Titan Petrochemicals Group Limited

Stock Code: 1192

2011
Annual Report

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 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

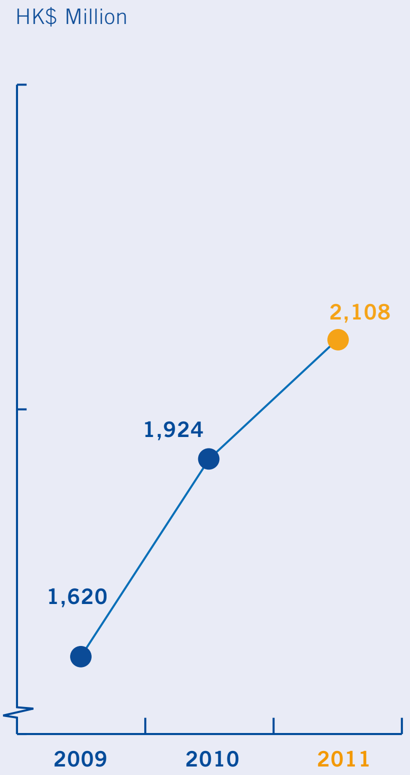
HK$ Million	2011	2010
Revenue		
— Continuing Operations	**2,108**	1,924
— Discontinued Operation	**89**	187
	2,197	2,111
Loss attributable to shareholders		
— Continuing Operations	**(570)**	(503)
— Discontinued Operation	**(213)**	(78)
	(783)	(581)

Business Highlights

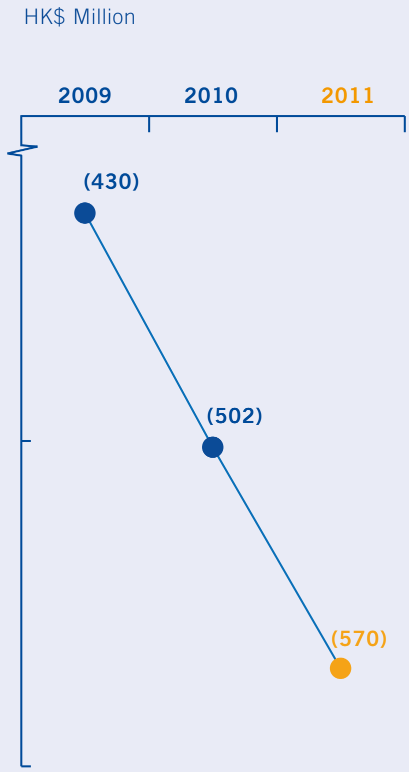
- The continued bad markets in all business sectors, other than Onshore Storage, has had a continuing significant negative impact on Group results
- On 18 March 2012, the Group announced that Grand China Logistics Holding (Group) Company Limited ("Grand China") had not fulfilled its payment obligations in accordance with the agreed schedule and, therefore, the Shipyard Disposal transaction has not yet been consummated
- On 27 March 2012, the Group announced the appointment of Nomura International (Hong Kong) Limited as its sole financial adviser in connection with the restructuring and implementation of its refinancing plans
- Shanghai Futures Exchange awarded A* Standard Delivery Point status and designated an additional 50,000 cubic meters capacity at Nansha Terminal, bringing the total physical delivery terminal capacity to 300,000 cubic meters
- Fujian Terminal became the only dangerous liquid bonded storage in Quanzhou and also completed construction of Phase II comprised of 339,000 cubic meters of oil and products fuel oil storage tanks together with a 100,000 DWT jetty in August 2011
- Shanghai Yangshan Terminal completed construction of Phase II of its 47,000 cubic meters aviation kerosene and diesel oil tanks and started trial operations in March 2011
- JP Morgan recognises Shanghai Yangshan Terminal as a high standard storage facility with quality management
- Shandong Yantai Terminal began trial operations with 360,000 cubic meters and 2 jetties and it is currently one of China's national strategic oil reserve bases for crude oil

FINANCIAL HIGHLIGHTS

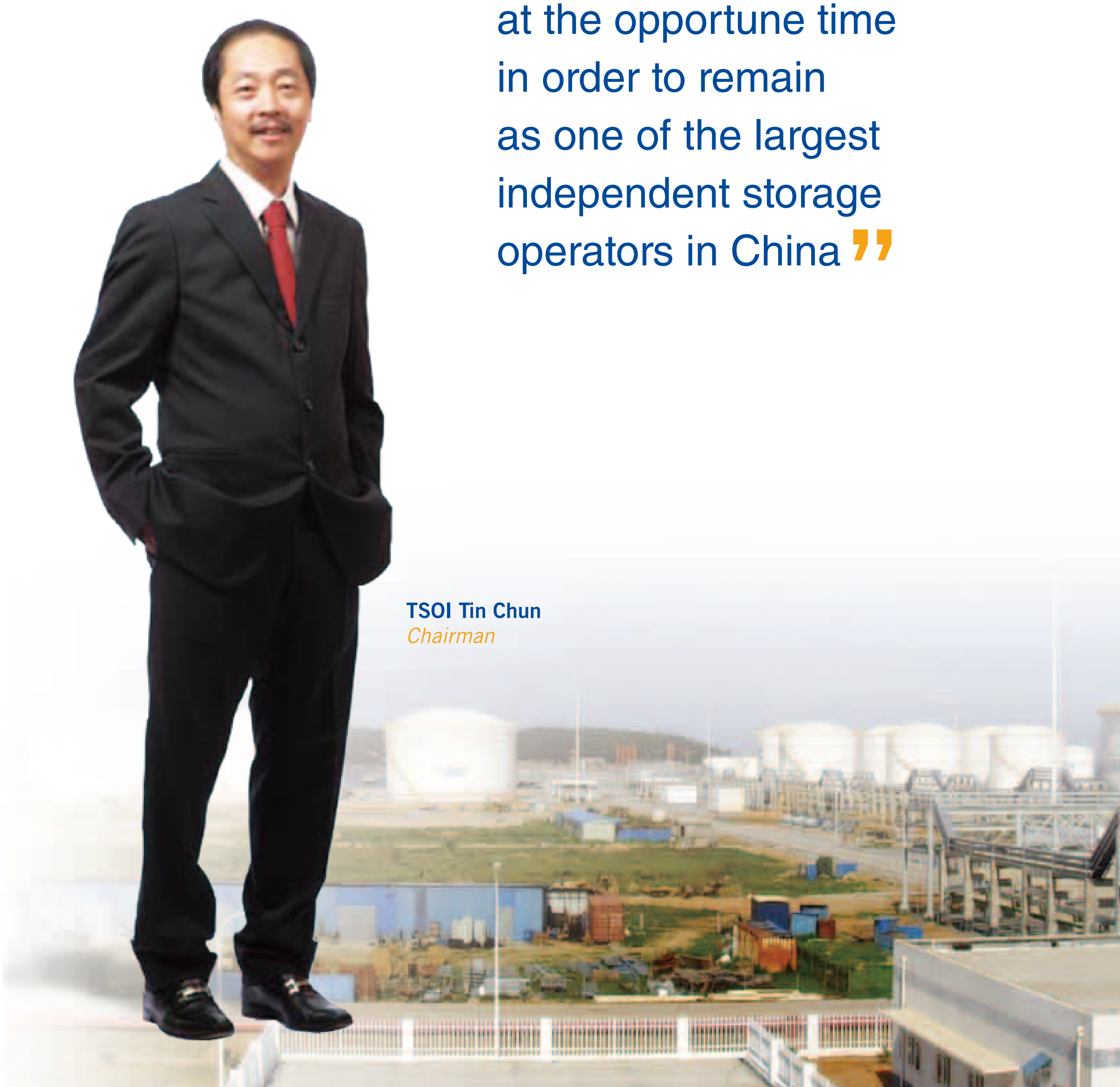
Revenue – continuing operations



Loss for the year – continuing operations



"Titan will continue with the expansion of its core businesses at the opportune time in order to remain as one of the largest independent storage operators in China"



TSOI Tin Chun
Chairman

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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

CHAIRMAN'S STATEMENT

Results

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

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

Financial Resources

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

General Business Review

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

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

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

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

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

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

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

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

Floating Storage Units (Offshore Storage)

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

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

China Terminals (Onshore Storage)

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

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

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

CHAIRMAN'S STATEMENT

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

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

Transportation and Supply/Distribution

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

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

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

Shipyard

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

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

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

Outlook

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

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

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

Summary

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

Tsoi Tin Chun
Chairman

Hong Kong, 11 May 2012

DIRECTORS

Mr. TSOI Tin Chun
Chairman of the Board

Mr. Tsoi, aged 49, 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. He is a member of the remuneration committee and was also the Chief Executive from January 2008 to January 2012.

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; Yangshan at Shanghai and Yantai at Shandong.

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 Quanzhou 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 was completed in 2009, and the school commenced its full time teaching since September the same year with 431 students admitted. These 431 students will be graduating in June 2012 which signifies a historical milestone for Quanzhou Maritime Institute. Currently, over 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 56, 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. He is also a member of the nomination committee. 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 70, 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 committees 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 66, 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 and the nomination 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 66, has been an Independent Non-executive Director of the Company since February 2006 and is also the chairman of the nomination committee and a member of the audit committee and the 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.

SENIOR MANAGEMENT

Mr. Henry CAI Jian Jun

Chief Executive

Mr. Cai, aged 53, has been the Chief Executive of the Company since January 2012. He was a president of Pan American Union Oil & Gas Inc., and had actively participated in several large-scale petrochemical projects in China from 2006 to 2011. From 2004 to 2006, Mr. Cai was General Manager of Beijing China Post Heng Ren Investment Company Ltd and was mainly responsible for restructuring and assessing non-core assets of China Post. From 1993 to 2004, he was General Manager of Shen Zhen Yi Heng Investment Company Ltd, which investors include ICBC, CCB, China Investment Bank and a Malaysian investment fund, and was responsible for financial investments for several large construction projects in China on ports, highways, city infrastructure together with water and gas utilities. From 1988 to 1993, he was the head of Southern China Office (Shenzhen), Hua Zong Economic Development Centre after having worked for Wuhan Motor Cycle Manufacturing Company Ltd as a Factory Manager. Mr. Cai holds a degree in Machinery Design & Manufacture from the Wuhan University of Technology.

Mr. Allen TU Chung To

Chief Financial Officer

Mr. Tu, aged 50, 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. LI Bin

Chief Executive Officer – China Terminals

Mr. Li, aged 47, joined Titan in February 2011 as Head of Group Commercial and Strategy Development and Executive Vice-President of China Terminal. In April 2012, Mr. Li has been appointed as the Chief Executive Officer of China Terminals. He has over 13 years of experience working in various Sinochem Group of companies spanning across Beijing, Los Angeles, Hong Kong and Singapore covering crude oil and products and and moved up to hold the position of Managing Director of Sinochem International Oil (Hong Kong) Co. Ltd and Managing Director of Sinochem International Oil (Singapore) Pte Ltd. He moved on to Huahai Singapore to become the Managing Director and was accountable for the management and business development of petroleum and chemical products in the region. In 2008, he was the Executive Director at J.P. Morgan Asia Pacific and headed the Greater China Team responsible for the marketing of global commodities, risk management and hedging services as well. During his stint, he established many networks with global energy companies such as Petro-china, Sinochem and Unipec. Prior to joining Titan, he was a partner in B&J Partners Law Firm in Beijing and focused on corporate legal affairs and provided investment advice for Chinese and foreign companies leveraging on his extensive experience in Maritime Law and International Business Law. He holds a Master of Law and Bachelor of Economics from the University of International Business and Economics, Beijing, China. He has been a licensed lawyer in China since 1999.

SENIOR MANAGEMENT

Mr. TAN Mong Seng

Senior Consultant, Shipyard

Mr. Tan, aged 60, 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 Ltd 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. Jeremy TAN Kok Liann

Head, Human Resources

Mr. Tan, aged 37, 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) 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.

Mr. Fred SHI Fang Ming

Deputy Chief Financial Officer – China Terminals

Mr. Shi, aged 41, 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. In April 2012, Mr. Shi has been re-designated as Deputy CFO 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. Shi has been studying the postgraduate courses at Sun Yat-Sen University since May 2011.

Mr. LI Xi Xin

Finance Director, Fujian
– Fujian Titan Petrochemical Storage Development

Mr. Li, aged 47, has been Finance Director of Titan Quanzhou Shipyard since April 2008 and has 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 52, has served in the Group's shipping division since March 2005. He was previously a consultant 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 42, 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 37, 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 15 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 awarded by Institute of Internal Auditors. He was also appointed as Advisor at International Financial Management Association. Mr. Lui holds a MBA degree from University of South Australia.

EVENTS OF THE YEAR

2011

January

- Guangzhou Nansha Terminal Phase III commences trial operations
- Shandong Yantai Terminal begins operations and is appointed as one of China's national strategic oil reserve bases for crude oil

February

- Shanghai Futures Exchange designates an additional 50,000 m^3 capacity at Guangzhou Nansha Terminal, bringing the total physical delivery terminal capacity to 300,000 m^3

March

- Shanghai Yangshan Terminal completes constructions of Phase II development of 47,000 m^3 Aviation Kerosene and Diesel oil tanks and starts trial operations

April

- Fujian Quanzhou Terminal becomes the only liquid dangerous bonded storage in Quanzhou

EVENTS OF THE YEAR

May

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

August

- Fujian Quanzhou Terminal completes constructions of Phase II development comprised of 339,000 m^3 product oil and fuel oil storage tanks and a 100,000 dwt jetty

October

- Floating storage unit business starts handling clean petroleum products storage services

December

- Shanghai Futures Exchange grades Guangzhou Nansha Terminal the A* standard delivery points

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS Review

During the year, Titan continued to focus on its core businesses namely Floating Storage and China Terminals.

Floating Storage Units (Offshore Storage)

The Group provides year-round oil storage, transit and blending services and physical delivery services using VLCCs as FSUs at Tanjung Pelapas Anchorage in Malaysia. Strategically located at the juncture of Singapore and Malaysia on the major shipping route between Indian Ocean and the Pacific Ocean, our FSUs serve a range of international clients and vessels trading along the route. Titan is the first in Asia and remains the only fleet to operate double-hulled FSUs.

Titan's FSU (as at 1 May 2012)

	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 RUCHIRA	284,317
5	TITAN TULSHYAN	299,718
	Total dwt (mt)	**1,469,331**

By the end of 2011, the Group had seven FSUs in operation with a total capacity approximately 2.2 million cubic meters, as compared to five FSUs with approximately 1.6 million cubic meters in 2010. Due to market uncertainties, we have strategically deployed one VLCC to our

Transportation division and re-delivered one VLCC in early 2012. This resulted in a total of five FSUs in operation, providing approximately 1.6 million cubic meters of storage capacity in early 2012.

Due to the international oil market conditions and market uncertainties having a negative impact on this segment, there has been a decline in the average utilisation over the year from 76% to 67%. Segment LBITDA was HK$50 million, a slight decrease from the segment LBITDA of HK$53 million in 2010.

Apart from offering dirty petroleum products, our FSU business has also commenced providing clean petroleum product storage services in October 2011. We have diversified our services in order to broaden our client base as well as seeking to secure more long-term leases.

China Terminals (Onshore Storage)

Our Storage Terminals, Guangdong Nansha, Fujian Quanzhou, Shanghai Yangshan and Shandong Yantai, with a total operating capacity of over 2.7 million cubic meters, are strategically located along the coastline and built next to deepwater berths. They are connected to China's vast road and rail system and are of immense strategic value to China's national oil reserves. Once fully completed, our terminals will offer a combined capacity of up to 8.5 million cubic meters.

China Terminals Table

	Guangdong, Nansha	Fujian, Quanzhou	Shanghai, Yangshan	Shandong, Yantai
Existing Terminals and Facilities (as of May 2012)				
Total Capacity	918,300 m^3	429,000 m^3	1,067,000 m^3	360,000 m^3
Phase I	410,000 m^3	90,000 m^3	420,000 m^3	360,000 m^3
Phase II	305,300 m^3	339,000 m^3	647,000 m^3	–
Phase III	203,000 m^3	–	–	–
Number of Berths	11	3	5	2
Current Maximum Berth Capacity	120,000 dwt	100,000 dwt	125,000 dwt	100,000 dwt
Products	Fuel Oil, Chemicals, Petroleum Products	Crude Oil, Fuel Oil, Chemicals, Petroleum Products	Fuel Oil, Chemicals, Petroleum Products	Fuel Oil, Chemicals, Petroleum Products
Future Developments				
Total Planned Capacity	1,800,000 m^3	2,000,000 m^3	2,370,000 m^3	2,330,000 m^3
Number of Berths to be built	21	7	16	6 to 10
Planned Maximum Berth Capacity	120,000 dwt	300,000 dwt	300,000 dwt	300,000 dwt

MANAGEMENT DISCUSSION AND ANALYSIS

The utilization rate has been affected during the year by the continued volatile markets in oil prices as well as the unforeseen oil spike in mid-2011. Our revenues from China Terminals decreased from HK$200 million to HK$192 million in 2011 and segment EBITDA dropped from HK$156 million to HK$122 million in 2011.

Nansha Terminal, a designed physical delivery storage by Shanghai Futures Exchange, has a total operating capacity of 918,300 cubic meters which is comprised of Phases I and II with 590,000 cubic meters of fuel oil storage, together with 125,300 cubic meters of chemical storage and Phase III with 203,000 cubic meters of refined oil storage which commenced trial operations in early 2011. Nansha Terminal has achieved a safety milestone of over 1,900 days without any incidents in its operations.

In 2011, the overall utilisation rate at the Nansha Terminal dropped from 73% to 65% compared to 2010, with the average utilisation rate of fuel oil storage decreasing to 64%, and the average utilisation rate of the chemical storage facility dropping to 73% as compared to 2010.

In early 2011, with the approval from Shanghai Futures Exchange to increase its capacity from 250,000 cubic meters to 300,000 cubic meters, Nansha Terminal continues to be the largest physical delivery storage facility for the settlement of the Exchange's fuel oil futures contracts in the PRC.

Being the largest third-party storage terminal in Fujian, we have received recognition for the quality of our storage facilities and its operation by our customers. Phase I, with a 90,000 cubic meters storage capacity has been in operation since 2007 and Phase II, with a 339,000 cubic meters storage capacity and a 100,000 DWT jetty were put into operation in August 2011. Fujian Terminal has achieved safety milestone of over 1,800 days without any incidents in its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall, the average utilisation rate at the Fujian Terminal decreased from 89% to 77% in 2011 as compared to the same period last year, with chemical storage dropping from 89% to 78%. Our chemical jetty showed an increase of 35% as compared to last year recording of up to 55 million tons during the year.

Shanghai Yangshan Terminal, recognised by JP Morgan as a high standard storage facility with quality management in 2011, further increased its storage capacity to a total of 1,067,000 cubic meters upon completion of its Phase II facility for aviation kerosene and diesel oil tanks which commenced operations in March 2011. With the almost 100% lease-out of tanks and recognition from JP Morgan, it confirms we are delivering the high standard services and facilities that we have been striving to achieve.

Shandong Yantai Terminal, our newly established facility, lies within the Yantai Economic and Technological Development Zone in Shandong Peninsula. The Terminal occupies 200 acres including 2 kilometers of coastline, and has a current vessel accommodation of up to 100,000 DWT. Yantai Terminal is one of China's national strategic oil reserve bases for crude oil and we strive to become a delivery platform for China's domestic and international oil exchange activities. Phase I of Yantai Terminal, consisting of 360,000 cubic meters of storage capacity together with a 50,000 DWT and a 5,000 DWT jetty, were completed and commenced operations in 2011 and had a utilisation rate of 43% by the end of the year. By mid-2011, the utilisation rate for our bonded storage of 100,000 cubic meters reached almost 100%. In order to meet the demand of our valued customers, Yantai Terminal has successfully received approval to increase its bonded storage capacity to a total of 230,000 cubic meters.

From the north down to the south, Titan offers clients a choice of storage facilities and one-stop access to a logistical network that covers all the key ports and trading centres along China's eastern coast and the economically thriving cities in the Pearl River Delta region. Our terminals are bonded warehouses and offer services designed to meet client needs at strategic points of entry into China. With good strategic locations and our continued efforts to maintain high quality, efficient and safe terminals, we are able to excel in the China storage market.

Transportation and Supply/ Distribution

The transportation market remains challenging and competitive with new emerging owners in Asia as well as higher bunker prices.

At the end of 2011, our Transportation fleet was comprised of six double-hulled product tankers, four chemical tankers, one bunker barge and one Aframax tanker with a capacity of 187,309 DWT. In early 2012, we deployed a VLCC from our FSU to Transportation division due to a freight rate spike in the tanker dirty products route. We, subsequent to year end, re-delivered three double-hulled product tankers early this year. These resulted our total capacity to 460,835 DWT in early 2012. Titan's modern maritime fleet of varying tonnages, which meets local and international requirements and oil majors approvals, offer transportation of crude and oil products effectively and efficiently to all regional ports for our customers base.

The revenue for the Transportation division were by 96.9% to HK$351 million as compared to HK$178 million in the prior year while the operations made a segment LBITDA of HK$177 million. Revenues for the distribution business, increased by 3.4% to HK$1,067 million compared to the previous year while the segment EBITDA was HK$4 million as compared to a segment EBITDA of HK$26 million for 2010.

Since 2010, the Group's bunkering operations have mainly only provide refueling services to our own fleet.

Shipyard

Titan Quanzhou Shipyard is a unique multi-functional facility that will be one of the largest ship repair, offshore engineering and specialised ship building yards in Asia when fully operational. Since its ship building operations began in 2007,

the Shipyard has successfully delivered a total of sixteen vessels.

During the year, the Shipyard continued with construction work on bunker tankers and started ship repair work towards the end of the year. We successfully delivered two bunker tankers in March 2012.

As publicly announced on 18 March 2012, Grand China has not fulfilled its payment obligations in accordance with the agreed schedule, and therefore, the Shipyard Disposal transaction has not yet been consummated. The Group has been actively working with Grand China and will continue to seek to finalise these transaction for the mutual benefit of all parties.

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

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Financial Results

The Group's total turnover for the year increased by 4.1% to HK$2,197 million with a continuing focus on the development of the storage business as part of the Group's strategy. The Group's revenue from continuing operations was up 9.6% to HK$2,108 million. The revenue from discontinued operation, shipbuilding, dropped 52.4% to HK$89 million. The loss before tax from continuing operations was HK$563 million compared to HK$508 million in the previous year. The Group's continuing operations recorded a loss before interest expenses, tax, depreciation and amortisation (LBITDA) of HK$39 million compared to HK$90 million in 2010. Finance costs for the Group reflected an increase from HK$285 million to HK$348 million as a result of the issuance of Convertible Notes Due 2015 and PIK Notes Due 2015 on 27 July 2010. With the inclusion of the discontinued operation, the loss before tax for the year increased to HK$777 million (2010: HK$586 million). The loss for the year attributable to the owners of the Company increased from HK$581 million to HK$783 million for the current year.

Offshore Oil Storage

The offshore oil storage business recorded a turnover of HK$498 million in 2011, as compared to HK$514 million for 2010. The segment LBITDA decreased slightly from HK$53 million to HK$50 million in 2011. The offshore oil storage business accounted for 22.7% of Group's revenue in 2011.

Onshore Storage

The onshore storage business recorded a turnover of HK$192 million in 2011, as compared to HK$200 million for 2010. The earnings before interest expenses, tax, depreciation and amortisation (EBITDA) of this segment decreased by 21.8% to HK$122 million as compared to HK$156 million for the prior year as a result of lower utilisation rates. The onshore storage business accounted for 8.7% of Group's revenue in 2011.

Transportation

This business turnover increased to HK$351 million in 2011 from HK$178 million recorded in 2010. Due to high bunker prices, and the intensified competition in the freight market, segment LBITDA from the oil transportation business increased from HK$114 million to HK$177 million. The transportation business accounted for 16% of Group's revenue in 2011.

Supply and Distribution

This business turnover increased by 3.4% to HK$1,067 million from HK$1,032 million in 2010 while the segment EBITDA decreased by 84.6% to HK$4 million as compared to HK$26 million in 2010. The supply and distribution business accounted for 48.6% of Group's revenue in 2011.

Shipbuilding

The contribution of the discontinued operation, shipbuilding, to the Group's turnover decreased by 52.4% to HK$89 million as compared to HK$187 million in 2010 and the segment LBITDA was HK$170 million in 2011 while in 2010 was HK$31 million. The discontinued operation, shipbuilding, accounted for 4% of Group's revenue in 2011.

Liquidity, Financial Resources, Charges On Assets And Gearing

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

a) The Group had:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

- Current assets of HK$6,438 million (2010: HK$5,318 million) and total assets of HK$10,623 million (2010: HK$9,517 million) of which HK$4,834 million was from the discontinued operation
- Total bank loans of HK$4,838 million (2010: HK$3,790 million) of which HK$2,338 million (2010: HK$1,482 million) was from the discontinued operation
- Senior Notes Due 2012 of HK$845 million (2010: HK$840 million)
- Convertible Notes Due 2015 as a non-current liability to the extent of the liability portion of HK$328 million (2010: HK$409 million)
- PIK Notes Due 2015 of HK$84 million (2010: HK$84 million)
- Convertible preferred shares as a current liability to the extent of the liability portion of HK$363 million and as a non-current liability to the extent of the liability portion of HK$399 million (2010: a non-current liability of HK$719 million)
- K Line Notes Due 2013 as a current liability to the extent of the liability portion of HK$216 million (2010: HK$210 million)
- TGIL Notes Due 2014 as a non-current liability to the extent of the liability portion of HK$92 million (2010: HK$83 million)

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

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

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 the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2011, except for a deviation as required under code provision A.2.1 of the CG Code which provides that the role of Chairman and Chief Executive should be separate and should not be performed by the same individual. During the relevant period, Mr. Tsoi Tin Chun held dual positions of Chairman and Group Chief Executive.

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

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

The Board

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

As at 31 December 2011, 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 Chief Executive

Since 3 January 2012, the roles of Chairman and Chief Executive have been segregated with a clear division of responsibilities.

Mr. Tsoi Tin Chun, Chairman of the Board, 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 senior management team and the company secretary, Mr. Tsoi 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. He also actively encourages directors to be fully engaged in Board affairs and make contributions to the Board in the fulfillment of its responsibilities.

Mr. Cai Jian Jun Henry, Group Chief Executive, 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 Chairman on 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.

Board Meetings

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

Notice of at least 14 days is served for regular Board meetings. During 2011, four full Board meetings were held at which the individual attendance records of the directors were as follows:

	Attendance
Executive directors	
Mr. Tsoi Tin Chun (Chairman)	3/4
Mr. Patrick Wong Siu Hung	4/4
Independent non-executive directors	
Mr. John William Crawford	4/4
Ms. Maria Tam Wai Chu	4/4
Mr. Abraham Shek Lai Him	4/4

Nomination of Directors

During the review period, the appointment of 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.

A Nomination Committee was established on 28 March 2012 to take up the functions of assessing the adequacy of the Board composition and the nomination of directors from 2012 onwards. The Nomination Committee comprises two independent non-executive directors and an executive director, namely, Mr. Abraham Shek Lai Him (Chairman), Ms. Maria Tam Wai Chu and Mr. Patrick Wong Siu Hung.

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

- Review the structure, size and composition of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identify individuals suitably qualified to become Board members;
- Assess the independence of independent non-executive directors;
- Make recommendations to the Board on the appointment and re-appointment of directors and the succession planning for directors and, in particular, the chairman and the chief executive; and
- Review the time required from directors to perform their responsibilities and determine their training and continuous professional development requirements.

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;
- Review the arrangements for the Company's employees to raise concerns about financial reporting and any other improprieties;
- Oversee the effectiveness of financial reporting systems; and
- Ensure ongoing assessments of the Group's internal control systems over financial, operational, compliance and broad risk management processes.

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

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

Financial Statements

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

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 44 to 46 of this Annual Report.

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 2011, the audit fees paid/payable to E&Y amounted to HK$3,700,000 and the fees paid/payable to them for non-audit services amounted to approximately HK$693,000 which was comprised of taxation services fees of HK$261,000 and other professional fees in relation to the interim results review and special/one-off corporate reporting exercises of HK$432,000.

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.

Internal Control Environment

System and Procedures

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

- Achieve the Group's business objectives of attaining optimal performance and safeguarding assets against unauthorised use or disposition;
- Ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication; and
- Ensure compliance with the relevant legislation and regulations.

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

- Having a distinct 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.
- An Internal Audit Department was established during the year to take over the role previously outsourced to monitor the internal governance of the Group and to provide objective assurance to the Board that sound internal control systems are maintained and operated by management in compliance with agreed processes and standards.

- Meetings were held between directors, management and the Audit Committee to discuss the amendments to the code provisions ("New Code Provisions") under Appendix 14 of Listing Rules and considered the alternatives to be proposed to the Board to streamline and ensure the current policies are in line with the requirements under New Code Provisions.

Internal Audit

The Internal Audit Department ("IA") independently reviews the Group's internal control systems and evaluates their adequacy, effectiveness and compliance. The Head of IA works closely with Audit Committee on audit matters and presents its findings and responses from management on a regular basis and makes recommendations to management for rectifications, as deemed necessary. Regular reviews of the progress of rectifications are conducted to ensure the effectiveness of the internal control systems.

The annual audit plan, which is reviewed by the Audit Committee, is based on a risk methodology process which assists in determining business risks and establishing audit frequencies.

The Audit Committee assesses the effectiveness of the internal control systems by reviewing the work of IA and its findings periodically.

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

(i) Reviewing the reliability and integrity of financial and operating information.

(ii) Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the Group is in compliance.

(iii) Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

(iv) Reviewing and appraising the economy and efficiency with which resources are employed.

(v) Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

The Board recognises 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:

- Besides performing regular audits, IA carried out in-house fieldwork reviews to follow up the improvement implementation status on audit issues identified during previous program exercises. Internal audit reports on findings, recommendations and management responses on the audit areas were circulated to the Audit Committee periodically.

- Meetings were held between the Audit Committee, management and the Head of IA to discuss and review the internal audit process to ensure optimum controls, policies and procedures are in place. The Head of IA reported on the progress of recommendation implementations and highlighted other control issues for rectification. Management recognised the need to address the matters reported and indicated these had already been rectified or that steps were being taken to implement improvements to strengthen internal controls based on IA's recommendations.

- Streamlining the Company's corporate governance process and updating certain policies in line with the New Code Provisions to strengthen internal controls.

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 budgets for the Company's accounting and financial reporting function and, as a result, believes that the internal controls and accounting systems of the Group were in place and functioning effectively.

No suspected frauds or irregularities, or suspected infringement of laws, rules and regulations came to the Audit 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 2011 complied with the code provisions on internal controls as set forth in the CG Code.

Remuneration Committee

The Remuneration Committee 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;

- Make recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management;

- Review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives; and

- Review and approve compensation payable to executive directors and senior management for any loss or termination of office.

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

During 2011, 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 market statistics, 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 2012.

Details of the emoluments of each director of the Company for the year ended 31 December 2011 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 Issuers contained in Appendix 10 to the Listing Rules ("Model Code") as the Company's code of conduct regarding director securities transactions and has set up relevant procedures to ensure compliance. Having made specific enquiries of the directors, all directors confirmed that they have complied with the required 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.

Investor & Shareholder 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 address (investor@petrotitan.com) to handle investor enquiries, especially for the convenience of overseas investors and various stakeholders.

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 directly with the Board and management in respect of any concerns they may wish to raise.

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 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 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 pages 151 to 152. 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 35, 36 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2011, the Company purchased a number of its PIK Notes Due 2015 (the "Notes") in an aggregate principal amount of US$1,040,000 (approximately HK$8,112,000). The Notes are listed on the Singapore Stock Exchange and further details are set out in note 30 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.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company did not have reserves available for distribution as calculated in accordance with the provisions of the laws of Bermuda. Under the laws of Bermuda, the Company's share premium account of approximately HK$2,473,241,000 as at 31 December 2011 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 41% of total sales for the year and sales to the largest customer included therein amounted to 21%.

Purchases from the Group's five largest suppliers accounted for less than 30% of the 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. John William Crawford and Ms. Maria Tam Wai Chu will retire by rotation at the forthcoming annual general meeting and be eligible for re-election. Ms. Maria Tam Wai Chu has informed the Company that she will not offer herself for re-election due to the reason that she would like to focus on her other business commitments. 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.

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 41 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 2011, US$12,234,800 (approximately HK$95,431,000) 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.

REPORT OF THE DIRECTORS

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 Stock Exchange of Hong Kong Limited.

Significant related party transactions entered by the Group during the year ended 31 December 2011 are disclosed in note 41 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 2011, 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	3,733,557,083 (Notes 1 and 5)	47.74

Options outstanding under the 2002 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 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: Titan Shipyard Investment Company Limited ("TSICL") and Vision Jade Investments Limited ("Vision Jade") are wholly-owned subsidiaries of Great Logistics Holdings Limited ("Great Logistics") which, in turn, is a wholly-owned subsidiary of Titan Oil Pte Ltd ("Titan Oil"). Titan Oil is owned as to 95% by Mr. Tsoi Tin Chun ("Mr. Tsoi") and as to 5% by Ms. Tsoi Yuk Yi ("Ms. Tsoi"), the spouse of Mr. Tsoi. Mr. Tsoi is a director of Titan Oil, Great Logistics and TSICL.

By virtue of the SFO, Mr. Tsoi is deemed to be interested in the shares of the Company held by Titan Oil, Great Logistics, TSICL and Vision Jade.

Note 2: Share options carrying rights to subscribe for ordinary shares of the Company were granted on 1 February 2008 pursuant to the 2002 Share Option Scheme.

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 7,820,554,682 ordinary shares of the Company issued as at 31 December 2011.

Note 5: Based on a disclosure of interests notice filed with the Stock Exchange on 20 January 2012, as at 17 January 2012, Mr. Tsoi is interested in 3,556,353,661 shares of the Company.

Save as disclosed above, at 31 December 2011, 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 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2011, 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 12)
Ms. Tsoi Yuk Yi	Interest of spouse	3,733,557,083 (Notes 6 and 13)	47.74
Titan Oil	Interest of a controlled corporation/ Beneficial owner	3,733,557,083 (Notes 7 and 13)	47.74
Great Logistics	Interest of controlled corporations/ Beneficial owner	3,349,857,497 (Notes 8 and 13)	42.83
Moral Base Investment Limited	Beneficial owner	1,000,000,000	12.79
Mr. Wong Chi Leung	Interest of a controlled corporation/ Interest of spouse	1,000,000,000 (Note 9)	12.79
Mr. Wong Kwok Ying	Interest of a controlled corporation/ Interest of spouse	1,000,000,000 (Note 9)	12.79
Saturn Petrochemical Holdings Limited	Beneficial owner	857,795,031	10.97
Warburg Pincus & Co.	Interest of a controlled corporation	857,795,031 (Note 10)	10.97

Name	Capacity	Number of shares and underlying shares	Approximate % of shareholding (Note 12)
Warburg Pincus IX, LLC	Interest of a controlled corporation	857,795,031 (Note 10)	10.97
Warburg Pincus Partners LLC	Interest of a controlled corporation	857,795,031 (Note 10)	10.97
Warburg Pincus Private Equity IX, L.P.	Interest of a controlled corporation	857,795,031 (Note 10)	10.97
Grand China Logistics Holding (Group) Company Limited	Beneficial owner	500,000,000 (Note 11)	6.39
Haikou Meilan International Airport Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 11)	6.39
Hainan Development Holdings Co., Ltd.	Interest of controlled corporations	500,000,000 (Note 11)	6.39
TSICL	Beneficial owner	395,369,018 (Note 13)	5.05

Note 6: TSICL and Vision Jade are wholly-owned subsidiaries of Great Logistics which, in turn, is a wholly-owned subsidiary of Titan Oil. Titan Oil is owned as to 5% by Ms. Tsoi and as to 95% by Mr. Tsoi, the spouse of Ms. Tsoi. Ms. Tsoi is a director of Vision Jade. By virtue of the SFO, Ms. Tsoi is deemed to be interested in the shares of the Company held by Titan Oil, Great Logistics, TSICL and Vision Jade.

Note 7: Titan Oil owns the entire issued share capital of Great Logistics which, in turn, holds the entire issued share capital of each of TSICL and Vision Jade. By virtue of the SFO, Titan Oil is deemed to be interested in the shares of the Company held by Great Logistics, TSICL and Vision Jade.

Note 8: Great Logistics owns the entire issued share capital of each of TSICL and Vision Jade. By virtue of the SFO, Great Logistics is deemed to be interested in the shares of the Company held by TSICL and Vision Jade.

Note 9: Pursuant to the SFO, Mr. Wong Chi Leung ("Mr. Wong") and Ms. Wong Kwok Ying ("Ms. Wong"), spouse of Mr. Wong, are 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 10: 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 11: 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.

Grand China Logistics, Haikou Meilan and Hainan Development ceased to have interests in the shares of the Company following the lapse of subscription agreement dated 11 December 2010 entered into between the Company and Grand China Logistics in relation to the subscription for 500,000,000 new shares of the Company.

Note 12: Based on 7,820,554,682 ordinary shares of the Company issued as at 31 December 2011.

Note 13: Based on the disclosure of interests notices filed with the Stock Exchange on 20 January 2012, as at 17 January 2012, Ms. Tsoi, Titan Oil, Great Logistics and TSICL is interested in 3,556,353,661, 3,556,353,661, 3,224,477,760 and 332,514,799 shares of the Company, respectively.

Save as disclosed above, at 31 December 2011, no person, other than the directors and the chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance to effectively oversee/guide operations and to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. A detailed Corporate Governance Report is set out on pages 27 to 34 of the Annual Report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$183,000.

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 46 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 2011 and discussed the same with the external auditors and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and other reporting requirements, and that adequate disclosures have been made.

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

Hong Kong
11 May 2012

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We were engaged to audit the consolidated financial statements of Titan Petrochemicals Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 150, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 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.

AUDITOR'S 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 as to whether the financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, it is not possible to form an opinion on the consolidated financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

Uncertainties relating to going concern

As set out in note 2.1 to the consolidated financial statements concerning the adoption of the going concern basis on which the financial statement have been prepared, the Group incurred a loss of HK$783,332,000 for the year ended 31 December 2011 and, as of that date, the Group's and the Company's current liabilities exceed its current assets by HK$1,243,237,000 and HK$2,131,051,000 respectively. In addition, the Group was in default to repay certain secured bank borrowings of RMB111,000,000 (approximately HK$137,407,000) as at the year end. Subsequent to the year end, the Company was unable to repay the overdue principal and interest of the Senior Notes Due 2012 of US$105,870,000 (approximately HK$825,786,000) and US$4,499,000 (approximately HK$35,092,000) which were due on 19 March 2012. As a result, a cross default was also triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$1,300,000 (approximately HK$10,140,000).

As set out in note 2.1 to the consolidated financial statements, Grand China Logistics Holding (Group) Company Limited ("Grand China") has failed to comply with its payment obligations relating to the sale and purchase agreement for the Group's disposal of its 95% equity interest in Titan Quanzhou Shipyard Company Limited ("QZ Shipyard") at a consideration of RMB1,865,670,000 (approximately HK$2,309,513,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,814,353,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met. At the date of approval of the financial statements, the Company had not received the balances of the stage payments in the aggregate amount of RMB725,670,000 (approximately HK$898,307,000) that were due in accordance with the terms of the agreement and, accordingly, the equity interests in QZ Shipyard have not been transferred to Grand China. As further explained in that note, the ability of the Group to meet its debt repayment obligations for the Senior Notes due on 19 March 2012 and the Company's preferred shares redeemable on 22 June 2012 (at the election of the holder or the Company), based on the current liquidity of the Group, is dependent upon the receipt of the QZ Shipyard sale stage payments.

As further explained in note 2.1, the directors of the Company are taking steps to improve the Group's liquidity and solvency position. These steps mainly include (i) negotiations with potential strategic investors in respect of a possible equity investment in the Company; (ii) actively working to require Grand China to comply with its obligations under the sale and purchase agreement; and (iii) negotiations with the Senior Notes holders and other creditors to defer or renew the Group's bank and other borrowings. As at the date of approval of the financial statements, these measures had not yet been concluded.

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

DISCLAIMER OF OPINION

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

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

11 May 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
Revenue	6	**2,108,012**	1,924,169
Cost of sales		**(2,312,382)**	(1,987,032)
Gross loss		**(204,370)**	(62,863)
Other revenue		**65,321**	18,776
Change in fair value of derivative financial instrument not qualifying as hedges		**103,682**	–
Gains on restructuring of fixed rate guaranteed senior notes	28	**–**	476,495
General and administrative expenses		**(208,742)**	(229,268)
Finance costs	8	**(342,138)**	(273,943)
Share of profits of associates, net		**22,778**	9,336
Losses on disposals of vessels, net	14	**–**	(446,649)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	7	**(563,469)**	(508,116)
Tax	11	**(6,292)**	6,076
Loss for the year from continuing operations		**(569,761)**	(502,040)
DISCONTINUED OPERATION			
Loss for the year from discontinued operation, shipbuilding	5	**(213,571)**	(78,348)
LOSS FOR THE YEAR		**(783,332)**	(580,388)
Attributable to:			
Owners of the Company	12	**(783,332)**	(580,800)
Non-controlling interests		**–**	412
		(783,332)	(580,388)
BASIC LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Continuing operations		**(HK7.31 cents)**	(HK7.11 cents)
Discontinued operation, shipbuilding		**(HK2.74 cents)**	(HK1.11 cents)
Total		**(HK10.05 cents)**	(HK8.22 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Loss for the year		**(783,332)**	(580,388)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**161,931**	80,666
Gain on acquisition of non-controlling interests of a subsidiary		**–**	1,026
Other comprehensive income for the year, net of tax		**161,931**	81,692
Total comprehensive loss for the year, net of tax		**(621,401)**	(498,696)
Attributable to:			
Owners of the Company	12 & 37(a)	**(621,401)**	(498,983)
Non-controlling interests		**–**	287
		(621,401)	(498,696)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,960,620**	2,745,611
Prepaid land/seabed lease payments	15	**435,137**	464,776
Licenses	16	**21,133**	32,383
Goodwill	17	**434,571**	470,371
Interests in associates	19	**324,768**	330,647
Deposits for construction in progress		**8,273**	155,887
Total non-current assets		**4,184,502**	4,199,675
CURRENT ASSETS			
Bunker oil		**36,846**	48,196
Inventories	21	**2,891**	12,506
Accounts receivable	22	**83,501**	81,424
Prepayments, deposits and other receivables		**170,724**	463,535
Amount due from a jointly-controlled entity		**25,184**	–
Contracts in progress	23	**–**	10,104
Pledged deposits and restricted cash	25	**1,124,918**	243,997
Cash and cash equivalents	25	**159,782**	182,280
		1,603,846	1,042,042
Assets of a disposal group classified as held for sale	5	**4,834,243**	4,275,495
Total current assets		**6,438,089**	5,317,537
CURRENT LIABILITIES			
Interest-bearing bank loans	26	**1,609,849**	801,061
Accounts and bills payable	27	**469,839**	205,421
Other payables and accruals	27	**1,321,970**	650,758
Amount due to a jointly-controlled entity		**12,303**	–
Fixed rate guaranteed senior notes	28	**844,690**	–
Liability portion of convertible preferred shares	31	**363,176**	–
Notes payable	32	**197,464**	191,341
Tax payable		**18,458**	11,885
		4,837,749	1,860,466
Liabilities directly associated with the assets classified as held for sale	5	**2,843,577**	2,225,014
Total current liabilities		**7,681,326**	4,085,480
NET CURRENT ASSETS/(LIABILITIES)		**(1,243,237)**	1,232,057
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,941,265**	5,431,732

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	26	**889,688**	1,506,873
Fixed rate guaranteed senior notes	28	**–**	840,333
Guaranteed senior convertible notes	29	**328,215**	408,734
Guaranteed senior payment-in-kind notes	30	**84,483**	84,360
Liability portion of convertible preferred shares	31	**398,932**	719,331
Liability portion of convertible unsecured notes	33	**92,901**	83,081
Deferred tax liabilities	34	**40,455**	45,618
Total non-current liabilities		**1,834,674**	3,688,330
Net assets		**1,106,591**	1,743,402
EQUITY			
Equity attributable to owners of the Company			
Issued capital	35	**78,206**	77,667
Equity portion of convertible preferred shares	31	**75,559**	75,559
Reserves	37(a)	**390,728**	980,062
		544,493	1,133,288
Equity portion of convertible unsecured notes in a jointly-controlled entity	33	**85,015**	92,277
Contingently redeemable equity in a jointly-controlled entity	31	**477,083**	517,837
Total equity		**1,106,591**	1,743,402

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Attributable to owners of the Company				Equity portion of convertible unsecured notes in a jointly-controlled entity	Contingently redeemable equity in a jointly-controlled entity	Non-controlling interests	Total equity
		Issued capital (note 35)	Convertible preferred shares	Reserves (note 37(a))	Sub-total				
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011		**77,667**	**75,559**	**980,062**	**1,133,288**	**92,277**	**517,837**	**–**	**1,743,402**
Loss for the year		**–**	**–**	**(783,332)**	**(783,332)**	**–**	**–**	**–**	**(783,332)**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		**–**	**–**	**161,931**	**161,931**	**–**	**–**	**–**	**161,931**
Total comprehensive loss for the year		**–**	**–**	**(621,401)**	**(621,401)**	**–**	**–**	**–**	**(621,401)**
Equity-settled share option arrangements		**–**	**–**	**2,470**	**2,470**	**–**	**–**	**–**	**2,470**
Exercise of share options	36	**103**	**–**	**4,488**	**4,591**	**–**	**–**	**–**	**4,591**
Conversion of guaranteed senior convertible notes	29	**436**	**–**	**29,912**	**30,348**	**–**	**–**	**–**	**30,348**
Realised on deemed disposals of partial interest in a jointly-controlled entity		**–**	**–**	**(4,803)**	**(4,803)**	**(7,262)**	**(40,754)**	**–**	**(52,819)**
At 31 December 2011		**78,206**	**75,559**	**390,728**	**544,493**	**85,015**	**477,083**	**–**	**1,106,591**
At 1 January 2010		65,625	75,559	976,148	1,117,332	92,277	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	36	222	–	10,383	10,605	–	–	–	10,605
Equity-settled share option arrangements		–	–	9,193	9,193	–	–	–	9,193
Conversion of guaranteed senior convertible notes	29	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	980,062	1,133,288	92,277	517,837	–	1,743,402

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax from:			
Continuing operations		**(563,469)**	(508,116)
Discontinued operation, shipbuilding	5	**(213,571)**	(78,348)
Adjustments for:			
Losses on disposals of vessels, net	14	**–**	446,649
Gains on restructuring of fixed rate guaranteed senior notes	28	**–**	(476,495)
Losses on repurchases of guaranteed senior convertible notes	29	**–**	61
Losses/(gains) on repurchases of guaranteed senior payment-in-kind notes	30	**214**	(43)
Depreciation		**205,266**	174,226
Amortisation of prepaid land/seabed lease payments		**3,571**	4,485
Amortisation of licences		**11,250**	2,516
Impairment of items of property, plant and equipment	14	**–**	3,822
Loss on disposal of items of property, plant and equipment		**104**	217
Impairment/(reversal of impairment) of accounts receivable	22	**(668)**	3,541
Gain on deemed disposals of partial interest in a jointly-controlled entity		**(7,559)**	–
Share of profits of associates, net		**(22,778)**	(9,336)
Loss on disposal of an associate	19	**–**	16,312
Write down of inventories to net realisable value		**71,797**	–
Change in fair value of derivative financial instrument not qualifying as hedges		**(103,682)**	–
Interest income		**(27,885)**	(4,750)
Finance costs	8	**347,947**	284,770
Equity-settled share option expenses	37(a)	**2,470**	9,193
		(296,993)	(131,296)
Increase in amounts due from associates		**–**	(6,085)
Decrease/(increase) in bunker oil		**11,350**	(24,947)
Decrease/(increase) in inventories		**(59,301)**	258,621
Decrease/(increase) in accounts receivable		**185,357**	(68,785)
Decrease/(increase) in prepayments, deposits and other receivables		**288,337**	(239,088)
Decrease/(increase) in contracts in progress		**(156,408)**	309,502
Increase in accounts and bills payable		**301,282**	43,559
Increase/(decrease) in other payables and accruals		**(286,141)**	262,282
Increase in balances with a jointly-controlled entity		**(12,881)**	–
Cash generated from/(used in) operations		**(25,398)**	403,763
Interest received		**27,784**	4,750
Interest paid		**(179,720)**	(233,346)
Overseas profits tax paid		**(1,418)**	(6)
Net cash flows from/(used in) operating activities		**(178,752)**	175,161

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturities of more than three months		**(973,481)**	(30,031)
Additions to property, plant and equipment		**(723,824)**	(1,286,716)
Additions to prepaid land/seabed lease payments		**–**	(1,684)
Deposits paid for acquisition of vessels		**–**	(950)
Deposits paid for construction in progress		**(6,436)**	(147,160)
Interest capitalised	8	**(165,966)**	(115,037)
Proceeds from disposals of property, plant and equipment		**23,485**	2,463
Net proceeds from disposals of vessels		**31,200**	556,011
Acquisition of non-controlling interests of a subsidiary		**–**	(6,189)
Acquisition of a jointly-controlled entity		**(120,364)**	–
Dividends received from associates		**7,361**	5,590
Disposal of an associate	19	**–**	84,287
Dissolution of an associate	19	**–**	2,238
Partial consideration received from disposal of shipyard	5	**916,050**	–
Net cash flows used in investing activities		**(1,011,975)**	(937,178)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inception of new bank loans		**1,995,197**	1,633,387
Repayments of bank loans		**(978,888)**	(895,535)
Proceeds from exercise of share options		**4,591**	10,605
Restructuring of fixed rate guaranteed senior notes	28	**–**	(336,609)
Repurchases of guaranteed senior convertible notes	29	**–**	(76,299)
Repurchases of guaranteed senior payment-in-kind notes	30	**(8,112)**	(26,893)
Proceeds from issue of ordinary shares	35 & 37(a)	**–**	370,000
Share issue expenses	37(a)	**–**	(784)
Dividends paid to non-controlling shareholders		**–**	(1,701)
Decrease/(increase) in restricted cash		**(16)**	63,699
Net cash flows from financing activities		**1,012,772**	739,870
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(177,955)**	(22,147)
Cash and cash equivalents at beginning of year		**403,451**	393,292
Effect of foreign exchange rate changes, net		**29,230**	32,306
CASH AND CASH EQUIVALENTS AT END OF YEAR		**254,726**	403,451

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**159,782**	181,130
Bank balances pledged as security for bank facilities		**33,318**	82,643
Time deposits with original maturities of less than three months when acquired, pledged as security for bank facilities		**–**	68,235
Cash and bank balances attributable to the discontinued operation	5	**61,626**	71,443
Cash and cash equivalents as stated in the consolidated statement of cash flows		**254,726**	403,451
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents per consolidated statement of cash flows		**254,726**	403,451
Amounts pledged for bank facilities with original maturities of less than three months when acquired		**(33,318)**	(150,878)
Non-pledged time deposits with original maturities of more than three months when acquired		**–**	1,150
Cash and bank balances attributable to the discontinued operation	5	**(61,626)**	(71,443)
Cash and cash equivalents as stated in the consolidated statement of financial position		**159,782**	182,280

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**3,631,161**	5,163,591
CURRENT ASSETS			
Due from subsidiaries	18	**–**	93,600
Prepayments, deposits and other receivables		**2,935**	624
Cash and cash equivalents	25	**847**	2,262
Total current assets		**3,782**	96,486
CURRENT LIABILITIES			
Due to subsidiaries	18	**–**	53,857
Other payables and accruals		**918,418**	27,716
Financial guarantee contracts	24	**8,549**	8,549
Fixed rate guaranteed senior notes	28	**844,690**	–
Liability portion of convertible preferred shares	31	**363,176**	–
Total current liabilities		**2,134,833**	90,122
NET CURRENT ASSETS/(LIABILITIES)		**(2,131,051)**	6,364
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,500,110**	5,169,955
NON-CURRENT LIABILITIES			
Fixed rate guaranteed senior notes	28	**–**	840,333
Guaranteed senior convertible notes	29	**328,215**	408,734
Guaranteed senior payment-in-kind notes	30	**84,483**	84,360
Liability portion of convertible preferred shares	31	**–**	325,321
Due to subsidiaries	18	**–**	1,815,278
Total non-current liabilities		**412,698**	3,474,026
Net assets		**1,087,412**	1,695,929
EQUITY			
Issued capital	35	**78,206**	77,667
Equity portion of convertible preferred shares	31	**75,559**	75,559
Reserves	37(b)	**933,647**	1,542,703
Total equity		**1,087,412**	1,695,929

Patrick Wong Siu Hung
Director

Tsoi Tin Chun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 offshore oil storage and onshore 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 in 2010 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 while 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 2011 included in the disposal group classified as held for sale, representing the shipbuilding and building of ship repair facilities operations, were stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 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 2011, the Company and its subsidiaries (the "Group") incurred losses of HK$783,332,000 and, as of the date, the Group and the Company had net current liabilities of HK$1,243,237,000 and HK$2,131,051,000 respectively. In addition, aggregate outstanding interest-bearing bank loans in continuing operations of HK$1,609,849,000 were due for payment within the next twelve months after 31 December 2011 of which RMB111,000,000 (approximately HK137,407,000) fell due as at 31 December 2011.

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

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

In these circumstances, the Company was unable to repay overdue principal and interest on the Senior Notes Due 2012 of US$105,870,000 (approximately HK$825,786,000) and US$4,499,000 (approximately HK$35,092,000) which became due on 19 March 2012. As a result, a cross default was also triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$1,300,000 (approximately HK$10,140,000) and an early redemption event was also triggered in respect of the Company's and Titan Group Investment Limited ("TGIL")'s convertible preferred shares as set out in note 46.

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.1 BASIS OF PREPARATION (Continued)

Going concern basis (Continued)

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

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

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

The principal effects of adopting these HKFRSs are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

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

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

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

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

2.3 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 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*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. Other than further explained below, 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.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non- Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 Interests in *Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries 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's 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.

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; or

(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.

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 asset 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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets 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.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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 each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person,
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 depreciates them accordingly.

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

Buildings	20 to 45 years
Machinery	5 to 20 years
Leasehold improvements	The shorter of the lease terms and 6 years
Vessels	The shorter of the remaining age and 30 years
Storage facilities	20 to 50 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 are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets or a disposal group must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or a disposal group and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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

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.

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs.

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

The Group's financial assets include cash and bank balances, accounts and other receivables, amount due from a jointly-controlled entity, contracts in progress, deposits and derivatives financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the 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 allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the 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.

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

The Group's financial liabilities include accounts and other payables, amount due to a jointly-controlled entity, interest-bearing bank loans, fixed rate guaranteed senior notes, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the 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) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

(c) Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

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.

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 premeasured 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; 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments (Continued)

Initial recognition and subsequent measurement (Continued)

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 a 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.

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible preferred shares and TGIL Notes Due 2014 (Continued)

The remainder of the proceeds is allocated to the equity component of the convertible preferred shares and TGIL Notes Due 2014 is recognised and included in the equity portion of convertible unsecured notes in a jointly-controlled entity. 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 were first recognised.

Convertible Notes Due 2015 and K Line Notes Due 2013

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts in progress/Excess of progress billings over contract costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Cash and cash equivalents

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

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

Provisions

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

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Revenue recognition

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

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

(b) revenue from the provision of logistic services:

(i) from voyage chartering, on the percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage, 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

Other employee benefits

Paid leave carried forward

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements

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

Depreciation of vessels

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

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

Impairment of assets

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

Income tax

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that could have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described 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 indications that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value, of those cash flows.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors including, inter alia, the probability of insolvency or significant financial difficulties of the debtors and default or significant delays in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, customers' creditworthiness, and historical write-off experience. If the financial conditions of its customers were to deteriorate so that the actual impairment losses might be higher than expected, the Group would be required to revise the basis of making the allowance.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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. These estimates are based on the historical experience of the actual useful lives of assets of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period based on changes in circumstances. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. Additional or reduction to depreciation is made if the estimated residual values of items of property, plant and equipment are different from the previous estimations.

Net realisable value of inventories

Net realisable value of inventories is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. These estimates are based on the current market conditions and the historical experience in selling goods of a similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimations at the end of each reporting period.

Fair value 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.

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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 storage and oil transportation); and (b) supply of oil products and provision of bunker refueling services. In 2010, 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.

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

* Intersegment revenues are eliminated on consolidation.

4. OPERATING SEGMENT INFORMATION (Continued)

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

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4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

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

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

Information about major customers

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

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; and (iii) a management agreement in relation to the engagement of the Company to manage the business operations of QZ Shipyard for the term commencing from the completion of the sale and purchase agreement until 31 December 2012. The consideration for the proposed disposal is RMB1,865,670,000 (approximately HK$2,309,513,000) or a maximum reduced consideration of RMB1,465,670,000 (approximately HK$1,814,353,000) if QZ Shipyard's profit targets for the two years ending 31 December 2012 are not met.

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

As at 31 December 2011 and 2010, the assets and liabilities related to the discontinued operation, shipbuilding, are presented in the consolidated statement of financial position as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with the assets classified as held for sale" and the results for the years ended 31 December 2011 and 2010 are presented separately in the consolidated income statement as "Loss for the year from discontinued operation, shipbuilding". Capital commitments in respect of QZ Shipyard are set out in note 39.

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

	Notes	**2011** **HK$'000**	2010 HK$'000
Revenue	6	**89,021**	187,330
Cost of sales		**(196,657)**	(222,690)
Gross loss		**(107,636)**	(35,360)
Other revenue		**638**	1,128
General and administrative expenses		**(100,764)**	(33,289)
Finance costs	8	**(5,809)**	(10,827)
Loss before tax		**(213,571)**	(78,348)
Tax	11	**–**	–
Loss for the year from discontinued operation, shipbuilding		**(213,571)**	(78,348)

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5. DISCONTINUED OPERATION, SHIPBUILDING (Continued)

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

	Notes	**2011** HK$'000	2010 HK$'000
Assets:			
Property, plant and equipment	14	**3,099,607**	2,515,315
Prepaid land/seabed lease payments	15	**516,477**	513,827
Goodwill	17	**570,618**	570,618
Inventories	21	**133,671**	136,742
Accounts receivable	22	**98,540**	285,719
Prepayments, deposits and other receivables		**142,362**	136,165
Contracts in progress	23	**203,876**	37,364
Pledged deposits and restricted cash		**7,466**	8,302
Cash and cash equivalents		**61,626**	71,443
Assets of a disposal group classified as held for sale		**4,834,243**	4,275,495
Liabilities:			
Interest-bearing bank loans		**2,338,177**	1,482,125
Accounts and bills payable		**92,701**	55,846
Other payables and accruals		**300,519**	574,863
Deferred tax liabilities	34	**112,180**	112,180
Liabilities directly associated with the assets classified as held for sale		**2,843,577**	2,225,014
Net assets directly associated with the disposal group		**1,990,666**	2,050,481

5. DISCONTINUED OPERATION, SHIPBUILDING (Continued)

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

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

6. REVENUE

Revenue, under continuing operations, represents the gross income from offshore oil storage and onshore storage services, gross freight income from the provision of oil transportation services, net invoiced value of oil products sold (after allowances for returns and trade discounts) and income from the provision of bunker refueling services, while gross income from shipbuilding is included under the revenue of discontinued operation, shipbuilding as set out in note 5. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

	2011 HK$'000	2010 HK$'000
Provision of offshore oil storage and onshore storage services	689,576	713,998
Provision of oil transportation services	351,460	178,514
Supply of oil products and provision of bunker refueling services	1,066,976	1,031,657
Attributable to continuing operations	2,108,012	1,924,169
Attributable to discontinued operation, shipbuilding (note 5)	89,021	187,330
	2,197,033	2,111,499

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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.

	Notes	Group 2011 HK$'000	2010 HK$'000
Cost of inventories sold		**1,258,989**	1,102,904
Cost of services rendered		**1,250,050**	1,106,818
Depreciation*		**205,266**	174,226
Amortisation of prepaid land/seabed lease payments		**3,571**	4,485
Amortisation of licences*	16	**11,250**	2,516
Minimum lease payments under operating leases:			
Vessels		**487,159**	387,263
Leasehold buildings		**12,902**	13,631
Employee benefit expenses (excluding directors' remuneration – note 9):			
Wages and salaries		**230,635**	210,894
Equity-settled share option expenses		**2,440**	8,781
Pension scheme contributions		**6,690**	4,912
		239,765	224,587
Auditors' remuneration		**4,029**	4,359
Loss on disposal of items of property, plant and equipment		**104**	217
Gain on deemed disposals of partial interest in a jointly-controlled entity		**(7,559)**	–
Write down of inventories to net realisable value		**71,797**	–
Impairment of items of property, plant and equipment**	14	**–**	3,822
Loss on disposal of an associate	19	**–**	16,312
Foreign exchange differences, net**		**(3,767)**	4,692
Impairment/(reversal of impairment) of accounts receivable	22	**(668)**	3,541
Bank interest income		**(27,885)**	(4,750)

* These items are included in "Cost of sales" in the consolidated income statement. Depreciation of vessels and vessel equipment of HK$87,127,000 (2010: HK$65,663,000) are included in "Cost of sales".

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

8. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within five years	**99,077**	69,012
Bank loans not wholly repayable within five years	**175,001**	128,923
Senior Notes Due 2012	**74,549**	75,249
Convertible Notes Due 2015	**52,754**	16,472
PIK Notes Due 2015	**7,842**	4,288
K Line Notes Due 2013	**6,124**	6,003
TGIL Notes Due 2014	**17,149**	14,817
Dividends on convertible preferred shares:		
Titan preferred shares (note 31)	**37,855**	35,225
TGIL preferred shares (note 31)	**37,721**	39,000
Other finance costs	**5,841**	10,818
Total interest expenses	**513,913**	399,807
Less: Interest capitalised	**(165,966)**	(115,037)
	347,947	284,770
Attributable to continuing operations	**342,138**	273,943
Attributable to discontinued operation, shipbuilding (note 5)	**5,809**	10,827
	347,947	284,770

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	
	2011	2010
	HK$'000	HK$'000
Fees	**880**	810
Other emoluments:		
Salaries, allowances and benefits-in-kind	**3,711**	3,557
Equity-settled share option expenses	**31**	412
Pension scheme contributions	**34**	56
	3,776	4,025
	4,656	4,835

(a) Independent non-executive directors

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

	2011	2010
	HK$'000	HK$'000
Mr. Abraham Shek Lai Him	**250**	230
Mr. John William Crawford	**370**	340
Ms. Maria Tam Wai Chu	**260**	240
	880	810

There were no other emoluments paid or payable to the independent non-executive directors during the year (2010: 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
2011				
Executive directors				
Mr. Patrick Wong Siu Hung	**3,711**	**31**	**34**	**3,776**
Mr. Tsoi Tin Chun	**–**	**–**	**–**	**–**
	3,711	**31**	**34**	**3,776**
2010				
Executive directors				
Mr. Patrick Wong Siu Hung	3,557	412	56	4,025
Mr. Tsoi Tin Chun	–	–	–	–
	3,557	412	56	4,025

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 (2010: one) director, details of whose remuneration is disclosed in note 9 above. Details of the remuneration of the remaining four (2010: four) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits-in-kind	**10,890**	8,797
Equity-settled share option expenses	**79**	82
Pension scheme contributions	**323**	126
	11,292	9,005

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

	Number of employees	
	2011	2010
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**3**	1
HK$2,500,001 to HK$3,000,000	**1**	–
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:

	2011	2010
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	
	2011	2010
	HK$'000	HK$'000
Hong Kong:		
Current charge for the year	**–**	–
Elsewhere:		
Current charge for the year	**5,023**	455
Underprovision/(overprovision) in prior years	**3,227**	(6,531)
	8,250	(6,076)
Deferred taxation (note 34)	**(1,958)**	–
Total tax charge/(credit) for the year, continuing operations	**6,292**	(6,076)

11. TAX (Continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
Loss before tax	**(777,040)**	(586,464)
Tax at the Hong Kong tax rate of 16.5% (2010: 16.5%)	**(128,212)**	(96,767)
Higher tax rates for specific provinces or local authorities	**(20,812)**	(8,566)
Adjustments in respect of current tax of previous periods	**3,227**	(6,531)
Profits and losses attributable to associates	**(3,759)**	(1,540)
Income not subject to tax	**(389,254)**	(430,303)
Expenses not deductible for tax	**545,102**	537,631
Tax charge/(credit) at the Group's effective rate	**6,292**	(6,076)
Represented by:		
Tax charge/(credit) attributable to continuing operations	**6,292**	(6,076)
Tax credit attributable to discontinued operation, shipbuilding (note 5)	**–**	–
	6,292	(6,076)

The share of tax attributable to associates amounting to HK$608,000 (2010: HK$69,000) is included in "Share of profits 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 2011 includes a loss of HK$645,926,000 (2010: HK$554,853,000) which has been dealt with in the financial statements of the Company (note 37(b)).

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2011	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 2010 and at 1 January 2011:								
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
At 1 January 2011, 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
Additions	–	1,127	38	102,641	108,847	25,084	278,723	516,460
Deemed disposals of partial interest in a jointly-controlled entity	(5,814)	(6,616)	(25)	–	(128,333)	(1,304)	(81,357)	(223,449)
Disposals	–	–	–	(22,329)	–	(1,260)	–	(23,589)
Depreciation provided during the year	(3,968)	(4,150)	(647)	(79,494)	(56,636)	(35,382)	–	(180,277)
Transfers	4,156	28,196	–	–	465,056	–	(497,408)	–
Exchange realignment	3,557	3,072	17	–	68,102	1,570	49,546	125,864
At 31 December 2011, net of accumulated depreciation and impairment	71,936	85,884	1,253	133,216	1,865,676	36,573	766,082	2,960,620
At 31 December 2011:								
Cost	89,011	100,755	7,629	219,249	2,050,284	154,872	766,082	3,387,882
Accumulated depreciation and impairment	(17,075)	(14,871)	(6,376)	(86,033)	(184,608)	(118,299)	–	(427,262)
Net carrying amount	71,936	85,884	1,253	133,216	1,865,676	36,573	766,082	2,960,620

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

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

* In the prior year, the Group disposed of twelve vessels and bunker barges for a total cash consideration of US$71,500,000 (equivalent to approximately HK$557,700,000) and recorded losses on disposals of HK$446,649,000. During the year, the Group disposed of a bunker barge for a total cash consideration of US$4,000,000 (equivalent to approximately HK$31,200,000) and no material gain or loss on disposal was recorded.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

In the prior year, 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.

At 31 December 2011, 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 net carrying values of approximately HK$1,562,576,000 (2010: HK$1,384,078,000), HK$901,532,000 (2010: HK$716,328,000), HK$480,354,000 (2010: HK$443,492,000) and HK$218,405,000 (2010: HK$193,752,000), respectively, were pledged to secure certain banking facilities granted to the Group (note 26).

15. PREPAID LAND/SEABED LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**464,776**	985,707
Additions	**–**	1,684
Amortisation provided during the year	**(3,077)**	(4,485)
Amortisation capitalised in construction in progress	**(7,003)**	(16,489)
Reclassified as held for sale (note 5)	**–**	(513,827)
Deemed disposals of partial interest in a jointly-controlled entity	**(34,727)**	–
Exchange realignments	**15,168**	12,186
Carrying amount at 31 December	**435,137**	464,776

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 2011, 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 net carrying value of HK$914,917,000 (2010: HK$944,843,000) were pledged to secure certain banking facilities granted to the Group (note 26).

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16. LICENCES

Group

	HK$'000
31 December 2011	
Cost at 1 January 2011, net of accumulated amortisation	**32,383**
Amortisation provided during the year	**(11,250)**
At 31 December 2011	**21,133**
At 31 December 2011:	
Cost	**51,935**
Accumulated amortisation	**(30,802)**
Net carrying amount	**21,133**
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

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

17. GOODWILL

Group

	HK$'000
31 December 2011	
Cost at 1 January 2011, net of accumulated impairment	**470,371**
Deemed disposals of partial interest in a joinly-controlled entity	**(35,800)**
At 31 December 2011	**434,571**
At 31 December 2011:	
Cost	**453,529**
Accumulated impairment	**(18,958)**
Net carrying amount	**434,571**
31 December 2010	
Cost at 1 January 2010, net of accumulated impairment	1,086,197
Disposal of an associate under an onshore 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

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

	Oil supply		Onshore storage		Shipbuilding and ship repair		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**16,568**	16,568	**418,003**	453,803	**–***	–*	**434,571**	470,371

* At 31 December 2011 and 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 as disclosed in note 5.

17. GOODWILL (Continued)

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

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

Impairment testing of goodwill

Oil supply cash-generating unit

The recoverable amount of the oil supply cash-generating unit has been determined based on a value in use calculation using cash flow projections beyond the five-year period based on financial budgets approved by senior management. The pre-tax discount rate applied to the cash flow projections was 13.2%.

Onshore storage cash-generating unit

The recoverable amount of the onshore 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 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 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 2011, no impairment provisions have been made against the goodwill arising from the acquisitions of the oil supply business, onshore storage businesses or the shipbuilding and ship repair businesses.

18. INTERESTS IN SUBSIDIARIES

	Company 2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**234,008**	234,008
Deemed investment cost*	**8,549**	8,549
Due from subsidiaries	**3,388,604**	5,014,634
	3,631,161	5,257,191
Portion of amounts due from subsidiaries classified as current assets	**–**	(93,600)
Non-current portion	**3,631,161**	5,163,591

* 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 in 2010 where the amounts due from the subsidiaries of HK$93,600,000 were 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 in 2010 where the amounts due to the subsidiaries of HK$53,857,000 were 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
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

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				
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 floating storage services
Titan Libra Pte. Ltd.*	Singapore	Ordinary SG$1,000,000	100	Provision of financing services
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

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 Storage Limited	BVI/Malaysia	Ordinary US$1,000	100	Provision of floating storage services
Titan Orient Lines Pte. Ltd.*	Singapore	Ordinary SG$2	100	Investment holding
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

18. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

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

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

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

On 11 December 2010, the Company entered into a sale and purchase agreement to dispose of its 95% equity interest in a subsidiary, QZ Shipyard. As separately disclosed, this disposal has not yet been completed at the date of this report.

Shares of certain subsidiaries held by the Group were pledged to the note holders of Senior Notes Due 2012 (note 28), Convertible Notes Due 2015 (note 29) and PIK Notes Due 2015 (note 30).

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19. INTERESTS IN ASSOCIATES

	Group 2011 HK$'000	2010 HK$'000
Share of net assets	**327,875**	299,793
Goodwill on acquisition	**26,448**	26,448
Deemed disposals of partial interest in a jointly-controlled entity	**(29,555)**	–
	324,768	326,241
Due from associates	**–**	4,406
	324,768	330,647

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

The goodwill on acquisition as at 31 December 2011 is attributable to the Group's 27.6% 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.

19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates as at 31 December 2011 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
Yangshan Shen Gang International Oil Logistics Co., Ltd.* ("Yangshan Shen Gang")	US$73,460,000	Corporate	Mainland China	34.1	Operation of oil berthing and storage facilities
Guangzhou Xiaohu Petrochemical Terminal Co., Ltd* ("GZ Xiaohu")	RMB157,500,000	Corporate	Mainland China	27.6	Terminal facilities services

* Held under a jointly-controlled entity (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:

	2011 HK$'000	2010 HK$'000
Assets	**2,370,851**	2,300,231
Liabilities	**1,449,145**	1,448,386
Revenue	**379,246**	505,343
Profit for the year	**62,574**	30,799

福建石獅中油油品銷售有限公司 and 嵊泗縣同盛石油有限公司 were dissolved in June 2011 and December 2010 respectively and no material gains or losses was resulted from the dissolutions.

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.

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$475,800 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 onshore 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$44,000,000	Mainland China	50.1	50.1	Provision of onshore storage services
Quanzhou Titan Petrochemical Terminal Development Co., Ltd*#	US$40,000,000	Mainland China	50.1	50.1	Provision of onshore storage services
Titan Group Nansha Investment Limited	Ordinary HK$1	Hong Kong	50.1	50.1	Investment holding

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the jointly-controlled entities are as follows: (Continued)

Name	Issued share capital/registered capital	Place of registration and operations	Ownership interest/ percentage of voting power	Profit sharing@	Principal activities
Titan Group Yantai Investment Limited	Ordinary US$1	BVI	50.1	50.1	Investment holding
Titan Investment Group Limited ("TIGL")	Ordinary HK$1	Hong Kong	50.1	50.1	Investment holding
Yantai Titan Petrochemical Port Development Company Limited ("Yantai")*†^	RMB198,000,000	Mainland China	25.1	25.1	Provision of onshore storage services

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

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† 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 for the TGIL preferred shares, as detailed in note 31(b) to the financial statements, 100% of accumulated losses incurred by TGIL group will be borne by the Group.

During the year, TOSIL, Warburg Pincus and TGIL entered into a subscription agreement by which TGIL alloted and issued an aggregate of 37,575 and 37,425 new ordinary shares to TOSIL and Warburg Pincus for considerations of US$9,459,000 (approximately HK$73,780,000) and US$9,422,000 (approximately HK$73,492,000) respectively. These allotments of new shares to Warburg Pincus resulted in a dilution of 7.87% to the Group's equity interest in jointly-controlled entities.

^ On 17 October 2011, TIGL signed an agreement with Yantai Port Western Port Co., Ltd. ("Western Port Company") for an investment in Yantai, which TIGL and Western Port Company each holds a 50% equity interests. The Group shares joint control with Western Port Company and has recognised Yantai as a jointly-controlled entity during the year.

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

NOTES TO FINANCIAL STATEMENTS

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	2011 **HK$'000**	2010 HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Non-current assets	**4,326,766**	3,978,638
Non-current liabilities	**(2,071,915)**	(2,025,200)
Current assets	**502,199**	473,894
Current liabilities	**(1,274,229)**	(1,113,495)
Net assets	**1,482,821**	1,313,837
Share of jointly-controlled entities' results:		
Revenue	**197,640**	199,610
Cost of sales	**(109,458)**	(85,006)
Gross profit	**88,182**	114,604
Other revenue	**6,821**	7,893
Expenses	**(67,004)**	(37,674)
Finance costs	**(159,415)**	(126,308)
Share of profits of associates, net	**23,557**	9,160
Loss before tax	**(107,859)**	(32,325)
Tax	**(594)**	(423)
Loss after tax	**(108,453)**	(32,748)

21. INVENTORIES

At 31 December 2011, the Group had supplies for onshore storage operations of HK$2,231,000 (2010: HK$1,523,000) and oil products of HK$660,000 (2010: HK$10,983,000).

In addition, the Group had supplies of HK$133,671,000 (2010: 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 2011.

22. ACCOUNTS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Accounts receivable	**99,073**	97,664
Impairments	**(15,572)**	(16,240)
	83,501	81,424

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

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

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

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22. ACCOUNTS RECEIVABLE (Continued)

As at 31 December 2011, accounts receivable in a disposal group (note 5) included HK$98,540,000 which was aged over twelve months, and was more than three months past due.

As at 31 December 2010, accounts receivable in a disposal group 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 receivable are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**16,240**	14,956
Impairment losses recognised/(reversed) (note 7)	**(668)**	3,541
Amounts written off as uncollectible	**–**	(2,257)
At 31 December	**15,572**	16,240

Included in the above balance is a provision for impairment for customers with an aggregate gross receivable balance of HK$17,448,000 (2010: HK$32,451,000). The net accounts receivable in respect of these customers after the provision for impairment amounted to HK$1,877,000 (2010: HK$16,211,000). 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 receivable that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**57,019**	49,957
Less than 3 months past due	**19,211**	6,081
More than 3 months past due	**5,394**	9,175
	81,624	65,213

22. ACCOUNTS 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 2011, included in the accounts receivable of assets of a disposal group classified as held for sale are accounts receivable from Titan Oil for sales of vessels of HK$98,540,000 (2010: HK$213,987,000) (note 41(iv)).

23. CONTRACTS IN PROGRESS

	Group	
	2011	2010
	HK$'000	HK$'000
Contracts in progress		
Direct costs incurred plus recognised profits less recognised losses to date	**203,876**	47,468
Less: Direct costs incurred plus recognised profits less recognised losses to date, reclassified as assets held for sale (note 5)	**(203,876)**	(37,364)
	–	10,104

24. FINANCIAL GUARANTEE CONTRACTS

In 2011, 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 (2010: HK$8,549,000).

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**193,197**	263,891	**847**	2,262
Time deposits	**1,091,503**	162,386	**–**	–
	1,284,700	426,277	**847**	2,262
Less: Amounts pledged for banking facilities (note 26(ii)) and restricted cash:				
Bank balances	**(33,415)**	(82,761)	**–**	–
Time deposits	**(26,412)**	(94,610)	**–**	–
Time deposits with original maturities of more than three months	**(1,065,091)**	(66,626)	**–**	–
	(1,124,918)	(243,997)	**–**	–
Cash and cash equivalents	**159,782**	182,280	**847**	2,262

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$1,312,630,000 (2010: HK$445,127,000). 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 history.

26. INTEREST-BEARING BANK LOANS

Group	2011 Effective interest rate (%)	2011 Maturity	2011 HK$'000	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000
Current						
Bank loans – secured	**2.16-5.94**	**2012**	**1,400,954**	3.19–5.76	2011	483,814
Bank loans – unsecured	**4.74-6.94**	**2012**	**208,895**	4.74–6.12	2011	317,247
			1,609,849			801,061
Non-current						
Bank loans – secured	**5.91-5.94**	**2013-2019**	**889,688**	5.35–5.94	2012–2019	1,177,098
Bank loans – unsecured	**–**	**–**	**–**	5.35	2018	329,775
			889,688			1,506,873
			2,499,537			2,307,934

	Group 2011 HK$'000	Group 2010 HK$'000
Bank loans repayable:		
Within one year	**1,609,849**	801,061
In the second year	**143,188**	265,716
In the third to fifth years, inclusive	**527,001**	907,710
Beyond five years	**219,499**	333,447
	2,499,537	2,307,934

As at 31 December 2011, the Group was in default on repayment of certain secured bank borrowings with the overdue portion in principal amount of RMB111,000,000 (approximately HK$137,407,000). Accordingly, the portion of those bank borrowings of RMB316,273,000 (approximately HK$391,520,000) that are repayable after one year have been classified as current liabilities given the banks' entitlement to demand repayment of the outstanding balances at any time at their discretion.

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31 December 2011

26. INTEREST-BEARING BANK LOANS (Continued)

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

(i) construction in progress with an aggregate carrying value of HK$901,532,000 (2010: HK$716,328,000);

(ii) bank balances and deposits of HK$1,065,091,000 (2010: HK$134,861,000);

(iii) machinery with an aggregate net carrying value of HK$218,405,000 (2010: HK$193,752,000);

(iv) buildings with an aggregate net carrying value of HK$480,354,000 (2010: HK$443,492,000);

(v) prepaid land/seabed lease payments with an aggregate net carrying value of HK$914,917,000 (2010: HK$944,843,000);

(vi) storage facilities with an aggregate net carrying value of HK$1,562,576,000 (2010: HK$1,384,078,000);

(vii) accounts receivable with an aggregate carrying value of HK$56,319,000 in 2010 but such security was released in 2011;

(viii) corporate guarantees executed by the Company; and

(ix) 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 amount		Fair value	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans – secured	**889,688**	1,177,098	**815,120**	1,112,448
Bank loans – unsecured	**–**	329,775	**–**	319,526
	889,688	1,506,873	**815,120**	1,431,974

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

27. ACCOUNTS AND BILLS PAYABLE/OTHER PAYABLES AND ACCRUALS

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

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

	Group	
	2011	2010
	HK$'000	HK$'000
1 to 3 months	**176,942**	71,317
4 to 6 months	**109,681**	67,877
7 to 12 months	**101,767**	49,235
Over 12 months	**81,449**	16,992
	469,839	205,421
Other payables and accruals	**1,321,970**	650,758
	1,791,809	856,179

Accounts and bills payable are non-interest-bearing. Other payables and accruals are non-interest–bearing and have an average term of three months. A partial consideration for disposal of QZ shipyard of HK$916,050,000 is included in the other payables as set out in note 5.

	Provision for product warranties	
	2011	2010
Group	**HK$'000**	HK$'000
At 1 January	**–**	1,684
Amounts utilised during the year	**–**	(1,684)
At 31 December	**–**	–

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.

28. 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.

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

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

The Senior Notes Due 2012 was due for repayment on 19 March 2012 and, therefore, are classified as current liabilities as at 31 December 2011. On 19 March 2012 and as of the date of this report, the Company was unable to repay such Senior Notes Due 2012 as set out in note 46.

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

The Company issued US$78,728,000 (approximately HK$614,078,000) aggregate principal amount of Convertible Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered Senior Notes Due 2012. The Convertible Notes Due 2015 are due on 13 July 2015 with a single repayment at 151.621% of its principal amount, unless earlier redeemed, repurchased or purchased by the Company or converted. The Convertible Notes Due 2015 bear no interest, and are listed on the Singapore Exchange Securities Trading Limited. Holders of the Convertible Notes Due 2015 are entitled to convert their Convertible Notes Due 2015 with a minimum principal amount of US$1,000 or integral multiples of US$500 in excess thereof based on an initial conversion rate of 10,915 conversion shares per US$1,000 in principal amount of Convertible Notes Due 2015, subject to adjustments. 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, Convertible Notes due 2015 with an aggregate principal amount of US$3,991,000 (approximately HK$31,130,000) (2010: US$16,680,000 (approximately HK$130,104,000)) was converted into 43,561,764 ordinary shares (2010: 182,062,197) of HK$0.01 each in the Company at the conversion price of approximately US$0.0916 (approximately HK$0.7145) per share.

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

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

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

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

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

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, PIK Notes Due 2015 with an aggregate principal amount of US$1,040,000 (approximately HK$8,112,000) (2010: US$3,539,500 (approximately HK$27,608,000)) were repurchased by the Company at an aggregate consideration of US$1,040,000 (approximately HK$8,112,000) (2010: US$3,448,000 (approximately HK$26,893,000)), resulting in a net loss on repurchases, after written off unamortised transaction costs, of HK$214,000 (2010: net gain of HK$43,000).

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

31. 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 2010	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**
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	**–**	**37,855**	**–**	**37,855**
At 31 December 2011	**75,559**	**363,176**	**75,559**	**363,176**
(b) TGIL preferred shares				
At 1 January 2010	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**	**–**	**–**
Add: Dividends on convertible preferred shares (classified as financial liabilities) (note 8)	**–**	**37,721**	**–**	**–**
Less: Deemed disposals of partial interest in a jointly-controlled entity	**(40,754)**	**(32,799)**	**–**	**–**
At 31 December 2011	**477,083**	**398,932**	**–**	**–**

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

31. CONVERTIBLE PREFERRED SHARES (Continued)

Titan preferred shares are redeemable (1) at any time on or after the fifth anniversary of the date of issue at a price equal to 100% of their initial subscription price (if redeemed at the election of the holders) or 175% of their initial subscription price (if redeemed at the election of the Company) in each case together with any accrued and unpaid dividends; or (2) on the occurrence of a redemption event and at the election of the holders of the Titan preferred shares at a price equal to the higher of 175% of their initial subscription price or the aggregate market price of the number of the Company's shares into which those Titan preferred shares being redeemed can be converted, if they were converted on the date of the notice of redemption, together with any accrued and unpaid dividends provided that this redemption right cannot be exercised so long as any of the Senior Notes Due 2012 remains outstanding except in the case of change of control redemption event, but only if a change of control triggering event has occurred and the Company has complied with its obligations under the Senior Notes Due 2012 in respect of such an event.

The redemption events (the "Redemption Events") included

(a) Titan Oil ceasing directly or indirectly through its subsidiaries or nominees to own 35% or more of the Company's ordinary shares;*

(b) Titan Oil ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of the Company (other than in circumstances where Warburg Pincus or its associates (as that term is defined in the Listing Rules) is or are together such single largest shareholder);*

(c) the chairman of the Company, Mr. Tsoi Tin Chun, ceasing to be a controlling shareholder of Titan Oil (other than as a result of a temporary reduction of shareholding to facilitate a vendor top up placing by the Company);*

(d) the Company ceasing directly or indirectly through its subsidiaries or nominees to be the single largest shareholder of TGIL (other than as a result of the exercise of the TGIL's warrant);

(e) the occurrence of specified events which are related to the insolvency of the Company or the initiation of insolvency or liquidation proceedings by or against the Company or events of default under the Senior Notes Due 2012 occurring; and an equity instrument (the conversion right, i.e. the holder's right to call for shares of the issuer).

* Since those redemption events were related to the change of significant shareholding of the substantial shareholder in the Company, the substantial shareholder (Titan Oil and Mr. Tsoi) of the Company has signed a deed of undertaking pursuant to which the substantial shareholder (Titan Oil and Mr. Tsoi) has undertaken to indemnify the Company in respect of any loss to the Company (as defined in the deed of undertaking) arising from the exercise of the redemption right of the holders of the Titan Preferred Shares on the occurrence of the Redemption Events.

31. CONVERTIBLE PREFERRED SHARES (Continued)

TGIL preferred shares are redeemable on the occurrence of a Redemption Event and at the election of the holders of TGIL preferred shares (provided that TGIL's warrant is not exercised) at a price equal to the higher of 175% of their initial subscription price or the market value (to be determined by an independent investment bank) of TGIL's ordinary shares into which those TGIL preferred shares being redeemed can be converted (subject to a cap of HK$2,730 million upon the full redemption of TGIL preferred shares), as if they were converted on the date of the notice of redemption, together with any accrued and unpaid dividends.

At the end of the reporting period, Titan preferred shares are redeemable at any time on or after 22 June 2012 and, therefore, classified as current liabilities at 31 December 2011.

As described in note 46 to the financial statements, following the default on repayment of the Senior Notes Due 2012 on 19 March 2012, an early redemption event was triggered, and the TGIL preferred shareholders exercised their warrant rights to subscribe for 3,507 ordinary shares.

32. 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 became repayable on demand and were 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.

32. NOTES PAYABLE ("K LINE NOTES DUE 2013") (Continued)

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 an embedded derivative. As at 31 December 2011, the fair value of the embedded derivatives asset was HK$18,286,000 (2010: HK$18,286,000).

33. 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$312,600,000 (approximately US$40,100,000) 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$156,000,000 (US$20,000,000). 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$85,015,000 of TGIL Notes Due 2014 was assigned as the equity portion and was included in the equity portion of convertible unsecured notes in a jointly-controlled entity.

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

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

34. 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 2010	4,026	153,416	157,442
Reclassified as held for sale (note 5)	–	(112,180)	(112,180)
Exchange realignments	356	–	356
At 31 December 2010 and 1 January 2011	**4,382**	**41,236**	**45,618**
Deferred tax credited to the consolidated income statement during the year (note 11)	**(1,958)**	**–**	**(1,958)**
Deemed disposals of partial interest in a jointly-controlled entity	**–**	**(3,245)**	**(3,245)**
Exchange realignments	**40**	**–**	**40**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2011	**2,464**	**37,991**	**40,455**

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 2011 and 2010, 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 2011 and 2010, 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.

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31 December 2011

35. SHARE CAPITAL

Shares

	2011		2010	
	Number of shares	**Nominal value of shares HK$'000**	Number of shares	Nominal value of shares HK$'000
Authorised:				
Ordinary shares of HK$0.01 each at 31 December (note (a))	**14,445,000,000**	**144,450**	14,445,000,000	144,450
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	**7,766,732,918**	**77,667**	6,562,460,721	65,625
Issue of shares upon exercise of share options (note 36)	**10,260,000**	**103**	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))	**43,561,764**	**436**	182,062,197	1,820
Ordinary shares of HK$0.01 each at 31 December	**7,820,554,682**	**78,206**	7,766,732,918	77,667
Convertible preferred shares of HK$0.01 each at 1 January and 31 December	**555,000,000**	**5,550**	555,000,000	5,550

35. 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$3,991,000 (approximately HK$31,130,000) (2010: US$16,680,000 (approximately HK$130,104,000)) were converted into 43,561,764 ordinary shares (2010: 182,062,197) of HK$0.01 each in the Company at the conversion price of approximately US$0.0916 (approximately HK$0.7145) per share.

(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 schemes and the movements in share options issued by the Company are included in note 36 to the financial statements.

36. SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to an ordinary resolution passed on 31 May 2002 (as amended on 24 June 2010) (the "2002 Share Option Scheme").

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 June 2011, the Company adopted a new share option scheme (the "New Share Option Scheme") and terminated the 2002 Share Option Scheme (the 2002 Share Option Scheme and the New Share Option Scheme, collectively, are referred to as the "Schemes").

(a) Summary of the Schemes

i. Purposes of the Schemes

The purposes of the Schemes are to provide a flexible means of attracting and retaining talent together with giving incentive to, rewarding and motivating the participants who have made or may make contributions to the long term success of the Group.

ii. Participants in the Schemes

Pursuant to the 2002 Share Option Scheme, the Company may grant options to (i) full time employees and directors of the Company and its subsidiaries; and (ii) any suppliers, consultants, agents and advisors of the Group.

Pursuant to the New Share Option Scheme, the participants include (i) directors (including executive directors, non-executive directors or independent non-executive directors) of any member of the Group or any invested entity; (ii) employees and executives (whether full-time or part-time) of any member of the Group or any invested entity; and (iii) consultants, advisers, business partners, joint venture partners, agents, suppliers and customers to any member of the Group or any invested entity.

iii. Total number of ordinary shares available for issue under the Schemes

The total number of ordinary shares of the Company ("Shares") which may be issued upon exercise of all options to be granted under the Schemes shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of approval of the New Share Option Scheme (i.e. 780,240,218 Shares, which represents approximately 9.98% of the issued share capital of Company at the date of approval of the financial statements).

The maximum number of Shares which may be issued upon exercise of outstanding options granted and yet to be exercised under the Schemes shall not exceed 30% of the total number of Shares in issue from time to time.

iv. Maximum entitlement of each participant

Pursuant to the Schemes, the maximum number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

36. SHARE OPTION SCHEME (Continued)

(a) Summary of the Schemes (Continued)

v. Time of exercise of options

Pursuant to the Schemes, an option may be exercisable at any time during the option period, which to be determined by the Board at its absolute discretion, but in any event no later than 10 years from the date of the offer.

vi. Amount payable on acceptance

Pursuant to the Schemes, a non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option.

vii. Basis of determining the subscription price

Pursuant to the Schemes, the subscription price shall be determined by the board of directors at its discretion and shall not be less than the highest of:

i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of the offer;

ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and

iii) the nominal value of a Share.

viii. Remaining life of the Schemes

The 2002 Share Option Scheme has no remaining life as no further options may be granted but the provisions of the 2002 Share Option Scheme shall in all other respects remain in full force and effect and options which were granted during the life of the 2002 Share Option Scheme may continue to be exercisable in accordance with its respective terms of issue.

The New Share Option Scheme will continue to be in full force and effect for a period of 10 years commencing on 20 June 2011.

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31 December 2011

36. SHARE OPTION SCHEME (Continued)

(b) Share Option Movement

i. 2002 Share Option Scheme

The following share options under the 2002 Share Option Scheme were outstanding at the end of the reporting period:

Name or category of participant	Number of share options: At 1 January 2011	Granted during the year	Lapsed during the year	Exercised during the year***	At 31 December 2011	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	9,580,000	–	–	–	9,580,000	20 February 2006	20 February 2007 to 19 February 2012	0.72
	9,580,000	–	–	–	9,580,000	20 February 2006	20 February 2008 to 19 February 2013	0.72
	15,920,000	–	–	(630,000)	15,290,000	1 February 2008	1 February 2010 to 31 January 2015	0.45
	85,850,000	–	(1,700,000)	(9,630,000)	74,520,000	1 February 2008	1 February 2011 to 31 January 2016	0.45
	51,100,000	–	(3,980,000)	–	47,120,000	1 February 2008	1 February 2012 to 31 January 2017	0.45
	47,000,000	–	(4,400,000)	–	42,600,000	1 February 2008	1 February 2013 to 31 January 2018	0.45
	219,030,000	–	(10,080,000)	(10,260,000)	198,690,000			
	239,030,000	–	(10,080,000)	(10,260,000)	218,690,000			

36. SHARE OPTION SCHEME (Continued)

(b) Share Option Movement (Continued)

i. 2002 Share Option Scheme (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 1 February 2008 were vested to grantees in four tranches. 20% of such options were vested on 1 February 2010 with an exercise period from 1 February 2010 to 31 January 2015; 40% of such options were vested on 1 February 2011 with an exercise period from 1 February 2011 to 31 January 2016; 20% of such options were vested on 1 February 2012 with an exercise period from 1 February 2012 to 31 January 2017 and 20% of such options 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 adjustments 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$0.615.

During the year, no share options were cancelled under the 2002 Share Option Scheme.

At the end of the reporting period, the Company had outstanding share options for the subscription of 218,690,000 ordinary shares under the 2002 Share Option Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 218,690,000 additional ordinary shares of the Company and additional share capital of HK$2,186,900 and share premium of HK$101,396,800 (before issue expenses).

ii. New Share Option Scheme

No share options have been granted pursuant to the New Share Option Scheme since its adoption.

36. 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:

	2011		2010	
	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**	**239,030,000**	0.472	283,890,000
Exercised	**0.450**	**(10,260,000)**	0.478	(22,210,000)
Lapsed	**0.450**	**(10,080,000)**	0.467	(22,650,000)
Outstanding at 31 December	**0.474**	**218,690,000**	0.472	239,030,000

At 31 December 2011, out of the 218,690,000 outstanding options (31 December 2010: 239,030,000), 128,970,000 options (31 December 2010: 45,080,000) were vested and exercisable at a weighted average exercise price of HK$0.490 (31 December 2010: HK$0.565) per share.

37. 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	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		1,940,136	18,261	32,838	–	57,399	193,332	(1,265,818)	976,148
Total comprehensive income/ (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	36	13,767	–	(3,384)	–	–	–	–	10,383
Issue of ordinary shares	35(b)	360,000	–	–	–	–	–	–	360,000
Share issue expenses		(784)	–	–	–	–	–	–	(784)
Conversion of Convertible Notes Due 2015	29	124,105	–	–	–	–	–	–	124,105
Transfer to PRC statutory reserve		–	–	–	559	–	3	(562)	–
At 31 December 2010 and 1 January 2011		**2,437,224**	**18,261**	**38,194**	**559**	**57,399**	**274,126**	**(1,845,701)**	**980,062**
Total comprehensive income/ (loss) for the year		**-**	**-**	**-**	**-**	**-**	**161,931**	**(783,332)**	**(621,401)**
Equity-settled share option arrangements		**-**	**-**	**2,470**	**-**	**-**	**-**	**-**	**2,470**
Transfer to accumulated losses upon lapse of share options after vesting period		**-**	**-**	**(269)**	**-**	**-**	**-**	**269**	**-**
Exercise of share options	36	**6,105**	**-**	**(1,617)**	**-**	**-**	**-**	**-**	**4,488**
Conversion of Convertible Notes Due 2015	29	**29,912**	**-**	**-**	**-**	**-**	**-**	**-**	**29,912**
Realised on deemed disposals of partial interest in a jointly-controlled entity		**-**	**-**	**-**	**-**	**-**	**(4,803)**	**-**	**(4,803)**
At 31 December 2011		**2,473,241**	**18,261**	**38,778**	**559**	**57,399**	**431,254**	**(2,628,764)**	**390,728**

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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31 December 2011

37. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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	36	13,767	–	(3,384)	–	10,383
Issue of ordinary shares	35(b)	360,000	–	–	–	360,000
Share issue expenses		(784)	–	–	–	(784)
Conversion of Convertible Notes Due 2015	29	124,105	–	–	–	124,105
At 31 December 2010 and 1 January 2011		**2,437,224**	**60,916**	**38,194**	**(993,631)**	**1,542,703**
Total comprehensive loss for the year	12	**–**	**–**	**–**	**(645,926)**	**(645,926)**
Equity-settled share option arrangements		**–**	**–**	**2,470**	**–**	**2,470**
Transfer to accumulated losses upon lapse of share options after vesting period		**–**	**–**	**(269)**	**269**	**–**
Exercise of share options	36	**6,105**	**–**	**(1,617)**	**–**	**4,488**
Conversion of Convertible Notes Due 2015	29	**29,912**	**–**	**–**	**–**	**29,912**
At 31 December 2011		**2,473,241**	**60,916**	**38,778**	**(1,639,288)**	**933,647**

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/accumulated losses should the related options expire or lapse.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 December 2011, the Group leased vessels and certain leasehold land and buildings under operating lease arrangements, negotiated for one year and four years, respectively. At 31 December 2010, the Group did not lease out any vessels and leasehold land and buildings under operating lease arrangements to third parties.

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	
	2011	2010
	HK$'000	HK$'000
Vessels		
Within one year	**9,929**	–
Leasehold land and buildings		
Within one year	**3,908**	–
In the second to fifth years, inclusive	**4,885**	–
	8,793	–
	18,722	–

38. OPERATING LEASE ARRANGEMENTS (Continued)

(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	
	2011	2010
	HK$'000	HK$'000
Vessels		
Within one year	**365,348**	431,326
In the second to fifth years, inclusive	**437,544**	610,961
	802,892	1,042,287
Office premises		
Within one year	**11,704**	12,665
In the second to fifth years, inclusive	**17,933**	29,290
Beyond five years	**61,605**	67,821
	91,242	109,776
	894,134	1,152,063

39. COMMITMENTS

	Group 2011 HK$'000	Group 2010 HK$'000
Capital contribution commitments for associates in Mainland China	–	70,531
Commitments for construction of oil berthing and storage facilities of jointly-controlled entities in Mainland China	**14,084**	20,111
Commitment for shipbuilding and ship repair facilities in Mainland China*	**867,397**	939,102
	881,481	1,029,744

* At 31 December 2011 and 2010, such commitment was associated with the disposal group classified as held for sale.

	Company 2011 HK$'000	Company 2010 HK$'000
Capital contribution commitments for a subsidiary in Mainland China	**234,000**	234,000

40. CONTINGENT LIABILITIES

At 31 December 2011, guarantees aggregating HK$10,140,000 (2010: HK$22,230,000) had been given by the Company to banks in connection with banking facilities granted to subsidiaries. An amount of HK$10,140,000 (2010: HK$19,460,000) of the facilities had been utilised by a subsidiary of the Company.

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

41. RELATED PARTY TRANSACTIONS

As referred to elsewhere in these financial statements, the Group had the following material transactions with related parties during 2011 and 2010:

(i) Tenancy agreement with Titan Oil

In 2011, 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 2011 until 31 December 2013. During the year, the Group paid total rent of SG$328,000 (approximately HK$2,042,000) (2010: SG$608,000 (approximately HK$3,486,000)) to Titan Oil for the lease of the office premises, which was charged based on prevailing market rates.

(ii) Chartering vessels with Oceanic Shipping Pte. Ltd. ("Oceanic Shipping")

On 1 September 2010, a subsidiary of the Group entered into five charter agreements with 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$12,235,000 (approximately HK$95,433,000) (2010: US$4,089,000 (approximately HK$31,894,000)) in charter fees to Oceanic Shipping. The amount is comparable to the prevailing market rates for similar bareboat charters and terms. As at 31 December 2011, the unpaid charter hire expense was US$4,209,000 (approximately HK$32,830,000) (2010: Nil).

(iii) Bank guarantees

As at 31 December 2011, a guarantee was granted by one of the directors of the Company to a bank in connection with bank loans of RMB1,199,497,000 (approximately HK$1,484,880,000) (2010: RMB1,095,497,000 (approximately HK$1,290,241,000)) granted to QZ Shipyard.

(iv) Building and sale of vessels

As at 31 December 2011, the shipbuilding subsidiary of the Group had an amount due from Titan Oil of HK$98,540,000, which was included in accounts receivable of assets of a disposal group classified as held for sale (2010: HK$213,987,000) relating to building and sale of vessels to Titan Oil. The amounts in 2011 are unsecured, interest-free and with fixed terms of repayment schedule of HK$98,540,000. The amounts in 2010 are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$132,867,000 with a fixed repayment schedule. There was no sale of vessels to Titan Oil during the year (2010: HK$78,778,000).

41. RELATED PARTY TRANSACTIONS (Continued)

(v) Advances from/to Titan Oil and its subsidiaries

As at 31 December 2010, the Group had an amount due from Titan Oil of HK$133,000 which was unsecured, interest-free and had no fixed terms of repayment. Such amount was settled during the year.

As at 31 December 2011, the Group had an amount due from a subsidiary of Titan Oil of RMB874,000 (approximately HK$1,082,000) and an amount due to a subsidiary of Titan Oil of US$141,000 (approximately HK$1,098,000) (2010: an amount due to a subsidiary of Titan Oil of RMB135,000,000 (approximately HK$158,999,000)) which were unsecured, interest-free and had no fixed terms of repayment.

42. 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	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from associates	**–**	–	**–**	4,406	**–**	4,406
Due from a jointly-controlled entity	**–**	–	**25,184**	–	**25,184**	–
Accounts receivable	**–**	–	**83,501**	81,424	**83,501**	81,424
Financial assets included in prepayments, deposits and other receivables	**–**	–	**170,724**	463,535	**170,724**	463,535
Contracts in progress	**–**	–	**–**	10,104	**–**	10,104
Pledged deposits and restricted cash	**–**	–	**1,124,918**	243,997	**1,124,918**	243,997
Cash and cash equivalents	**–**	–	**159,782**	182,280	**159,782**	182,280
	–	–	**1,564,109**	985,746	**1,564,109**	985,746

NOTES TO FINANCIAL STATEMENTS

31 December 2011

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due to a jointly-controlled entity	**–**	–	**12,303**	–	**12,303**	–
Accounts and bills payable	**–**	–	**469,839**	205,421	**469,839**	205,421
Financial liabilities included in other payables and accruals	**–**	–	**1,321,970**	650,758	**1,321,970**	650,758
Interest-bearing bank loans	**–**	–	**2,499,537**	2,307,934	**2,499,537**	2,307,934
Senior Notes Due 2012	**–**	–	**844,690**	840,333	**844,690**	840,333
Convertible Notes Due 2015	**27,212**	123,632	**301,003**	285,102	**328,215**	408,734
PIK Notes Due 2015	**–**	–	**84,483**	84,360	**84,483**	84,360
Liability portion of convertible preferred shares	**–**	–	**762,108**	719,331	**762,108**	719,331
K Line Notes Due 2013	**(18,286)**	(18,286)	**215,750**	209,627	**197,464**	191,341
TGIL Notes Due 2014	**321**	348	**92,580**	82,733	**92,901**	83,081
	9,247	105,694	**6,604,263**	5,385,599	**6,613,510**	5,491,293

Company

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from subsidiaries	**–**	–	**3,388,604**	5,014,634	**3,388,604**	5,014,634
Financial assets included in prepayments, deposits and other receivables	**–**	–	**2,935**	624	**2,935**	624
Cash and cash equivalents	**–**	–	**847**	2,262	**847**	2,262
	–	–	**3,392,386**	5,017,520	**3,392,386**	5,017,520

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Financial liabilities included in other payables and accruals	**–**	–	**918,418**	27,716	**918,418**	27,716
Due to subsidiaries	**–**	–	**–**	1,869,135	**–**	1,869,135
Financial guarantee contracts	**–**	–	**8,549**	8,549	**8,549**	8,549
Senior Notes Due 2012	**–**	–	**844,690**	840,333	**844,690**	840,333
Convertible Notes Due 2015	**27,212**	123,632	**301,003**	285,102	**328,215**	408,734
PIK Notes Due 2015	**–**	–	**84,483**	84,360	**84,483**	84,360
Liability portion of convertible preferred shares	**–**	–	**363,176**	325,321	**363,176**	325,321
	27,212	123,632	**2,520,319**	3,440,516	**2,547,531**	3,564,148

43. 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:

The fair values of accounts 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 and K Line Notes Due 2013 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.

43. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group
As at 31 December 2011:

	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 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

The Company did not have any financial assets measured at fair value as at 31 December 2010 and 2011.

43. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

Group
As at 31 December 2011:

	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	–	**27,212**	–	**27,212**
TGIL Notes Due 2014	–	**321**	–	**321**
Total	–	**27,533**	–	**27,533**

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

Company
As at 31 December 2011:

	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	–	**27,212**	–	**27,212**

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

44. 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 the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts and bills payable, which arise directly from its operations.

The Group 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
2011		
Hong Kong dollar	**4-6**	**126**
Hong Kong dollar	**(4-6)**	**(126)**
2010		
Hong Kong dollar	4-28	48
Hong Kong dollar	(4-28)	(48)

44. 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 24 to the financial statements.

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

Further quantitative data in respect of the Group's exposure to credit risks arising from accounts receivable are disclosed in note 22 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risks (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

Group

	On demand or within one year		Over one year		Total	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Due to a jointly-controlled entity	12,303	–	–	–	12,303	–
Accounts and bills payable	469,839	205,421	–	–	469,839	205,421
Financial liabilities included in other payables and accruals	1,312,843	646,942	–	–	1,312,843	646,942
Interest-bearing bank loans	1,838,984	978,348	1,291,253	2,079,334	3,130,237	3,057,682
Senior Notes Due 2012	860,882	70,192	–	860,882	860,882	931,074
Convertible Notes Due 2015	35,180	33,779	499,035	578,670	534,215	612,449
PIK Notes Due 2015	7,088	6,927	100,158	118,667	107,246	125,594
Liability portion of convertible preferred shares	310,800	–	718,614	1,090,800	1,029,414	1,090,800
K Line Notes Due 2013	204,072	199,381	–	–	204,072	199,381
TGIL Notes Due 2014	4,973	1,560	145,942	159,968	150,915	161,528
	5,056,964	2,142,550	2,755,002	4,888,321	7,811,966	7,030,871

Company

	On demand or within one year		Over one year		Total	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial liabilities included in other payables and accruals	918,418	27,716	–	–	918,418	27,716
Due to subsidiaries	–	53,857	–	1,815,278	–	1,869,135
Senior Notes Due 2012	860,882	70,192	–	860,882	860,882	931,074
Convertible Notes Due 2015	35,180	33,779	499,035	578,670	534,215	612,449
PIK Notes Due 2015	7,088	6,927	100,158	118,667	107,246	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	10,140	19,460	–	–	10,140	19,460
	2,142,508	211,931	599,193	3,684,297	2,741,701	3,896,228

44. 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
2011		
If United States dollar weakens against RMB	**4.36**	**3,851**
If United States dollar strengthens against RMB	**4.36**	**(3,851)**
2010		
If United States dollar weakens against RMB	1.24	1,557
If United States dollar strengthens against RMB	1.24	(1,557)

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 2011 and 2010.

44. 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	
	2011	2010
	HK$'000	HK$'000
Interest-bearing bank loans	**4,837,714**	3,790,059
Senior Notes Due 2012	**844,690**	840,333
Convertible Notes Due 2015	**328,215**	408,734
PIK Notes Due 2015	**84,483**	84,360
K Line Notes Due 2013	**197,464**	191,341
TGIL Notes Due 2014	**92,901**	83,081
Total debts	**6,385,467**	5,397,908
Total assets	**10,622,591**	9,517,212
Gearing ratio	**60%**	57%

45. COMPARATIVE AMOUNTS

The presentation of certain items in the financial statements have been revised. Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

46. EVENTS AFTER THE REPORTING PERIOD

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

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

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

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 May 2012.

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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE					
Continuing operations	**2,108,012**	1,924,169	1,619,815	7,238,059	7,734,473
Discontinued operations	**89,021**	187,330	385,434	3,854,885	9,269,845
	2,197,033	2,111,499	2,005,249	11,092,944	17,004,318
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(563,469)**	(508,116)	(429,085)	(425,823)	(97,502)
Discontinued operations	**(213,571)**	(78,348)	(105,828)	(1,182,402)	73,024
	(777,040)	(586,464)	(534,913)	(1,608,225)	(24,478)
Tax					
Continuing operations	**(6,292)**	6,076	(488)	2,664	(12,458)
Discontinued operations	**–**	–	–	36	5,964
	(6,292)	6,076	(488)	2,700	(6,494)
LOSS FOR THE YEAR	**(783,332)**	(580,388)	(535,401)	(1,605,525)	(30,972)
Attributable to:					
Owners of the Company	**(783,332)**	(580,800)	(536,087)	(1,600,557)	(29,104)
Non-controlling interests	**–**	412	686	(4,968)	(1,868)
	(783,332)	(580,388)	(535,401)	(1,605,525)	(30,972)

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**10,622,591**	9,517,212	9,446,295	8,998,992	12,774,943
TOTAL LIABILITIES	**(9,516,000)**	(7,773,810)	(7,710,220)	(6,826,211)	(9,089,734)
EQUITY PORTION OF CONVERTIBLE UNSECURED NOTES IN A JOINTLY-CONTROLLED ENTITY	**(85,015)**	(92,277)	(92,277)	–	–
CONTINGENTLY REDEEMABLE EQUITY IN A JOINTLY-CONTROLLED ENTITY	**(477,083)**	(517,837)	(517,837)	(517,837)	(517,837)
NON-CONTROLLING INTERESTS	**–**	–	(8,629)	(23,751)	(115,487)
	544,493	1,133,288	1,117,332	1,631,193	3,051,885

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tsoi Tin Chun, *Chairman*
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

NOMINATION COMMITTEE

Abraham Shek Lai Him, *SBS, JP, Committee Chairman*
Maria Tam Wai Chu, *GBS, JP*
Patrick Wong Siu Hung

COMPANY SECRETARY

Shirley Hui Wai Man

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

4902 Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China
China Construction Bank
Citibank, N.A.
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
Shenzhen Development Bank

AUDITORS

Ernst & Young

SOLICITORS

Reed Smith Richards Butler
Skadden, Arps, Slate, Meagher & Flom LLP
TSMP Law Corporation
Conyers, Dill & Pearman
Holman Fenwick Willan
Rajah & Tann LLP
Concord & Partners Shanghai Office

PRINCIPAL REGISTRARS

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRARS

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

www.petrotitan.com

STOCK CODE

1192

Titan Petrochemicals Group Limited

4902 Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2116 1388
Fax: (852) 3107 1899

Website: www.petrotitan.com