified as held for sale	5(b)	**—**	29,119
Total current assets		**2,043,716**	2,188,815
CURRENT LIABILITIES			
Interest-bearing bank loans	28	**761,466**	624,539
Accounts and bills payable	29	**217,708**	353,869
Other payables and accruals	29	**962,513**	1,089,042
Finance lease payables	30	**—**	403
Excess of progress billings over contract costs	25	**—**	8,294
Tax payable		**17,577**	16,795
		1,959,264	2,092,942
Liabilities of a disposal group classified as held for sale	5(b)	**—**	27,000
Total current liabilities		**1,959,264**	2,119,942
NET CURRENT ASSETS		**84,452**	68,873
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,487,031**	6,879,050

Consolidated Statement of Financial Position

31 December 2009

	Notes	**2009 HK$'000**	2008 HK$'000
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	31	**2,491,264**	2,621,813
Liability portion of convertible preferred shares	36	**645,106**	573,393
Notes payable	37	**185,336**	194,571
Liability portion of convertible unsecured notes	38	**68,265**	—
Interest-bearing bank loans	28	**2,201,043**	1,156,306
Finance lease payables	30	**—**	319
Deferred tax liabilities	32	**157,442**	157,367
Vessel deposit received		**2,500**	2,500
Total non-current liabilities		**5,750,956**	4,706,269
Net assets		**1,736,075**	2,172,781
EQUITY			
Equity attributable to owners of the Company			
Issued capital	33	**65,625**	64,739
Equity portion of convertible preferred shares	36	**75,559**	75,559
Reserves	35(a)	**1,068,425**	1,490,895
		1,209,609	1,631,193
Contingently redeemable equity in a jointly-controlled entity	36	**517,837**	517,837
Minority interests		**8,629**	23,751
Total equity		**1,736,075**	2,172,781

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Notes	Attributable to owners of the Company				Contingently redeemable equity in a jointly-controlled entity	Minority interests	Total equity
		Issued capital	Convertible preferred shares	Reserves (note 35(a))	Sub-total			
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009		**64,739**	**75,559**	**1,490,895**	**1,631,193**	**517,837**	**23,751**	**2,172,781**
Total comprehensive loss for the year		**—**	**—**	**(528,109)**	**(528,109)**	**—**	**697**	**(527,412)**
Acquisition of a minority interest		**—**	**—**	**—**	**—**	**—**	**(14,600)**	**(14,600)**
Disposal of a subsidiary	40	**—**	**—**	**(171)**	**(171)**	**—**	**(1,219)**	**(1,390)**
Issue of earn-out shares	33 & 44(v)	**886**	**—**	**(886)**	**—**	**—**	**—**	**—**
Equity-settled share option arrangements		**—**	**—**	**14,419**	**14,419**	**—**	**—**	**14,419**
Issue of convertible unsecured notes	38	**—**	**—**	**92,277**	**92,277**	**—**	**—**	**92,277**
At 31 December 2009		**65,625**	**75,559**	**1,068,425**	**1,209,609**	**517,837**	**8,629**	**1,736,075**
At 1 January 2008		64,737	75,559	2,911,589	3,051,885	517,837	115,487	3,685,209
Total comprehensive loss for the year		—	—	(1,486,541)	(1,486,541)	—	(4,968)	(1,491,509)
Acquisition of additional interest in a jointly-controlled entity		—	—	—	—	—	(95,944)	(95,944)
Acquisition of a subsidiary	39	—	—	—	—	—	1,559	1,559
Capital contribution by minority shareholders		—	—	—	—	—	7,617	7,617
Equity-settled share option arrangements		—	—	13,475	13,475	—	—	13,475
Exercise of share options	33	2	—	97	99	—	—	99
Issue of earn-out shares	44(v)	—	—	52,275	52,275	—	—	52,275
At 31 December 2008		64,739	75,559	1,490,895	1,631,193	517,837	23,751	2,172,781

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax from:			
Continuing operations		**(534,913)**	(390,968)
Discontinued operation, oil trading	5(a)	**—**	(1,217,257)
Adjustments for:			
Losses on disposals of vessels, net		**137,623**	416,618
Gains on repurchases of fixed rate guaranteed senior notes	31	**(90,522)**	(339,174)
Depreciation	7	**233,590**	309,706
Impairment/(reversal of impairment) of accounts and bills receivable	7	**(415)**	15,794
Amortisation of licences	7	**2,517**	2,517
Amortisation of prepaid land/seabed lease payments	7	**3,888**	3,061
Loss on disposal of items of property, plant and equipment	7	**1,444**	6,668
Net change in fair value of derivative instruments not qualifying as hedges	7	**(14,656)**	—
Excess over the cost of an acquisition of minority interest	7	**(2,000)**	—
Gain on disposal of a subsidiary	7 & 40	**(1,607)**	—
Impairment of goodwill	7	**13,055**	223,543
Share of (profits)/losses of associates, net		**1,393**	(9,130)
Loss on disposal of an associate	7 & 19	**—**	4,465
Impairment of items of property, plant and equipment	7	**—**	12,713
Interest income	7	**(5,441)**	(25,718)
Finance costs	8	**382,739**	484,682
Equity-settled share option expenses	35(a)	**14,419**	13,475
		141,114	(489,005)
Increase in amounts due from associates		**—**	(200)
Decrease in bunker oil		**10,533**	59,942
Decrease/(increase) in inventories		**(205,905)**	922,547
Decrease/(increase) in accounts and bills receivable		**(67,635)**	908,784
Decrease/(increase) in prepayments, deposits and other receivables		**170,565**	(8,156)
Increase in derivative financial instruments		**—**	(150,432)
Decrease/(increase) in contracts in progress		**158,022**	(309,405)
Decrease in trust receipt loans		**—**	(872,165)
Decrease in accounts and bills payable		**(160,672)**	(534,773)
Increase in other payables and accruals		**126,853**	198,936
Decrease in excess of progress billings over contract costs		**(8,294)**	(13,539)
Cash generated from/(used in) operations		**164,581**	(287,466)
Interest received		**8,232**	14,614
Interest paid		**(293,072)**	(376,460)
Overseas profits tax refunded/(paid)		**214**	(2,920)
Net cash flows used in operating activities		**(120,045)**	(652,232)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	**2009 HK$'000**	2008 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in a deposit held in a collateral account		—	14,166
Decrease/(increase) in time deposits with original maturities of more than three months		**53,087**	(66,298)
Additions to property, plant and equipment		**(788,135)**	(1,006,198)
Additions to prepaid land/seabed lease payments		**(77,085)**	(30,771)
Deposits paid for acquisition of vessels		**(950)**	(5,700)
Deposits paid for construction in progress		**(196,692)**	(173,409)
Interest capitalised	8	**(53,446)**	(48,387)
Proceeds from disposals of property, plant and equipment		**2,373**	5,875
Net proceeds from disposals of vessels		**153,094**	1,160,473
Increase in contribution from minority shareholders to a subsidiary		—	7,617
Acquisition of a minority interest of a jointly-controlled entity		—	(348,348)
Capital contributions to an associate		**(108,107)**	—
Dividend received from an associate		**2,544**	3,412
Disposal of an associate		—	7,800
Disposal of a subsidiary	40	**(173,446)**	—
Acquisition of a subsidiary	39	—	(10,548)
Net cash flows used in investing activities		**(1,186,763)**	(490,316)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of new bank loans		**2,757,777**	844,143
Repayments of bank loans		**(1,576,113)**	(1,250,959)
Issue of notes payable		—	194,571
Issue of convertible unsecured notes		**154,344**	—
Repurchase of fixed rate guaranteed senior notes		**(44,364)**	(163,395)
Settlement for unwinding interest rate swap		—	(15,011)
Proceeds from issue of ordinary shares	33 & 35(a)	—	99
Capital element of finance lease rental payments		**(722)**	(424)
Increase in restricted cash		**(37,995)**	(52,197)
Net cash flows from/(used in) financing activities		**1,252,927**	(443,173)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(53,881)**	(1,585,721)
Cash and cash equivalents at beginning of year		**442,729**	2,077,968
Effect of foreign exchange rate changes, net		**4,444**	(49,518)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**393,292**	442,729
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**355,285**	350,373
Non-pledged time deposits with original maturities of less than three months when acquired		**59**	1,031
Bank balances pledged as security for bank facilities		**33,607**	60,319
Time deposits with original maturities of less than three months when acquired, pledged as security for bank facilities		**4,341**	18,713
Cash and bank balances attributable to the discontinued operation	5(b)	**—**	12,293
Cash and cash equivalents as stated in the consolidated statement of cash flows		**393,292**	442,729
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents per consolidated statement of cash flows		**393,292**	442,729
Amounts pledged for bank facilities and restricted cash with original maturities of less than three months when acquired		**(37,948)**	(79,032)
Non-pledged time deposits with original maturities of more than three months when acquired		**2,481**	—
Cash and bank balances attributable to the discontinued operation	5(b)	**—**	(12,293)
Cash and cash equivalents as stated in the consolidated statement of financial position		**357,825**	351,404

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**5,359,741**	6,388,489
CURRENT ASSETS			
Due from subsidiaries	18	**752,949**	—
Prepayments, deposits and other receivables		**13,058**	59,115
Cash and cash equivalents	27	**3,237**	46,662
Total current assets		**769,244**	105,777
CURRENT LIABILITIES			
Other payables and accruals		**3,856**	6,614
Financial guarantee contracts	26	**8,549**	8,549
Total current liabilities		**12,405**	15,163
NET CURRENT ASSETS		**756,839**	90,614
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,116,580**	6,479,103
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	31	**2,491,264**	2,621,813
Liability portion of convertible preferred shares	36	**290,096**	257,384
Due to subsidiaries	18	**1,599,377**	1,392,280
Total non-current liabilities		**4,380,737**	4,271,477
Net assets		**1,735,843**	2,207,626
EQUITY			
Issued capital	33	**65,625**	64,739
Equity portion of convertible preferred shares	36	**75,559**	75,559
Reserves	35(b)	**1,594,659**	2,067,328
Total equity		**1,735,843**	2,207,626

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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 registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. During the year, the principal place of business of the Company was located at Suite 4902, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

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

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

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

(iii) shipbuilding and building of ship repair facilities.

The Group discontinued its oil trading operations in the prior year as detailed in note 5.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") , accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair values. All the assets and liabilities as at 31 December 2008 included in the disposal group held for sale, representing the oil trading operation, were stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2009, the Group incurred a loss of HK$535,401,000 (2008: HK$1,605,525,000). In addition, the Group has HK$1,241,065,000 in capital and other commitments solely for further development of the new shipyard facilities to be built in several stages which require additional financing. These conditions raise uncertainty about the Group's ability to continue as a going concern. In order to improve the Group's financial position, liquidity and cash flows and to sustain the Group as a going concern, the directors of the Company have taken and/or are in the process of taking measures which include, but are not limited to, the following:

1) Continuing to diversify from single hulled vessels and maintaining a strategy to optimise usage of the remaining vessels by flexible deployment between the offshore storage and transportation operations;

2.1 BASIS OF PREPARATION (Continued)

2) Initiating measures to reduce financing costs through repurchases of its 8.5% senior notes and the proposed exchange offer and consent solicitation memorandum issued by the Company dated 7 December 2009 (as extended and as may be amended from time to time by Board approval) ("Exchange Offer") as set out in note 49(c);

3) Taking various ongoing cost control measures to reduce the costs of operations together with general and administrative expenses;

4) Continuing to utilise existing and seek new non-recourse project financing and capital financing arrangements to finance the development of the Group's projects in Mainland China. During the year, bank facilities for the development of the shipyard are partly in place and the Group issued a convertible note of US$20 million to Warburg Pincus for the development of the oil and chemical storage business in Mainland China as set out in note 38; and

5) After the end of the reporting period, the Company disposed of three vessels for a total cash consideration of US$47.5 million as set out in note 49(a) and part of the proceeds, together with the proceeds of the conditional issue of new shares described in note 49(b), will be applied towards funding the Exchange Offer.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments — Disclosures of Information About Segment Assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue — Determining Whether an Entity is Acting as a Principal or as an Agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK (IFRIC) — Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 2 Amendments, HKFRS 7 Amendments, HKFRS 8, HKAS 1 (Revised) and HKAS 23 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

(a) Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into any share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurements and liquidity risks. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and the liquidity risk disclosures are presented in notes 46 and 47 to the financial statements, respectively.

(c) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision-maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14, which are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only be reported when those assets are included in measures that are used by the chief operating decision-maker.

(d) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(e) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC) — Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and to clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16, are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) which may result in changes in accounting policies, but, overall these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the assets transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

Goodwill

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill

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

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

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 income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with 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 income statement 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 depreciation.

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
Leasehold improvements	The shorter of the lease terms and 6 years
Vessels	The shorter of the remaining age and 30 years
Oil storage facilities	20 to 50 years
Machinery	5 to 20 years
Furniture, equipment and motor vehicles	5 to 10 years

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

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

Residual values, useful lives and the depreciation method are reviewed and adjusted, if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significantly 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 income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of a disposal group must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and their sale must be highly probable.

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.

Licences

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

Leases

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

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

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

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, in the case of loans and receivables, directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Initial recognition and measurement (Continued)
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 cash and bank balances, accounts, bills and other receivables, contracts in progress, deposits and derivatives financial instruments.

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. 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. 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 the Group is unable to trade theses 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 in rare circumstances. 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 income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

(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 allowance for impairment. Amortised cost is calculated 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 income statement. The loss arising from impairment is recognised in the income statement.

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.

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 has 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. 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 income statement.

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;
- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, plus directly attributable transaction costs.

The Group's financial liabilities including accounts and other payables, interest-bearing bank loans, notes payable, convertible unsecured notes, convertible preferred shares, and derivative financial instruments.

Subsequent measurement

The 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 income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

(b) Loan and borrowings
After initial recognition, interest-bearing loans and borrowings 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 income statement 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 income statement.

(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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cashflow hedges, which is recognised in other comprehensive income.

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cashflow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (Continued)

Initial recognition and subsequent measurement (Continued)
Hedges which meet the strict criteria for hedge accounting are accounted for as cashflow hedges as set out below.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement in finance costs.

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

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

Current versus non-current classification
Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into current or non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows);

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Convertible preferred shares and convertible unsecured notes

The component of convertible preferred shares and convertible unsecured notes that exhibit characteristics of a liability are recognised as liabilities in the statement of financial position, net of transaction costs. On issuance of the convertible preferred shares and convertible unsecured notes, the fair value of the liability portion is determined by using a market rate for an equivalent non-convertible share/note 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible preferred shares and convertible unsecured notes (Continued)

The component of convertible unsecured notes that exhibit characteristics of an embedded derivative is recognised as part of the convertible unsecured notes. On initial recognition, the derivative component of the convertible unsecured notes is measured at fair value and presented as a part of derivative financial instruments.

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

Notes payable

If the conversion options of notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the notes is measured at fair value and presented as part of the notes payable. 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 payable 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. The portion relating to the derivative component is recognised immediately in the income statement.

Bunker oil, ship stores and spare parts

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

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

Inventories

Inventories 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 labour 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.

Contracts in progress/Excess of progress billings over contract costs

Voyage chartering and shipbuilding are accounted for in the statement of financial position as all direct costs incurred plus recognised profits, less recognised losses and progress billings. Voyage chartering revenue and shipbuilding revenue comprise the agreed contract amount while the direct costs incurred comprise the amount of bunker oil consumed and other overheads for voyage chartering, direct material costs and other overheads for shipbuilding.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts in progress/Excess of progress billings over contract costs (Continued)

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

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

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

Cash and cash equivalents

For the purpose of the consolidated 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 statements 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 income statement.

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, 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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- where 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 interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(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, as further explained in the accounting policy for "Contracts in progress/Excess of progress billings over contract costs" above;

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Share-based payment transactions

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

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, further details of which are given in note 34 to the financial statements.

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 income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

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. All cancellations of equity-settled transaction awards are treated equally.

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 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 these 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 income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions 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. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. 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 income statements are translated into Hong Kong dollars 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 income statement.

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 and jointly-controlled entities with functional currencies other than Hong Kong dollar are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries and jointly-controlled entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the 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 accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Depreciation of vessels

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

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

Impairment of assets

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

Income tax

Deferred tax is provided, using the liability method, on all temporary differences at the 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 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 income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 discussed below.

Impairment of goodwill

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

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. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators 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.

Contract for services

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the financial year end date, when the outcome of a contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, or services performed to date as a percentage of total services to be performed. Significant assumptions are required to estimate the total contract costs and/or the stage of completion, and the recoverable variation works that will affect the stage of completion. The estimates are made based on past experience and knowledge of management.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical 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 depreciation is made if the estimated residual values of items of property, plant and equipment are different from the previous estimation.

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 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 of financial instruments

The unlisted financial instruments have been valued by using valuation techniques including estimated discounted cash flows and based on information from a variety of sources, including the fair values of the underlying assets of the investments.

4. 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) shipbuilding; (b) provision of logistic services (including oil transportation, offshore oil storage and onshore oil and chemical storage); and (c) supply of oil products and provision of bunker refueling services. During the year ended 31 December 2008, the Group discontinued its oil trading operation as detailed in note 5.

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

					Provision of logistic services				Supply of oil products and									
	Shipbuilding		Oil transportation		Offshore oil storage		Onshore oil and chemical storage		provision of bunker refueling services		Total continuing operations		Discontinued operation, oil trading		Adjustments and eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue																		
— Revenue from external customers	**385,434**	574,323	**257,643**	1,233,882	**509,939**	483,603	**162,258**	56,186	**689,975**	5,464,388	**2,005,249**	7,812,382	**—**	3,280,562	**—**	—	**2,005,249**	11,092,944
— Intersegment revenue	**—**	197,689	**—**	28,837	**—**	109,903	**881**	14,584	**92,623**	491,516	**93,504**	842,529	**—**	1,606,105	**(93,504)[1]**	(2,448,634)[1]	**—**	—
Total	**385,434**	772,012	**257,643**	1,262,719	**509,939**	593,506	**163,139**	70,770	**782,598**	5,955,904	**2,098,753**	8,654,911	**—**	4,886,667	**(93,504)**	(2,448,634)	**2,005,249**	11,092,944
Segment results	**(91,989)**	61,175	**(130,426)**	72,097	**87,421**	163,092	**60,778**	(1,791)	**19,547**	(19,883)	**(54,669)**	274,690	**—**	(1,190,139)	**—**	—	**(54,669)**	(915,449)
Adjusted for:																		
— Interest income and other revenue	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	3,771	**121,581**	379,962	**121,581**	383,733
— Other expenses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(80,070)**	(174,189)	**(80,070)**	(174,189)
Share of profits/(losses) of associates, net	**—**	—	**—**	—	**—**	—	**(1,859)**	2,311	**466**	6,819	**(1,393)**	9,130	**—**	—	**—**	—	**(1,393)**	9,130
	(91,989)	61,175	**(130,426)**	72,097	**87,421**	163,092	**58,919**	520	**20,013**	(13,064)	**(56,062)**	283,820	**—**	(1,186,368)	**41,511**	205,773	**(14,551)**	(696,775)
Add: Depreciation and amortisation:	**32,850**	20,426	**45,816**	112,365	**92,221**	130,248	**49,163**	35,280	**1,901**	1,856	**221,951**	300,175	**—**	240	**18,044**	14,869	**239,995**	315,284
Operating EBITDA/(LBITDA)	**(59,139)**	81,601	**(84,610)**	184,462	**179,642**	293,340	**108,082**	35,800	**21,914**	(11,208)	**165,889**	583,995	**—**	(1,186,128)	**59,555**	220,642	**225,444**	(381,491)
Losses on disposals of vessels, net	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(137,623)**	(416,618)	**(137,623)**	(416,618)
Restructuring expenses	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(10,150)	**—**	(10,150)
EBITDA/(LBITDA)	**(59,139)**	81,601	**(84,610)**	184,462	**179,642**	293,340	**108,082**	35,800	**21,914**	(11,208)	**165,889**	583,995	**—**	(1,186,128)	**(78,068)**	(206,126)	**87,821**	(808,259)
Depreciation and amortisation	**(32,850)**	(20,426)	**(45,816)**	(112,365)	**(92,221)**	(130,248)	**(49,163)**	(35,280)	**(1,901)**	(1,856)	**(221,951)**	(300,175)	**—**	(240)	**(18,044)**	(14,869)	**(239,995)**	(315,284)
Finance costs	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(30,889)	**(382,739)**	(453,793)	**(382,739)**	(484,682)
Profit/(loss) before tax	**(91,989)**	61,175	**(130,426)**	72,097	**87,421**	163,092	**58,919**	520	**20,013**	(13,064)	**(56,062)**	283,820	**—**	(1,217,257)	**(478,851)**	(674,788)	**(534,913)**	(1,608,225)

1. Intersegment revenues are eliminated on consolidation.

					Provision of logistic services				Supply of oil products and							
	Shipbuilding		Oil transportation		Offshore oil storage		Onshore oil and chemical storage		provision of bunker refueling services		Total continuing operations		Discontinued operation, oil trading		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other segment information																
Depreciation and amortisation	**32,850**	20,426	**45,816**	112,365	**92,221**	130,248	**49,163**	35,280	**1,901**	1,856	**221,951**	300,175	**—**	240	**221,951**	300,415
Unallocated depreciation and amortisation											**18,044**	14,869	**—**	—	**18,044**	14,869
											239,995	315,044	**—**	240	**239,995**	315,284
Capital expenditures	**579,789**	643,765	**4,351**	81,324	**88,297**	38,534	**444,707**	554,892	**9**	11,652	**1,117,153**	1,330,167	**—**	—	**1,117,153**	1,330,167
Unallocated capital expenditures											**335**	33,757	**—**	—	**335**	33,757
											1,117,488	1,363,924	**—**	—	**1,117,488**	1,363,924
Impairment/(reversal of impairment) of accounts and bills receivable	**—**	—	**388**	2,436	**(2,170)**	—	**—**	—	**602**	1,454	**(1,180)**	3,890	**—**	2,685	**(1,180)**	6,575
Unallocated impairment/(reversal of impairment) of accounts and bills receivable											**765**	9,219	**—**	—	**765**	9,219
											(415)	13,109	**—**	2,685	**(415)**	15,794

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4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

	Mainland China		Other Asia Pacific countries		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(a) Revenue						
Revenue from external customers	**1,219,347**	2,366,373	**785,902**	8,726,571	**2,005,249**	11,092,944
Attributable to the discontinued operation, oil trading	**—**	—	**—**	(3,280,562)	**—**	(3,280,562)
Revenue from continuing operations	**1,219,347**	2,366,373	**785,902**	5,446,009	**2,005,249**	7,812,382
(b) Other information						
Segment non-current assets	**6,352,255**	5,393,752	**93,127**	100,734	**6,445,382**	5,494,486
Unallocated non-current assets					**957,197**	1,315,691
					7,402,579	6,810,177
Capital expenditures	**1,024,425**	1,223,947	**350**	10,066	**1,024,775**	1,234,013
Unallocated capital expenditures					**92,713**	129,911
					1,117,488	1,363,924
Impairment/(reversal of impairment) of accounts and bills receivable	**—**	9,231	**(415)**	6,563	**(415)**	15,794

The revenue information from continuing operations above is based on the location of the customers.

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

Information about major customers

Revenues from transactions with each external customer are less than 10% of the Group's total revenue.

5. DISCONTINUED OPERATION, OIL TRADING

On 25 June 2008, the Board of Directors resolved that the Group be restructured to focus more on its storage and shipyard operations and, thereby, discontinue its oil trading operations. As such, the Group adopted HKFRS 5 — *Non-current Assets Held for Sale and Discontinued Operations*.

On this basis, as at 31 December 2008, the assets and liabilities related to the discontinued operation, oil trading, were presented in the consolidated statement of financial position as "Assets of a disposal group classified as held for sale" and "Liabilities of a disposal group classified as held for sale" and the results for the year ended 31 December 2008 were presented separately on the consolidated income statement as "Loss for the year from the discontinued operation, oil trading".

(a) Income statement disclosures

	Notes	**2009 HK$'000**	2008 HK$'000
Revenue		—	3,280,562
Cost of sales		—	(4,210,607)
Gross loss		—	(930,045)
Other revenue		—	22,478
General and administrative expenses*		—	(278,801)
Finance costs	8	—	(30,889)
Loss before tax		—	(1,217,257)
Tax	11	—	36
Loss for the year from the discontinued operation, oil trading		—	(1,217,221)

* In 2008, an impairment of goodwill arising from the discontinued operation, oil trading, of HK$217,640,000 (note 17) was included in general and administrative expenses.

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5. DISCONTINUED OPERATION, OIL TRADING (Continued)

(b) Statement of financial position disclosures

	Note	2009 HK$'000	2008 HK$'000
Assets of a disposal group classified as held for sale:			
Property, plant and equipment	14	—	14
Accounts receivable		—	9,634
Prepayments, deposits and other receivables		—	7,178
Cash and bank balances		—	12,293
		—	29,119
Liabilities of a disposal group classified as held for sale:			
Accounts and bills payable		—	24,511
Other payables and accruals		—	2,413
Deferred tax liabilities		—	76
		—	27,000
Net assets of a disposal group classified as held for sale		—	2,119

(c) Statement of cash flows disclosures

	2009 HK$'000	2008 HK$'000
Net cash flows used in operating activities	—	(304,257)
Net decrease in cash and cash equivalents	—	(304,257)
Cash and cash equivalents at beginning of year	—	316,550
Cash and cash equivalents at end of year	—	12,293

6. REVENUE

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

	2009 HK$'000	2008 HK$'000
Supply of oil products and provision of bunker refueling services	**689,975**	5,464,388
Provision of oil transportation services	**257,643**	1,233,882
Provision of oil and chemical storage services	**672,197**	539,789
Shipbuilding	**385,434**	574,323
Attributable to continuing operations	**2,005,249**	7,812,382
Attributable to discontinued operation, oil trading (note 5(a))	—	3,280,562
	2,005,249	11,092,944

7. LOSS BEFORE TAX

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

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**746,827**	9,431,165
Cost of services rendered		**1,134,542**	2,146,142
Depreciation*		**233,590**	309,706
Amortisation of prepaid land/seabed lease payments	15	**3,888**	3,061
Amortisation of licences*	16	**2,517**	2,517
Minimum lease payments under operating leases:			
Vessels		**226,682**	480,041
Leasehold buildings		**11,360**	17,104
Employee benefit expenses (excluding directors' remuneration — note 9):			
Wages and salaries		**196,368**	268,610
Equity-settled share option expenses		**13,548**	12,676
Pension scheme contributions		**5,520**	7,711
		215,436	288,997
Auditors' remuneration		**5,060**	5,214
Loss on disposal of items of property, plant and equipment		**1,444**	6,668
Net change in fair value of derivative instruments not qualifying as hedges		**(14,656)**	—
Foreign exchange differences, net		**(7,392)**	(4,156)
Impairment/(reversal of impairment) of accounts and bills receivable	23	**(415)**	15,794
Bank interest income		**(5,441)**	(25,718)
Excess over the cost of an acquisition of minority interest		**(2,000)**	—
Gain on disposal of a subsidiary	18 & 40	**(1,607)**	—
Impairment of items of property, plant and equipment**	14	**—**	12,713
Impairment of goodwill**	17	**13,055**	223,543
Loss on disposal of an associate	19	**—**	4,465

* These items are included in "Cost of sales" in the consolidated income statement. Depreciation of vessels and vessel equipment of HK$136,892,000 (2008: HK$236,620,000) is included in "Cost of sales".

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

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8. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within five years	**57,016**	81,740
Bank loans not wholly repayable within five years	**78,222**	77,015
Other loan	**—**	1,009
Trust receipt loans, secured	**—**	28,941
Finance lease payables	**19**	58
Fixed rate guaranteed senior notes	**217,282**	263,383
Notes payable	**5,616**	2,637
Convertible unsecured notes	**6,002**	—
Dividends on convertible preferred shares:		
Titan preferred shares (note 36)	**32,712**	30,505
Titan Group Investment Limited ("TGIL") preferred shares (note 36)	**39,001**	41,266
Other finance costs	**315**	6,515
Total interest expenses	**436,185**	533,069
Less: Interest capitalised	**(53,446)**	(48,387)
	382,739	484,682
Attributable to continuing operations	**382,739**	453,793
Attributable to discontinued operation, oil trading (note 5(a))	**—**	30,889
	382,739	484,682

9. DIRECTORS' REMUNERATION

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

	Group	
	2009	2008
	HK$'000	HK$'000
Fees	**810**	993
Other emoluments:		
Salaries, allowances and benefits-in-kind	**3,100**	8,567
Equity-settled share option expenses	**871**	799
Pension scheme contributions	**44**	86
	4,015	9,452
	4,825	10,445

In the prior year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which had been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2009	2008
	HK$'000	HK$'000
Mr. Abraham Shek Lai Him	**230**	230
Mr. John William Crawford	**340**	340
Ms. Maria Tam Wai Chu	**240**	240
	810	810

There were no other emoluments paid or payable to the independent non-executive directors during the year (2008: Nil).

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9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

2009	Fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Patrick Wong Siu Hung	—	3,100	871	44	4,015
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	3,100	871	44	4,015

2008	Fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Patrick Wong Siu Hung	—	3,590	799	44	4,433
Mr. Philip Chu Yan Jy	—	4,977	—	42	5,019
Mr. Barry Cheung Chun Yuen	—	—	—	—	—
Mr. Tsoi Tin Chun	—	—	—	—	—
	—	8,567	799	86	9,452
Non-executive director					
Mr. Ib Fruergaard	183	—	—	—	183
	183	8,567	799	86	9,635

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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2008: two) director, details of whose remuneration is disclosed in note 9 above. Details of the remuneration of the remaining four (2008: three) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits-in-kind	**9,580**	18,898
Equity-settled share option expenses	**65**	115
Pension scheme contributions	**40**	114
	9,685	19,127

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

	Number of employees	
	2009	2008
HK$2,000,001 to HK$2,500,000	**2**	—
HK$2,500,001 to HK$3,000,000	**2**	—
HK$3,000,001 to HK$3,500,000	**—**	2
HK$12,500,001 to HK$13,000,000	**—**	1
	4	3

11. TAX

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

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

	2009	2008
Hong Kong	**16.5%**	16.5%
Singapore	**17.0%**	18.0%
Mainland China	**25.0%**	25.0%

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11. TAX (Continued)

Hong Kong

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

Singapore

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

Mainland China

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

	Group	
	2009	2008
	HK$'000	HK$'000
Hong Kong:		
Underprovision in prior years	**1**	—
Elsewhere:		
Current charge/(credit) for the year	**678**	(2,309)
Overprovision in prior years	**(111)**	(4,248)
	567	(6,557)
Deferred taxation (note 32)	**(80)**	3,857
Total tax charge/(credit) for the year	**488**	(2,700)

11. TAX (Continued)

A reconciliation of the tax charge/(credit) applicable to the loss before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rate is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Loss before tax	**(534,913)**	(1,608,225)
Tax at the Hong Kong tax rate of 16.5% (2008: 16.5%)	**(88,261)**	(265,357)
Higher tax rates for specific provinces or local authorities	**(6,754)**	(24,008)
Adjustments in respect of current tax of previous periods	**(110)**	(4,248)
Effect on opening deferred tax of decrease in tax rates	**—**	(6)
Profits and losses attributable to associates	**230**	(1,506)
Income not subject to tax	**(354,150)**	(1,901,034)
Expenses not deductible for tax	**449,533**	2,193,459
Tax charge/(credit) at the Group's effective rate	**488**	(2,700)
Represented by:		
Tax charge/(credit) attributable to continuing operations	**488**	(2,664)
Tax credit attributable to discontinued operation, oil trading (note 5(a))	**—**	(36)
	488	(2,700)

The share of tax attributable to associates amounting to HK$323,000 (2008: HK$2,948,000) is included in "Share of profits/(losses) of associates, net" on the face of the consolidated income statement.

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12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company for the year ended 31 December 2009 includes a loss of HK$486,202,000 (2008: profit of HK$4,567,000) which has been dealt with in the financial statements of the Company (note 35(b)).

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

The calculation of basic loss per share is based on the total consolidated loss for the year attributable to ordinary equity holders of the Company of HK$536,087,000 (2008: HK$1,600,557,000) represented by the loss from continuing operations of HK$536,087,000 (2008: HK$383,336,000) and the loss from the discontinued operation of HK$1,217,221,000 in the prior year, and the weighted average of 6,503,473,828 (2008: 6,473,829,476) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the earn-out shares, share options, warrants and convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

On 15 March 2010, the Company entered into the Subscription Agreement with a subscriber whereby the Company conditionally agreed to allot and issue, and the subscriber conditionally agreed to subscribe for 1,000,000,000 new shares at a price of HK$0.37 per subscription share to fund the Exchange Offer. Further details are disclosed in a circular dated 26 March 2010 and as set out in note 49(b).

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2009	Buildings HK$'000	Machinery HK$'000	Leasehold improvements HK$'000	Vessels* HK$'000	Storage facilities HK$'000	Furniture, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2008 and at 1 January 2009:								
Cost	353,336	245,561	16,883	1,878,797	700,092	185,049	1,621,690	5,001,408
Accumulated depreciation and impairment	(12,734)	(20,110)	(8,917)	(572,190)	(44,796)	(54,835)	—	(713,582)
Net carrying amount	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826
At 1 January 2009, net of accumulated depreciation and impairment	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826
Additions	3,301	21,069	447	85,634	80	11,354	918,518	1,040,403
Disposals	—	—	(310)	(290,717)	(1,173)	(2,334)	—	(294,534)
Disposal of a subsidiary (note 40)	—	—	(272)	—	—	(515)	—	(787)
Depreciation provided during the year	(12,019)	(21,204)	(5,053)	(134,544)	(35,776)	(27,889)	—	(236,485)
Transfers	11,707	13,919	—	—	795,583	271	(821,480)	—
Reclassified from held for sale (discontinued operation) (note 5(b))	—	—	—	—	—	14	—	14
Exchange realignment	314	200	5	—	597	334	1,530	2,980
At 31 December 2009, net of accumulated depreciation and impairment	343,905	239,435	2,783	966,980	1,414,607	111,449	1,720,258	4,799,417
At 31 December 2009:								
Cost	368,676	280,778	8,371	1,600,716	1,495,239	191,247	1,720,258	5,665,285
Accumulated depreciation and impairment	(24,771)	(41,343)	(5,588)	(633,736)	(80,632)	(79,798)	—	(865,868)
Net carrying amount	343,905	239,435	2,783	966,980	1,414,607	111,449	1,720,258	4,799,417

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

31 December 2008	Buildings HK$'000	Machinery HK$'000	Leasehold improvements HK$'000	Vessels HK$'000	Storage facilities HK$'000	Furniture, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2007 and at 1 January 2008:								
Cost	122,292	153,181	16,084	3,657,758	652,430	116,698	752,260	5,470,703
Accumulated depreciation	(3,966)	(2,719)	(5,849)	(656,740)	(20,401)	(22,288)	—	(711,963)
Net carrying amount	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740
At 1 January 2008, net of accumulated depreciation	118,326	150,462	10,235	3,001,018	632,029	94,410	752,260	4,758,740
Additions	122	76,547	946	102,977	180	48,449	1,102,531	1,331,752
Disposals	—	(2,329)	(1,000)	(1,550,397)	—	(35,220)	(687)	(1,589,633)
Acquisition of subsidiary (note 39)	—	—	465	—	—	936	—	1,401
Depreciation provided during the year	(8,368)	(14,531)	(3,085)	(234,278)	(22,613)	(26,831)	—	(309,706)
Transfers	213,663	4,541	—	—	—	45,314	(263,518)	—
Impairments	—	—	—	(12,713)	—	—	—	(12,713)
Reclassified as held for sale (discontinued operation) (note 5(b))	—	—	—	—	—	(14)	—	(14)
Exchange realignment	16,859	10,761	405	—	45,700	3,170	31,104	107,999
At 31 December 2008, net of accumulated depreciation and impairment	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826
At 31 December 2008:								
Cost	353,336	245,561	16,883	1,878,797	700,092	185,049	1,621,690	5,001,408
Accumulated depreciation and impairment	(12,734)	(20,110)	(8,917)	(572,190)	(44,796)	(54,835)	—	(713,582)
Net carrying amount	340,602	225,451	7,966	1,306,607	655,296	130,214	1,621,690	4,287,826

* On 13 August 2009, the Group entered into a memorandum of agreement with an independent third party to dispose of a vessel at a consideration of US$21,400,000 (equivalent to approximately HK$166,920,000). Upon completion of this transaction, the Group recorded a loss on disposal of HK$137,623,000.

This disposal constituted discloseable transaction under the Listing Rules, and therefore further details are set out in the Company announcement dated 13 August 2009.

On 12 March and 16 March 2010, the Group disposed of three vessels for a total cash consideration of US$47,500,000 (equivalent to approximately HK$370,500,000) at an estimated aggregate loss of approximately US$49,600,000 (equivalent to approximately HK$386,900,000 (note 49(a)).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, the residual values of the Group's vessels were reassessed with reference to a valuation by Ritchie & Bitsset (Far East) Pte. Ltd, independent professionally qualified valuers, and the depreciation charges on vessels for the year ended 31 December 2009 have been calculated taking into consideration the revised estimated residual values. This represented a change in accounting estimate and the depreciation charge for the year has been reduced by HK$13,632,000 (2008: HK$2,835,000) accordingly. The yearly effect of the depreciation charge on future periods is HK$13,632,000.

At 31 December 2009, the Group's vessels, storage facilities, construction in progress, buildings and machinery with carrying values of approximately HK$612,321,000 (2008: HK$927,944,000), HK$1,058,704,000 (2008: HK$538,643,000), HK$477,848,000 (2008: HK$145,294,000), HK$57,753,000 (2008: Nil) and HK$208,568,000 (2008: Nil), respectively, were pledged to secure certain banking facilities granted to the Group (note 28).

15. PREPAID LAND/SEABED LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**928,326**	881,296
Additions	**77,085**	30,771
Amortisation provided during the year	**(3,888)**	(3,061)
Amortisation capitalised in construction in progress	**(15,998)**	(15,663)
Exchange realignments	**182**	34,983
Carrying amount at 31 December	**985,707**	928,326

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

At 31 December 2009, the Group's prepaid land/seabed lease payments with an aggregate carrying value of HK$905,900,000 (2008: HK$901,487,000) were pledged to secure certain banking facilities granted to the Group (note 28).

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16. LICENCES

Group

	HK$'000
31 December 2009	
Cost at 1 January 2009, net of accumulated amortisation	**37,416**
Amortisation provided during the year	**(2,517)**
At 31 December 2009	**34,899**
At 31 December 2009:	
Cost	**51,935**
Accumulated amortisation	**(17,036)**
Net carrying amount	**34,899**
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	39,933
Amortisation provided during the year	(2,517)
At 31 December 2008	37,416
At 31 December 2008:	
Cost	51,935
Accumulated amortisation	(14,519)
Net carrying amount	37,416

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

17. GOODWILL

Group

	HK$'000
31 December 2009	
Cost at 1 January 2009, net of accumulated impairment	**1,103,564**
Impairment attributable to oil transportation services	**(13,055)**
Disposal of a subsidiary (notes 18 and 40)	**(4,312)**
At 31 December 2009	**1,086,197**
At 31 December 2009:	
Cost	**1,105,155**
Accumulated impairment	**(18,958)**
Net carrying amount	**1,086,197**
31 December 2008	
Cost and net carrying amount at 1 January 2008	1,018,116
Impairment attributable to discontinued operation (note 5(a))	(217,640)
Impairment attributable to oil transportation services	(5,903)
Increase from earn-out shares	52,275
Acquisition of minority shareholder's interest during the year (note 20)	252,404
Acquisition of subsidiaries (notes 18 and 39)	4,312
At 31 December 2008	1,103,564
At 31 December 2008:	
Cost	1,327,107
Accumulated impairment	(223,543)
Net carrying amount	1,103,564

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

	Provision of logistic services									
	Oil supply		Oil transportation		Onshore oil and chemical storage		Shipbuilding and ship repair		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Carrying amount of goodwill	**16,568**	20,880	**—**	13,055	**499,011**	499,011	**570,618**	570,618	**1,086,197**	1,103,564

According to the agreement for the acquisition of TQSL Holding and its subsidiary, QZ Shipyard ("Shipyard Group"), there are three tranches of earn-out shares to be issued in 2008, 2009 and 2010. If the Shipyard Group meets the target net profit before tax ("NPBT") specified for each year as set out below, the Company would be obligated to issue the maximum number of earn-out shares to Titan Oil or its nominees (note 44 (v)).

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17. GOODWILL (Continued)

Group (Continued)

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

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

In accordance with HKFRS 3, the earn-out shares are a contingent consideration and should be recorded as goodwill when achieving the target NPBT is probable. The target NPBT for 2008 was achieved so the market price of the maximum number of earn-out shares at the acquisition date were recorded as an increase in goodwill with the corresponding credit being charged to the earn-out shares reserve. Target NPBT in 2009 was not met, so the Company was not obliged to issue the 2009 tranche earn-out shares.

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

- Oil supply cash-generating unit;
- Onshore oil and chemical storage cash-generating unit; and
- Shipbuilding and ship repair cash-generating unit.

Impairment testing of goodwill

Oil supply cash-generating unit

The recoverable amount of the oil supply cash-generating unit has been determined based on a value in use calculation using cash flow projections beyond the five-year period based on financial budgets approved by senior management. The pre-tax discount rate applied to the cash flow projections was 14.5%.

Onshore oil and chemical storage cash-generating unit

The recoverable amount of the onshore oil and chemical storage cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering the period equivalent to the lease term of the land where the onshore oil berthing and oil and chemical storage facilities are erected. The pre-tax discount rate applied to the cash flow projections was 11% and the cash flows beyond the five-year period were projected by using an average growth rate of 3% for the onshore oil and chemical storage revenues.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Shipbuilding and ship repair cash-generating unit

The recoverable amount of the shipbuilding and ship repair cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The pre-tax discount rate applied to the cash flow projections was 15% and the cash flows beyond the five-year period were projected by using average growth rates from 3% to 4% for shipbuilding and ship repair revenue.

The key assumptions for all of the above cash flow projections are the budgeted gross margins which use the average gross margins achieved in the year immediately before the budgeted years, increases for expected market development, and the pre-tax discount rates of 11%–15%, which are before tax and reflect specific risks relating to the respective cash-generating units.

As at 31 December 2009, except for the goodwill arising from the acquisition of the oil transportation services, no impairment provisions have been made against the goodwill arising from the acquisitions of the oil supply business, onshore oil and chemical storage businesses or the shipbuilding and ship repair businesses.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**234,008**	234,008
Deemed investment cost*	**8,549**	8,549
Due from subsidiaries	**5,870,133**	6,145,932
	6,112,690	6,388,489
Portion of amounts due from subsidiaries classified as current assets	**(752,949)**	—
Non-current portion	**5,359,741**	6,388,489

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the amount of HK$752,949,000 (2008: Nil) which is expected to be settled with the next twelve months.

The amounts due to subsidiaries included in the Company's current liabilities of HK$1,599,377,000 (2008: HK$1,392,280,000) are unsecured, interest-free and are not repayable within the next twelve months.

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

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18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Titan Oil (Asia) Ltd.	British Virgin Islands ("BVI")	Ordinary US$1	100	Investment holding
Titan FSU Investment Limited	BVI	Ordinary US$1,000	100	Investment holding
Titan Oil Storage Investment Limited ("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 and chartering of a vessel
Harbour Sky Investments Limited	BVI	Ordinary US$1	100	Investment holding
Titan Shipyard Holdings Limited	BVI	Ordinary US$1	100	Investment holding
Titan Petrochemicals (Fujian) Ltd.*#	Mainland China	US$30,000,000	100	Investment holding
Indirectly held				
Titan Bunkering (HK) Limited	Hong Kong	Ordinary HK$1	100	Provision of bunker refueling services and chartering of vessels
Titan Bunkering Pte. Ltd.	Singapore/Malaysia	Ordinary SG$13,825,000	100	Provision of bunker refueling services

18. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
Estonia Capital Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Titan Mercury Shipping Pte. Ltd.	Singapore	Ordinary SG$1,000,000	100	Provision of oil transportation services
Wendelstar International Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Titan Ocean Pte Ltd	Singapore	Ordinary SG$2,900,000	100	Provision of ship management and agency services
Titan Mars Limited	BVI/Malaysia	Ordinary US$1,000	100	Holding a floating storage licence
Titan Storage Limited	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Solar Pte Ltd	Singapore	Ordinary SG$2	100	Holding a floating storage licence
Roswell Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of floating storage services

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18. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
Brookfield Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of oil transportation services
Titan Orient Lines Pte. Ltd.	Singapore	Ordinary SG$2	100	Investment holding
Neptune Associated Shipping Pte Ltd	Singapore/ South-East Asia	Ordinary SG$60,000,000	100	Owning and chartering of vessels
Petro Titan (H.K.) Limited	Hong Kong	Ordinary HK$3,000,000	100	Provision of financing services
Titan Resources Management Limited	BVI/Hong Kong	Ordinary US$1	100	Provision of consultancy services
Titan Resources Management (S) Pte. Ltd.	Singapore	Ordinary SG$100,000	100	Provision of consultancy services
Ascend Success Investments Limited	Hong Kong	Ordinary HK$1	100	Provision of financing services
廣州華南石化交易中心有限公司（「交易中心」）*@	Mainland China	RMB60,000,000	91	Provision of commodity exchange services
石獅市益泰潤滑油脂貿易有限責任公司（「益泰」）*@	Mainland China	RMB28,000,000	100	Investment holding
嵊泗海鑫石油有限公司（「海鑫」）*@	Mainland China	RMB50,000,000	100	Supply of oil products

18. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (Continued)				
Titan TQSL Holding Company Ltd ("TQSL Holding")	BVI	Ordinary US$10,000	100	Investment holding
Titan Quanzhou Shipyard Co., Ltd. ("QZ Shipyard")*#	Mainland China	RMB1,040,879,823	100	Shipbuilding and ship repair
廣州泰山石化有限公司*@	Mainland China	RMB50,000,000	100	Supply of oil products
廣東泰山石化有限公司*#	Mainland China	US$10,000,000	100	Provision of management services

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

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

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

On 28 February 2008, the Group entered into a purchase agreement to acquire a 80% equity interest in Shenzhen Donger Petroleum & Chemicals Co. Ltd. ("SZ Donger") at a cash consideration of RMB9,600,000 (equivalent to approximately HK$10,550,000) from independent third parties. This acquisition was completed on the same date (note 39). Subsequently, on 3 December 2009, the Group disposed of the entire 80% equity interest in SZ Donger to an independent third party for a cash consideration of RMB9,600,000 (equivalent to approximately HK$10,966,000) and recorded a gain on disposal of HK$1,607,000 (note 40).

Shares of certain subsidiaries held by the Group were pledged against the fixed rate guaranteed senior notes (note 31) and to banks to secure banking facilities (note 28) granted to the Group.

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19. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**333,558**	229,269
Goodwill on acquisition	**36,448**	36,448
	370,006	265,717
Due to associates	**(993)**	(993)
	369,013	264,724

The amounts due to associates are unsecured, interest-free, have no fixed terms of repayment.

The goodwill on acquisition is attributable to the Group's 30% equity interests in both GZ Xiaohu (as defined below) and 福建中油油品倉儲有限公司. The Group has performed impairment tests on the goodwill and its interests in the relevant associates and no impairment provision is deemed to be necessary. The recoverable amounts have been determined based on value in use calculations using cash flow projections based on financial budgets approved by senior management covering the period equivalent to the lease term of the land where the terminal and oil product storage facilities are erected. The pre-tax discount rate applied to the cash flow projections is 11% and the cash flows beyond the five-year period are projected by using the average growth rate of 3% for both terminal facilities and oil product storage revenues.

19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Particulars of registered capital held	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
福建中油油品倉儲有限公司	RMB46,000,000	Corporate	Mainland China	30	Oil product storage services
福建石獅中油油品銷售有限公司	RMB6,000,000	Corporate	Mainland China	30	Oil product sale services
嵊泗縣同盛石油有限公司	RMB5,000,000	Corporate	Mainland China	38	Holding an oil trading license
Yangshan Shen Gang International Oil Logistics Co., Ltd. ("Yangshan Shen Gang")*	US$73,460,000	Corporate	Mainland China	37	Operation of oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd ("GZ Xiaohu")*	RMB157,500,000	Corporate	Mainland China	30	Terminal facilities services

* Held under jointly-controlled entities (note 20)

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

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

	2009 HK$'000	2008 HK$'000
Assets	**2,432,723**	1,816,721
Liabilities	**1,465,031**	(1,131,417)
Revenue	**377,740**	326,824
Profit/(loss) for the year	**(776)**	10,006

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

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

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

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

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

† Registered as a sino-foreign owned enterprise under PRC law.

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

@ Pursuant to the liquidation order of preference requirements of TGIL preferred shares, as detailed in note 36(b) to the financial statements, 100% of accumulated losses incurred by TGIL group will be borne by the Group.

^ The associates, Yangshan Shen Gang and GZ Xiaohu, are held under the jointly-controlled entities (note 19).

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

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

All the above jointly-controlled entities except for TGIL are wholly-owned subsidiaries by TGIL directly or indirectly.

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

	2009 HK$'000	2008 HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Non-current assets	**3,442,413**	2,572,600
Non-current liabilities	**(1,840,716)**	(1,324,456)
Current assets	**552,492**	512,349
Current liabilities	**(927,281)**	(382,073)
Net assets	**1,226,908**	1,378,420
Share of jointly-controlled entities' results:		
Revenue	**163,139**	70,771
Cost of sales	**(67,752)**	(50,309)
Gross profit	**95,387**	20,462
Other revenue	**5,014**	7,308
Expenses	**(38,525)**	(28,223)
Finance costs	**(97,928)**	(87,137)
Share of results of associates	**(2,148)**	1,718
Loss after tax	**(38,200)**	(85,872)

21. OTHER DEPOSITS

At 31 December 2009, the Group had a service deposit for chartering a vessel of HK$2,500,000 (2008: HK$2,500,000) and deposits for certain property, plant and equipment purchases of HK$6,650,000 (2008: HK$5,700,000).

22. INVENTORIES

At 31 December 2009, the Group had supplies for shipbuilding and onshore storage operations of HK$193,711,000 (2008: HK$173,876,000) and work in progress of HK$62,762,000 (2008: Nil) for ship building and oil products of HK$151,396,000 (2008: HK$28,088,000).

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23. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2009	2008
	HK$'000	HK$'000
Accounts and bills receivable	**316,855**	239,586
Impairments	**(14,956)**	(15,371)
	301,899	224,215

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 and bills receivable relate to a large number of diversified customers, there are no significant concentrations of credit risk. Accounts and bills receivable are non-interest-bearing.

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

	Group	
	2009	2008
	HK$'000	HK$'000
1 to 3 months	**57,281**	126,616
4 to 6 months	**95,592**	60,534
7 to 12 months	**49,695**	24,231
Over 12 months	**99,331**	12,834
	301,899	224,215

As at 31 December 2008, accounts receivable in a disposal group (note 5) included HK$33,000 which was aged within one to three months, HK$1,081,000 aged within seven to twelve months and HK$8,520,000 aged over 12 months. The HK$33,000 was neither past due nor impaired while the HK$9,601,000 was more than three months past due. As at 31 December 2009, the Group had no such account receivable.

23. ACCOUNTS AND BILLS RECEIVABLE (Continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**15,371**	16,827
Impairment losses recognised/(reversed) (note 7)	**(415)**	15,794
Amounts written off as uncollectible	**—**	(16,950)
Provision for impairment of accounts receivable included in discontinued operation, oil trading	**—**	(300)
At 31 December	**14,956**	15,371

Included in the above balance is a provision for impairment for customers with an aggregate balance of HK$18,944,000 (2008: HK$28,205,000). The net accounts receivable in respect of these customers after the provision of impairment amounted to HK$3,988,000 (2008: HK$12,834,000). These accounts relate to customers in default and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**57,281**	126,616
Less than 3 months past due	**95,592**	60,534
More than 3 months past due	**145,038**	24,231
	297,911	211,381

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.

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

Included in the accounts and bills receivable are accounts receivable from Titan Oil for sale of vessels of HK$142,951,000 (2008: HK$95,211,000) (note 44(iv)).

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments for supplies in respect of the shipbuilding operations in the aggregate amount of HK$97,439,000 (2008: HK$242,232,000) and input tax recoverable in Mainland China for the purchases of shipbuilding supplies in the aggregate amount of HK$60,708,000 (2008: HK$58,431,000) are included in prepayments, deposits and other receivables.

As at 31 December 2009, included in other receivables was an amount of HK$40,370,000 (2008: Nil) which was past due but not impaired, and was aged over seven but less than twelve months. The Group does not hold any collateral or other credit enhancements over these balances. Other than the above, none of the financial assets is either past due or impaired and these financial assets relate to receivable for which there was no recent history of default.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**356,970**	514,992
Excess of progress billings over contract costs		
Direct costs incurred plus recognised profits less recognised losses to date	**—**	4,459
Less: Progress billings	**—**	(12,753)
	—	(8,294)

As at 31 December 2009, a foreseeable loss of HK$1,262,000 was recorded in contracts in progress.

26. FINANCIAL GUARANTEE CONTRACTS

In 2009, the carrying value of financial guarantee contracts arising from financial guarantees granted by the Company to banks for loans to a subsidiary of the Group amounted to HK$8,549,000 (2008: HK$8,549,000).

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**426,827**	410,692	**3,237**	46,662
Time deposits	**102,704**	171,075	**—**	—
	529,531	581,767	**3,237**	46,662
Less: Amounts pledged for bank facilities (note 28(iii)) and restricted cash:				
Bank balances	**(71,542)**	(60,319)	**—**	—
Time deposits	**(56,598)**	(70,910)	**—**	—
Time deposits with original maturities of more than three months	**(43,566)**	(99,134)	**—**	—
	(171,706)	(230,363)	**—**	—
Cash and cash equivalents	**357,825**	351,404	**3,237**	46,662

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$421,814,000 (2008: HK$261,995,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the market short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent default histories.

At the end of the reporting period, included in the restricted cash, amounted to HK$52,257,000 (2008: HK$52,197,000) was held for the development of ship repair facilities.

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28. INTEREST-BEARING BANK LOANS

Group	2009 Effective interest rate (%)	2009 Maturity	2009 HK$'000	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000
Current						
Bank loans — secured	**1.44–7.56**	**2010**	**372,364**	3.00–8.22	2009	245,565
Bank loans — unsecured	**4.37–5.84**	**2010**	**389,102**	4.86–7.47	2009	378,974
			761,466			624,539
Non-current						
Bank loans — secured	**2.82–6.24**	**2011–2019**	**1,961,155**	3.00–7.83	2010-2015	1,016,502
Bank loans — unsecured	**5.40**	**2011–2017**	**239,888**	4.86–5.94	2010-2017	139,804
			2,201,043			1,156,306
			2,962,509			1,780,845

	Group 2009 HK$'000	Group 2008 HK$'000
Bank loans repayable:		
Within one year	**761,466**	624,539
In the second year	**210,661**	218,917
In the third to fifth years, inclusive	**1,131,835**	441,621
Beyond five years	**858,547**	495,768
	2,962,509	1,780,845

28. INTEREST-BEARING BANK LOANS (Continued)

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

(i) vessels with an aggregate net carrying value of HK$612,321,000 (2008: HK$927,944,000);

(ii) construction in progress with an aggregate carrying value of HK$477,848,000 (2008: HK$145,294,000);

(iii) bank balances and deposits of HK$81,514,000 (2008: HK$178,166,000);

(iv) machinery with an aggregate net carrying value of HK$208,568,000 (2008: Nil);

(v) buildings with an aggregate net carrying value of HK$57,753,000 (2008: Nil);

(vi) prepaid land/seabed lease payments with an aggregate net carrying value of HK$905,900,000 (2008: HK$901,487,000);

(vii) storage facilities with an aggregate net carrying value of HK$1,058,704,000 (2008: HK$538,643,000);

(viii) contracts in progress with an aggregate carrying value of HK$144,584,000 (2008: Nil);

(ix) shares of certain subsidiaries;

(x) several pieces of land owned by related companies in 2008 but it was released in 2009 (note 44 (vi));

(xi) corporate guarantees executed by the Company;

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

(xiii) a corporate guarantee executed by a related company in 2008 but it was released in 2009 (note 44 (iii)).

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

	Carrying amounts		Fair value	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans — secured	**1,956,112**	953,824	**1,881,714**	855,672
Bank loans — unsecured	**239,888**	139,804	**226,938**	135,292
	2,196,000	1,093,628	**2,108,652**	990,964

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

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29. ACCOUNTS AND BILLS PAYABLE/OTHER PAYABLES AND ACCRUALS

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

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

	Group	
	2009	2008
	HK$'000	HK$'000
1 to 3 months	**125,135**	260,985
4 to 6 months	**39,878**	67,827
7 to 12 months	**29,420**	15,408
Over 12 months	**23,275**	9,649
	217,708	353,869
Other payables and accruals	**962,513**	1,089,042
	1,180,221	1,442,911

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

Group

	Provision for product warranties	
	2009	2008
	HK$'000	HK$'000
At 1 January	**1,682**	1,546
Additional provision*	**—**	2,254
Amounts utilised during the year	**—**	(2,283)
Exchange realignment	**2**	165
At 31 December, classified as other payables and accruals	**1,684**	1,682

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

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

30. FINANCE LEASE PAYABLES

As at 31 December 2008, the Group leased a motor vehicle for administrative purposes. This lease was classified as a finance lease and has a remaining lease term of two years. The finance lease was transferred to an independent third party in 2009.

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

Group	**Minimum lease payments 2008 HK$'000**	Present value of minimum lease payments 2008 HK$'000
Amounts payable:		
Within one year	**436**	403
In the second year	**327**	319
Total minimum finance lease payments	**763**	722
Future finance charges	**(41)**	
Total net finance lease payables	**722**	
Portion classified as current liabilities	**(403)**	
Non-current portion	**319**	

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

31. FIXED RATE GUARANTEED SENIOR NOTES

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

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

At 31 December 2009, the effective interest rate on the Senior Notes was 9.27% (2008: 9.27%) per annum and the fair value of the Senior Notes was HK$559,606,000 after the repurchases during the year (2008: HK$610,712,000).

In 2009, the Company repurchased an aggregate principal amount of US$17,816,000 (approximately HK$138,965,000) (2008: US$66,824,000 (approximately HK$521,227,200)) in Senior Notes and recognised a gain on repurchase of HK$90,522,000 (2008: HK$339,174,000) which is included in "Other revenue" in the consolidated income statement.

On 7 December 2009, the Company proposed an offer to exchange and solicitation of consents to amendments to the indenture relating to the Company's existing Senior Notes. Further details in respect of the above are included in the Company's announcement dated 7 December 2009 and as set out in note 49(c).

32. DEFERRED TAX LIABILITIES

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

Group	Accelerated capital allowances HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2008	170	153,416	153,586
Deferred tax charged to the consolidated income statement during the year (note 11)	3,857	—	3,857
At 31 December 2008 and 1 January 2009	**4,027**	**153,416**	**157,443**
Deferred tax credited to the consolidated income statement during the year (note 11)	**(80)**	**—**	**(80)**
Exchange realignments	**79**	**—**	**79**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2009	**4,026**	**153,416**	**157,442**

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

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

At 31 December 2009 and 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not possible that these subsidiaries, associates and jointly-controlled entities will distribute such earnings in the foreseeable future. At 31 December 2009 and 2008, 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, associates or jointly-controlled entities as the Group had no liabilities for additional taxes should such amounts be remitted.

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33. SHARE CAPITAL

Shares

	2009 HK$'000	2008 HK$'000
Authorised:		
9,445,000,000 ordinary shares of HK$0.01 each	**94,450**	94,450
555,000,000 convertible preferred shares of HK$0.01 each	**5,550**	5,550
Issued and fully paid:		
6,562,460,721 (2008: 6,473,859,010) ordinary shares of HK$0.01 each	**65,625**	64,739
555,000,000 (2008: 555,000,000) convertible preferred shares of HK$0.01 each	**5,550**	5,550

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

	Number of ordinary shares in issue	Issued share capital HK$'000
At 1 January 2008	6,473,639,010	64,737
Exercise of share options during the year	220,000	2
At 31 December 2008 and 1 January 2009	**6,473,859,010**	**64,739**
Issue of earn-out shares (note 44(v))	**88,601,711**	**886**
At 31 December 2009	**6,562,460,721**	**65,625**

Share option scheme

Details of the Company's share option scheme and the movements in share options issued by the Company are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

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

Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the operations of the Group.
Participants	(i) Full time employees and directors of the Company and its subsidiaries; and (ii) Any suppliers, consultants, agents and advisors of the Group.
Total number of ordinary shares available for issue and the percentage of the issued shares of the Company that it represents as at the date of approval of the financial statements	647,385,901 ordinary shares, representing 9.86% of the issued shares of the Company at the date of approval of the financial statements.
Maximum entitlement of each participant	The maximum number of shares issuable under share options to each eligible participant within any 12-month period, including exercised and outstanding options, is limited to 1% of the shares of the Company in issue at any time.
Period within which the ordinary shares must be taken up under an option	No option will be exercisable later than 10 years after the Scheme has been adopted by the shareholders of the Company.
Minimum period for which an option must be held before it can be exercised	None
Amount payable on acceptance	HK$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable
Basis of determining the exercise price	Determined by the board of directors at their discretion based on the higher of: (i) the closing price of the ordinary shares on the Stock Exchange at the date of the offer; (ii) the average closing price of the ordinary shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of the ordinary shares of the Company.
Remaining life of the Scheme	The Scheme remains in force until 31 May 2012.

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34. SHARE OPTION SCHEME (Continued)

The following share options under the Scheme were outstanding at the end of the reporting period:

Name or category of participant	Number of share options: At 1 January 2009	Granted during the year	Lapsed during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Director							
Mr. Patrick Wong Siu Hung	10,000,000	—	—	10,000,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	10,000,000	—	—	10,000,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	20,000,000	—	—	20,000,000			
Other employees							
In aggregate	10,000,000	—	(10,000,000)	—	21 September 2005	21 September 2007 to 20 September 2009	0.68
	12,400,000	—	(1,175,000)	11,225,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	12,400,000	—	(1,175,000)	11,225,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	500,000	—	(250,000)	250,000	24 April 2007	24 April 2008 to 23 April 2013	0.70
	500,000	—	(250,000)	250,000	24 April 2007	24 April 2009 to 23 April 2014	0.70
	47,250,000	—	(8,650,000)	38,600,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	114,370,000	—	(20,050,000)	94,320,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	67,120,000	—	(11,400,000)	55,720,000	1 February 2008	1 February 2012 to 31 January 2017	0.45
	65,020,000	—	(12,720,000)	52,300,000	1 February 2008	1 February 2013 to 31 January 2018	0.45
	329,560,000	—	(65,670,000)	263,890,000			
	349,560,000	—	(65,670,000)	283,890,000			

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

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

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

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

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

During the year, no share options were exercised or cancelled.

34. SHARE OPTION SCHEME (Continued)

In the prior year, the fair value of the equity-settled share options granted was estimated as at the date of grant using the Binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model used for the year ended 31 December 2008:

	2008
Dividend yield (%)	1.28
Expected volatility (%)	41.49
Risk-free interest rate (%)	2.34
Sub-optimal exercise factor	1.5
Closing share price at the date of grant (HK$ per share)	0.44
Exercise price (HK$ per share)	0.45

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

No other features of the options granted were incorporated into the measurement of fair value.

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

At the end of the reporting period, the Company had outstanding share options for the subscription of 283,890,000 ordinary shares under the Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 283,890,000 additional ordinary shares of the Company and additional share capital of HK$2,838,900 and share premium of HK$131,098,100 (before issue expenses).

35. RESERVES

(a) Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Earn-out shares reserve HK$'000	Equity component of convertible unsecured notes HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2008		1,888,650	18,261	11,465	(5,812)	57,399	77,321	—	—	864,305	2,911,589
Total comprehensive loss for the year		—	—	—	5,812	—	108,204	—	—	(1,600,557)	(1,486,541)
Equity-settled share option arrangements		—	—	13,475	—	—	—	—	—	—	13,475
Exercise of share options		97	—	—	—	—	—	—	—	—	97
Transfer to retained profits upon lapse of share options after vesting period		—	—	(4,125)	—	—	—	—	—	4,125	—
Issue of earn-out shares	44(v)	—	—	—	—	—	—	52,275	—	—	52,275
At 31 December 2008 and 1 January 2009		**1,888,747**	**18,261**	**20,815**	**—**	**57,399**	**185,525**	**52,275**	**—**	**(732,127)**	**1,490,895**
Total comprehensive loss for the year		—	—	—	—	—	7,978	—	—	(536,087)	(528,109)
Equity-settled share option arrangements		—	—	14,419	—	—	—	—	—	—	14,419
Disposal of a subsidiary	18 & 40	—	—	—	—	—	(171)	—	—	—	(171)
Transfer to retained profits upon lapse of share options after vesting period		—	—	(2,396)	—	—	—	—	—	2,396	—
Transfer of earn-out shares reserves to share premium	44(v)	51,389	—	—	—	—	—	(52,275)	—	—	(886)
Issue of convertible unsecured notes	38	—	—	—	—	—	—	—	92,277	—	92,277
At 31 December 2009		**1,940,136**	**18,261**	**32,838**	**—**	**57,399**	**193,332**	**—**	**92,277**	**(1,265,818)**	**1,068,425**

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.

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35. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Earn-out shares reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2008		1,888,650	60,916	11,465	(5,812)	—	35,883	1,991,102
Total comprehensive income for the year	12	—	—	—	5,812	—	4,567	10,379
Equity-settled share option arrangements		—	—	13,475	—	—	—	13,475
Transfer to retained profits upon lapse of share options after vesting period		—	—	(4,125)	—	—	4,125	—
Exercise of share options		97	—	—	—	—	—	97
Issue of earn-out shares	44(v)	—	—	—	—	52,275	—	52,275
At 31 December 2008 and 1 January 2009		**1,888,747**	**60,916**	**20,815**	**—**	**52,275**	**44,575**	**2,067,328**
Total comprehensive loss for the year	12	**—**	**—**	**—**	**—**	**—**	**(486,202)**	**(486,202)**
Equity-settled share option arrangements		**—**	**—**	**14,419**	**—**	**—**	**—**	**14,419**
Transfer to retained profits upon lapse of share options after vesting period		**—**	**—**	**(2,396)**	**—**	**—**	**2,396**	**—**
Issue of earn-out shares	44(v)	**51,389**	**—**	**—**	**—**	**(52,275)**	**—**	**(886)**
At 31 December 2009		**1,940,136**	**60,916**	**32,838**	**—**	**—**	**(439,231)**	**1,594,659**

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

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

36. CONVERTIBLE PREFERRED SHARES

	Group		Company	
	Equity portion HK$'000	Liability portion HK$'000	Equity portion HK$'000	Liability portion HK$'000
(a) Titan preferred shares				
Issued and fully paid	81,637	229,163	81,637	229,163
Less: Issuance expense	(6,078)	(17,020)	(6,078)	(17,020)
Add: Cumulative dividend on convertible preferred shares (classified as financial liabilities)	—	45,241	—	45,241
At 31 December 2008	**75,559**	**257,384**	**75,559**	**257,384**
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	**—**	**32,712**	**—**	**32,712**
At 31 December 2009	**75,559**	**290,096**	**75,559**	**290,096**
(b) TGIL preferred shares				
Issued and fully paid	521,700	258,300	—	—
Less: Issuance expense	(3,863)	(1,913)	—	—
Add: Cumulative dividends on convertible preferred shares (classified as financial liabilities)	—	59,622	—	—
At 31 December 2008	**517,837**	**316,009**	**—**	**—**
Add: Dividend on convertible preferred shares (classified as financial liabilities) (note 8)	**—**	**39,001**	**—**	**—**
At 31 December 2009	**517,837**	**355,010**	**—**	**—**

In 2007, the Company issued 555,000,000 Titan preferred shares at the stated value of HK$0.56 per share and TGIL issued HK$780 million (US$100 million) TGIL preferred shares. The fair value of the liability portion of Titan preferred shares and TGIL preferred shares were estimated at the issuance date. The residual amount of Titan preferred shares of HK$75,559,000 and TGIL preferred shares of HK$517,837,000 were assigned as the equity portion and included in shareholders' equity of the Company and contingently redeemable equity in a jointly-controlled entity, respectively.

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37. NOTES PAYABLE

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

At maturity, the notes 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 TQSL Holding on a fully diluted basis (the "Applicable Redemption Amount"). The Group has the right to redeem the notes in full prior to maturity date at the Applicable Redemption Amount, while K Line has the right to early redeem at the Applicable Redemption Amount in the event of a change of control.

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

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

The notes comprised a financial liability at amortised cost and embedded derivatives. As at 31 December 2009, the fair value of the embedded derivatives asset was HK$18,286,000 (2008: HK$3,435,000).

38. CONVERTIBLE UNSECURED NOTES

On 14 July 2009, the Company, TOSIL, Warburg Pincus and Titan Group Investment Limited ("China StorageCo") entered into an agreement by which TOSIL and Warburg Pincus became entitled to provide, pro rata to their shareholdings in China StorageCo, funding of up to HK$312.6 million (US$40.1 million) to China StorageCo through the subscription of China StorageCo's notes.

Interest accrues at 1% per annum, but if TOSIL does not exercise its option to subscribe for the notes, interest at 5% per annum will be charged from the date on which TOSIL's option to subscribe expires. The notes will mature five years after the date of issue. Holders of the notes are entitled to convert the whole of the notes into China StorageCo's shares at the initial conversion price of HK$1,953.90 (US$250.50), subject to adjustments at any time from the first anniversary of the date of issue.

On the same date, Warburg Pincus exercised its option to subscribe for China StorageCo's notes in the principal amount of HK$156 million (US$20 million). The fair values of the liability portion and embedded derivatives of China StorageCo's notes were estimated at the issuance date. The residual amount of HK$92.3 million of China StorageCo's notes was assigned as the equity portion and was included in the shareholders' equity of the Group.

The convertible unsecured notes comprised a financial liability at amortised cost and embedded derivatives. As at 31 December 2009, the fair value of the embedded derivatives liability was HK$348,000.

38. CONVERTIBLE UNSECURED NOTES (Continued)

The above transaction constituted a possible major disposal and connected transaction and a possible discloseable transaction of the Company pursuant to Chapter 14 and 14A of the Listing Rules and further details are included in the Company's circular dated 25 August 2009.

39. BUSINESS COMBINATIONS

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

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

	Notes	Fair value recognised on acquisition HK$'000
Net assets acquired:		
Property, plant and equipment	14	1,401
Prepayments, deposits and other receivables		6,396
Cash and cash equivalents		2
Other payables and accruals		(2)
Minority interests		(1,559)
		6,238
Goodwill on acquisition	17	4,312
Total net assets acquired		10,550
Satisfied by cash		10,550

The fair values of the identifiable assets and liabilities of SZ Donger in the prior year do not differ materially from their respective carrying amounts.

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

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(10,550)
Cash and cash equivalents acquired	2
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(10,548)

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39. BUSINESS COMBINATIONS (Continued)

Since the acquisition, SZ Donger has not made a material contribution to the consolidated results of the Group for the year ended 31 December 2008.

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

40. DISPOSAL OF A SUBSIDIARY

As further detailed in note 18 to the financial statements, during the year, the Group disposed of the 80% equity interest in SZ Donger to an independent third party. The details of the disposal are as follows:

	Notes	HK$'000
Net assets disposed of:		
Property, plant and equipment	14	787
Cash and cash equivalents		184,412*
Amount due to the immediate holding company		(179,104)*
Minority interests		(1,219)
Release from exchange fluctuation reserve	35(a)	171
Goodwill on acquisition	17	4,312
Total net assets disposed of		9,359
Gain on disposal of a subsidiary	7 & 18	1,607
		10,966
Satisfied by cash		10,966

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK$'000
Cash consideration	10,966
Cash and bank balances disposed of	(184,412)*
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(173,446)*

* The cash and cash equivalents mainly represented a cash deposit of HK$179,000,000 paid by the Group, giving rise to the amount due to the immediate holding company, for the purchase of fuel oil which was delivered subsequent to the disposal of the subsidiary.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Vessels		
Within one year	**16,576**	9,060
In the second to fifth years, inclusive	**17,795**	26,855
	34,371	35,915
Office premises		
Within one year	**—**	2,647
	34,371	38,562

(b) As lessee

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

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Vessels		
Within one year	**146,668**	201,330
In the second to fifth years, inclusive	**194,396**	87,716
	341,064	289,046
Office premises		
Within one year	**9,508**	11,335
In the second to fifth years, inclusive	**19,035**	5,559
Beyond five years	**71,095**	—
	99,638	16,894
	440,702	305,940

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42. COMMITMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Capital contribution commitments for associates in Mainland China	**68,408**	68,367
Commitments for construction of oil berthing and storage facilities of jointly-controlled entities and associates in Mainland China	**213,487**	306,096
Commitment for shipbuilding and ship repair facilities in Mainland China	**1,241,065**	1,646,676
Commitment for conversion of vessels	**60,840**	—
	1,583,800	2,021,139

	Company	
	2009	2008
	HK$'000	HK$'000
Capital contribution commitments for a subsidiary in Mainland China	**234,000**	234,000

43. CONTINGENT LIABILITIES

At 31 December 2009, guarantees aggregating HK$114,617,000 (2008: HK$3,869,667,000) had been given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$110,716,000 (2008: HK$305,662,000) of the facilities had been utilised by subsidiaries of the Company.

At 31 December 2009, a HK$39,000,000 guarantee had been given by the Company to a supplier of a subsidiary of the Company in connection with the floating storage business but no amount had been utilised.

In 2009, certain subsidiaries of the Company (collectively the "Claimants") initiated arbitration proceedings against a ship management company for claims relating to certain ship management agreements (collectively the "Agreements"). The ship management company subsequently filed a defence and counterclaim submission in which it alleged that the Claimants repudiated the Agreements and that it has a counterclaim for damages. Based on a legal opinion by the Group's lawyers, there are no merits to the counterclaim by the ship management company and the Claimants have strong prospects of succeeding with their arguments. On this basis and given the status of the proceedings are still at a preliminary stage, the directors of the Company are of the view that no provision for the counterclaim is necessary at this stage.

Other than the contingent liabilities as disclosed above, the Group and the Company had no other material contingent liabilities as at the end of the reporting period.

44. RELATED PARTY TRANSACTIONS

As referred to elsewhere in these financial statements, the Group had the following material transactions with related parties during 2009 and 2008:

(i) Tenancy agreement with Titan Oil

In 2007, the Group entered into a tenancy agreement with Titan Oil for the lease of office premises for a term of three years commencing from 1 January 2008 until 31 December 2010. During the year, the Group paid a total amount of SG$607,536 (approximately HK$3,247,000) (2008: SG$607,536 (approximately HK$3,358,000)) to Titan Oil for the lease of the office premises, which is comparable to the prevailing market rental for similar properties.

(ii) Management and support services

During the year, the Group did not receive management and support services income from one of the subsidiaries of Titan Oil (2008: HK$14,522,000).

(iii) Bank guarantees

As at 31 December 2008, a guarantee was given by a subsidiary of Titan Oil to a bank in connection with a bank loan granted to a jointly-controlled entity for RMB30,000,000 (approximately HK$34,238,000) but it was released in 2009 (note 28(xiii)).

As at 31 December 2009, a guarantee was granted by one of the directors of the Company to a bank in connection with a bank loan of US$3,308,000 (approximately HK$25,805,000) (2008: US$8,725,000 (approximately HK$68,055,000)) granted to a subsidiary of the Company.

(iv) Build and sale of vessels

As at 31 December 2009, the shipbuilding subsidiary of the Group had a net amount due to Titan Oil of HK$138,287,000 (HK$142,951,000 included in accounts and bills receivable and HK$281,238,000 included in other payables and accruals) (2008: HK$279,322,000, of which HK$95,211,000 and HK$374,533,000 were included in accounts and bills receivable and other payables and accruals, respectively) relating to build and sale of vessels to Titan Oil. These amounts are unsecured, interest-free and have no fixed terms of repayment. The sale of vessels to Titan Oil in the current year amounted to HK$192,801,000 (2008: HK$565,333,000).

(v) Issue of earn-out shares

As detailed in note 17 to the financial statements, according to the agreement of acquisition of TQSL Holding, earn-out shares will be issued when it is probable that TQSL Holding can meet the target NPBT. As at 31 December 2008, it was determined that TQSL Holding was able to meet the first year target NPBT, and, therefore, the Company was obliged to issue the maximum earn-out shares of 88,601,711 to Titan Oil or the nominees. Such NPBT was confirmed to have been achieved and on 1 September 2009, the Company issued the committed 88,601,711 earn-out shares to Titan Oil, Vision Jade Investments Limited and Titan Shipyard Investment Company Limited. The target NPBT for 2009 was not met and therefore, the Company is not obliged to issue further shares of 88,601,711. If the target NPBT for 2010 is met, the Company will be obliged to issue further shares of 177,203,422.

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

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44. RELATED PARTY TRANSACTIONS (Continued)

(vi) Land pledged as security

As at 31 December 2008, land owned by related companies was used to pledge as security for a bank loan of RMB100,000,000 (equivalent to approximately HK$114,125,000) granted to a subsidiary of the Company which was released in 2009.

(vii) Outstanding balances with Titan Oil and its subsidiaries

As at 31 December 2009, HK$9,720,000 (2008: Nil) was advanced from Titan Oil. The amount is unsecured, interest-free and has no fixed terms of repayment.

As at 31 December 2008, the Group had amount due from a subsidiary of Titan Oil of US$1,588,000 (approximately HK$12,383,000) which was unsecured, interest-free and was fully repaid during the current year.

As at 31 December 2009, the Group had an amount due to the subsidiary of Titan Oil of RMB700,000 (approximately HK$800,000) (2008: Nil) which was unsecured, interest-free and had no fixed terms of repayment.

45. 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

Group

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other deposits	—	—	**9,150**	8,200	**9,150**	8,200
Accounts and bills receivable	—	—	**301,899**	224,215	**301,899**	224,215
Financial assets included in prepayments, deposits and other receivables	—	—	**313,715**	360,744	**313,715**	360,744
Contracts in progress	—	—	**356,970**	514,992	**356,970**	514,992
Pledged deposits and restricted cash	—	—	**171,706**	230,363	**171,706**	230,363
Cash and cash equivalents	—	—	**357,825**	351,404	**357,825**	351,404
	—	—	**1,511,265**	1,689,918	**1,511,265**	1,689,918

45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

Group

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Due to associates	—	—	993	993	993	993
Accounts and bills payable	—	—	217,708	353,869	217,708	353,869
Financial liabilities included in other payables and accruals	—	—	960,829	1,087,360	960,829	1,087,360
Excess of progress billings over contract costs	—	—	—	8,294	—	8,294
Interest-bearing bank loans	—	—	2,962,509	1,780,845	2,962,509	1,780,845
Finance lease payables	—	—	—	722	—	722
Fixed rate guaranteed senior notes	—	—	2,491,264	2,621,813	2,491,264	2,621,813
Liability portion of convertible preferred shares	—	—	645,106	573,393	645,106	573,393
Vessel deposit received	—	—	2,500	2,500	2,500	2,500
Notes payable	(18,286)	(3,435)	203,622	198,006	185,336	194,571
Liability portion of convertible unsecured notes	348	—	67,917	—	68,265	—
	(17,938)	(3,435)	7,552,448	6,627,795	7,534,510	6,624,360

Financial assets

Company

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Due from subsidiaries	—	—	5,870,133	6,145,932	5,870,133	6,145,932
Financial assets included in prepayments, deposits and other receivables	—	—	14	59,115	14	59,115
Cash and cash equivalents	—	—	3,237	46,662	3,237	46,662
	—	—	5,873,384	6,251,709	5,873,384	6,251,709

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45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

Company

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**—**	—	**3,856**	6,614	**3,856**	6,614
Due to subsidiaries	**—**	—	**1,599,377**	1,392,280	**1,599,377**	1,392,280
Financial guarantee contracts	**—**	—	**8,549**	8,549	**8,549**	8,549
Fixed rate guaranteed senior notes	**—**	—	**2,491,264**	2,621,813	**2,491,264**	2,621,813
Liability portion of convertible preferred shares	**—**	—	**290,096**	257,384	**290,096**	257,384
	—	—	**4,393,142**	4,286,640	**4,393,142**	4,286,640

46. 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 all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Group

Assets measured at fair value as at 31 December 2009:

	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Embedded derivative financial instruments, included under notes payable	—	18,286	—	18,286

46. FAIR VALUE HIERARCHY (Continued)

Liabilities measured at fair value as at 31 December 2009:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Embedded derivative financial instruments, included under convertible unsecured notes	—	348	—	348

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

As a result of discontinued the operation of oil trading on 25 June 2008 and unwinding the interest rate swap arrangement during the prior year, the Group ceased entering into any oil price swap contract and interest rate swap agreement.

The Group is principally exposed to interest rate risks, credit risks, liquidity risks and foreign currency risks. The board of directors reviews and agrees 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 treasury department continually monitors the positions and explores other ways to reduce interest costs.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates in the current year, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2009		
Hong Kong dollar	**15–56**	**505**
Hong Kong dollar	**(15–56)**	**(505)**
2008		
Hong Kong dollar	85–170	43,253
Hong Kong dollar	(85–170)	(43,253)

Credit risks

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

The credit risks of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, deposits, certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risks through the granting of financial guarantees, further details of which are disclosed in note 26 to the financial statements.

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

Further quantitative data in respect of the Group's exposure to credit risks arising from accounts and bills receivable are disclosed in note 23 to the financial statements.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risks

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

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:

Group

	On demand or within one year		Over one year		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due to associates	**993**	993	**—**	—	**993**	993
Accounts and bills payable	**217,708**	353,869	**—**	—	**217,708**	353,869
Financial liabilities included in other payables and accruals	**957,039**	1,082,464	**—**	—	**957,039**	1,082,464
Excess of progress billings over contract costs	**—**	8,294	**—**	—	**—**	8,294
Interest-bearing bank loans	**916,748**	717,585	**2,689,235**	1,390,591	**3,605,983**	2,108,176
Finance lease payables	**—**	443	**—**	319	**—**	762
Fixed rate guaranteed senior notes	**209,084**	260,254	**2,773,434**	3,249,408	**2,982,518**	3,509,662
Liability portion of convertible preferred shares	**—**	—	**1,090,800**	1,090,800	**1,090,800**	1,090,800
Vessel deposit received	**—**	—	**2,500**	2,500	**2,500**	2,500
Notes payable	**4,691**	2,741	**199,381**	201,331	**204,072**	204,072
Convertible unsecured notes	**1,560**	—	**161,528**	—	**163,088**	—
	2,307,823	2,426,643	**6,916,878**	5,934,949	**9,224,701**	8,361,592

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risks (Continued)

Company

	On demand or within one year		Over one year		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**3,856**	6,614	**—**	—	**3,856**	6,614
Due to subsidiaries	**—**	—	**1,599,377**	1,392,280	**1,599,377**	1,392,280
Fixed rate guaranteed senior notes	**209,084**	260,254	**2,773,434**	3,249,408	**2,982,518**	3,509,662
Liability portion of convertible preferred shares	**—**	—	**310,800**	310,800	**310,800**	310,800
Guarantees given to banks in connection with facilities granted to subsidiaries	**110,716**	305,662	**—**	—	**110,716**	305,662
	323,656	572,530	**4,683,611**	4,952,488	**5,007,267**	5,525,018

Foreign currency risks

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

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

	%	Increase/ (decrease) in loss before tax HK$'000
2009		
If United States dollar weakens against RMB	**1.11**	**2,939**
If United States dollar strengthens against RMB	**1.11**	**(2,939)**
2008		
If United States dollar weakens against RMB	8.82	68,945
If United States dollar strengthens against RMB	8.82	(68,945)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is total debts divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Interest-bearing bank loans	**2,962,509**	1,780,845
Finance lease payables	**—**	722
Fixed rate guaranteed senior notes	**2,491,264**	2,621,813
Notes payable	**185,336**	194,571
Liability portion of convertible unsecured notes	**68,265**	—
Total debts	**5,707,374**	4,597,951
Total assets	**9,446,295**	8,998,992
Gearing ratio	**60%**	51%

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48. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

In addition, certain other comparative amounts have been reclassified to conform with the current year's presentation. In the opinion of the Company's directors, such reclassifications provide a more appropriate presentation and better reflect the nature of the transactions and balances.

49. EVENTS AFTER THE REPORTING PERIOD

(a) Disposals of vessels

On 12 March and 16 March 2010, the Company entered into three separate agreements to dispose of three vessels to independent third parties for a total cash consideration of US$ 47.5 million (equivalent to approximately HK$370.5 million) which will result in an estimated aggregate loss of approximately US$49.6 million (equivalent to approximately HK$386.9 million).

These transactions constituted discloseable transactions of the Company pursuant to Chapter 14 of the Listing Rules and further details are included in the Company's announcements dated 12 March and 16 March 2010.

(b) Conditional issue of new shares

On 15 March 2010, the Company entered into a subscription agreement with Universal Summit Holdings Limited ("USHL") whereby the Company conditionally agreed to allot and issue, and USHL conditionally agreed to subscribe for 1,000,000,000 new shares at a price of HK$0.37 per subscription share ("Subscription Agreement"). The subscription shares represent approximately 15.24% of the Company's existing issued share capital and approximately 13.22% of its issued share capital as enlarged by the subscription.

Further details in respect of the above are included in the Company's announcement dated 16 March 2010.

(c) Exchange offer

The Company made an Exchange Offer on 7 December 2009, proposing to exchange any and all of its outstanding 8.5% senior notes properly tendered (and not validly withdrawn) for up to US$62,756,640 in aggregate principal amount of variable rate guaranteed senior notes due 2015 (the "New Notes"), up to 969,732,000 ordinary shares of the Company (the "New Shares") and a cash payment. The validity of the Exchange Offer has been extended to 5:00 p.m., New York City time, on April 29, 2010, unless further extended by the Company. As of the date of this report, the conditions precedent to the consummation of the Exchange Offer have not been met or waived.

49. EVENTS AFTER THE REPORTING PERIOD (Continued)

(c) Exchange offer (Continued)

The Company has been in discussions with an ad hoc group of holders of the existing 8.5% senior notes and may consider revising the Exchange Offer on terms that may be different from those currently offered.

As set out in note (b) above, pursuant to the terms of the Subscription Agreement, the proceeds of the subscription will be applied towards funding the Exchange Offer and moneys that may remain (if any) after the completion of the Exchange Offer for such other purposes as may be determined by the Company.

In addition, the Company intends to make available part of the proceeds of the disposals of its vessels, as set out in note (a) above, to fund the Exchange Offer or any revised offer, if made.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2010.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from published audited financial statements, is set out below.

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE					
Continuing operations	**2,005,249**	7,812,382	7,848,490	6,637,088	4,864,392
Discontinued operation	**—**	3,280,562	9,155,828	4,822,892	5,599,258
	2,005,249	11,092,944	17,004,318	11,459,980	10,463,650
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(534,913)**	(390,968)	(81,799)	62,778	297,614
Discontinued operation	**—**	(1,217,257)	57,321	47,711	8,890
	(534,913)	(1,608,225)	(24,478)	110,489	306,504
Tax					
Continuing operations	**(488)**	2,664	(12,458)	(10,748)	(550)
Discontinued operation	**—**	36	5,964	(3,229)	(2,924)
	(488)	2,700	(6,494)	(13,977)	(3,474)
PROFIT/(LOSS) FOR THE YEAR	**(535,401)**	(1,605,525)	(30,972)	96,512	303,030
Attributable to:					
Owners of the Company	**(536,087)**	(1,600,557)	(29,104)	100,333	303,030
Minority interests	**686**	(4,968)	(1,868)	(3,821)	—
	(535,401)	(1,605,525)	(30,972)	96,512	303,030

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**9,446,295**	8,998,992	12,774,943	8,947,036	7,602,229
TOTAL LIABILITIES	**(7,710,220)**	(6,826,211)	(9,089,734)	(6,795,131)	(5,716,467)
CONTINGENTLY REDEEMABLE EQUITY IN A JOINTLY-CONTROLLED ENTITY	**(517,837)**	(517,837)	(517,837)	—	—
MINORITY INTERESTS	**(8,629)**	(23,751)	(115,487)	(102,997)	(26,665)
	1,209,609	1,631,193	3,051,885	2,048,908	1,859,097

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Shirley Hui Wai Man

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Bank of China
China Construction Bank
China Merchants Bank
DBS Bank Ltd
Industrial and Commercial Bank of China
Malayan Banking Berhad
Shanghai Pudong Development Bank
Shenzhen Development Bank
United Overseas Bank Ltd

AUDITORS

Ernst & Young

SOLICITORS

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