2010 Annual Report

Titan

Titan Petrochemicals Group Limited

Stock Code: 1192

ABOUT TITAN PETROCHEMICALS GROUP

Titan Petrochemicals Group Limited, listed on the Hong Kong Stock Exchange (Stock Code: 1192), is a provider of oil logistic and marine services in the Asia Pacific region, in particular, in China. The Group operates the strategically located onshore and offshore storage facilities and provides management services for a multi-functional ship-repair and shipbuilding yard, which is one of the largest in Asia. Titan operates in China, Hong Kong, Singapore and Malaysia.

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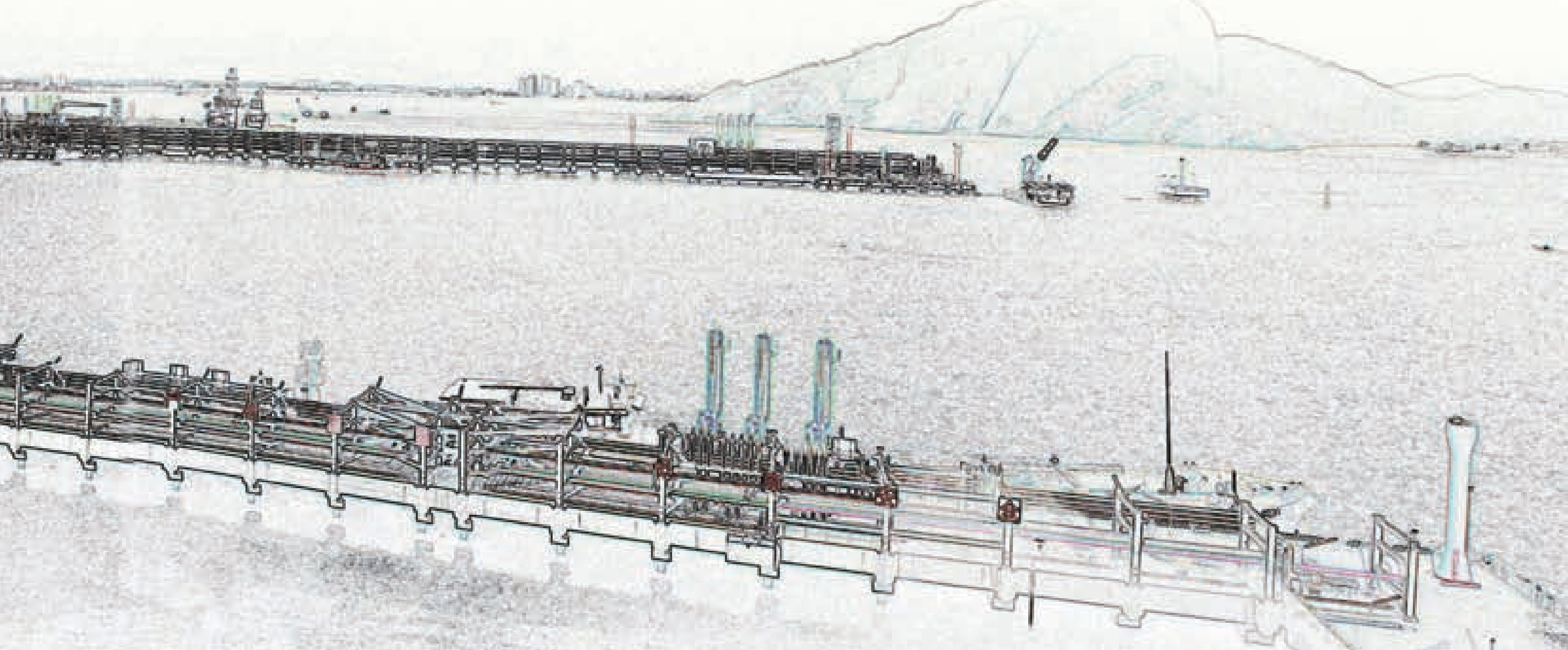


FINANCIAL HIGHLIGHTS

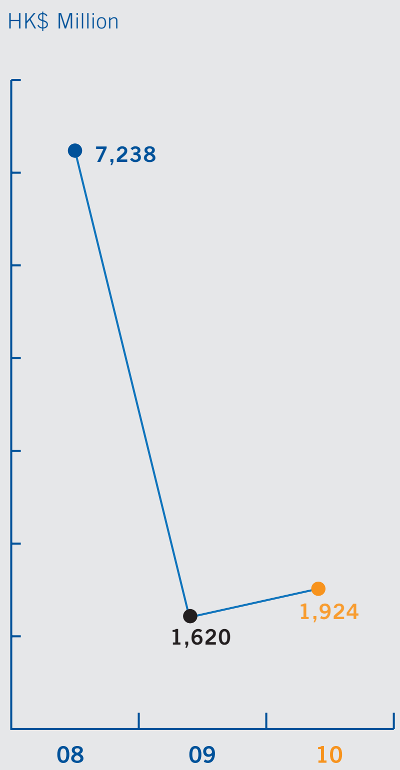
HK$ Million	2010	2009
Revenue	**2,111**	2,005
— Continuing Operations	**1,924**	1,620
— Discontinued Operation	**187**	385
Loss attributable to owners of the Company	**(581)**	(536)
— Continuing Operations	**(503)**	(430)
— Discontinued Operation	**(78)**	(106)

Business Highlights

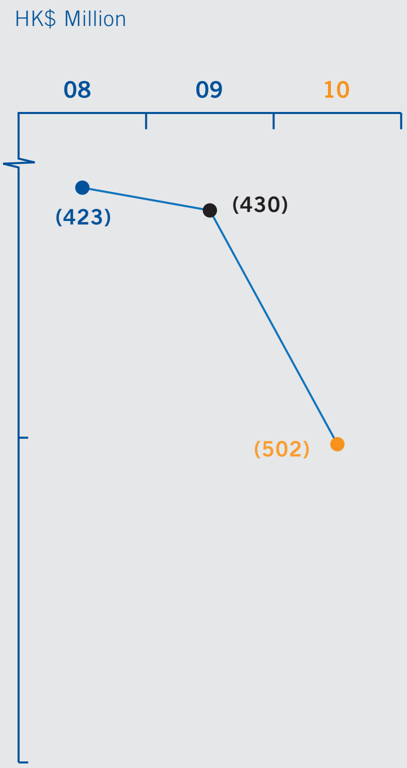
- Our core business, China Terminals, has continued growth with rises in revenues by 23% and operating earnings before interest, tax, depreciation and amortisation (EBITDA) by 44.3%
- The Group is the first and only double-hulled Floating Storage Unit (FSU) operator in Malaysian waters
- The completion of bond exchange offer reduced the Group's long term debt by approximately HK$900 million and greatly improved the Group's cashflow and long term loan profile
- Sale of the shipyard further strengthen the Group's liquidity position and will generate additional free cashflow to fund the Group's operations and capital expenditure
- Rationalisation of the Group's fleet with all double-hulled vessels for the transportation business
- Introduction of two strategic partners, Moral Base Investment Limited and Grand China Logistics Holding (Group) Company Limited

FINANCIAL HIGHLIGHTS

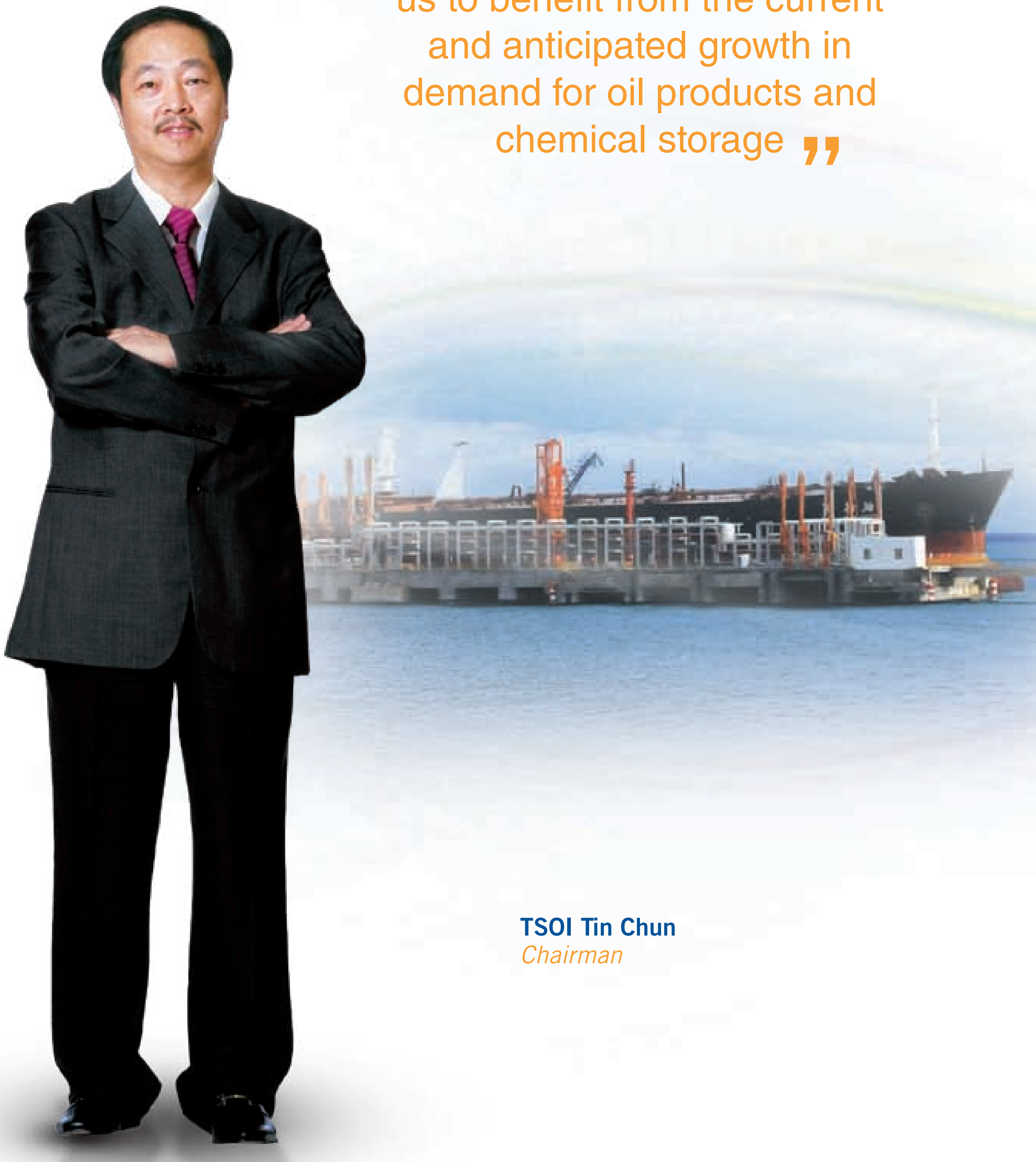
Revenue – continuing operations



Loss for the year – continuing operations



“Further increments in storage capacity and expansion of China Terminals will enable us to benefit from the current and anticipated growth in demand for oil products and chemical storage”



TSOI Tin Chun
Chairman

CHAIRMAN'S STATEMENT

In the wake of the recent financial turmoil, global markets have managed to pick up slowly but surely. Our Storage business in China has continued to perform well with expanded capacity and improved utilisation although the shipping industry remained challenging with freight rates continuing to be low.

The Group realigned its business during the year by disposing of the Titan Quanzhou Shipyard ("Shipyard") and focusing on the Storage business which has been seeing stable revenue growth. Through our program for the conversion of the single-hulled fleet into double-hulled vessels, we became the first and only double-hulled FSU operator in Malaysian waters. We also managed to successfully raise funds, bring in strategic investors with a share placement, maintain our cashflow with the bond exchange offer, and overall improve our capital structure to enable us to successfully preserve capital and to continue growth in these difficult times.

At the end of 2010, the Group operated five FSU and commercially managed four others in Singapore and Malaysia. As reported previously, in compliance with the phasing out by the International Maritime Organization of most single-hulled tankers and to service the needs of our customers, we disposed of our remaining three single-hulled FSU in the first quarter of 2010 for a combined realised value of HK$370.5 million and we have upgraded and/or replaced most of our other single-hulled FSU into/with double-hulled FSU. Although the conversion and replacement process has been costly and has caused disruption to our operations, it has reduced the Group's exposure to single-hulled FSU. With the completion of upgrading and replacement, we are now the leading service provider in Malaysian waters operating the first double-hulled FSU.

Our Storage business continues to perform well despite the stagnant global oil demand. With the 600,000 cubic meters at Yangshan Terminal Phase II having come onstream in July 2010, together with the 203,000 cubic meters at Nansha Terminal Phase III and the 339,000 cubic meters at Fujian Terminal Phase II as well as its 100,000 dwt jetty which is expected to be fully operational in mid 2011, the combined capacity of these three terminals are expected to increase to 2.367 million cubic meters this year. We believe that continued growth of the Chinese economy offers significant opportunities for our storage segments over the medium and long term.

During the year, we made several breakthroughs to strengthen the Group's liquidity position and generate additional cashflow to fund the Group's operations and capital expenditure needs.

In July 2010, we successfully completed the bond exchange offer which facilitated in reduction of the Group's long term debt by approximately HK$900 million, and also extended the maturity of the Group's long term debt which allows us to preserve cashflow.

On 13 December 2010, we announced the sale of a 95% equity interest in the Shipyard to Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics") for RMB1,866 million (approximately HK$2,175 million) and the issue of 500 million new ordinary shares of Titan at a price of HK$0.61 each to Grand China Logistics. Upon completion, with the disposal of the Shipyard and the net proceeds from the share placement, the Group will have reduced its debts significantly and provided capital for its China Terminals and future business development, i.e. allows the Group to consolidate its resources to support the growth of its existing core activities.

CHAIRMAN'S STATEMENT

Results

The Group's revenue for the year 2010 was HK$2,111 million, which is an 5.3% increase over 2009, and an 18.8% increase in revenue over continuing operations in 2009.

The Group's operations recorded losses before interest, tax, depreciation and amortisation (LBITDA) of HK$120 million, which takes into account the gains from the completion of the bond exchange offer and the losses from the disposals of vessels. This is in contrast to the EBITDA of HK$88 million in 2009.

The loss for the year was HK$580 million which reflects the fact that our core business is still in developmental stages.

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

Financial Resources

The Group's cash position stood at HK$506 million as at 31 December 2010 compared to HK$530 million twelve months ago. Cash generated for the year was mainly used for the continued investments in the construction of the China projects and repayment of loans. The Group's gearing was 0.57 at the end of 2010, compared to 0.60 at the end of 2009.

Business Review

Floating Storage Units (Offshore Storage)

At the end of 2010, the Group was operating five FSU with a total operating capacity of approximately 1.45 million tons or 1.59 million cubic meters, as compared to six FSU with approximately 1.6 million tons or 1.78 million cubic meters which operated in the same period last year. Revenue for the year was HK$514 million while results decreased to a segment LBITDA of HK$53 million due to the higher cost of chartering vessels and the disturbance of operational capacity during the year as a result of disposals and replacements. However, the timely completion of the conversion to double-hulled vessels will allow us to leverage the upside opportunities that may arise in the future.

Consistent with its goal to be a leading service provider, Titan has led other competitors and became the first and only operator to offer double-hulled FSU in Malaysian waters. In addition, two more FSU have received approval from Platts as its physical delivery point for fuel oil in Singapore. Now, with a total of four designated physical delivery points, it features Titan's quality service in the sector and highlights its leadership position in the market.

China Terminals (Onshore Storage)

The strategic locations, planned expansion and development of our three onshore storage terminals enable us to benefit from the current and anticipated growth in demand for storage and related services in China's oil and petrochemicals markets. Our storage facilities are well positioned to serve as key logistics points in China's expanding oil and petrochemicals supply chain.

CHAIRMAN'S STATEMENT

Our onshore Storage business continued to gain momentum in 2010 with revenues from the China Terminals increasing 23% to HK$200 million compared to HK$162 million in 2009. Segment EBITDA correspondingly rose by 44.3% from HK$108 million to HK$156 million. The steady growth was mainly attributed to higher utilisation rates and increased capacity at our storage facilities in China, and also to the success of securing long-term leases from a diversified group of customers.

Although the annual utilisation rate of the Nansha Terminal Phases I & II fuel oil storage facility stood at 73%, a slight drop compared to 78% in the previous year, the monthly utilisation rate has rebounded to 97% as of the end of December 2010. In December 2010, we received approval from Shanghai Futures Exchange for an additional 50,000 cubic meters capacity in Nansha Terminal for its designated physical delivery storage capacity and, hence, the total designated physical delivery storage capacity is now 250,000 cubic meters, making Nansha Terminal the largest physical delivery storage facility for the settlement of the Exchanges' fuel oil futures contracts.

The 125,300 cubic meter chemical storage facility in Nansha achieved an average utilisation rate of 80% in 2010 since its commencement of operation in June 2009.

The overall utilisation rate, based on the total 715,300 cubic meters combined capacity of Phases I and II on an annualised average, is 74%, i.e. has been held at the same level as last year. Phase III with 203,000 cubic meters storage at our Nansha Terminal opened for trial operations in February this year.

At the Fujian Terminal, the annualised utilisation based on 90,000 cubic meters of Phase I chemical storage capacity, rose from 67% to 89% during 2010 as compared to the previous year. The average monthly utilisation rate marked a notable record of 100% in the second quarter of 2010. The Phase II 339,000 cubic meter product oil and fuel oil storage tank and the 100,000 dwt jetty are expected to commence operations in the middle of this year.

The total storage capacity of Shanghai Yangshan Terminal surged by 143% driven by the additional 600,000 cubic meters at its Phase II facility which started operations in July 2010 and raised the terminal's total oil storage capacity to 1,020,000 cubic meters. Although this is only the second year since its full operation, the monthly average utilisation rate improved from 73% to 97% during the year, a remarkable achievement in such a short period of operation.

Transportation and Supply/Distribution

The Transportation business recorded a loss in 2010 and revenues decreased by 30.7% to HK$178 million, compared to HK$258 million in 2009, with segment LBITDA having HK$114 million for the year. This was mainly due to the disruption of operations and the costs incurred during the process of the fleet upgrade including, but not limited to, the chartering costs, and also the poor freight market which continued to be challenging for the year.

CHAIRMAN'S STATEMENT

In order to reduce its risk exposure as owners, Titan sold all its owned tankers and chartered in a VLCC, an Aframax and tankers thereby increasing the total fleet capacity from 57,119 dwt to 481,474 dwt as of the end of 2010. The additional tonnage now allows the Group to offer chemical as well as crude oil transportation services, which were not available in the past few years to our customers.

Revenues in our supply/distribution business rose by 49.5% to HK$1,032 million and reported segment EBITDA increased by 10.5% from HK$24 million to HK$26 million.

Shipyard

Although the Group has sold the Shipyard to Grand China Logistics in December 2010, Titan will continue to manage the business operations of the Shipyard for another two years in accordance with the original business plan. The repair business is well supported by the two partners – Grand China Logistics and Kawasaki Kisen Kaisha ("K Line") of Japan – in addition to strong interest indicated by major ship-owners. K Line is one of the world's largest ship-owners and has appointed the Shipyard as its primary ship repair provider in China. We believe that, with a quality management team, strong support from partners and its good geographical location, the Shipyard will continue to develop and grow.

We expect ship repair facility to be operational in the first half of 2011. A strong quality assurance system has been put in place and seasoned international management team in preparation for the launch of ship repair businesses. We are confident that the financial performance of the Shipyard, hence by, supporting continued operations and sustainable growth.

Following the above disposal, the Group will focus on developing its core Storage business with better allocation of its resources. We believe that the continued growth of the Chinese economy offers significant opportunities for our Storage business. In addition, our strategic collaboration with Grand China Logistics is in line with the Group's strategy to become the largest independent petrochemical storage operator in China as well as a first-class integrated petrochemical logistics service provider in the world. We are confident that we will be able to build on our strengths to grow in the Chinese and overseas markets and, thereby, bring in new profitable ventures to provide a solid platform for Titan's future growth.

Outlook

We saw a marked improvement in the storage segment of our businesses in the second half of 2010, reflecting that the global economic environment is gradually recovering. While the Storage business remains the key of driving profitability, the Group will continue to have a flexible strategy in the recovery program ahead. Nevertheless, certain adverse factors such as freight rate fluctuations and excess shipping capacity may protract the difficult conditions in the shipping industry over the coming year.

The construction work on the China Terminals continues to proceed with more capacity rolling out this year. For Fujian Terminal, the 100,000 dwt jetty will be completed in 2011 and is expected to be operational by the middle of this year. Meanwhile, its 339,000 cubic meter Phase II oil storage facility is scheduled to commence operations in the middle of this year as well.

The Shanghai Yangshan Terminal is progressing well and we expect further capacity expansion for the oil storage facilities in 2011. Hence, Titan's combined storage capacity of 1.825 million cubic meters will be increased to 2.367 million cubic meters by the end of 2011. We will step up the Group's efforts to extend our reach into international customers for our terminals while still pursuing higher utilisation and more term leases.

Titan currently is the leading services provider with nine VLCCs for FSU operations or commercial management and will continue with the program of double-hulled FSU conversions. We will continue to work with customers who have a preferential demand for double-hulled FSU and attract term leases by offering flexible and tailored storage solutions in addition to competitive rates.

Shipyard is a well located, high quality and first-class infrastructure. Together with Titan's expertise in ship repair and ship building, we are confident that the Shipyard business will run smoothly and become a forefront in the industry upon full completion. Construction work is progressing and the early phases of ship repair facilities are expected to commence operations early this year.

Summary

With the successful completion of the bond exchange offer and the sale of the Shipyard coupled with the share placement, the Group has been able to reduce its debt position while consolidating resources to pursue expansion of the China Terminals. Further increments in storage capacity and expansion of China Terminals will enable us to benefit from the current and anticipated growth in demand for oil products and chemical storage and related services in China. We believe such stable business will have significant prospects in the near future.

Apart from the cooperation in the Shipyard business, there are several complementary businesses we can work together with our strategic partner, Grand China Logistics. By sharing our business platform, resources and strengths in China and in international markets, it will be mutually beneficial to both parties to further expand our collaboration, which in turn, can build a solid foundation for Titan's future growth.

To continue to ride out the bumpy economy recovery, the Group will maintain a prudent approach to manage our key business assets and strengthen our core business. While gearing up for sustained growth, we will also continue to seek opportunities to create new synergies and bring optimum returns to all shareholders.

Tsoi Tin Chun
Chairman & Chief Executive

Hong Kong, 24 March 2011

DIRECTORS

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

Mr. Tsoi, aged 48, 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 providing management services for a multi-functional ship-repair and shipbuilding yard, which is one of the largest in Asia.

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. Currently, nearly 1,000 full-time students are studying in the institute, 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.

DIRECTORS

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

Mr. Wong, aged 55, 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 the Company'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 Company from 2002 to 2005. Prior to joining the Company as President, Mr. Wong 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. 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 68, 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 Entertainment Gaming Asia Inc., a company listed on the America Stock Exchange.

DIRECTORS

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

Ms. Tam, aged 65, has been 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. 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 65, 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, a vice chairman of Independent Police Complaints Council and a Court member of the Hong Kong University of Science and Technology and the University of Hong Kong. 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, SJM Holdings Limited, Kosmopolito Hotels International Limited and China Resources Cement 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, vice chairman, independent non-executive director and audit committee member of ITC Properties Group 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.

SENIOR MANAGEMENT

Mr. Allen TU Chung To

Chief Financial Officer

Mr. Tu, aged 49, has over 20 years experience in the finance, accounting and auditing fields. He has been acting 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 on 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. TAN Mong Seng

Senior Consultant, Shipyard

Mr. Tan, aged 59, 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, 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. WANG Wei

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

Mr. Wang Wei, aged 46, has served as Head of the Singapore office since October 2009 and has been General Manager of 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.

Mr. Jeremy TAN Kok Liann

Head, Human Resources

Mr. Tan, aged 36, 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's Degree of Accountancy from Nanyang Technological University (NTU). He is also a non-practising Certified Public Accountant (CPA) in Singapore.

SENIOR MANAGEMENT

Mr. LIU Hui Jun

Deputy Managing Director – Guangdong, Guangzhou Nansha Petrochemicals Development

Mr. Liu, aged 54, joined the Group in February 2007 and is 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 the 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. LI Jun

Vice President of Operations – China Terminals

Mr. Li, aged 50, joined the Group in July 2006 and is responsible for the daily business operations of China Terminals. He has worked in the oil terminal industry for over 31 years, with extensive experience in operations management. Before joining Titan, he served as Production Officer at Dalian Western Pacific Petrochemicals Co. Ltd. for 10 years. Prior to this, he was Production Officer at Dalian Petrochemicals Co., a subsidiary of China National Petroleum Corporation (CNPC), from 1981 to 1996. Mr. Li is a graduate of the Dalian Petrochemical Workers' University.

Mr. Fred SHI Fang Ming

Chief Financial Officer – China Terminals

Mr. Shi, aged 40, joined Titan in April 2007 as Senior Finance Manager – PRC Tax. He was appointed as Chief Financial Officer of China Terminals in September 2010 and is responsible for accounting and finance management of China Terminals. Before joining Titan, he was Taxation Manager at CNOOC and Shell Petrochemicals Co. Ltd. for four years. Prior to this, he served as Finance and Accounts Manager at BP Zhuhai Chemical Co. Ltd. from 1997 to 2003, and Finance Supervisor at Zhuhai Fuhua Group from 1995 to 1997. Mr. Shi is the member of Chinese Institute of Certified Public Accountants (CICPA). He graduated from Tsinghua University with a Bachelor degree in English and also holds a Bachelor's degree in Financial Accounting from Changsha Communications University.

Mr. LI Xi Xin

Finance Director, Fujian – Fujian Titan Petrochemical Storage Development

Mr. Li, aged 46, has been Finance Director of Titan Quanzhou Shipyard since April 2008 and has recently been appointed Finance Director of Fujian Titan Petrochemical Storage Development in 2011. He has more than 20 years working experience in shipyard operations and finance. Previous positions held by Mr. Li 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.

SENIOR MANAGEMENT

Mr. Saad TAYYAB

Head, Shipping

Mr. Saad, aged 51, 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 a pioneer in establishing and providing training to shore-based establishments like Vopak terminals in Singapore and other leading brands in the oil and chemical industries. He 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 status from Australia, and is currently doing his MBA.

Mr. ZHANG Hai Quan

General Manager, Shipyard

Mr. Zhang, aged 41, is responsible for the shipbuilding operations and business at Titan Quanzhou Shipyard, since his appointment as General Manager of Shipyard 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 controls. Prior to joining 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 – Floating Production Storage and Offloading (FPSO). Mr. Zhang graduated with a Bachelor's degree in Shipbuilding Engineering from Dalian University of Technology in 1991.

Mr. Lawrence LUI

Head, Internal Audit

Mr. Lui, aged 36, has been responsible for the Group's internal control improvements and special finance projects since his appointment as Senior Manager, Internal Controls in March 2010. He has since been redesignated as Head of the Internal Audit upon the establishment of Internal Audit Department. He has over 14 years of experience in auditing and commercial accounting across Hong Kong, China and the U.S. Prior to joining Titan, he headed the internal audit function at Eton Group, where he covered various locations in China spanning multi-industrial businesses including hotels, properties, finance and banking, manufacturing and airlines. He also worked at KPMG from 2000 to 2004 and led audits for listed companies including infrastructure, property and energy companies. Mr. Lui is a full member of the American Institute of Certified Public Accountants, a member of Hong Kong Institute of Certified Public Accountants and a Certified Internal Auditor. He was also appointed as Advisor at International Financial Management Association. Mr. Lui graduated from University of Hawaii at Manoa, USA with a Bachelor's Degree in Business Administration, double majoring in Accounting and Finance.

EVENTS OF THE YEAR

January

Two more FSU are designated by PLATTS as its physical delivery point for fuel oil in Singapore, namely *Ticen Sun* and *Titan Gemini*, which brings to a total of four FSU for the Group as PLATTS physical delivery terminals.

March

Sells the remaining three owned VLCC *Titan Mercury*, *Titan Chios* and *Titan Scorpio* for HK$370.5 million.

April

Fujian terminal's utilisation rate marks 99.3%, which means all the storage tanks are fully utilised. In addition, more than 75% of the utilisation comes from long term contracts.

July

Bond exchange offer completes successfully and Titan issues US$78.7 million in convertible notes, and US$14.2 million in payment in kind notes, both due in 2015, together with a cash payment of US$43.2 million.

August

Titan becomes the first FSU operator to offer double-hulled FSU in Malaysia with Titan Venus commences operation.

September

Charter-in four 9,000 dwt chemical tankers to capture the rise in demand for chemical storage.

EVENTS OF THE YEAR

December

Titan Quanzhou Shipyard is sold to Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics") for RMB1,866 million, however, Titan continues to manage the business operations. Following the sale of shipyard, the Group focuses the core storage business.

December

Grand China Logistics, a member of the Hainan Air Group, subscribes for 500 million Titan's new ordinary shares at a price of HK$0.61 each.

December

Titan Quanzhou Maritime Institute successfully passes the on-site inspection by Maritime Safety Administration of PRC and achieves the permission and certificate for seafarers' training.

December

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 250,000 m^3, making it the largest physical delivery storage facility for the settlement of its fuel oil futures contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

Titan has made a significant stride in restructuring the Group's core business by focusing on its Floating Storage and China Terminals businesses, while maintaining its Transportation and Distribution businesses and disposing of its shipyard.

Floating Storage Units (Offshore Storage)

The Group's Floating Storage Unit (FSU) operations provide oil storage, transit, blending and physical delivery services at Pasir Gudang and Tanjung Pelapas Anchorage in Malaysia. Titan is the first and sole FSU operator to offer double-hulled FSU in Malaysia. Strategically located at the juncture of Singapore and Malaysia, our FSU serves a range of international clients and vessels trading along the major shipping route between the Indian Ocean and the Pacific Ocean.

FSU List (as at 31 March 2011)
Titan's FSU

	Ship Name	DWT (mt)
1	TICEN OCEAN	284,497
2	TITAN ARIES (Ex - EDINBURGH)	302,493
3	TITAN VENUS (Ex - CAMDEN)	298,306
4	TITAN ORION	284,480
5	MAYFAIR	298,405
	Total dwt (mt)	**1,468,181**

FSU managed by Titan

	Ship Name	DWT (mt)
1	TITAN NEPTUNE	265,243
2	TITAN CHIOS	239,783
3	TITAN SCORPIO	265,551
4	TITAN GEMINI	261,068
	Total dwt (mt)	**1,031,645**

The Group's FSU operations had gone through a year of major renewal program. We had disposed of the remaining three owned VLCCs and chartered-in double-hulled vessels. The number of FSU in operation has decreased from six units at the beginning of 2010 to five units as of end of 2010. This caused the total FSU capacity to drop from 1.78 million cubic meters in 2009 to 1.59 million cubic meters in 2010.

As the plan of converting our fleet into double-hulled carried on, operations were disrupted during the conversion and replacement process, thus resulting in a temporary reduction in the capacity in the middle of the year. In addition, the strong competition, international oil market conditions and preferential demand for double-hulled vessels posed a negative impact on this segment, which led to a decline of the average utilisation over the year from 92% to 76%. Segment LBITDA was HK$53 million, down from segment EBITDA HK$192 million in 2009.

With the Group's first double-hulled vessel, Titan Venus, commenced operation in August 2010, Titan became the first and only FSU operator to offer double-hulled FSU in Malaysia. In addition, two more FSU were approved as Platts's designated delivery point, resulting in a total of four FSU being included into Platts Singapore Fuel Oil Assessments. Furthermore, Titan has entered into a long term storage agreement with ConocoPhillips, an international oil major. This shows that Titan is strongly recognised and affirmed by the international shipping industry and the oil trading community.

We will consider increasing its capacity by chartering additional VLCCs when suitable opportunity arises.

China Terminals (Onshore Storage)

Located at strategic locations in China, the three China terminals of Titan are undergoing dynamic growth and expansion. Phases I and II of Titan Nansha Petrochemical Terminal, Phase I of Titan Fujian Petrochemical Terminal and Phases I & II of Yangshan Terminal are currently in operation. Together, they provide a combined storage capacity of 1,825,300 cubic meters, of which 1,610,000 cubic meters are oil storage and 215,300 cubic meters are chemical storage.

China Terminals Project Table

	Nansha, Guangdong	Quanzhou, Fujian	Yangshan, Shanghai
Existing Terminals and Facilities (as of 2011)			
Total Capacity	918,300 m^3	429,000 m^3	1,020,000 m^3
Phase I	410,000 m^3	90,000 m^3	420,000 m^3
Phase II	305,300 m^3	339,000 m^3 (mid 2011)	600,000 m^3
Phase III	203,000 m^3	–	–
Number Of Berths	11	3	5
Current Maximum Berth Capacity	120,000 dwt	13,000 dwt (current) 100,000 dwt (mid 2011)	120,000 dwt
Products	Fuel Oil, Chemicals, Petroleum Products	Crude Oil, Fuel Oil, Chemicals, Petroleum Products	Fuel Oil, Chemicals, Petroleum Products
Future Developments			
Total Planned Capacity	1,800,000 m^3	1,599,000 m^3	2,370,000 m^3
Number Of Berths To Be Built	10	5	11
Planned Maximum Berth Capacity	120,000 dwt	300,000 dwt	300,000 dwt

MANAGEMENT DISCUSSION AND ANALYSIS

Underpinned by the strong demand for onshore storage, our onshore business continues to perform well. Revenues from Titan's China Terminals boosted from HK$162 million to HK$200 million and segment EBITDA has risen from HK$108 million to HK$156 million for the year.

As we reported six months ago, the 590,000 cubic meter fuel oil storage utilisation slumped in the first half of 2010. However, business picked up strongly during the second half. Therefore, this results in a slight drop of the average utilisation rate from 78% in 2009 to 73% for the past twelve-month period.

For the 125,300 cubic meter chemical storage facility of Nansha Terminal, the average utilisation soared from 31% in 2009 to 80% in 2010.

Phase III of Nansha Terminal, capable of handling 203,000 cubic meter refined oil, was completed by end of 2010. The average annual utilisation rate in 2010 for the combined Phases I and II capacity at Nansha Terminal maintained as in 2009 at 74%. The operations of Nansha Terminal are not only efficient but also safe, and this makes us stand out among the competitors. The terminal achieved safety milestone of 1,535 days without any incidents in its operations.

During the year, with Shanghai Futures Exchange's approval for an additional 50,000 cubic meters capacity, the designated physical delivery storage facility in Nansha Terminal had increased to 250,000 cubic meters. In the beginning of 2011, the total capacity further rose to 300,000 cubic meters. Nansha Terminal is now the largest physical delivery storage facility for the settlement of its fuel oil futures contracts. This is the third time for Shanghai Futures Exchange to lift the capacity. It reflects on the high quality standard of Titan's assets and our ability to provide satisfactory services to meet the needs of the Exchange and the trading community.

MANAGEMENT DISCUSSION AND ANALYSIS

On the other hand, the utilisation of chemical storage facility in Fujian grew significantly during the year. The average annual utilisation of the chemical storage facility was increased to 89% in 2010 compared to 67% in 2009. The average monthly utilisation rate also marked a notable record of 100% in the second quarter of 2010.

The total storage capacity of Shanghai Yangshan Petrochemical Terminal nearly tripled due to the additional 600,000 cubic meters of its Phase II which commenced operation in July 2010. The

additional capacity was all taken up even when they were not fully completed. The utilisation rate rose to 97%, compared to 73% for 2009. Amongst the total capacity of 1,020,000 cubic meters, 100,000 cubic meters had been approved as physical delivery facility of Shanghai Futures Exchange for settlement of the Exchange's fuel oil futures contracts.

While the construction of China Terminals progressed, the 100,000 dwt jetty and the Phase II 339,000 cubic meter product oil and fuel oil storage tanks at Fujian facility are expected to be in operation in the second half of 2011. We believe that our onshore storage will generate stable income as storage demand is expected to rise continuously due to the growth of the Chinese economy.

Transportation and Supply/ Distribution

The transportation market remained soft, characterised by bunker price variance, fluctuated freight rate and inclination to double-hulled tankers. We continued our plan to convert the entire fleet into double-hulled by disposing of the single-hulled vessels.

At the end of 2010, our transportation fleet was comprised of six double-hulled product tankers, four chemical tankers, one VLCC and one Aframax tanker, as compared to the eight single-hulled coastal tankers in 2009. Providing a combined capacity 481,474 dwt, Titan's renewed fleet will be able to offer services in different segments within the transportation market, delivering competitive and quality transportation solution to our valued customers with double-hulled vessels.

During the year, our transportation business was interrupted when upgrading program took place. The revenue for transportation segment decreased by 30.7% to HK$178 million, compared to HK$258 million the year before, while the operations made a segment LBITDA at HK$114 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues for the distribution business, climbed 49.5% to HK$1,032 million compared to the previous year. Segment EBITDA was HK$26 million as compared to a segment EBITDA of HK$24 million for 2009.

The Group's bunkering operations were further scaled down with only Singapore offering refueling services to our own fleet.

Shipyard

The Group had been operating and developing Titan Quanzhou Shipyard since 2007. Recently, Titan decided to sell this business to Grand China Logistics and will only provide management services in order to streamline the Group's business. Under the sale agreement signed on 13 December 2010, Titan will continue to manage the business operations of the Shipyard till 31 December 2012. With the good qualities of the shipyard allied with Titan's expertise, this multifunctional facility will be one of the largest ship repair, offshore engineering and specialised building yards in Asia when fully constructed.

In addition to our partnership with one of the world's largest ship-owners, Kawasaki Kisen Kaisha ("K Line") of Japan, which appointed Shipyard as its China's primary ship repair partner in 2008, a sheer volume of ship repair business will be provided in the future. The Shipyard is well positioned to support the demand for ship repair services and has already hold strong attraction for the major ship-owners.

Titan Quanzhou Shipyard had delivered four 9,000 dwt chemical tankers since early 2010. Another two 7,000 dwt bunker/ transportation dual purpose tankers are currently under construction and expected to be delivered later in this year. As of the end of 2010, a total of 14 vessels had been delivered. All vessels have been certified by Lloyd's List.

As the construction of the ship repair facility progresses, we expect the earlier phase consisting of two larger dry docks and up to 1,000 meters of repair berths to begin operations during the first half of this year. The remaining two dry docks will be completed in 2012.

FINANCIAL REVIEW

Financial Results

The Group's total turnover for the year increased by 5.3% to HK$2,111 million with continued focus on storage business as part of the Group's strategy. The Group's revenue from continuing operations were up 18.8% to HK$1,924 million. The revenue from discontinued operation, shipbuilding dropped 51.4% to HK$187 million. The loss before tax from continuing operations was HK$508 million compared to HK$429 million in the previous year. The Group's continuing operations recorded loss before interest expenses, tax, depreciation and amortisation (LBITDA) of HK$90 million while in 2009 was earnings before interest expenses, tax, depreciation and amortisation (EBITDA) of HK$147 million. This included an exceptional net loss from the disposal of vessels of HK$447 million (2009: HK$138 million) and gains on restructuring/repurchases of fixed rate guaranteed senior notes amounted to HK$476 million (2009: HK$91 million). Finance costs for the Group reflected a decrease from HK$383 million to HK$285 million as a result of restructuring of fixed rate guaranteed senior notes. With the inclusion of the discontinued operation, the loss before tax for the year increased to HK$586 million. The loss for the year attributable to owners of the Company increased from HK$536 million to HK$581 million this year.

Offshore Oil Storage

The offshore oil storage business recorded a turnover of HK$514 million in 2010, as compared to HK$510 million for 2009. Due to higher cost of charter-in vessels and the disturbance of operational capacity resulted from disposal and replacement during the year, the segment EBITDA decreased from HK$192 million to LBITDA of HK$53 million in 2010. The offshore oil storage business accounted for 24.4% of Group's revenue in 2010.

Onshore Oil and Chemical Storage

The onshore oil and chemical storage business recorded a turnover of HK$200 million in 2010, as compared to HK$162 million for 2009. The EBITDA of this segment increased by 44.3% to HK$156 million as compared to HK$108 million for the prior year as a result of higher utilisation rates and an increase in storage capacity. The onshore oil and chemical storage business accounted for 9.4% of Group's revenue in 2010.

Transportation

This business turnover dropped to HK$178 million in 2010 from HK$258 million recorded in 2009. Due to the vessels being off hire and the costs incurred during the conversion of tankers to double-hulled, and the adverse market conditions in freight market, the segment LBITDA from the oil transportation business increased from HK$46 million to HK$114 million. The transportation business accounted for 8.5% of Group's revenue in 2010.

Supply and Distribution

This business turnover increased by 49.5% to HK$1,032 million from HK$690 million in 2009 while the segment EBITDA increased by 10.5% to HK$26 million as compared to HK$24 million in 2009. The business accounted for 48.8% of Group's revenue in 2010.

Shipbuilding

The contribution of the discontinued operation, shipbuilding to the Group's turnover decreased by 51.4% to HK$187 million as compared to HK$385 million in 2009 and the segment LBITDA was HK$31 million in 2010 while in 2009 was HK$59 million. The business accounted for 8.9% of Group's revenue in 2010.

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 2010,

a) The Group had:

- Cash and bank balances of HK$182 million (2009: HK$358 million), pledged deposits and restricted cash of HK$244 million (2009: HK$172 million) from continuing operations. These were comprised of:
  - — an equivalent of HK$41 million (2009: HK$98 million) denominated in US dollars
  - — an equivalent of HK$2 million (2009: HK$4 million) denominated in Singapore dollars
  - — an equivalent of HK$380 million (2009: HK$422 million) denominated in RMB
  - — HK$3 million (2009: HK$6 million) in Hong Kong dollars
- Interest-bearing bank loans of HK$2,308 million (2009: HK$2,963 million), of which HK$18 million (2009: HK$72 million) were floating rate loans denominated in US dollars. HK$801 million of the Group's bank loans at 31 December 2010 have maturities within one year.

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

- Vessels with an aggregate net carrying value of HK$612 million in 2009 but such security was released in 2010
- Construction in progress with an aggregate carrying value of HK$716 million (2009: HK$478 million)
- Bank balances and deposits of HK$135 million (2009: HK$82 million)
- Machinery with an aggregate net carrying value of HK$194 million (2009: HK$209 million)
- Buildings with an aggregate net carrying value of HK$443 million (2009: HK$58 million)
- Prepaid land/seabed lease payments with an aggregate net carrying value of HK$945 million (2009: HK$906 million)
- Storage facilities with an aggregate net carrying value of HK$1,384 million (2009: HK$1,059 million)
- Contracts in progress with an aggregate carrying value of HK145 million in 2009 but such security was released in 2010

- Accounts receivables with an aggregate carrying value of HK$56 million (2009: Nil)
- Corporate guarantees executed by the Company
- Personal guarantees executed by a related party and a director of the Company

c) The Senior Notes Due 2012 of HK$840 million (2009: HK$2,491 million), the Convertible Notes Due 2015 of HK$409 million (2009: Nil) and the PIK Notes Due 2015 of HK$84 million (2009: Nil) were secured by the shares of certain subsidiaries.

d) The Group had:

- Current assets of HK$5,318 million (2009: HK$2,044 million) and total assets of HK$9,517 million (2009: HK$9,446 million)
- Total bank loans of HK$2,308 million (2009: HK$2,963 million)
- Senior Notes Due 2012 of HK$840 million (2009: HK$2,491 million)
- Convertible Notes Due 2015 as a non-current liability to the extent of the liability portion of HK$285 million issued during the year
- PIK Notes Due 2015 of HK$84 million issued during the year
- Convertible preferred shares as a non-current liability to the extent of the liability portion of HK$719 million (2009: HK$645 million)
- K Line Notes Due 2013 as a current liability to the extent of the liability portion of HK$210 million (2009: a non-current liability of HK$204 million)
- TGIL Notes Due 2014 as a non-current liability to the extent of the liability portion of HK$83 million (2009: HK$68 million)

The Group's current ratio was 1.30 (2009: 0.73). The gearing of the Group, calculated as the total bank loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K Line Notes Due 2013 and TGIL Notes Due 2014 to total assets, has decreased to 0.57 (2009: 0.60).

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.

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") during the year ended 31 December 2010, except for deviations set out below.

As required under code provision A.2.1 of the CG Code, 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 24 June 2010. 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 summarized below.

The Board

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

As at 31 December 2010, 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 results. Although the role of Chairman and Chief Executive are performed by the same person, the 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.

CORPORATE GOVERNANCE REPORT

Notice of at least 14 days is served for regular Board meetings. During 2010, eight full Board meetings were held at which the individual attendance records of the directors were as follows:

	Attended/Eligible to Attend
Executive directors	
Mr. Tsoi Tin Chun (Chairman)	1/7
Mr. Patrick Wong Siu Hung	8/8
Independent non-executive directors	
Mr. John William Crawford	8/8
Ms. Maria Tam Wai Chu	8/8
Mr. Abraham Shek Lai Him	8/8

Nomination of Directors

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

Directors' Responsibility for Preparing Financial Statements

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

The statement of the auditors with respect to their reporting responsibilities on the financial statements of the Group is set out in the independent auditors' report on pages 43 to 44 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, three Audit Committee meetings were held and the individual attendance records were as follows:

	Attendance
Mr. John William Crawford – Chairman	3/3
Ms. Maria Tam Wai Chu	3/3
Mr. Abraham Shek Lai Him	3/3

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 2010, the audit fees paid/payable to E&Y amounted to approximately HK$4,000,000 and the fees paid/payable to them for non-audit services amounted to approximately HK$1,949,000 which was comprised of taxation services fees of HK$577,000 and other professional fees in relation to interim results review and other special/one-off corporate reporting exercises of HK$1,372,000.

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 3-year internal audit program through an independent consultant approved by the Audit Committee. Moreover, an in-house team was set up to carry out in-house fieldwork review to follow up the external consultant's findings, recommendations and improvement implementation on various audit areas.

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;

CORPORATE GOVERNANCE REPORT

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

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

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

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

- 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. Following the completion of audit reviews on the shipyard operations, the oil storage business units in Nansha and Fujian and the floating storage units in Malaysia in 2009, the external consultant carried out follow-up reviews on the abovementioned areas as well as audit reviews on IT implementation, finance and human resource functions - all were completed in 2010.

- During the year, the Audit Committee, management, in-house internal control team together with the external consultant discussed and reviewed the internal audit reports on findings, recommendations and management responses on the audit reviews covering the audit areas. The internal audit reports highlighted some control issues which provided useful recommendations and guidelines to management and in-house internal control team to implement improvements and to ensure optimum controls, policies and procedures are in place in future. Management recognized 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.

- During the year, an in-house internal control team was established to carry out in-house fieldwork review to follow up the external consultant's findings, recommendations and improvement implementation on audit areas. The team reported the implementation status and other improvement plans on each of the abovementioned audit areas to the Audit Committee, management and the external consultant. Moreover, the team assisted management to streamline the delegation of authority process and update its respective policies and procedures.

- With the completion of 3-year program performed by external consultant, the Company has set up its own internal audit department in 2011 to perform the Group's ongoing internal audit functions in future.

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, staff qualifications and experience, training programmes and budget of the Company's 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 2010 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.

CORPORATE GOVERNANCE REPORT

During 2010, 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 2011.

Details of the emoluments of each director of the Company for the year ended 31 December 2010 are set out on pages 92 to 93 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 ("Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct regarding director securities transactions and has set up relevant procedures to ensure compliance. Having made specific enquiries of the directors, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year. Furthermore, the Company also adopted corporate guidelines for securities transactions to regulate employee conduct on securities dealings.

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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. Except for the discontinuance of shipbuilding and the building of the ship repair facilities operations, 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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 150.

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 non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 151. 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 notes 37, 38 and 33 to the financial statements, respectively.

GUARANTEED SENIOR NOTES DUE 2015

On 28 July 2010 (27 July 2010, New York City Time), the Company issued (i) guaranteed senior convertible notes due 2015 ("Convertible Notes Due 2015") for an aggregate principal amount of US$78,728,000 (approximately HK$614,078,000) and (ii) guaranteed senior payment-in-kind notes due 2015 ("PIK Notes Due 2015") for an aggregate principal amount of US$14,193,000 (approximately HK$110,705,000) as part of the consideration in exchange for a certain number of 8.5% guaranteed senior notes due 2012 ("Senior Notes Due 2012") tendered pursuant to the Company's final exchange offer made on 9 June 2010 (8 June 2010, New York City Time). The Convertible Notes Due 2015 and PIK Notes Due 2015 will mature on 13 July 2015.

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.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2010, the Company purchased a number of its Convertible Notes Due 2015 and PIK Notes Due 2015 (the "Notes") in an aggregate principal amount of US$10,097,000 (approximately HK$78,757,000) and US$3,539,500 (approximately HK$27,608,000), respectively. The Notes are listed on the Singapore Stock Exchange and further details are set out in notes 31 and 32 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 39 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2010, 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$2,437,224,000 as at 31 December 2010 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 35% of total sales for the year and sales to the largest customer included therein amounted to 9%.

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

DIRECTORS

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

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

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

In accordance with the Company's bye-laws, Mr. Tsoi Tin Chun and Mr. Abraham Shek Lai Him will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The non-executive directors (including the 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.

REPORT OF THE DIRECTORS

The Company has received from each of the independent non-executive directors 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 15 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

Continuing Connected Transaction

On 1 September 2010, Sino Venus Pte. Ltd ("Sino Venus", a wholly-owned subsidiary of the Company), entered into 5 charter agreements (the "Charter Agreements") with Oceanic Shipping Pte. Ltd. ("Oceanic Shipping", a company wholly-owned by Mr. Tsoi Tin Chun (Chairman and director of the Company), a connected person of the Company under the Listing Rules), under which, Sino Venus chartered 5 vessels for a term of three years commencing from 1 September 2010 to 31 August 2013. The total charter fees payable by Sino Venus are subject to annual caps of US$4,089,440, US$12,268,320, US$12,268,320 and US$8,178,880 for the years 2010, 2011, 2012 and 2013, respectively. Details of the transaction were disclosed in the Company's announcement dated 1 September 2010. During the year ended 31 December 2010, US$4,089,000 (approximately HK$31,894,000) was paid by Sino Venus to Oceanic Shipping.

The aforesaid continuing connected transaction has been reviewed by the independent non-executive directors of the Company who have confirmed that the transaction had been entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent auditors of the Company were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors of the Company issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Securities and Futures Commission.

Significant related party transactions entered by the Group during the year ended 31 December 2010 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 2010, 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** (Note 4)
Mr. Tsoi Tin Chun	Interest of controlled corporations/ Interest of spouse	3,733,557,083 (Note 1)	48.07

Options outstanding under the share option scheme of the Company:

Name of director	**Capacity**	**Number of underlying shares (options granted)**	**Approximate % of shareholding** (Note 4)
Mr. Patrick Wong Siu Hung	Beneficial owner	20,000,000 (Note 2)	0.26

Interest in an associated corporation:

Name of director	Capacity	Associated corporation	Interest in associated corporation	% interest in shareholding
Mr. Tsoi Tin Chun	Interest of corporation controlled by director	Fujian Shishi Titan Sailor Administer Co. Ltd.	US$40,000,000 (Capital contribution) (Note 3)	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 further deemed to be interested in the shares of the Company held by Titan Shipyard Investment Company Limited ("TSICL") as TSICL is beneficially and wholly-owned by Mr. Tsoi. Mr. Tsoi is a director of Titan Oil, Great Logistics and TSICL. 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 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.

Note 4: Based on 7,766,732,918 ordinary shares of the Company issued as at 31 December 2010.

Save as disclosed above, at 31 December 2010, 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 38 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

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

At 31 December 2010, 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** (Note 11)
Ms. Tsoi Yuk Yi	Interest of spouse/ Interest of a controlled corporation	3,733,557,083 (Note 5)	48.07
Titan Oil	Interest of a controlled corporation/ Beneficial owner	3,244,399,788 (Note 6)	41.77
Great Logistics	Beneficial owner	2,860,700,202 (Note 7)	36.83
Moral Base Investment Limited	Beneficial owner	1,000,000,000	12.87
Mr. Wong Chi Leung	Interest of a controlled corporation/ Interest of spouse	1,000,000,000 (Note 8)	12.87
Ms. Wong Kwok Ying	Interest of a controlled corporation/ Interest of spouse	1,000,000,000 (Note 8)	12.87
Saturn Petrochemical Holdings Limited	Beneficial owner	857,795,031	11.04
Warburg Pincus & Co.	Interest of a controlled corporation	857,795,031 (Note 9)	11.04
Warburg Pincus IX, LLC	Interest of a controlled corporation	857,795,031 (Note 9)	11.04
Warburg Pincus Partners LLC	Interest of a controlled corporation	857,795,031 (Note 9)	11.04
Warburg Pincus Private Equity IX, L.P.	Interest of a controlled corporation	857,795,031 (Note 9)	11.04
Grand China Logistics Holding (Group) Company Limited	Beneficial owner	500,000,000	6.44

REPORT OF THE DIRECTORS

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding (Note 11)
Haikou Meilan International Airport Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 10)	6.44
Hainan Development Holdings Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 10)	6.44
TSICL	Beneficial owner	395,369,018 (Note 5)	5.09

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 TSICL is beneficially and wholly-owned by Mr. Tsoi, Ms. Tsoi is deemed to be interested in the shareholding interests of TSICL in the Company. Ms. Tsoi is also deemed to be interested in the shareholding interests of Vision Jade in the Company as a result of her shareholding in Vision Jade.

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

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

Note 8: Pursuant to the SFO, each of Mr. Wong Chi Leung ("Mr. Wong") and Ms. Wong Kwok Ying ("Ms. Wong"), spouse of Mr. Wong, is deemed to be interested in shares of the Company held by Moral Base Investment Limited ("Moral Base"), which is legally and beneficially owned as to 50% by Mr. Wong and as to 50% by Ms. Wong.

Note 9: Pursuant to the SFO, as Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus IX, LLC and Warburg Pincus Private Equity IX, L.P. have 100% control over Saturn Petrochemical Holdings Limited, Warburg Pincus & Co., Warburg Pincus Partners LLC, Warburg Pincus IX, LLC and Warburg Pincus Private Equity IX, L.P. are deemed to be interested in the shareholding interest of Saturn Petrochemical Holdings Limited in the Company.

Note 10: Pursuant to the SFO, as Haikou Meilan International Airport Co., Ltd. ("Haikou Meilan") together with its fellow corporations namely Yangtze River Investment Holding Co., Ltd. and Bohai International Trust Co., Ltd. are interested in more than one-third of the equity interest in Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics"), Haikou Meilan is deemed to be interested in the shareholding interest of Grand China Logistics in the Company.

Pursuant to the SFO, as Hainan Development Holdings Co., Ltd ("Hainan Development") together with its fellow corporations namely Grand China Air Co., Ltd and Hainan Airlines Co., Ltd., which, in turn, are interested in more than one-third of the equity interest in Haikou Meilan, Hainan Development is deemed to be interested in the shareholding interest of Grand China Logistics in the Company.

Note 11: Based on 7,766,732,918 ordinary shares of the Company issued as at 31 December 2010.

Save as disclosed above, at 31 December 2010, 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.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. A detailed Corporate Governance Report is set out on pages 28 to 34 of the Annual Report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$360,000.

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 2010 and discussed the same with the external auditors and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and other reporting requirements, and that adequate disclosures have been made.

AUDITORS

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

ON BEHALF OF THE BOARD

Tsoi Tin Chun
Chairman and Chief Executive

Hong Kong
24 March 2011

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 consolidated financial statements of Titan Petrochemicals Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 45 to 150, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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$580,388,000 during the year ended 31 December 2010. This condition, along with the timeliness of settlement of the balance of the consideration to be received upon completion of the disposal of 95% equity interest in Titan Quanzhou Shipyard Co. Ltd, 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

24 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CONTINUING OPERATIONS			
Revenue	6	**1,924,169**	1,619,815
Cost of sales		**(1,987,032)**	(1,446,762)
Gross profit/(loss)		**(62,863)**	173,053
Other revenue		**18,776**	48,546
Gains on restructuring/repurchases of fixed rate guaranteed senior notes	30	**476,495**	90,522
General and administrative expenses		**(229,268)**	(233,650)
Finance costs	8	**(273,943)**	(368,540)
Share of profits/(losses) of associates, net		**9,336**	(1,393)
Losses on disposals of vessels, net	14	**(446,649)**	(137,623)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	7	**(508,116)**	(429,085)
Tax	11	**6,076**	(488)
Loss for the year from continuing operations		**(502,040)**	(429,573)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation, shipbuilding	5	**(78,348)**	(105,828)
LOSS FOR THE YEAR		**(580,388)**	(535,401)
Attributable to:			
Owners of the Company	12	**(580,800)**	(536,087)
Non-controlling interests		**412**	686
		(580,388)	(535,401)
BASIC LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Continuing operations		**(HK7.11 cents)**	(HK6.62 cents)
Discontinued operation, shipbuilding		**(HK1.11 cents)**	(HK1.62 cents)
Total		**(HK8.22 cents)**	(HK8.24 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Loss for the year		**(580,388)**	(535,401)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**80,666**	7,989
Gain on acquisition of non-controlling interests of a subsidiary		**1,026**	—
Other comprehensive income for the year, net of tax		**81,692**	7,989
Total comprehensive loss for the year, net of tax		**(498,696)**	(527,412)
Attributable to:			
Owners of the Company	12 & 39(a)	**(498,983)**	(528,109)
Non-controlling interests		**287**	697
		(498,696)	(527,412)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,745,611**	4,799,417
Prepaid land/seabed lease payments	15	**464,776**	985,707
Licences	16	**32,383**	34,899
Goodwill	17	**470,371**	1,086,197
Interests in associates	19	**330,647**	369,013
Deposits for construction in progress		**155,887**	118,196
Other deposits	21	**–**	9,150
Total non-current assets		**4,199,675**	7,402,579
CURRENT ASSETS			
Bunker oil		**48,196**	23,249
Inventories	22	**12,506**	407,869
Accounts and bills receivable	23	**81,424**	301,899
Prepayments, deposits and other receivables	24	**463,535**	424,198
Contracts in progress	25	**10,104**	356,970
Pledged deposits and restricted cash	27	**243,997**	171,706
Cash and cash equivalents	27	**182,280**	357,825
		1,042,042	2,043,716
Assets of a disposal group classified as held for sale	5	**4,275,495**	–
Total current assets		**5,317,537**	2,043,716
CURRENT LIABILITIES			
Interest-bearing bank loans	28	**801,061**	1,586,679
Notes payable	34	**191,341**	–
Accounts and bills payable	29	**205,421**	217,708
Other payables and accruals	29	**650,758**	962,513
Tax payable		**11,885**	17,577
		1,860,466	2,784,477
Liabilities of a disposal group classified as held for sale	5	**2,225,014**	–
Total current liabilities		**4,085,480**	2,784,477
NET CURRENT ASSETS/(LIABILITIES)		**1,232,057**	(740,761)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,431,732**	6,661,818

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	30	**840,333**	2,491,264
Guaranteed senior convertible notes	31	**408,734**	–
Guaranteed senior payment-in-kind notes	32	**84,360**	–
Liability portion of convertible preferred shares	33	**719,331**	645,106
Notes payable	34	**–**	185,336
Liability portion of convertible unsecured notes	35	**83,081**	68,265
Interest-bearing bank loans	28	**1,506,873**	1,375,830
Deferred tax liabilities	36	**45,618**	157,442
Vessel deposit received		**–**	2,500
Total non-current liabilities		**3,688,330**	4,925,743
Net assets		**1,743,402**	1,736,075
EQUITY			
Equity attributable to owners of the Company			
Issued capital	37	**77,667**	65,625
Equity portion of convertible preferred shares	33	**75,559**	75,559
Reserves	39(a)	**1,072,339**	1,068,425
		1,225,565	1,209,609
Contingently redeemable equity in a jointly-controlled entity	33	**517,837**	517,837
Non-controlling interests		**–**	8,629
Total equity		**1,743,402**	1,736,075

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Notes	Attributable to owners of the Company						
		Issued capital (note 37) HK$'000	Convertible preferred shares HK$'000	Reserves (note 39(a)) HK$'000	Sub-total HK$'000	Contingently redeemable equity in a jointly-controlled entity HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		**65,625**	**75,559**	**1,068,425**	**1,209,609**	**517,837**	**8,629**	**1,736,075**
Loss for the year		**–**	**–**	**(580,800)**	**(580,800)**	**–**	**412**	**(580,388)**
Other comprehensive income/(loss) for the year:								
Exchange differences on translation of foreign operations		**–**	**–**	**80,791**	**80,791**	**–**	**(125)**	**80,666**
Gain on acquisition of non-controlling interests of a subsidiary		**–**	**–**	**1,026**	**1,026**	**–**	**–**	**1,026**
Total comprehensive income/(loss) for the year		**–**	**–**	**(498,983)**	**(498,983)**	**–**	**287**	**(498,696)**
Issue of ordinary shares		**10,000**	**–**	**360,000**	**370,000**	**–**	**–**	**370,000**
Share issue expenses		**–**	**–**	**(784)**	**(784)**	**–**	**–**	**(784)**
Exercise of share options	38	**222**	**–**	**10,383**	**10,605**	**–**	**–**	**10,605**
Equity-settled share option arrangements		**–**	**–**	**9,193**	**9,193**	**–**	**–**	**9,193**
Conversion of guaranteed senior convertible notes	31	**1,820**	**–**	**124,105**	**125,925**	**–**	**–**	**125,925**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**(1,701)**	**(1,701)**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(7,215)**	**(7,215)**
At 31 December 2010		**77,667**	**75,559**	**1,072,339**	**1,225,565**	**517,837**	**–**	**1,743,402**
At 1 January 2009		64,739	75,559	1,490,895	1,631,193	517,837	23,751	2,172,781
Loss for the year		–	–	(536,087)	(536,087)	–	686	(535,401)
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations		–	–	7,978	7,978	–	11	7,989
Total comprehensive income/(loss) for the year		–	–	(528,109)	(528,109)	–	697	(527,412)
Acquisition of non-controlling interests		–	–	–	–	–	(14,600)	(14,600)
Disposal of a subsidiary	40	–	–	(171)	(171)	–	(1,219)	(1,390)
Issue of earn-out shares		886	–	(886)	–	–	–	–
Equity-settled share option arrangements		–	–	14,419	14,419	–	–	14,419
Issue of convertible unsecured notes	35	–	–	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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax from:			
Continuing operations		**(508,116)**	(429,085)
Discontinued operation, shipbuilding	5	**(78,348)**	(105,828)
Adjustments for:			
Losses on disposals of vessels, net	14	**446,649**	137,623
Gains on restructuring/repurchases of fixed rate guaranteed senior notes	30	**(476,495)**	(90,522)
Losses on repurchases of guaranteed senior convertible notes	31	**61**	–
Gains on repurchases of guaranteed senior payment-in-kind notes	32	**(43)**	–
Depreciation		**174,226**	233,590
Amortisation of prepaid land/seabed lease payments		**4,485**	3,888
Amortisation of licences		**2,516**	2,517
Impairment of items of property, plant and equipment	14	**3,822**	–
Loss on disposal of items of property, plant and equipment		**217**	1,444
Impairment/(reversal of impairment) of accounts and bills receivable	23	**3,541**	(415)
Share of (profits)/losses of associates, net		**(9,336)**	1,393
Loss on disposal of an associate	19	**16,312**	–
Net change in fair value of derivative instruments not qualifying as hedges		**–**	(14,656)
Excess over the cost of an acquisition of non-controlling interests		**–**	(2,000)
Gain on disposal of a subsidiary	40	**–**	(1,607)
Impairment of goodwill	17	**–**	13,055
Interest income		**(4,750)**	(5,441)
Finance costs	8	**284,770**	382,739
Equity-settled share option expenses	39(a)	**9,193**	14,419
		(131,296)	141,114
Increase in amounts due from associates		**(6,085)**	–
Decrease/(increase) in bunker oil		**(24,947)**	10,533
Decrease/(increase) in inventories		**258,621**	(205,905)
Increase in accounts and bills receivable		**(68,785)**	(67,635)
Decrease/(increase) in prepayments, deposits and other receivables		**(239,088)**	170,565
Decrease in contracts in progress		**309,502**	158,022
Increase/(decrease) in accounts and bills payable		**43,559**	(160,672)
Increase in other payables and accruals		**262,282**	126,853
Decrease in excess of progress billings over contract costs		**–**	(8,294)
Cash generated from operations		**403,763**	164,581
Interest received		**4,750**	8,232
Interest paid		**(233,346)**	(293,072)
Overseas profits tax refunded/(paid)		**(6)**	214
Net cash flows from/(used in) operating activities		**175,161**	(120,045)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in time deposits with original maturities of more than three months		**(30,031)**	53,087
Additions to property, plant and equipment		**(1,286,716)**	(788,135)
Additions to prepaid land/seabed lease payments		**(1,684)**	(77,085)
Deposits paid for acquisition of vessels		**(950)**	(950)
Deposits paid for construction in progress		**(147,160)**	(196,692)
Interest capitalised	8	**(115,037)**	(53,446)
Proceeds from disposals of property, plant and equipment		**2,463**	2,373
Net proceeds from disposals of vessels		**556,011**	153,094
Acquisition of non-controlling interests of a subsidiary		**(6,189)**	–
Capital contributions to an associate		**–**	(108,107)
Dividends received from associates		**5,590**	2,544
Disposal of an associate	19	**84,287**	–
Dissolution of an associate	19	**2,238**	–
Disposal of a subsidiary	40	**–**	(173,446)
Net cash flows used in investing activities		**(937,178)**	(1,186,763)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of new bank loans		**1,633,387**	2,757,777
Repayments of bank loans		**(895,535)**	(1,576,113)
Proceeds from exercise of share options		**10,605**	–
Issue of convertible unsecured notes		**–**	154,344
Restructuring/repurchases of fixed rate guaranteed senior notes	30	**(336,609)**	(44,364)
Repurchases of guaranteed senior convertible notes	31	**(76,299)**	–
Repurchases of guaranteed senior payment-in-kind notes	32	**(26,893)**	–
Proceeds from issue of ordinary shares	37 & 39(a)	**370,000**	–
Share issue expenses	39(a)	**(784)**	–
Dividends paid to non-controlling shareholders		**(1,701)**	–
Capital element of finance lease rental payments		**–**	(722)
Decrease/(increase) in restricted cash		**63,699**	(37,995)
Net cash flows from financing activities		**739,870**	1,252,927
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(22,147)**	(53,881)
Cash and cash equivalents at beginning of year		**393,292**	442,729
Effect of foreign exchange rate changes, net		**32,306**	4,444
CASH AND CASH EQUIVALENTS AT END OF YEAR		**403,451**	393,292

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**181,130**	355,285
Non-pledged time deposits with original maturities of less than three months when acquired		**–**	59
Bank balances pledged as security for bank facilities		**82,643**	33,607
Time deposits with original maturities of less than three months when acquired, pledged as security for bank facilities		**68,235**	4,341
Cash and bank balances attributable to the discontinued operation	5	**71,443**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**403,451**	393,292
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents per consolidated statement of cash flows		**403,451**	393,292
Amounts pledged for bank facilities with original maturities of less than three months when acquired		**(150,878)**	(37,948)
Non-pledged time deposits with original maturities of more than three months when acquired		**1,150**	2,481
Cash and bank balances attributable to the discontinued operation	5	**(71,443)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**182,280**	357,825

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**5,163,591**	5,359,741
CURRENT ASSETS			
Due from subsidiaries	18	**93,600**	752,949
Prepayments, deposits and other receivables		**624**	13,058
Cash and cash equivalents	27	**2,262**	3,237
Total current assets		**96,486**	769,244
CURRENT LIABILITIES			
Due to subsidiaries	18	**53,857**	–
Other payables and accruals		**27,716**	3,856
Financial guarantee contracts	26	**8,549**	8,549
Total current liabilities		**90,122**	12,405
NET CURRENT ASSETS		**6,364**	756,839
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,169,955**	6,116,580
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	30	**840,333**	2,491,264
Guaranteed senior convertible notes	31	**408,734**	–
Guaranteed senior payment-in-kind notes	32	**84,360**	–
Liability portion of convertible preferred shares	33	**325,321**	290,096
Due to subsidiaries	18	**1,815,278**	1,599,377
Total non-current liabilities		**3,474,026**	4,380,737
Net assets		**1,695,929**	1,735,843
EQUITY			
Issued capital	37	**77,667**	65,625
Equity portion of convertible preferred shares	33	**75,559**	75,559
Reserves	39(b)	**1,542,703**	1,594,659
Total equity		**1,695,929**	1,735,843

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

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

(iii) shipbuilding and building of ship repair facilities.

The Group discontinued its shipbuilding and building of ship repair facilities operations during the 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 value. All the assets and liabilities as at 31 December 2010 included in the disposal group held for sale, representing the shipbuilding and building of ship repair facilities operations, were stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 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.

2.1 BASIS OF PREPARATION (continued)

Going concern basis

During the year ended 31 December 2010, the Group incurred a loss of HK$580,388,000. This condition raises 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 Group has realigned its businesses by disposing of its 95% equity interest in Titan Quanzhou Shipyard Co. Ltd ("QZ Shipyard") for a consideration of RMB1,865,670,000 (approximately HK$2,175,371,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,708,971,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met. As of the date of this report, RMB380,000,000 (approximately HK$447,553,000) has been received. Concurrently, the Company has entered into a subscription agreement with the purchaser of QZ Shipyard whereby the Company has conditionally agreed to allot and issue, and the purchaser has conditionally agreed to subscribe for 500,000,000 new ordinary shares at a price of HK$0.61 per subscription share in the Company upon completion of the disposal of QZ Shipyard. As of the date of this report, the proposed disposal of QZ Shipyard had been duly approved by shareholders of the Company and the requisite approvals from the relevant authorities in Mainland China were obtained as set out in note 49(b). The completion of the registration of the transfer of equity interest to the purchaser has not yet been completed. Further details in relation to the above transactions are set out in note 5.

As a result of the above transactions, 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

(a) Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were 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 were recognised in goodwill.

(b) Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

(c) Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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's financial statements:

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 included in *Improvements to HKFRSs 2009* and HK Interpretation 5, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of the subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendment most applicable to the Group is in respect of HKAS 7 *Statement of Cash Flows* which requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

HK Interpretation 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Interpretation 5 for the first time in the current year. HK Interpretation 5 requires retrospective application. In order to comply with the requirements set out in HK Interpretation 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause by reclassifying them as current liabilities. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements.

As a result, bank loans that contain a repayment on demand clause with an aggregate carrying amount of HK$825,213,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009. The application of HK Interpretation 5 has had no impact on the classification of bank loans as at 1 January 2009 and 31 December 2010 because there were no bank loans as at 1 January 2009 and 31 December 2010, other than an aggregate carrying amount of HK$850,819,000 classified as held for sale as at 31 December 2010, containing a repayment on demand clause as defined in HK Interpretation 5. In addition, the application of HK Interpretation 5 has had no impact on the reported results for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflect the remaining contractual maturities (see note 28).

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instrument*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC) – Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
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 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 investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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
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 significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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 a disposal group and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

(a) Financial assets at fair value through profit or loss (continued)

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.

(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 by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

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 other revenue/expenses in 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; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 include accounts and other payables, interest-bearing bank loans, fixed rate guaranteed senior notes ("Senior Notes Due 2012"), guaranteed senior convertible notes ("Convertible Notes Due 2015"), guaranteed senior payment-in-kind notes ("PIK Notes Due 2015"), notes payable ("K Line Notes Due 2013"), convertible unsecured notes ("TGIL Notes Due 2014"), 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

(c) Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

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

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

- hedge of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness 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.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current or non-current portion 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Current versus non-current classification (continued)

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently 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 TGIL Notes Due 2014

The components of convertible preferred shares and TGIL notes Due 2014 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 TGIL Notes Due 2014, 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.

The component of TGIL Notes Due 2014 that exhibit characteristics of an embedded derivative is recognised as part of the TGIL Notes Due 2014. On initial recognition, the derivative component of the TGIL Notes Due 2014 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 TGIL Notes Due 2014 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 TGIL Notes Due 2014 based on the allocation of proceeds to the liability, derivative and equity components when the instruments are first recognised.

Convertible Notes Due 2015 and K Line Notes Due 2013

If the conversion option of notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the notes is measured at fair value and presented as part of the notes. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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 taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 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;

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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; and

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

(c) from shipbuilding, on the percentage of completion basis, which is determined on the completion proportion method of each individual shipbuilding contract, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. 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 is carried forward.

Pension schemes

The Group operates a defined contribution mandatory provident fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the 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 “CP Scheme”) operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the CP Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the CP 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.

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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.

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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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Income tax (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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) provision of logistic services (including offshore oil storage, onshore oil and chemical storage and oil transportation); and (b) supply of oil products and provision of bunker refueling services. During the year, the Group discontinued its shipbuilding 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.

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4. OPERATING SEGMENT INFORMATION (continued)

	Provision of logistic services															
	Offshore oil storage		Onshore oil and chemical storage		Oil transportation		Supply of oil products and provision of bunker refueling services		Total continuing operations		Discontinued operation, shipbuilding		Adjustments and eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	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	514,388	509,939	199,610	162,258	178,514	257,643	1,031,657	689,975	1,924,169	1,619,815	187,330	385,434	–	–	2,111,499	2,005,249
– Intersegment revenue	–	–	–	881	–	–	129,025	92,623	129,025	93,504	–	–	(129,025)[1]	(93,504)[1]	–	–
Total	514,388	509,939	199,610	163,139	178,514	257,643	1,160,682	782,598	2,053,194	1,713,319	187,330	385,434	(129,025)	(93,504)	2,111,499	2,005,249
Segment results	(89,093)	99,577	83,569	60,778	(146,187)	(91,697)	26,106	21,574	(125,605)	90,232	(68,138)	(91,989)	–	–	(193,743)	(1,757)
Adjusted for:																
– Interest income and other revenue	–	–	–	–	–	–	–	–	–	–	617	360	482,779	121,221	483,396	121,581
– Other expenses	–	–	–	–	–	–	–	–	–	–	–	–	(154,034)	(132,982)	(154,034)	(132,982)
Share of profits/(losses) of associates, net	–	–	9,160	(1,859)	–	–	176	466	9,336	(1,393)	–	–	–	–	9,336	(1,393)
	(89,093)	99,577	92,729	58,919	(146,187)	(91,697)	26,282	22,040	(116,269)	88,839	(67,521)	(91,629)	328,745	(11,761)	144,955	(14,551)
Add: Depreciation and amortisation	36,325	92,221	63,268	49,163	31,867	45,816	165	1,901	131,625	189,101	36,784	32,850	12,818	18,044	181,227	239,995
Operating EBITDA/(LBITDA)	(52,768)	191,798	155,997	108,082	(114,320)	(45,881)	26,447	23,941	15,356	277,940	(30,737)	(58,779)	341,563	6,283	326,182	225,444
Losses on disposals of vessels, net	–	–	–	–	–	–	–	–	–	–	–	–	(446,649)	(137,623)	(446,649)	(137,623)
EBITDA/(LBITDA)	(52,768)	191,798	155,997	108,082	(114,320)	(45,881)	26,447	23,941	15,356	277,940	(30,737)	(58,779)	(105,086)	(131,340)	(120,467)	87,821
Depreciation and amortisation	(36,325)	(92,221)	(63,268)	(49,163)	(31,867)	(45,816)	(165)	(1,901)	(131,625)	(189,101)	(36,784)	(32,850)	(12,818)	(18,044)	(181,227)	(239,995)
Finance costs	–	–	–	–	–	–	–	–	–	–	(10,827)	(14,199)	(273,943)	(368,540)	(284,770)	(382,739)
Profit/(loss) before tax	(89,093)	99,577	92,729	58,919	(146,187)	(91,697)	26,282	22,040	(116,269)	88,839	(78,348)	(105,828)	(391,847)	(517,924)	(586,464)	(534,913)

1. Intersegment revenues are eliminated on consolidation.

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4. OPERATING SEGMENT INFORMATION (continued)

	Provision of logistic services						Supply of oil products and provision of bunker refueling services		Total continuing operations		Discontinued operation, shipbuilding		Consolidated	
	Offshore oil storage		Onshore oil and chemical storage		Oil transportation									
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Other segment information														
Depreciation and amortisation	**36,325**	92,221	**63,268**	49,163	**31,867**	45,816	**165**	1,901	**131,625**	189,101	**36,784**	32,850	**168,409**	221,951
Unallocated depreciation and amortisation									**12,818**	18,044	**–**	–	**12,818**	18,044
									144,443	207,145	**36,784**	32,850	**181,227**	239,995
Capital expenditures	**101,736**	88,297	**480,582**	444,707	**133,948**	4,351	**15**	9	**716,281**	537,364	**815,678**	579,789	**1,531,959**	1,117,153
Unallocated capital expenditures									**339**	335	**–**	–	**339**	335
									716,620	537,699	**815,678**	579,789	**1,532,298**	1,117,488
Impairment/(reversal of impairment) of accounts and bills receivable	**1,451**	(2,170)	**–**	–	**1,933**	388	**–**	602	**3,384**	(1,180)	**–**	–	**3,384**	(1,180)
Unallocated impairment/(reversal of impairment) of accounts and bills receivable									**157**	765	**–**	–	**157**	765
									3,541	(415)	**–**	–	**3,541**	(415)
Unallocated impairment of property, plant and equipment									**3,822**	–	**–**	–	**3,822**	–

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

	Mainland China		Other Asia Pacific countries		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(a) Revenue						
Revenue from external customers	**1,397,985**	1,219,347	**713,514**	785,902	**2,111,499**	2,005,249
Attributable to discontinued operation, shipbuilding	**(187,330)**	(385,434)	**–**	–	**(187,330)**	(385,434)
Revenue from continuing operations	**1,210,655**	833,913	**713,514**	785,902	**1,924,169**	1,619,815
(b) Other information						
Segment non-current assets	**4,008,935**	6,352,255	**51,627**	93,127	**4,060,562**	6,445,382
Unallocated non-current assets					**139,113**	957,197
					4,199,675	7,402,579
Capital expenditures	**1,296,275**	1,024,425	**375**	350	**1,296,650**	1,024,775
Unallocated capital expenditures					**235,648**	92,713
					1,532,298	1,117,488
Impairment/(reversal of impairment) of accounts and bills receivable	**–**	–	**3,541**	(415)	**3,541**	(415)
Impairment of property, plant and equipment	**–**	–	**3,822**	–	**3,822**	–

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

The other information 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.

NOTES TO FINANCIAL STATEMENTS

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5. DISCONTINUED OPERATION, SHIPBUILDING

On 11 December 2010, the Company entered into (i) a sale and purchase agreement in relation to the disposal of its 95% equity interest in QZ Shipyard; (ii) a subscription agreement in relation to the issue of subscription shares to Grand China Logistics Holding (Group) Company Limited; and (iii) a management agreement in relation to the engagement of the Company to manage the business operations of QZ Shipyard for the term commencing from the completion of the sale and purchase agreement until 31 December 2012. The consideration for the proposed disposal is RMB1,865,670,000 (approximately HK$2,175,371,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,708,971,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met. The above transactions were subsequently approved by shareholders of the Company after year end as set out in note 49(b).

The registration of the transfer of equity interests in QZ Shipyard to the purchaser is still in progress. The directors of the Company have assessed the profit projections for QZ Shipyard for the two years ending 31 December 2012 subsequent to the disposal, and expect the profit targets can be met under the management of the Group. Thus, the full amount of the consideration is expected to be received accordingly.

QZ Shipyard carried out all of the Group's shipbuilding operations. The disposal is consistent with the Group's long-term policy to focus its activities on its storage business. The net proceeds of sale are expected to exceed the carrying amount of the related net assets and, accordingly, no impairment loss have been recognised.

The proposed disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules") and further details are included in the Company's announcements dated 13 December 2010 and 20 January 2011 and a circular dated 4 January 2011.

On this basis, as at 31 December 2010, the assets and liabilities related to the discontinued operation, shipbuilding and building of ship repair facilities, are 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 2010 are presented separately in the consolidated income statement as "Loss for the year from discontinued operation, shipbuilding". Capital commitments in respect of QZ Shipyard are set out in note 42.

5. DISCONTINUED OPERATION, SHIPBUILDING (continued)

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

	Notes	2010 HK$'000	2009 HK$'000
Revenue	6	**187,330**	385,434
Cost of sales		**(222,690)**	(434,607)
Gross loss		**(35,360)**	(49,173)
Other revenue		**1,128**	2,047
General and administrative expenses		**(33,289)**	(44,503)
Finance costs	8	**(10,827)**	(14,199)
Loss before tax		**(78,348)**	(105,828)
Tax	11	**–**	–
Loss for the year from discontinued operation, shipbuilding		**(78,348)**	(105,828)

NOTES TO FINANCIAL STATEMENTS

31 December 2010

5. DISCONTINUED OPERATION, SHIPBUILDING (continued)

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

	Notes	2010 HK$'000	2009 HK$'000
Assets:			
Property, plant and equipment	14	**2,515,315**	–
Prepaid land/seabed lease payments	15	**513,827**	–
Goodwill	17	**570,618**	–
Inventories	22	**136,742**	–
Accounts and bills receivable	23	**285,719**	–
Prepayments, deposits and other receivables		**136,165**	–
Contracts in progress	25	**37,364**	–
Pledged deposits and restricted cash		**8,302**	–
Cash and cash equivalents		**71,443**	–
		4,275,495	–
Liabilities:			
Interest-bearing bank loans		**1,482,125**	–
Accounts and bills payable		**55,846**	–
Other payables and accruals		**574,863**	–
Deferred tax liabilities	36	**112,180**	–
		2,225,014	–
Net assets directly associated with the disposal group		**2,050,481**	–

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31 December 2010

5. DISCONTINUED OPERATION, SHIPBUILDING (continued)

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

	2010 HK$'000	2009 HK$'000
Operating activities	346,647	(880,630)
Investing activities	(785,629)	(400,357)
Financing activities	294,123	1,450,830
Net cash inflow/(outflow)	(144,859)	169,843

6. REVENUE

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

	2010 HK$'000	2009 HK$'000
Provision of oil and chemical storage services	713,998	672,197
Provision of oil transportation services	178,514	257,643
Supply of oil products and provision of bunker refueling services	1,031,657	689,975
Attributable to continuing operations	1,924,169	1,619,815
Attributable to discontinued operation, shipbuilding (note 5)	187,330	385,434
	2,111,499	2,005,249

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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, shipbuilding.

		Group	
	Notes	**2010 HK$'000**	2009 HK$'000
Cost of inventories sold		**1,102,904**	746,827
Cost of services rendered		**1,106,818**	1,134,542
Depreciation*		**174,226**	233,590
Amortisation of prepaid land/seabed lease payments	15	**4,485**	3,888
Amortisation of licences*	16	**2,516**	2,517
Minimum lease payments under operating leases:			
Vessels		**387,263**	226,682
Leasehold buildings		**13,631**	11,360
Employee benefit expenses (excluding directors' remuneration – note 9):			
Wages and salaries		**210,894**	196,368
Equity-settled share option expenses		**8,781**	13,548
Pension scheme contributions		**4,912**	5,520
		224,587	215,436
Auditors' remuneration		**4,359**	5,060
Loss on disposal of items of property, plant and equipment		**217**	1,444
Impairment of items of property, plant and equipment**	14	**3,822**	–
Impairment of goodwill**	17	**–**	13,055
Loss on disposal of an associate	19	**16,312**	–
Foreign exchange differences, net		**4,692**	(7,392)
Impairment/(reversal of impairment) of accounts and bills receivable	23	**3,541**	(415)
Bank interest income		**(4,750)**	(5,441)
Net change in fair value of derivative instruments not qualifying as hedges		**–**	(14,656)
Excess over the cost of an acquisition of non-controlling interests		**–**	(2,000)
Gain on disposal of a subsidiary	18 & 40	**–**	(1,607)

* These items are included in "Cost of sales" in the consolidated income statement. Depreciation of vessels and vessel equipment of HK$65,663,000 (2009: HK$136,892,000) 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	
	2010	2009
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within five years	**69,012**	57,016
Bank loans not wholly repayable within five years	**128,923**	78,222
Finance lease payables	**–**	19
Senior Notes Due 2012	**75,249**	217,282
Convertible Notes Due 2015	**16,472**	–
PIK Notes Due 2015	**4,288**	–
K Line Notes Due 2013	**6,003**	5,616
TGIL Notes Due 2014	**14,817**	6,002
Dividends on convertible preferred shares:		
Titan preferred shares (note 33)	**35,225**	32,712
Titan Group Investment Limited ("TGIL") preferred shares (note 33)	**39,000**	39,001
Other finance costs	**10,818**	315
Total interest expenses	**399,807**	436,185
Less: Interest capitalised	**(115,037)**	(53,446)
	284,770	382,739
Attributable to continuing operations	**273,943**	368,540
Attributable to discontinued operation, shipbuilding (note 5)	**10,827**	14,199
	284,770	382,739

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9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is detailed as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Fees	**810**	810
Other emoluments:		
Salaries, allowances and benefits-in-kind	**3,557**	3,100
Equity-settled share option expenses	**412**	871
Pension scheme contributions	**56**	44
	4,025	4,015
	4,835	4,825

(a) Independent non-executive directors

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

	2010	2009
	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 (2009: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Salaries, allowances and benefits-in-kind HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2010				
Executive directors				
Mr. Patrick Wong Siu Hung	**3,557**	**412**	**56**	**4,025**
Mr. Tsoi Tin Chun	**–**	**–**	**–**	**–**
	3,557	**412**	**56**	**4,025**
2009				
Executive directors				
Mr. Patrick Wong Siu Hung	3,100	871	44	4,015
Mr. Tsoi Tin Chun	–	–	–	–
	3,100	871	44	4,015

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

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2009: one) director, details of whose remuneration is disclosed in note 9 above. Details of the remuneration of the remaining four (2009: four) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits-in-kind	**8,797**	9,580
Equity-settled share option expenses	**82**	65
Pension scheme contributions	**126**	40
	9,005	9,685

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

	Number of employees	
	2010	2009
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	2
HK$2,500,001 to HK$3,000,000	**–**	2
HK$3,000,001 to HK$3,500,000	**1**	–
	4	4

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:

	2010	2009
Hong Kong	**16.5%**	16.5%
Singapore	**17.0%**	17.0%
Mainland China	**25.0%**	25.0%

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	
	2010	2009
	HK$'000	HK$'000
Hong Kong:		
Underprovision in prior years	**–**	1
Elsewhere:		
Current charge for the year	**455**	678
Overprovision in prior years	**(6,531)**	(111)
	(6,076)	567
Deferred taxation (note 36)	**–**	(80)
Total tax charge/(credit) for the year, continuing operations	**(6,076)**	488

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:

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11. TAX (continued)

	Group	
	2010	2009
	HK$'000	HK$'000
Loss before tax	**(586,464)**	(534,913)
Tax at the Hong Kong tax rate of 16.5% (2009: 16.5%)	**(96,767)**	(88,261)
Higher tax rates for specific provinces or local authorities	**(8,566)**	(6,754)
Adjustments in respect of current tax of previous periods	**(6,531)**	(110)
Profits and losses attributable to associates	**(1,540)**	230
Income not subject to tax	**(430,303)**	(354,150)
Expenses not deductible for tax	**537,631**	449,533
Tax charge/(credit) at the Group's effective rate	**(6,076)**	488
Represented by:		
Tax charge/(credit) attributable to continuing operations	**(6,076)**	488
Tax credit attributable to discontinued operation, shipbuilding (note 5)	**–**	–
	(6,076)	488

The share of tax attributable to associates amounting to HK$69,000 (2009: HK$323,000) is included in "Share of profits/(losses) of associates, net" on the face of the consolidated income statement.

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company for the year ended 31 December 2010 includes a loss of HK$554,853,000 (2009: HK$486,202,000) which has been dealt with in the financial statements of the Company (note 39(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 HK580,800,000 (2009: HK$536,087,000) represented by the loss from continuing operations of HK$502,452,000 (2009: HK$430,259,000) and the loss from discontinued operation, shipbuilding of HK$78,348,000 (2009: HK$105,828,000), and the weighted average of 7,068,392,864 (2009: 6,503,473,828) 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 2010 and 2009 in respect of a dilution as the earn-out shares, share options, Convertible Notes Due 2015, warrants and convertible preferred shares outstanding have an anti-dilutive effect on the basic loss per share amounts presented.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2010	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 2009 and at 1 January 2010:								
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
At 1 January 2010, 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
Additions	–	1,340	274	227,537	17	11,788	1,289,658	1,530,614
Disposals	–	–	–	(995,261)	–	(10,079)	–	(1,005,340)
Impairment	–	–	–	(3,822)	–	–	–	(3,822)
Depreciation provided during the year	(15,107)	(22,726)	(1,224)	(63,036)	(49,228)	(25,808)	–	(177,129)
Transfers	189,127	4,061	–	–	417	(30,994)	(162,611)	–
Reclassified as held for sale (note 5)	(454,266)	(164,789)	–	–	–	(12,716)	(1,883,544)	(2,515,315)
Exchange realignment	10,346	6,934	37	–	42,827	4,225	52,817	117,186
At 31 December 2010, net of accumulated depreciation and impairment	74,005	64,255	1,870	132,398	1,408,640	47,865	1,016,578	2,745,611
At 31 December 2010:								
Cost	87,644	75,418	8,935	167,991	1,542,068	133,897	1,016,578	3,032,531
Accumulated depreciation and impairment	(13,639)	(11,163)	(7,065)	(35,593)	(133,428)	(86,032)	–	(286,920)
Net carrying amount	74,005	64,255	1,870	132,398	1,408,640	47,865	1,016,578	2,745,611

NOTES TO FINANCIAL STATEMENTS

31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

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	–	–	–	–	–	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

* During the year, the Group disposed of twelve vessels and bunker barges (2009: one vessel) for a total cash consideration of US$71,500,000 (equivalent to approximately HK$557,700,000) (2009: US$21,400,000 (equivalent to approximately HK$166,920,000)) and recorded losses on disposals of HK$446,649,000 (2009: HK$137,623,000).

Three vessels disposals were constituted discloseable transactions under the Listing Rules, and further details are set out in the Company announcements dated 14 March 2010 and 16 March 2010.

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2010, the Group's vessel was impaired with reference to the recoverable amounts determined based on latest market values for similar vessels. Due to changes in the market environment in the oil transportation business, an impairment amount of HK$3,822,000 was charged to the income statement during the year.

In the prior 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 were calculated taking into consideration the revised estimated residual values. This represented a change in accounting estimate and the depreciation charge for the year ended 31 December 2009 was reduced by HK$13,632,000, accordingly.

At 31 December 2010, including certain property, plant and equipment items classified under assets of a disposal group classified as held for sale, the Group's storage facilities, construction in progress, buildings and machinery with carrying values of approximately HK$1,384,078,000 (2009: HK$1,058,704,000), HK$716,328,000 (2009: HK$477,848,000), HK$443,492,000 (2009: HK$57,753,000) and HK$193,752,000 (2009: HK$208,568,000), respectively, were pledged to secure certain banking facilities granted to the Group. At 31 December 2009, vessels with carrying values of approximately HK$612,321,000 were pledged to secure certain banking facilities granted to the Group.

15. PREPAID LAND/SEABED LEASE PAYMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**985,707**	928,326
Additions	**1,684**	77,085
Amortisation provided during the year	**(4,485)**	(3,888)
Amortisation capitalised in construction in progress	**(16,489)**	(15,998)
Reclassified as held for sale (note 5)	**(513,827)**	–
Exchange realignments	**12,186**	182
Carrying amount at 31 December	**464,776**	985,707

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15. PREPAID LAND/SEABED LEASE PAYMENTS (continued)

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

At 31 December 2010, including the prepaid land/seabed lease payments classified under assets of a disposal group classified as held for sale, the Group's prepaid land/seabed lease payments with an aggregate carrying value of HK$944,843,000 (2009: HK$905,900,000) were pledged to secure certain banking facilities granted to the Group (note 28).

16. LICENCES

Group

	HK$'000
31 December 2010	
Cost at 1 January 2010, net of accumulated amortisation	**34,899**
Amortisation provided during the year	**(2,516)**
At 31 December 2010	**32,383**
At 31 December 2010:	
Cost	**51,935**
Accumulated amortisation	**(19,552)**
Net carrying amount	**32,383**
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

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

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17. GOODWILL

Group

	HK$'000
31 December 2010	
Cost at 1 January 2010, net of accumulated impairment	**1,086,197**
Disposal of an associate under an onshore oil and chemical storage unit	**(45,208)**
Reclassified as held for sale (note 5)	**(570,618)**
At 31 December 2010	**470,371**
At 31 December 2010:	
Cost	**489,329**
Accumulated impairment	**(18,958)**
Net carrying amount	**470,371**
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

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

	Oil supply		Onshore oil and chemical storage		Shipbuilding and ship repair		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**16,568**	16,568	**453,803**	499,011	**–***	570,618	**470,371**	1,086,197

* At 31 December 2010, goodwill of HK$570,618,000 allocated to the shipbuilding and ship repair cash-generating unit was included in assets of a disposal group classified as held for sale.

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17. GOODWILL (continued)

According to the agreement for the acquisition of Titan TQSL Holding Company Ltd ("TQSL Holding") and its subsidiary, QZ Shipyard (the "Shipyard Group"), there are three tranches of earn-out shares to be issued for 2008, 2009 and 2010. If the Shipyard Group met specified target net profit before tax ("NPBT") for each of the years 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)).

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 years 2008, 2009 or 2010 was not met, then the number of earn-out shares to be issued in the relevant tranche was to be reduced rateably by applying the formula of actual NPBT over target NPBT. If no profit was made in any of the relevant financial years, then, no earn-out share were to 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. Since no profits were reported for either 2010 or 2009, the Company was not obligated to issue the 2010 and 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.

17. GOODWILL (continued)

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 13.2%.

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 13.2% 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.

Shipbuilding and ship repair cash-generating unit

Discontinuing of the shipbuilding business resulted in a transfer of the goodwill in relation to the shipbuilding and ship repair cash-generating unit to assets held for sale. No impairment loss was recognised as the net proceeds of sale are expected to exceed the carrying amount of the net assets of the shipbuilding business.

The key assumptions for all of the above cash flow projections are the budgeted gross margins which use the average gross margins achieved in the year immediately before the budgeted years, increases for expected market development, and the pre-tax discount rate of 13.2%, which is before tax and reflects specific risks relating to the respective cash-generating units.

As at 31 December 2010, 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.

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18. INTERESTS IN SUBSIDIARIES

	Company 2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**234,008**	234,008
Deemed investment cost*	**8,549**	8,549
Due from subsidiaries	**5,014,634**	5,870,133
	5,257,191	6,112,690
Portion of amounts due from subsidiaries classified as current assets	**(93,600)**	(752,949)
Non-current portion	**5,163,591**	5,359,741

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

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the current amount of HK$93,600,000 (2009: HK$752,949,000) which is expected to be settled within the next twelve months.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$53,857,000 (2009: Nil) which is expected to be settled within the next twelve months.

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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 ("Shipyard Holdings")	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	Owning and chartering of vessels
Titan Bunkering Pte. Ltd.	Singapore/Malaysia	Ordinary SG$13,825,000	100	Provision of bunker refueling services
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

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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)				
Sino Venus Pte. Ltd.	Singapore	Ordinary SG$1,000,000	100	Provision of oil transportation services
Wynham Pacific Ltd.	BVI/Singapore	Ordinary US$1	100	Provision of oil transportation services
Sino Ocean Development Limited	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
Brookfield Pacific Ltd.	BVI/Malaysia	Ordinary US$1	100	Provision of floating storage services

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Titan 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*	Mainland China	RMB60,000,000	100	Provision of commodity exchange services
石獅市益泰潤滑油脂貿易有限責任公司*	Mainland China	RMB28,000,000	100	Investment holding
嵊泗海鑫石油有限公司*	Mainland China	RMB50,000,000	100	Supply of oil products

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18. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Titan TQSL Holding Company Ltd	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 another member firm of the Ernst & Young global network.

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

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

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

On 11 December 2010, the Company entered into a sale and purchase agreement to dispose of its 95% equity interest in a subsidiary, QZ Shipyard. The disposal was not yet completed at the date of this report. Further details are set out in notes 5 and 49(b).

On 3 December 2009, the Group disposed of the entire 80% equity interest in Shenzhen Donger Petroleum & Chemicals Co. Ltd. ("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 to the note holders of Senior Notes Due 2012 (note 30), Convertible Notes Due 2015 (note 31) and PIK Notes Due 2015 (note 32).

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19. INTERESTS IN ASSOCIATES

	Group 2010 HK$'000	2009 HK$'000
Share of net assets	**299,793**	333,558
Goodwill on acquisition	**26,448**	36,448
	326,241	370,006
Due from/(to) associates	**4,406**	(993)
	330,647	369,013

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

The goodwill on acquisition as at 31 December 2010 is attributable to the Group's 30% equity interest in GZ Xiaohu (as defined below). The Group has performed impairment tests on the goodwill and its interests in the associate and no impairment provision is deemed to be necessary. The recoverable amount has 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 facilities are erected. The pre-tax discount rate applied to the cash flow projections is 13.2% and the cash flows beyond the five-year period are projected by using an average growth rate of 3% for terminal facilities revenues.

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19. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates as at 31 December 2010 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
福建石獅中油油品銷售有限公司	RMB6,000,000	Corporate	Mainland China	30	Oil product sale services
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 another member firm 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:

	2010 HK$'000	2009 HK$'000
Assets	**2,300,231**	2,432,723
Liabilities	**1,448,386**	1,465,031
Revenue	**505,343**	377,740
Profit/(loss) for the year	**30,799**	(776)

In December 2010, the Group disposed of its 30% interest in 福建中油油品倉儲有限公司 for net sale proceeds of RMB73,114,000 (approximately HK$84,287,000) which resulted in a loss on disposal of HK$16,312,000. Another associate, 嵊泗縣同盛石油有限公司, was dissolved in December 2010 and no material gain or loss was resulted from the dissolution.

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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	Investment holding
Guangzhou Nansha Titan Petrochemical Development Company Limited*†	US$87,790,000	Mainland China	50.1	50.1	Provision of oil and chemical storage services
Titan WP Storage Ltd.	Ordinary US$240,800	Bermuda	50.1	50.1	Investment holding
Titan Group Yangshan Investment Limited	Ordinary US$40	BVI	50.1	50.1	Investment holding
Sky Sharp Investments Limited	Ordinary US$16,000	BVI	50.1	50.1	Investment holding
Forever Fortune Holdings Limited	Ordinary HK$10,000 and Non-voting Deferred HK$10,000	Hong Kong	50.1	50.1	Investment holding
Fujian Titan Petrochemical Storage Development Co., Ltd.*#	US$40,000,000	Mainland China	50.1	50.1	Provision of oil berthing and storage services
Quanzhou Titan Petrochemical Terminal Development Co., Ltd*#	US$40,000,000	Mainland China	50.1	50.1	Provision of oil berthing and chemical storage services
Titan Group Nansha Investment Limited*	Ordinary HK$1	Hong Kong	50.1	50.1	Investment holding

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

* Not audited by Ernst & Young, Hong Kong or another member firm 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 33(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).

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

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

	2010	2009
	HK$'000	HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Non-current assets	**3,978,638**	3,442,413
Non-current liabilities	**(2,025,200)**	(1,840,716)
Current assets	**473,894**	552,492
Current liabilities	**(1,113,495)**	(927,281)
Net assets	**1,313,837**	1,226,908
Share of jointly-controlled entities' results:		
Revenue	**199,610**	163,139
Cost of sales	**(85,006)**	(67,752)
Gross profit	**114,604**	95,387
Other revenue	**7,893**	5,014
Expenses	**(37,674)**	(38,525)
Finance costs	**(126,308)**	(97,928)
Share of results of associates	**9,160**	(2,148)
Loss before tax	**(32,325)**	(38,200)
Tax	**(423)**	–
Loss after tax	**(32,748)**	(38,200)

21. OTHER DEPOSITS

In the prior year, the Group had a service deposit of HK$2,500,000 for chartering a vessel and deposits of HK$6,650,000 for purchases of certain property, plant and equipment.

22. INVENTORIES

At 31 December 2010, the Group had supplies for onshore storage operations of HK$1,523,000 (2009: HK$1,557,000) and oil products of HK$10,983,000 (2009: HK$151,396,000). At 31 December 2009, the Group also had supplies of HK$192,154,000 and work in progress of HK$62,762,000 for shipbuilding and building of ship repair facilities operations.

In addition, the Group had supplies of HK$136,742,000 for shipbuilding and building of ship repair facilities operations, which is included in assets of a disposal group classified as held for sale at 31 December 2010.

23. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2010	2009
	HK$'000	HK$'000
Accounts and bills receivable	**97,664**	316,855
Impairments	**(16,240)**	(14,956)
	81,424	301,899

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	
	2010	2009
	HK$'000	HK$'000
1 to 3 months	**49,957**	57,281
4 to 6 months	**6,081**	95,592
7 to 12 months	**8,214**	49,695
Over 12 months	**17,172**	99,331
	81,424	301,899

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31 December 2010

23. ACCOUNTS AND BILLS RECEIVABLE (continued)

As at 31 December 2010, accounts receivable in a disposal group (note 5) included HK$32,518,000 which was aged within one to three months and HK$253,201,000 aged over twelve months. The HK$32,518,000 was neither past due nor impaired while the HK$253,201,000 was more than three months past due.

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**14,956**	15,371
Impairment losses recognised/(reversed) (note 7)	**3,541**	(415)
Amounts written off as uncollectible	**(2,257)**	–
At 31 December	**16,240**	14,956

Included in the above balance is a provision for impairment for customers with an aggregate gross receivable balance of HK$32,451,000 (2009: HK$18,944,000). The net accounts receivable in respect of these customers after the provision of impairment amounted to HK$16,211,000 (2009: HK$3,988,000). These receivables 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 individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**49,957**	57,281
Less than 3 months past due	**6,081**	95,592
More than 3 months past due	**9,175**	145,038
	65,213	297,911

23. ACCOUNTS AND BILLS RECEIVABLE (continued)

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 good track records with the Group. Based on past experience, the directors of the Company are of the opinion that no provisions for impairments are necessary in respect of these balances as there have not been significant changes in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2010, included in the accounts and bills receivable of assets of a disposal group classified as held for sale are accounts receivable from Titan Oil for sales of vessels of HK$213,987,000 (2009: HK$142,951,000 included in the accounts and bills receivable) (note 44(iv)).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2009, prepayments for supplies in respect of the shipbuilding operations in the aggregate amount of HK$97,439,000 and input tax recoverable in Mainland China for purchases of shipbuilding supplies in the aggregate amount of HK$60,708,000 are included in prepayments, deposits and other receivables.

Other receivables were neither past due nor impaired as at 31 December 2010. As at 31 December 2009, included in other receivables aggregating HK$40,370,000 which were past due but not impaired, and 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 have been no recent histories of default.

25. CONTRACTS IN PROGRESS

	Group	
	2010	2009
	HK$'000	HK$'000
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**47,468**	356,970
Less: Direct costs incurred plus recognised profits less recognised losses to date, reclassified as assets held for sale (note 5)	**(37,364)**	–
	10,104	356,970

In the prior year, a foreseeable loss of HK$1,262,000 was recorded in contracts in progress.

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26. FINANCIAL GUARANTEE CONTRACTS

In 2010, the carrying value of financial guarantee contracts arising from financial guarantees granted by the Company to a bank for a loan to a subsidiary of the Group amounted to HK$8,549,000 (2009: HK$8,549,000).

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**263,891**	426,827	**2,262**	3,237
Time deposits	**162,386**	102,704	**–**	–
	426,277	529,531	**2,262**	3,237
Less: Amounts pledged for bank facilities (note 28(iii)) and restricted cash:				
Bank balances	**(82,761)**	(71,542)	**–**	–
Time deposits	**(94,610)**	(56,598)	**–**	–
Time deposits with original maturities of more than three months	**(66,626)**	(43,566)	**–**	–
	(243,997)	(171,706)	**–**	–
Cash and cash equivalents	**182,280**	357,825	**2,262**	3,237

At the end of the reporting period, including those classified under assets of a disposal group classified as held for sale, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$445,127,000 (2009: HK$421,814,000). 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.

28. INTEREST-BEARING BANK LOANS

Group	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000	2009 Effective interest rate (%) (Restated)	2009 Maturity (Restated)	2009 HK$'000 (Restated)
Current						
Bank loans – secured	**3.19–5.76**	**2011**	**483,814**	1.44–7.56	2010–2019	1,197,577
Bank loans – unsecured	**4.74–6.12**	**2011**	**317,247**	4.37–5.84	2010	389,102
			801,061			1,586,679
Non-current						
Bank loans – secured	**5.35–5.94**	**2012–2019**	**1,177,098**	2.82–6.24	2011–2019	1,135,942
Bank loans – unsecured	**5.35**	**2018**	**329,775**	5.40	2011–2017	239,888
			1,506,873			1,375,830
			2,307,934			2,962,509

	Group 2010 HK$'000	Group 2009 HK$'000 (Restated)
Bank loans repayable:		
Within one year	**801,061**	1,586,679
In the second year	**265,716**	210,661
In the third to fifth years, inclusive	**907,710**	836,888
Beyond five years	**333,447**	328,281
	2,307,934	2,962,509

As a result of the adoption of HK Interpretation 5, a term loan of HK$825,213,000 which contains a repayment on demand clause was reclassified to current portion of bank loans at 31 December 2009. Such term loan is callable by the lender, but management does not expect the lender to exercise its right to demand repayment in normal circumstances.

NOTES TO FINANCIAL STATEMENTS

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28. INTEREST-BEARING BANK LOANS (continued)

Certain of the Group's bank loans, including those classified as held for sale are secured by:

(i) vessels with an aggregate net carrying value of HK$612,321,000 in 2009 but such security was released in 2010;

(ii) construction in progress with an aggregate carrying value of HK$716,328,000 (2009: HK$477,848,000);

(iii) bank balances and deposits of HK$134,861,000 (2009: HK$81,514,000);

(iv) machinery with an aggregate net carrying value of HK$193,752,000 (2009: HK$208,568,000);

(v) buildings with an aggregate net carrying value of HK$443,492,000 (2009: HK$57,753,000);

(vi) prepaid land/seabed lease payments with an aggregate net carrying value of HK$944,843,000 (2009: HK$905,900,000);

(vii) storage facilities with an aggregate net carrying value of HK$1,384,078,000 (2009: HK$1,058,704,000);

(viii) contracts in progress with an aggregate carrying value of HK$144,584,000 in 2009 but such security was released in 2010;

(ix) accounts receivables with an aggregate carrying value of HK$56,319,000 (2009: Nil);

(x) corporate guarantees executed by the Company;

(xi) personal guarantees executed by a related party and a director of the Company.

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**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans – secured	**1,177,098**	1,130,899	**1,112,448**	1,072,633
Bank loans – unsecured	**329,775**	239,888	**319,526**	226,938
	1,506,873	1,370,787	**1,431,974**	1,299,571

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

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	
	2010	2009
	HK$'000	HK$'000
1 to 3 months	**71,317**	125,135
4 to 6 months	**67,877**	39,878
7 to 12 months	**49,235**	29,420
Over 12 months	**16,992**	23,275
	205,421	217,708
Other payables and accruals	**650,758**	962,513
	856,179	1,180,221

Accounts and bills payable are non-interest-bearing. Other payables and accruals are non-interest-bearing and have an average term of three months.

	Provision for product warranties	
	2010	2009
Group	**HK$'000**	HK$'000
At 1 January	**1,684**	1,682
Amounts utilised during the year	**(1,684)**	–
Exchange realignment	**–**	2
At 31 December	**–**	1,684

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 on the level of repairs. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

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

Pursuant to an indenture dated 17 March 2005 entered into by the Company, together with certain subsidiaries of the Company, which guarantee the issue of the Senior Notes Due 2012 (the "Subsidiary Guarantors") with Deutsche Bank Trust Company Americas as the trustee, the Company issued the Senior Notes Due 2012 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 Due 2012 are due on 18 March 2012 with a lump sum repayment, unless redeemed earlier pursuant to specified terms. The Senior Notes Due 2012 bear interest at the rate of 8.5% per annum, payable semi-annually in arrears on 18 March and 18 September each year, commencing on 18 September 2005, and are listed on the Singapore Exchange Securities Trading Limited.

The obligations of the Company under the Senior Notes Due 2012 are guaranteed by the Subsidiary Guarantors and the pledge of shares of certain Subsidiary Guarantors. The list of subsidiaries comprising the Subsidiary Guarantors and the shares pledged are more fully described in the Company's announcement dated 11 March 2005 together with details of the principal terms of the Senior Notes Due 2012.

The Company entered into negotiations with certain holders of the Senior Notes Due 2012 in connection with an exchange offer and consent solicitations proposed on 8 December 2009 (7 December 2009, New York City Time) and revised on 23 April 2010 (22 April 2010, New York City Time). Eventually, on 9 June 2010 (8 June 2010, New York City Time), the Company made a final exchange offer to exchange any and all of its outstanding Senior Notes Due 2012 properly tendered (and not validly withdrawn) for up to US$118,575,360 (approximately HK$924,888,000) aggregate principal amount of Convertible Notes Due 2015, up to US$21,444,480 (approximately HK$167,267,000) aggregate principal amount of PIK Notes Due 2015 and a cash payment of approximately US$65,000,000 (approximately HK$507,000,000) (the "Final Exchange Offer").

The Final Exchange Offer was completed on the settlement date, 28 July 2010 (27 July 2010, New York City Time) (the "Settlement Date"). Accordingly, the transactions contemplated in the memorandum have been consummated. The aggregate principal amount of Senior Notes Due 2012 accepted for exchange by the Company on the Settlement Date was US$209,490,000 (approximately HK$1,634,022,000). The Company issued US$78,728,000 (approximately HK$614,078,000) aggregate principal amount of Convertible Notes Due 2015 and US$14,193,000 (approximately HK$110,705,000) aggregate principal amount of PIK Notes Due 2015, and paid US$43,154,940 (approximately HK$336,609,000) in cash, in exchange for the tendered Senior Notes Due 2012. As a result, the Company recognised a gain on the Final Exchange Offer of HK$476,495,000.

In 2009, the Company repurchased an aggregate principal amount of US$17,816,000 (approximately HK$138,965,000) in Senior Notes Due 2012 and recognised a gain on repurchase of HK$90,522,000.

At 31 December 2010, the effective interest rate on the Senior Notes Due 2012 was 9.27% (2009: 9.27%) per annum. The outstanding principal and fair value of the Senior Notes Due 2012 at 31 December 2010 was US$105,870,000 (approximately HK$825,786,000) (2009: US$315,360,000 (approximately HK$2,459,808,000)) and US$66,698,000 (approximately HK$520,244,000) (2009: US$71,744,000 (approximately HK$559,606,000)), respectively.

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

As a result of the Final Exchange Offer detailed in note 30, the Company issued US$78,728,000 (approximately HK$614,078,000) aggregate principal amount of Convertible Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered Senior Notes Due 2012.

The Convertible Notes Due 2015 are due on 13 July 2015 with a single repayment at 151.621% of its principal amount, unless earlier redeemed, repurchased or purchased by the Company or converted. The Convertible Notes Due 2015 bear no interest, and are listed on the Singapore Exchange Securities Trading Limited. Holders of the Convertible Notes Due 2015 are entitled to convert their Convertible Notes Due 2015 with a minimum principal amount of US$1,000 or integral multiples of US$500 in excess thereof based on an initial conversion rate of 10,915 conversion shares per US$1,000 in principal amount of Convertible Notes Due 2015, subject to adjustments. This implies an initial conversion price (subject to adjustments) of approximately US$0.0916 (approximately HK$0.7145) per conversion share. Conversion may occur on any day prior to (and including) the seventh business day prior to the maturity date of the Convertible Notes Due 2015.

Pursuant to the terms of the Convertible Notes Due 2015 indenture, the obligations of the Company under the Convertible Notes Due 2015 are guaranteed by certain subsidiary guarantors and a pledge of the subsidiary guarantors shares. Details of the principal terms of the Convertible Notes Due 2015 are more fully described in the Company's announcement dated 9 June 2010.

During the year, an aggregate principal amount of US$10,097,000 (approximately HK$78,757,000) were repurchased by the Company at an aggregate consideration of US$9,782,000 (approximately HK$76,299,000), resulting in a net loss on repurchases, after write off unamortised transaction costs, of HK$61,000.

In addition, during the year, an aggregate principal amount of US$16,680,000 (approximately HK$130,104,000) Convertible Notes Due 2015 was converted into 182,062,197 ordinary shares of HK$0.01 each in the Company at the conversion price of US$0.0916 (approximately HK$0.7145) per share.

The Convertible Notes Due 2015 comprise a financial liability at amortised cost and an embedded derivative. The effective interest rate on the Convertible Notes Due 2015 was 9.11% per annum. At 31 December 2010, the fair value of the embedded derivatives liability was HK$123,632,000.

At 31 December 2010, the outstanding principal and fair value of the Convertible Notes Due 2015 was US$51,951,000 (approximately HK$405,218,000) and US$50,285,000 (approximately HK$392,223,000), respectively.

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32. GUARANTEED SENIOR PAYMENT-IN-KIND NOTES (“PIK NOTES DUE 2015”)

As a result of the Final Exchange Offer detailed in note 30, the Company issued US$14,193,000 (approximately HK$110,705,000) aggregate principal amount of PIK Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered Senior Notes Due 2012.

The PIK Notes Due 2015 are due on 13 July 2015 with a single repayment of the principal, unless earlier repurchased pursuant to the terms of the PIK Notes indenture. The PIK Notes Due 2015 bear interest at the rate of 8.5% per annum payable semi-annually in arrears commencing on 13 January 2011 either by cash or in the form of additional PIK Notes Due 2015, and are listed on the Singapore Exchange Securities Trading Limited.

Pursuant to the terms of the PIK Notes Due 2015 indenture, the obligations of the Company under the PIK Notes Due 2015 are guaranteed by certain subsidiary guarantors and a pledge of the shares of such subsidiaries. Details of the principal terms of the PIK Notes Due 2015 are more fully described in the Company’s announcement dated 9 June 2010.

During the year, an aggregate principal amount of US$3,539,500 (approximately HK$27,608,000) PIK Notes Due 2015 were repurchased by the Company at an aggregate consideration of US$3,448,000 (approximately HK$26,893,000), resulting in a net gain on repurchases, after write off unamortised transaction costs, of HK$43,000.

The PIK Notes Due 2015 is carried at amortised cost with an effective interest rate of 10.91% per annum. At 31 December 2010, the outstanding principal of the PIK Notes Due 2015 was US$10,653,500 (approximately HK$83,097,000).

33. 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**				
At 1 January 2009	75,559	257,384	75,559	257,384
Add: Dividends on convertible preferred shares (classified as financial liabilities)	–	32,712	–	32,712
At 31 December 2009	**75,559**	**290,096**	**75,559**	**290,096**
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	**–**	**35,225**	**–**	**35,225**
At 31 December 2010	**75,559**	**325,321**	**75,559**	**325,321**
(b) **TGIL preferred shares**				
At 1 January 2009	517,837	316,009	–	–
Add: Dividends on convertible preferred shares (classified as financial liabilities)	–	39,001	–	–
At 31 December 2009	**517,837**	**355,010**	**–**	**–**
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	**–**	**39,000**	**–**	**–**
At 31 December 2010	**517,837**	**394,010**	**–**	**–**

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 values of the liability portion of Titan preferred shares and TGIL preferred shares were estimated at the issuance date. The residual amount of Titan preferred shares 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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34. NOTES PAYABLE (“K LINE NOTES DUE 2013”)

On 5 August 2008, the Group signed an agreement with Kawasaki Kisen Kaisha Ltd (“K Line”) for K Line to purchase notes for US$25 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 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.

The proposed disposal of QZ shipyard as mentioned in note 5 may trigger the early redemption clause under which K Line has the right to early redeem the notes at the Applicable Redemption Amount. As a result, K Line Notes Due 2013 become repayable on demand and are classified as current liabilities at 31 December 2010. The directors of the Company do not expect K Line has any intention to withdraw or recall their investment in QZ Shipyard and their K Line Notes Due 2013, because the Company continues to manage the business operation of QZ Shipyard subsequent to the disposal until the year ended 31 December 2012 as described in note 5.

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 K Line Notes Due 2013 comprised a financial liability at amortised cost and embedded derivatives. As at 31 December 2010, the fair value of the embedded derivatives asset was HK$18,286,000 (2009: HK$18,286,000).

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

On 14 July 2009, the Company, TOSIL, Warburg Pincus and TGIL entered into an agreement by which TOSIL and Warburg Pincus became entitled to provide, pro rata to their shareholdings in TGIL, funding of up to HK$312.6 million (US$40.1 million) to TGIL through the subscription of TGIL Notes Due 2014.

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 TGIL'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 TGIL Notes Due 2014 in the principal amount of HK$156 million (US$20 million). The fair values of the liability portion and embedded derivative of the TGIL Notes Due 2014 were estimated at the issuance date. The residual amount of HK$92.3 million of TGIL Notes Due 2014 was assigned as the equity portion and was included in the shareholders' equity of the Group.

On 28 December 2010, the Company announced that the option period for TOSIL's option to subscribe for TGIL Notes Due 2014 was extended to 30 June 2011. On 13 January 2011, TOSIL exercised its right to subscribe for TGIL Notes Due 2014 in the principal amount of HK$156.6 million (approximately US$20.1 million) and the subscription was completed when the relevant TGIL Notes Due 2014 were issued on 21 January 2011. Further details are set out in note 49(b).

The liability portion of TGIL Notes Due 2014 comprises a financial liability at amortised cost and an embedded derivative. As at 31 December 2010, the fair value of the embedded derivatives liability was HK$348,000 (2009: HK$348,000).

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36. 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 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
At 31 December 2009 and 1 January 2010	**4,026**	**153,416**	**157,442**
Reclassified as held for sale (note 5)	**–**	**(112,180)**	**(112,180)**
Exchange realignments	**356**	**–**	**356**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2010	**4,382**	**41,236**	**45,618**

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 therefore became 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 2010 and 2009, 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, associates and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is unlikely that these subsidiaries, associates and jointly-controlled entities will distribute such earnings in the foreseeable future. At 31 December 2010 and 2009, 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 material liabilities for additional taxes should such amounts be remitted.

37. SHARE CAPITAL

Shares

	2010 Number of shares	2010 Nominal value of shares HK$'000	2009 Number of shares	2009 Nominal value of shares HK$'000
Authorised:				
Ordinary shares of HK$0.01 each at 31 December (note (a))	**14,445,000,000**	**144,450**	9,445,000,000	94,450
Convertible preferred shares of HK$0.01 each at 31 December	**555,000,000**	**5,550**	555,000,000	5,550
Issued and fully paid:				
Ordinary shares of HK$0.01 each at 1 January	**6,562,460,721**	**65,625**	6,473,859,010	64,739
Issue of shares upon exercise of share options (note 38)	**22,210,000**	**222**	–	–
Issue of shares by share subscription (note (b))	**1,000,000,000**	**10,000**	–	–
Conversion of Convertible Notes Due 2015 (note (c))	**182,062,197**	**1,820**	–	–
Issue of earn-out shares (note 44(v))	**–**	**–**	88,601,711	886
Ordinary shares of HK$0.01 each at 31 December	**7,766,732,918**	**77,667**	6,562,460,721	65,625
Convertible preferred shares of HK$0.01 each at 1 January and 31 December	**555,000,000**	**5,550**	555,000,000	5,550

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37. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(a) Pursuant to an ordinary resolution passed on 16 April 2010, the authorised share capital of the Company was increased from HK$100,000,000 divided into 9,445,000,000 ordinary shares of HK$0.01 each and 555,000,000 convertible preferred shares of HK$0.01 each to HK$150,000,000 divided into 14,445,000,000 ordinary shares of HK$0.01 each and 555,000,000 convertible preferred shares of HK$0.01 each by the creation of an additional 5,000,000,000 ordinary shares of HK$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company.

(b) On 24 May 2010, the Company entered into a subscription agreement with a subscriber under which the Company conditionally agreed to allot and issue, and the subscriber conditionally agreed to subscribe for 1,000,000,000 new ordinary shares at a price of HK$0.37 per new subscription share. The subscription of shares was completed on 23 July 2010.

Further details in respect of the above are included in the Company's announcements dated 24 May 2010, 8 June 2010, 15 June 2010, 7 July 2010 and 23 July 2010 and a circular dated 31 May 2010.

(c) During the year, Convertible Notes Due 2015 with an aggregate principal amount of US$16,680,000 (approximately HK$130,104,000) were converted into 182,062,197 ordinary shares of HK$0.01 each at the conversion price of approximately US$0.0916 (approximately HK$0.7145) per share.

(d) All new ordinary shares rank pari passu in all respects with other ordinary shares in issue.

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 38 to the financial statements.

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38. SHARE OPTION SCHEME

(a) 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 8.31% 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	The period to be determined and notified by the directors at the time of making an offer provided that such period shall not exceed the period of 10 years from the date of the offer.
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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38. SHARE OPTION SCHEME (continued)

(b) 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 2010	Granted during the year	Lapsed during the year	Exercised during the year***	At 31 December 2010	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	11,225,000	–	(500,000)	(1,145,000)	9,580,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	11,225,000	–	(500,000)	(1,145,000)	9,580,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	250,000	–	(250,000)	–	–	24 April 2007	24 April 2008 to 23 April 2013	0.70
	250,000	–	(250,000)	–	–	24 April 2007	24 April 2009 to 23 April 2014	0.70
	38,600,000	–	(2,760,000)	(19,920,000)	15,920,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	94,320,000	–	(8,470,000)	–	85,850,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	55,720,000	–	(4,620,000)	–	51,100,000	1 February 2008	1 February 2012 to 31 January 2017	0.45
	52,300,000	–	(5,300,000)	–	47,000,000	1 February 2008	1 February 2013 to 31 January 2018	0.45
	263,890,000	–	(22,650,000)	(22,210,000)	219,030,000			
	283,890,000	–	(22,650,000)	(22,210,000)	239,030,000			

38. SHARE OPTION SCHEME (continued)

(b) (continued)

* 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 were vested to grantees in four tranches. 20% of such options were vested on 1 February 2010 with an exercise period from 1 February 2010 to 31 January 2015; 40% of such options were vested on 1 February 2011 with an exercise period from 1 February 2011 to 31 January 2016; 20% of such options 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.

*** The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$0.718.

During the year, no share options were cancelled.

At the end of the reporting period, the Company had outstanding share options for the subscription of 239,030,000 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 239,030,000 additional ordinary shares of the Company and additional share capital of HK$2,390,300 and share premium of HK$110,346,400 (before issue expenses).

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38. SHARE OPTION SCHEME (continued)

(c) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2010		2009	
	Weighted average exercise price per share HK$	Number of shares issuable under options granted	Weighted average exercise price per share HK$	Number of shares issuable under options granted
Outstanding at 1 January	0.472	283,890,000	0.476	349,560,000
Exercised	0.478	(22,210,000)	–	–
Lapsed	0.467	(22,650,000)	0.497	(65,670,000)
Outstanding at 31 December	0.472	239,030,000	0.472	283,890,000

At 31 December 2010, out of the 239,030,000 outstanding options (31 December 2009: 283,890,000), 45,080,000 options (31 December 2009: 22,950,000) were vested and exercisable at a weighted average exercise price of HK$0.565 (31 December 2009: HK$0.720) per share.

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39. RESERVES

(a) Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	PRC statutory reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Earn-out shares reserve HK$'000	Equity component of TGIL Notes Due 2014 HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 accumulated losses upon lapse of share options after vesting period		–	–	(2,396)	–	–	–	–	–	2,396	–
Transfer of earn-out shares reserves to share premium		51,389	–	–	–	–	–	(52,275)	–	–	(886)
Issue of TGIL Notes Due 2014	35	–	–	–	–	–	–	–	92,277	–	92,277
At 31 December 2009 and 1 January 2010		1,940,136	18,261	32,838	–	57,399	193,332	–	92,277	(1,265,818)	1,068,425
Total comprehensive loss for the year		–	–	–	–	–	80,791	–	–	(579,774)	(498,983)
Equity-settled share option arrangements		–	–	9,193	–	–	–	–	–	–	9,193
Transfer to accumulated losses upon lapse of share options after vesting period		–	–	(453)	–	–	–	–	–	453	–
Exercise of share options	38	13,767	–	(3,384)	–	–	–	–	–	–	10,383
Issue of ordinary shares	37(b)	360,000	–	–	–	–	–	–	–	–	360,000
Share issue expenses		(784)	–	–	–	–	–	–	–	–	(784)
Conversion of Convertible Notes Due 2015	31	124,105	–	–	–	–	–	–	–	–	124,105
Transfer to PRC statutory reserve		–	–	–	559	–	3	–	–	(562)	–
At 31 December 2010		2,437,224	18,261	38,194	559	57,399	274,126	–	92,277	(1,845,701)	1,072,339

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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39. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Earn-out shares reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 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		51,389	–	–	(52,275)	–	(886)
At 31 December 2009 and 1 January 2010		**1,940,136**	**60,916**	**32,838**	**–**	**(439,231)**	**1,594,659**
Total comprehensive loss for the year	12	**–**	**–**	**–**	**–**	**(554,853)**	**(554,853)**
Equity-settled share option arrangements		**–**	**–**	**9,193**	**–**	**–**	**9,193**
Transfer to accumulated losses upon lapse of share options after vesting period		**–**	**–**	**(453)**	**–**	**453**	**–**
Exercise of share options	38	**13,767**	**–**	**(3,384)**	**–**	**–**	**10,383**
Issue of ordinary shares	37(b)	**360,000**	**–**	**–**	**–**	**–**	**360,000**
Share issue expenses		**(784)**	**–**	**–**	**–**	**–**	**(784)**
Conversion of Convertible Notes Due 2015	31	**124,105**	**–**	**–**	**–**	**–**	**124,105**
At 31 December 2010		**2,437,224**	**60,916**	**38,194**	**–**	**(993,631)**	**1,542,703**

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.

40. DISPOSAL OF A SUBSIDIARY

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

	Notes	2009 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)*
Non-controlling interests		(1,219)
Release from exchange fluctuation reserve	39(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:

	2009 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.

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41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 December 2010, the Group did not lease out any vessels under operating lease arrangements to third parties. At 31 December 2009, the Group leased vessels under operating lease arrangements, negotiated for one year and five years.

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	
	2010	2009
	HK$'000	HK$'000
Vessels		
Within one year	–	16,576
In the second to fifth years, inclusive	–	17,795
	–	34,371

(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 twenty 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	
	2010	2009
	HK$'000	HK$'000
Vessels		
Within one year	**431,326**	146,668
In the second to fifth years, inclusive	**610,961**	194,396
	1,042,287	341,064
Office premises		
Within one year	**12,665**	9,508
In the second to fifth years, inclusive	**29,290**	19,035
Beyond five years	**67,821**	71,095
	109,776	99,638
	1,152,063	440,702

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42. COMMITMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Capital contribution commitments for associates in Mainland China	**70,531**	68,408
Commitments for construction of oil berthing and storage facilities of jointly-controlled entities in Mainland China	**20,111**	213,487
Commitment for shipbuilding and ship repair facilities in Mainland China*	**939,102**	1,241,065
Commitment for conversion of vessels	**–**	60,840
	1,029,744	1,583,800

* At 31 December 2010, such commitment was associated with the disposal group classified as held for sale.

	Company	
	2010	2009
	HK$'000	HK$'000
Capital contribution commitments for a subsidiary in Mainland China	**234,000**	234,000

43. CONTINGENT LIABILITIES

At 31 December 2010, guarantees aggregating HK$22,230,000 (2009: HK$114,617,000) had been given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$19,460,000 (2009: HK$110,716,000) of the facilities had been utilised by subsidiaries of the Company.

At 31 December 2009, a guarantee of HK$39,000,000 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 and the guarantee was released during the year.

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. 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. The proceedings were settled in the current year and the Group has no liabilities in relation to this case at 31 December 2010.

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.

NOTES TO FINANCIAL STATEMENTS

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44. RELATED PARTY TRANSACTIONS

As referred to elsewhere in these financial statements, the Group had the following material transactions with related parties during 2010 and 2009:

(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$608,000 (approximately HK$3,486,000) (2009: SG$608,000 (approximately HK$3,247,000)) to Titan Oil for the lease of the office premises, which is comparable to the prevailing market rental for similar properties.

(ii) Chartering vessels

On 1 September 2010, a subsidiary of the Group entered into five charter agreements with Oceanic Shipping Pte. Ltd. ("Oceanic Shipping"), a company incorporated in Singapore and wholly-owned by a director, to charter five vessels for a term of three years commencing from 1 September 2010 to 31 August 2013. During the year, the Group paid a total amount of US$4,089,000 (approximately HK$31,894,000) in charter fees to Oceanic Shipping, which is comparable to the prevailing market rates for similar bareboat charters and terms. This transaction constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules, further details are included in the Company's announcement dated 1 September 2010.

(iii) Bank guarantees

As at 31 December 2010, a guarantee was granted by one of the directors of the Company to a bank in connection with bank loans of RMB1,095,497,000 (approximately HK$1,290,241,000) (2009: RMB722,400,000 and US$3,308,000 (in aggregate approximately HK$851,018,000)) granted to a subsidiary of the Company.

(iv) Build and sale of vessels

As at 31 December 2010, the shipbuilding subsidiary of the Group had an amount due from Titan Oil of HK$213,987,000, which was included in accounts and bills receivable of assets of a disposal group classified as held for sale (2009: a net amount due to Titan Oil of HK$138,287,000, of which HK$142,951,000 and HK$281,238,000 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, except for an amount of HK$132,867,000 (2009: Nil) with a fixed repayment schedule. The sale of vessels to Titan Oil in the current year amounted to HK$78,778,000 (2009: HK$192,801,000).

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31 December 2010

44. RELATED PARTY TRANSACTIONS (continued)

(v) Issue of earn-out shares

As detailed in note 17 to the financial statements, earn-out shares were to be issued to Titan Oil or its nominees when it was probable that the Shipyard Group could meet specified target NPBT. Since no profits were reported for either 2010 or 2009, the Company was not obligated to issue the 2010 and 2009 tranche earn-out shares.

(vi) Other advances with Titan Oil and its subsidiaries

As at 31 December 2010, the Group had an amount due from Titan Oil of HK$133,000 (2009: an amount due to Titan Oil of HK$9,720,000) which is unsecured, interest-free and has no fixed terms of repayment.

As at 31 December 2010, the Group had an amount due to a subsidiary of Titan Oil of RMB135,000,000 (approximately HK$158,999,000) (2009: RMB700,000 (approximately HK$800,000)) which is unsecured, interest-free and has 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:

Group

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from associates	**–**	–	**4,406**	–	**4,406**	–
Other deposits	**–**	–	**–**	9,150	**–**	9,150
Accounts and bills receivable	**–**	–	**81,424**	301,899	**81,424**	301,899
Financial assets included in prepayments, deposits and other receivables	**–**	–	**463,535**	313,715	**463,535**	313,715
Contracts in progress	**–**	–	**10,104**	356,970	**10,104**	356,970
Pledged deposits and restricted cash	**–**	–	**243,997**	171,706	**243,997**	171,706
Cash and cash equivalents	**–**	–	**182,280**	357,825	**182,280**	357,825
	–	–	**985,746**	1,511,265	**985,746**	1,511,265

NOTES TO FINANCIAL STATEMENTS

31 December 2010

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due to associates	**–**	–	**–**	993	**–**	993
Accounts and bills payable	**–**	–	**205,421**	217,708	**205,421**	217,708
Financial liabilities included in other payables and accruals	**–**	–	**650,758**	960,829	**650,758**	960,829
Interest-bearing bank loans	**–**	–	**2,307,934**	2,962,509	**2,307,934**	2,962,509
Senior Notes Due 2012	**–**	–	**840,333**	2,491,264	**840,333**	2,491,264
Convertible Notes Due 2015	**123,632**	–	**285,102**	–	**408,734**	–
PIK Notes Due 2015	**–**	–	**84,360**	–	**84,360**	–
Liability portion of convertible preferred shares	**–**	–	**719,331**	645,106	**719,331**	645,106
K Line Notes Due 2013	**(18,286)**	(18,286)	**209,627**	203,622	**191,341**	185,336
TGIL Notes Due 2014	**348**	348	**82,733**	67,917	**83,081**	68,265
Vessel deposit received	**–**	–	**–**	2,500	**–**	2,500
	105,694	(17,938)	**5,385,599**	7,552,448	**5,491,293**	7,534,510

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from subsidiaries	**–**	–	**5,014,634**	5,870,133	**5,014,634**	5,870,133
Financial assets included in prepayments, deposits and other receivables	**–**	–	**624**	14	**624**	14
Cash and cash equivalents	**–**	–	**2,262**	3,237	**2,262**	3,237
	–	–	**5,017,520**	5,873,384	**5,017,520**	5,873,384

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**–**	–	**27,716**	3,856	**27,716**	3,856
Due to subsidiaries	**–**	–	**1,869,135**	1,599,377	**1,869,135**	1,599,377
Financial guarantee contracts	**–**	–	**8,549**	8,549	**8,549**	8,549
Senior Notes Due 2012	**–**	–	**840,333**	2,491,264	**840,333**	2,491,264
Convertible Notes Due 2015	**123,632**	–	**285,102**	–	**408,734**	–
PIK Notes Due 2015	**–**	–	**84,360**	–	**84,360**	–
Liability portion of convertible preferred shares	**–**	–	**325,321**	290,096	**325,321**	290,096
	123,632	–	**3,440,516**	4,393,142	**3,564,148**	4,393,142

NOTES TO FINANCIAL STATEMENTS

31 December 2010

46. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Other deposits, accounts and bills receivable, accounts and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, contracts in progress, pledged deposits and restricted cash, cash and cash equivalents approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K Line Notes Due 2013 and vessels deposits received have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risks and remaining maturities. The fair values of the liability portion of the convertible preferred shares and TGIL Notes Due 2014 are estimated using equivalent market interest rates for similar instruments.

The fair values of embedded derivative financial instruments included under Convertible Notes Due 2015, K Line Notes Due 2013 and TGIL Notes Due 2014 are measured using valuation techniques incorporated with market observable inputs.

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)

46. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Assets measured at fair value:

Group

As at 31 December 2010:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Embedded derivative financial instruments, included under K Line Notes Due 2013	–	18,286	–	18,286

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 K Line Notes Due 2013	–	18,286	–	18,286

The Company did not have any financial assets measured at fair value as at 31 December 2009 and 2010.

Liabilities measured at fair value:

Group

As at 31 December 2010:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Embedded derivative financial instruments, included under:				
Convertible Notes Due 2015	–	123,632	–	123,632
TGIL Notes Due 2014	–	348	–	348
Total	–	123,980	–	123,980

NOTES TO FINANCIAL STATEMENTS

31 December 2010

46. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

Group (continued)

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 TGIL Notes Due 2014	–	348	–	348

Company

As at 31 December 2010:

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Embedded derivative financial instruments, included under Convertible Notes Due 2015	**–**	**123,632**	**–**	**123,632**

The Company did not have any financial liabilities measured at fair value as at 31 December 2009.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K Line Notes Due 2013, TGIL Notes Due 2014, 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.

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).

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2010		
Hong Kong dollar	**4-28**	**48**
Hong Kong dollar	**(4-28)**	**(48)**
2009		
Hong Kong dollar	15–56	505
Hong Kong dollar	(15–56)	(505)

NOTES TO FINANCIAL STATEMENTS

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risks

Credit risks arise from the inability of a counterparty to meet the payment terms. 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 and bank guarantees, etc. Therefore, the Group does not expect to incur any material credit losses on its risk management.

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

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:

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31 December 2010

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risks (continued)

Group

	On demand or within one year		Over one year		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due to associates	**–**	993	**–**	–	**–**	993
Accounts and bills payable	**205,421**	217,708	**–**	–	**205,421**	217,708
Financial liabilities included in other payables and accruals	**646,942**	957,039	**–**	–	**646,942**	957,039
Interest-bearing bank loans	**978,348**	916,748	**2,079,334**	2,689,235	**3,057,682**	3,605,983
Senior Notes Due 2012	**70,192**	209,084	**860,882**	2,773,434	**931,074**	2,982,518
Convertible Notes Due 2015	**33,779**	–	**578,670**	–	**612,449**	–
PIK Notes Due 2015	**6,927**	–	**118,667**	–	**125,594**	–
Liability portion of convertible preferred shares	**–**	–	**1,090,800**	1,090,800	**1,090,800**	1,090,800
K Line Notes Due 2013	**199,381**	4,691	**–**	199,381	**199,381**	204,072
TGIL Notes Due 2014	**1,560**	1,560	**159,968**	161,528	**161,528**	163,088
Vessel deposit received	**–**	–	**–**	2,500	**–**	2,500
	2,142,550	2,307,823	**4,888,321**	6,916,878	**7,030,871**	9,224,701

Company

	On demand or within one year		Over one year		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**27,716**	3,856	**–**	–	**27,716**	3,856
Due to subsidiaries	**53,857**	–	**1,815,278**	1,599,377	**1,869,135**	1,599,377
Senior Notes Due 2012	**70,192**	209,084	**860,882**	2,773,434	**931,074**	2,982,518
Convertible Notes Due 2015	**33,779**	–	**578,670**	–	**612,449**	–
PIK Notes Due 2015	**6,927**	–	**118,667**	–	**125,594**	–
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	**19,460**	110,716	**–**	–	**19,460**	110,716
	211,931	323,656	**3,684,297**	4,683,611	**3,896,228**	5,007,267

NOTES TO FINANCIAL STATEMENTS

31 December 2010

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risks

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

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
2010		
If United States dollar weakens against RMB	**1.24**	**1,557**
If United States dollar strengthens against RMB	**1.24**	**(1,557)**
2009		
If United States dollar weakens against RMB	1.11	2,939
If United States dollar strengthens against RMB	1.11	(2,939)

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 2010 and 2009.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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	
	2010	2009
	HK$'000	HK$'000
Interest-bearing bank loans	**3,790,059**	2,962,509
Senior Notes Due 2012	**840,333**	2,491,264
Convertible Notes Due 2015	**408,734**	–
PIK Notes Due 2015	**84,360**	–
K Line Notes Due 2013	**191,341**	185,336
TGIL Notes Due 2014	**83,081**	68,265
Total debts	**5,397,908**	5,707,374
Total assets	**9,517,212**	9,446,295
Gearing ratio	**57%**	60%

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, the comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period. Certain comparative amounts in note 4 under the heading "Segment Information" have been reclassified to conform with the current year presentation. In the opinion of the Company's directors, such reclassification provide a more appropriate presentation on the Group's business segments.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

49. EVENTS AFTER THE REPORTING PERIOD

(a) Subscription of TGIL Notes Due 2014

On 13 January 2011, TOSIL exercised its right to subscribe for TGIL Notes Due 2014 in the principal amount of approximately HK$156.6 million (approximately US$20.1 million) and the subscription was completed when the relevant TGIL Notes Due 2014 were issued on 21 January 2011.

Further details in respect of the above are included in the Company's announcement dated 13 January 2011.

(b) Disposal of QZ Shipyard

As described in note 5, the proposed disposal of QZ Shipyard were duly approved by shareholders in a special general meeting held on 20 January 2011 and the requisite approvals from the relevant authorities in Mainland China have been duly obtained. The proposed disposal has yet to be completed at the date of this report and will be completed upon registration of the transfer of the equity interests in QZ Shipyard.

Further details in respect of the above are included in the Company's announcement dated 20 January 2011.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2011.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling 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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE					
Continuing operations	**1,924,169**	1,619,815	7,238,059	7,734,473	6,637,088
Discontinued operations	**187,330**	385,434	3,854,885	9,269,845	4,822,892
	2,111,499	2,005,249	11,092,944	17,004,318	11,459,980
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(508,116)**	(429,085)	(425,823)	(97,502)	62,778
Discontinued operations	**(78,348)**	(105,828)	(1,182,402)	73,024	47,711
	(586,464)	(534,913)	(1,608,225)	(24,478)	110,489
Tax					
Continuing operations	**6,076**	(488)	2,664	(12,458)	(10,748)
Discontinued operations	**–**	–	36	5,964	(3,229)
	6,076	(488)	2,700	(6,494)	(13,977)
PROFIT/(LOSS) FOR THE YEAR	**(580,388)**	(535,401)	(1,605,525)	(30,972)	96,512
Attributable to:					
Owners of the Company	**(580,800)**	(536,087)	(1,600,557)	(29,104)	100,333
Non-controlling interests	**412**	686	(4,968)	(1,868)	(3,821)
	(580,388)	(535,401)	(1,605,525)	(30,972)	96,512

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**9,517,212**	9,446,295	8,998,992	12,774,943	8,947,036
TOTAL LIABILITIES	**(7,773,810)**	(7,710,220)	(6,826,211)	(9,089,734)	(6,795,131)
CONTINGENTLY REDEEMABLE EQUITY IN A JOINTLY-CONTROLLED ENTITY	**(517,837)**	(517,837)	(517,837)	(517,837)	–
NON-CONTROLLING INTERESTS	**–**	(8,629)	(23,751)	(115,487)	(102,997)
	1,225,565	1,209,609	1,631,193	3,051,885	2,048,908

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
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
Shenzhen Development Bank

AUDITORS

Ernst & Young

SOLICITORS

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Skadden, Arps, Slate, Meagher & Flom LLP
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