# Titan Petrochemicals Group Limited

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

Annual Report 2015

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# CHAIRMAN'S STATEMENT

During the twelve months ended 31 December 2015 ("period under review"), the road towards resumption for Titan Petrochemicals Group Limited (the "Company" or "Titan", together with its subsidiaries, collectively the "Group") was fraught with various difficulties and challenges. Nonetheless, with the unreserved support from the White Knight, Guangdong Zhenrong Energy Co., Ltd. ("GZE"), the Group restructured the board of directors and rescued the Company from the threat of imminent liquidation.

It was a year full of challenges for the Company in 2015. We experienced an unexpected setbacks in the resumption. The completions of the subscription agreements under the Restructuring were not taken place as scheduled. All the agreements contemplated thereunder the Restructuring were therefore lapsed; and the Listing Division of the Stock Exchange placed the Company in the third stage of delisting. Resisting the pressure from the winding up petition in Bermuda and the change in listing status, the management, with the assistance from GZE, entered into certain agreements and supplemental agreements in relation to the business development and debt restructuring. A resumption proposal was submitted within thirty days from the date which the agreements were declared lapsed. At the same time, the management obtained a consent from the provisional liquidators who agreed to adjourn the winding up hearing in Bermuda and extend the long-stop date of the Scheme.

To lay a solid foundation to the Group's financial position and long-term business development, the Group has entered into a subscription agreement (the "Subscription Agreement") with Chang Xin Asset Management Corporation ("Chang Xin", a company incorporated in China, mainly engaged in funds management), pursuant to which Chang Xin has conditionally agreed to subscribe for 2,600 million new Shares at the subscription price of HK$0.1 per Share. This Subscription Agreement demonstrates the investors' vote of confidence in the growth prospects of our business and provides further working capital to the Group.

During July 2015, the Group received overwhelming support from the independent shareholders of the Company in the restructuring proposal and raising fund through issuance of new share. Meanwhile, the open offer received enthusiastic response and was oversubscribed of open offer share by 9.4. It represented the recognition and support of the shareholders of the Company ("Shareholders") to the Group's the restructuring proposal. The Group would like to express its sincere appreciation to all our Shareholders and wish the continuous support from the Shareholders, creditors and other stakeholders to the resumption and restructuring of the Company.

With the assistance and support from our major shareholder GZE, the management will, taking all the stakeholders' interest into account, remain consistently committed to proceed with the debt restructuring and the resumption proposal under the assistance of our financial and legal adviser, provisional liquidators and other professional. We look forward to sharing the fruitful results with our stakeholders in the not too distant future. Finally, I would like to express our sincere gratitude for the continuous support from our shareholders and the preserving efforts and dedications of all our colleagues and professional advisers.

**Fan Qinghua**
*Chairman*

Hong Kong, 29 March 2016

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Tang Chao Zhang *(Chief Executive)*
Zhang Weibing

### Non-executive Director

Fan Qinghua *(Chairman)*

### Independent Non-executive Directors

Lau Fai Lawrence
Xiang Siying
Hu Hongwei
Hsu Wai Man Helen

## AUDIT COMMITTEE

Lau Fai Lawrence *(Chairman)*
Fan Qinghua
Xiang Siying

## REMUNERATION COMMITTEE

Zhang Weibing *(Chairman)*
Hu Hongwei
Xiang Siying

## NOMINATION COMMITTEE

Fan Qinghua *(Chairman)*
Xiang Siying
Lau Fai Lawrence

## COMPANY SECRETARY

Lo Wing Yan Emmy

## 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 (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank Limited

## AUDITORS

HLB Hodgson Impey Cheng Limited

## SOLICITORS

DLA Piper Hong Kong
Reed Smith Richards Butler
TSMP Law Corporation
Marshall Diel & Myers Limited
Beijing B&D (Guangzhou) Law Firm

## PRINCIPAL REGISTRARS

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH REGISTRARS

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## WEBSITE

www.petrotitan.com

## STOCK CODE

1192

# DIRECTORS' BIOGRAPHIES

## MR. TANG CHAO ZHANG

### Chief Executive and Executive Director

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

## DR. ZHANG WEIBING

### Executive Director

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

## MR. FAN QINGHUA

### Chairman and Non-executive Director

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

## MR. LAU FAI LAWRENCE

### Independent Non-executive Director

Mr. Lau, aged 44, was appointed as an Independent Non-executive Director in March 2014 and subsequently appointed as the chairman of the audit committee, a member of the nomination committee and the remuneration committee of the Company. Mr. Lau resigned as a member of the remuneration committee of the Company on 24 March 2016. Mr. Lau is currently a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor's degree in business administration in 1994 and obtained a master's degree in corporate finance from Hong Kong Polytechnic University in 2007. Mr. Lau is the company secretary of BBMG Corporation, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau is an executive director of Central Wealth Financial Group Limited (previously known as China For You Group Company Limited), an independent non-executive director of Artini China Co. Ltd., and Topsearch International (Holdings) Limited, all are listed on the main board of the Stock Exchange.

## MS. XIANG SIYING

**Independent Non-executive Director**

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

## MR. HU HONGWEI

**Independent Non-executive Director**

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

## MS. HSU WAI MAN HELEN

**Independent Non-executive Director**

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

# CORPORATE GOVERNANCE REPORT

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2015 except for the deviation set out below.

Code provision A.2.1 of the CG Code Provides that the roles of chairman and chief executive should be separate. As announced on 16 September 2015, Mr. Zhao Xu Guang resigned as Chairman of the Board and Chief Executive of the Company. The roles of Chairman and Chief Executive are separated. Mr. Fan Qinghua is the Chairman of the Board (appointed on 16 September 2015) and Mr. Tang Chao Zhang is the Chief Executive of the Company (appointed on 16 September 2015).

## THE BOARD

### Composition

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 2015 and up to the date of this report, the Board was comprised of seven directors, including two executive directors, one non-executive director and four independent non-executive directors. Biographical details of the directors and their respective roles in the Group are set out in the Directors' Biographies section of this Annual Report. There is no relationship among the members of the Board.

The names of the directors as at the date of this report are set out below:

### Executive directors

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

### Non-executive director

Mr. Fan Qinghua *(Chairman)*

### Independent non-executive directors

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

An updated list of directors identifying their roles and functions is available on the website of the Company (www.petrotitan.com). Members of the Board, including the names of all the Independent Non-executive Directors, are expressly identified in all corporate communications which disclose the names of the directors of the Company.

During the year under review, the Chairman of the Board held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

## CHAIRMAN AND THE CHIEF EXECUTIVE

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

The 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.

As announced on 16 September 2015, Mr. Zhao Xu Guang resigned as Chairman of the Board and Chief Executive of the Company. The roles of Chairman and Chief Executive are separated. Mr. Fan Qinghua is the Chairman of the Board (appointed on 16 September 2015) and Mr. Tang Chao Zhang is the Chief Executive of the Company (appointed on 16 September 2015).

## BOARD DIVERSITY

In compliance with the requirement set out in code provision A.5.6 of the CG Code, the Company adopted a board diversity policy (the "Board Diversity Policy") on 14 February 2014 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to the skills, background, experience, knowledge, expertise, culture, independence, race, gender, and other qualities of directors.

## ROLE AND FUNCTION OF THE BOARD AND THE MANAGEMENT

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the management within the control and authority set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

## BOARD MEETINGS AND BOARD PROCEDURAL MATTERS

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 at the Board meetings. Notice of at least 14 days is served for regular Board meetings. Each director may include any item in the agenda. The agenda, accompanied by meeting papers with sufficient and reliable information, are sent to each director not less than 3 days before the date of Board meeting to enable the Directors to make informed decision on the matters to be discussed except where a Board meeting is convened on a very urgent basis to consider any urgent ad hoc matters. Between scheduled meetings, 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.

The personnel of Company Secretarial Department is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretarial Department.

If a substantial shareholder or a director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose associates, have no material interest in the transaction should be present at that Board meeting.

Except for those circumstances permitted by the Bye-laws and all applicable laws, rules and regulations, a director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting.

## ATTENDANCES OF MEETINGS

During the year 2015, 12 full Board meetings, 5 audit committee meetings, 2 remuneration committee meeting, 3 nomination committee meetings and 2 general meeting were held at which the individual attendance records of the directors were as follows:

| | | Meetings attended/Eligible to attend | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board Meetings** | **Audit Committee Meetings** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **General Meetings** |
| *Executive directors* | | | | | |
| Mr. Tang Chao Zhang *(Chief Executive)* | 11/12 | N/A | N/A | 1/3 | 2/2 |
| Dr. Zhang Weibing (Note 1) | 2/12 | N/A | 2/2 | N/A | 0/2 |
| Mr. Zhao Xu Guang (Note 2) | 10/12 | N/A | N/A | 1/3 | 2/2 |
| Mr. Patrick Wong Siu Hung (Note 3) | 10/12 | N/A | N/A | N/A | 2/2 |
| Mr. Fu Yong Yuan (Note 4) | 8/12 | N/A | N/A | N/A | 2/2 |
| *Non-executive directors* | | | | | |
| Mr. Fan Qinghua *(Chairman)* | 7/12 | N/A | N/A | 2/3 | 2/2 |
| Mr. Hu Zhong Shan (Note 5) | 7/12 | 3/5 | N/A | N/A | 2/2 |
| *Independent non-executive directors* | | | | | |
| Mr. Lau Fai Lawrence | 10/12 | 3/5 | 2/2 | 2/3 | 2/2 |
| Ms. Xiang Siying (Note 6) | 4/12 | 1/5 | 2/2 | 2/3 | 0/2 |
| Mr. Hu Hongwei (Note 7) | 1/12 | N/A | N/A | N/A | 0/2 |
| Ms. Hsu Wai Man Helen (Note 8) | 1/12 | N/A | N/A | N/A | 0/2 |
| Mr. Foo Meng Kee (Note 9) | 5/12 | 3/5 | N/A | 1/3 | 2/2 |
| Mr. Lau Yiu Kit (Note 10) | 3/12 | 2/5 | N/A | N/A | 2/2 |
| Mr. Cheung Hok Fung Alexander (Note 11) | 1/12 | 0/5 | N/A | 0/3 | 2/2 |

Note 1 Dr. Zhang Weibing appointed on 23 July 2015.

Note 2 Mr. Zhao Xu Guang resigned on 16 September 2015.

Note 3 Mr. Wong Siu Hung Patrick resigned on 30 September 2015.

Note 4 Mr. Fu Yong Yuan resigned on 30 September 2015.

Note 5 Mr. Hu Zhong Shan resigned on 30 September 2015.

Note 6 Ms. Xiang Siying appointed on 23 July 2015.

Note 7 Mr. Hu Hongwei appointed on 11 November 2015.

Note 8 Ms. Hsu Wai Man Helen appointed on 18 December 2015.

Note 9 Mr. Foo Meng Kee resigned on 30 September 2015.

Note 10 Mr. Lau Yiu Kit resigned on 30 September 2015.

Note 11 Mr. Cheung Hok Fung Alexander resigned on 21 March 2015.

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every Director keeps abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company. The Company provides all members of the Board with regular updates on the Group's performance and financial position. The Directors have attended external courses, conferences or luncheons organised by various organisations.

Directors also reviewed the regular business and financial updates and other reading materials provided to them concerning latest developments in corporate governance practices and relevant legal and regulatory developments. A record of the Directors' participation in various continuous professional development program is kept with the Company Secretarial Department. A summary of training received by the Directors for the year ended 31 December 2015 according to the records provided by the Directors is as follows:–

| **Name of Directors** | **Attending seminars/ conferences/forums** | **Reading newspapers, journals and updates relating to the economy, general business, accounting, laws, rules and regulations, etc.** |
|---|---|---|
| *Executive Directors* | | |
| Mr. Tang Chao Zhang *(Chief Executive)* | ✓ | ✓ |
| Dr. Zhang Weibing | ✓ | ✓ |
| *Non-executive Director* | | |
| Mr. Fan Qinghua *(Chairman)* | ✓ | ✓ |
| *Independent Non-executive Directors* | | |
| Mr. Lau Fai Lawrence | ✓ | ✓ |
| Ms. Xiang Siying | ✓ | ✓ |
| Mr. Hu Hongwei | ✓ | ✓ |
| Mr. Hsu Wai Man Helen | ✓ | ✓ |

## CORPORATE GOVERNANCE FUNCTION

The Board is responsible for determining the policy for the corporate governance of the Company and the Chairman takes primary responsibility for ensuing that good corporate governance practices and procedures are established. The Board performs the corporate governance duties as below:

(i) develop and review the Company's policies and practices on corporate governance;

(ii) review and monitor the training and continuous professional development of directors and senior management;

(iii) review and monitor the Company's policies and practice on compliance with all legal and regulatory requirements;

(iv) develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors; and

(v) review the Company's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

The Board has adopted the Corporate Governance Handbook which comprised of, inter alia, continuous disclosure policy, securities dealings policy, whistle-blowing policy, shareholders communication policy as well as terms of references of the board committees and charter of internal audit.

## NOMINATION COMMITTEE

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.

As at 31 December 2015 and up to the date of this report, the Nomination Committee currently comprises of one Non-executive Director and two Independent Non-executive Directors, namely Mr. Fan Qinghua (Chairman of the Board and Chairman of the Committee), Ms. Xiang Siying and Mr. Lau Fai Lawrence.

The Committee has specific written terms of reference. Full text of the terms of reference of the Nomination Committee is available on the websites of the Company and the Stock Exchange. Its primary duties include:

- review the structure, size and composition (including the skills, knowledge and experience) 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 and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assess the independence of independent non-executive directors and review the independent non-executive directors' annual confirmation on their independence;

- 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;

- review the contribution required from a director to perform his/her responsibilities, and whether he/she is spending sufficient time performing them; and

- review the training and continuous professional development of directors.

During the year ended 31 December 2015, three Nomination Committee meetings were held (i) to review the structure, size and composition of the Board; (ii) to assess the independence of Independent Non-executive Directors; (iii) to review the contribution required from a director to perform his responsibilities; (iv) to review the training and continuous professional development of directors; (v) to recommend to the Board for the renewal of the contract of Non-executive Director; and (vi) to recommend to the Board for approval of the change of the Chief Executive. The individual attendance for the Nomination Committee meeting had been disclosed earlier in this report.

## AUDIT COMMITTEE

As at 31 December 2015 and up to the date of this report, the Audit Committee currently comprises of two independent non-executive directors and one non-executive director, namely Mr. Lau Fai Lawrence (Chairman of the Committee), Mr. Fan Qinghua and Ms. Xiang Siying.

The Committee has specific written terms of reference. Full text of the terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange. Its duties are summarised below:

- 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 ended 31 December 2015, five Audit Committee meetings were held and the individual attendance had been disclosed earlier in this report. The Audit Committee met with the external auditors and management to discuss and review, among others, (i) the scope of work, timetable and auditors' fee; (ii) the auditors' disclaimer of opinion set out in the financial statements for the year ended 31 December 2015; (iii) interim results for the six months ended 30 June 2015; (iv) the adequacy and quality of accounting and financial reporting staff; and (v) the internal control system of the Group.

## DIRECTORS' RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements. In view of the litigations disclosed under the section "Management Discussion and Analysis" in this annual report and note 2.1 – basis of preparation to the notes to the consolidated financial statements, the Directors considered that there were conditions indicated the existence of a material uncertainly which might cast significant doubt on the Group's ability to continue as a going concern.

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 30 to 37 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. There is no disagreement between the Board and the audit committee's view on the appointment and re-appointment of external auditors, and they both have agreed to recommend the re-appointment of HLB Hodgson Impey Cheng Limited ("HLB") as the Company's external auditors for the ensuing year at the 2015 annual general meeting of the Company.

During the year ended 31 December 2015, the audit fees paid/payable to HLB amounted to HK$1,080,000. The non-audit fees paid/payable to HLB was comprised of fees for reviewing resumption circular of HK$600,000.

## 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.

## ANNUAL ASSESSMENT

The Group has engaged an independent adviser to assist the Group to perform the review of the effectiveness of the internal control systems.The report on the effectiveness of the internal control systems are prepared and presented to the audit committee for review.

The Group's internal auditor left on 30 November 2015. Despite this, all the controls, policies and procedures adopted are in place. An internal auditor will be filled up by the Company soonest possible so as to further strengthen the internal control systems of the Group.

## REMUNERATION COMMITTEE

Up to the date of this report, the Remuneration Committee currently comprises of an Executive Director and two independent non-executive directors, namely Dr. Zhang Weibing (Chairman of the Committee), Mr. Hu Hongwei and Ms. Xiang Siying. Mr. Lau Fai Lawrence resigned on 24 March 2016.

The Committee has specific written terms of reference. Full text of the terms of reference of the Remuneration Committee is available on the websites of the Company and the Stock Exchange. Its primary duties include:

- making recommendations to the Board on the Company's policy and structure for all remuneration (including performance related pay schemes and long-term incentive arrangements) of directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

- making recommendations to the Board on the remuneration packages of individual directors (including executive directors, non-executive directors and independent non-executive directors) and senior management (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment). The Remuneration Committee shall consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

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

- reviewing and approving the compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- ensuring no director or any of his associates is involved in deciding his own remuneration.

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 the year ended 31 December 2015, two Remuneration Committee meetings were held and the individual attendance had been disclosed earlier in this report. The Remuneration Committee met with the Human Resources Manager to discuss and review, among others, 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 the executive directors and the directors' fees to Non-executive director and Independent Non-executive Directors.

Details of the emoluments of each director of the Company for the year ended 31 December 2015 are set out on pages 87 to 89 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 (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 relevant directors during the year, all the relevant directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2015.

The Board has also adopted the Model Code as the written guidelines for regulating securities transactions by senior management and all employees of the Group.

## SHAREHOLDERS' RIGHTS, 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.

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.

In accordance with the Bye-laws, the members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Company Act 1981 of Bermuda.

At the special general meeting of the Company held on 22 June 2015, special resolutions were passed by shareholders to amend the bye-laws of the Company and to adopt a new set of bye-laws of the Company.

The directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the significant subsidiaries are set out in note 51 to the consolidated financial statements. Save as disclosed below, there were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an Indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages 22 to 29 of the annual report. This discussion forms part of this "Report of the Directors".

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 38 to 39.

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

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 147. This summary does not form part of the audited consolidated 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 consolidated 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 36, 37 and 31 to the consolidated 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

There were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities during the year.

## DEFICITS

Details of movements in the deficits of the Company and the Group during the year are set out in note 38 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2015, 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 2015 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, there were no sales nor purchases in the Group.

None of the Directors nor their associates and none of the shareholders possessing over a 5% interest in the capital of the Company possessed any interests of suppliers and customers.

## DIRECTORS

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

*Executive directors*
Mr. Tang Chao Zhang *(Chief Executive)*
Dr. Zhang Weibing (appointed on 23 July 2015)
Mr. Zhao Xu Guang (resigned on 16 September 2015)
Mr. Wong Siu Hung Patrick (resigned on 30 September 2015)
Mr. Fu Yong Yuan (resigned on 30 September 2015)

*Non-executive directors*
Mr. Fan Qinghua *(Chairman)*
Mr. Hu Zhong Shan (resigned on 30 September 2015)

*Independent non-executive directors*
Mr. Lau Fai Lawrence
Ms. Xiang Siying (appointed on 23 July 2015)
Mr. Hu Hongwei (appointed on 11 November 2015)
Ms. Hsu Wai Man Helen (appointed on 18 December 2015)
Mr. Foo Meng Kee (resigned on 30 September 2015)
Mr. Lau Yiu Kit (appointed on 23 March 2015 and resigned on 30 September 2015)
Mr. Cheung Hok Fung Alexander (resigned on 21 March 2015)

In accordance with the bye-laws no. 86(2) of the Company's bye-laws of the Company, Dr. Zhang Weibing, Ms. Xiang Siying, Mr. Hu Hongwei and Ms. Hsu Wai Man Helen will retire at the forthcoming annual general meeting and, being eligible for re-election.

In accordance with the bye-laws no. 87(1) of the Company's bye-laws of the Company, Mr. Lau Fai Lawrence will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. Independent non-executive director is appointed for period of two years and is 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/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such directors to be independent.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the directors of the Company are set out on pages 4 to 5 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 10 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 43 to the consolidated 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.

## INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force throughout the year.

## CONNECTED TRANSACTIONS

The Group entered into certain agreements with GZE and other connected persons of the Company during the year ended 31 December 2015 which constitute connected transactions of the Company. Details of these connected transactions will be disclosed in a separate announcement to be released by the Company.

Significant related party transactions entered by the Group during the year ended 31 December 2015 are disclosed in note 43 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

On 9 April 2014, FELS Offshore Pte Ltd ("FELS") entered into a management services agreement with Titan Quanzhou Shipyard Co., Ltd. ("TQS") and the Company (as supplemented and amended), pursuant to which FELS has conditionally agreed to provide management services for the operations (as supplemented and amended) of the shipyard in Quanzhou, the PRC owned by TQS. Details of the management services agreement are set out in the announcements dated 11 April 2014, 5 January 2015, 28 May 2015 and 7 August 2015.

Save as disclosed above, 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2015, the directors of the Company who held office did not have any interests 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 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' interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 37 to the consolidated 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 2015, so far as is known to the directors 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 5) |
|---|---|---|---|
| Mr. Tsoi Tin Chun | Interest of controlled corporations | 3,556,353,661 | 45.47 |
| Ms. Tsoi Yuk Yi | Interest of spouse | 3,556,353,661 (Note 1) | 45.47 |
| Titan Oil Pte Ltd | Interest of a controlled corporation/ Beneficial owner | 3,556,353,661 (Note 1) | 45.47 |
| Great Logistics Holdings Limited | Interest of controlled corporations/ Beneficial owner | 3,224,477,760 (Note 1) | 41.23 |
| Moral Base Investment Limited | Beneficial owner | 1,000,000,000 | 12.79 |
| Mr. Wong Chi Leung | Interest of a controlled corporation/ Interest of spouse | 1,000,000,000 (Note 2) | 12.79 |
| Ms. Wong Kwok Ying | Interest of a controlled corporation/ Interest of spouse | 1,000,000,000 (Note 2) | 12.79 |
| Docile Bright Investments Limited ("DBIL") | Beneficial owner | 555,000,000 (Note 3) | 7.10 |
| Grand China Logistics Holding (Group) Company Limited | Beneficial owner | 500,000,000 (Note 4) | 6.39 |
| Haikou Meilan International Airport Co., Ltd. | Interest of controlled corporations | 500,000,000 (Note 4) | 6.39 |
| Hainan Development Holdings Co., Ltd. | Interest of controlled corporations | 500,000,000 (Note 4) | 6.39 |
| He Xiaoqun | Interest of controlled corporations | 22,381,099,901 (Note 3) | 286.18 |
| Liang Wei | Interest of controlled corporations | 22,381,099,901 (Note 3) | 286.18 |
| Xia Yingyan | Interest of controlled corporations | 22,381,099,901 (Note 3) | 286.18 |

| Name | Capacity | Number of shares and underlying shares | Approximate % of shareholding (Note 5) |
|---|---|---|---|
| Hainan Li Jin Investment Company Limited | Interest of controlled corporations | 22,381,099,901 (Note 3) | 286.18 |
| Zhuhai Zhenrong Company | Interest of controlled corporations | 22,381,099,901 (Note 3) | 286.18 |
| Guangdong Zhenrong Energy Company Limited ("GZE") | Interest of controlled corporations/<br>Beneficial owner | 7,750,264,928<br>14,630,834,973 (Note 3) | 286.18 |
| Fame Dragon International Investment Limited | Beneficial owner | 7,195,264,928 (Note 3) | 92.00 |

Note 1: Among these interest, 332,514,799 shares were held by Titan Shipyard Investment Company Limited ("TSICL") and 31,262,759 shares were held by Vision Jade Investments Limited ("Vision Jade"). TSICL and Vision Jade were wholly-owned subsidiaries of Great Logistics Holdings Limited ("Great Logistics") which held 2,860,700,202 shares and which, in turn, was a wholly-owned subsidiary of Titan Oil. Titan Oil directly held 331,875,901 shares and Titan Oil Pte Ltd ("Titan Oil") was owned as to 95% by Mr. Tsoi Tin Chun ("Mr. Tsoi") and as to 5% by Ms. Tsoi Yuk Yi ("Ms. Tsoi"), the spouse of Mr. Tsoi.

By virtue of the Securities and Futures Ordinance in Hong Kong (the "SFO"), Mr. Tsoi and Ms. Tsoi were deemed to be interested in the shares of the Company held by Titan Oil, Great Logistics, TSICL and Vision Jade as at 31 December 2015.

On 30 August 2012, (i) Titan Oil, Great Logistics, TSICL and Vision Jade (all of which were beneficially owned by Mr. Tsoi, a director of the Company at the time, and his spouse and referred to below as the "Tsoi Companies") entered into four sale and purchase agreements with Fame Dragon International Investment Limited ("Fame Dragon"), in relation to the sale by the Tsoi Companies of an aggregate of 3,556,353,661 ordinary shares of the Company, and (ii) the irrevocable voting proxies in respect of the 3,556,353,661 ordinary shares of the Company were given by the Tsoi Companies in favour of Fame Dragon.

Note 2: Pursuant to the SFO, Mr. Wong Chi Leung ("Mr. Wong") and Ms. Wong Kwok Ying ("Ms. Wong"), spouse of Mr. Wong, were deemed to be interested in shares of the Company held by Moral Base Investment Limited ("Moral Base"), which was legally and beneficially owned as to 50% by Mr. Wong and as to 50% by Ms. Wong.

Note 3: DBIL is wholly-owned by Guangdong Zhenrong (Hong Kong) Company Limited which in turn is wholly-owned by GZE. On 10 October 2013, DBIL entered the preferred sale and purchase agreement and DBIL became entitled to the benefit of all interests arising under or in connection with the preferred shares of 555,000,000 shares.

Zhuhai Zhenrong Company (a PRC state-owned enterprise) and Hainan Li Jin Investment Company Limited ("Hainan Li Jin") were interested in 44.3% and 35% respectively in the share capital of GZE, and were deemed under the SFO to be interested in the shares in which GZE had an interest. Hainn Li Jin was owned as to 34% by Xia Ying Yan, as to 33% by He Xiao Qun and as to 33% by Liang Wei.

Under a subscription agreement entered into between the Company and GZE, GZE agreed to subscribe for, 3,461,093,248 new non-voting participating convertible preferred shares ("Preferred Shares A") and provide an equity line by subscribing 780,000,000 new non-voting participating convertible preferred shares ("Preferred Shares B"). GZE was deemed under the SFO to be interested in aggregate of 7,797,446,909 shares, comprising 3,556,353,661 ordinary shares, 3,461,093,248 Preferred Shares A and 780,000,000 Preferred Shares B upon the completion of the subscription agreement, however, at the special general meeting held on 28 February 2013, all the ordinary resolutions and special resolutions to approve, inter alias, the subscription agreement were not passed. As such, GZE were deemed to be ceased to have interests in 3,461,093,248 Preferred Shares A and 780,000,000 Preferred Shares B.

GZE was deemed under the SFO to be interested in aggregate of 14,630,834,973 shares upon the completion of certain agreements relating to restructuring. Further announcement(s) will be made by the Company as and when appropriate.

Fame Dragon is wholly-owned by Guangdong Zhenrong (Hong Kong) Company Limited which in turn is wholly-owned by GZE. Fame Dragon agreed under four sale and purchase agreements signed with TSICL, Vision Jade, Great Logistics and Titan Oil (collectively, the" Vendors") to acquire in aggregate 3,556,353,661 ordinary shares and the Vendors had given irrevocable proxies to Fame Dragon so that the voting rights of such shares had been transferred to Fame Dragon on 30 August 2012.

Fame Dragon was deemed under the SFO to be interested in aggregate of 3,638,911,267 shares upon the completion of certain agreements relating to restructuring. Further announcement(s) will be made by the Company as and when approximate.

Note 4: Based on the disclosure of interests notices filed with the Stock Exchange on 23 December 2010, Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics") was interested in 500,000,000 shares of the Company.

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

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

Grand China Logistics, Haikou Meilan and Hainan Development were deemed to be ceased to have interests in the ordinary shares of the Company. Due to the failure of Grand China Logistics to make stage payments when they fell due under a sale and purchase agreement dated 11 December 2010, the condition was not satisfied on or before the long stop date in December 2011 and the subscription agreement dated 11 December 2010 has lapsed.

Note 5: Based on 7,820,554,682 ordinary shares of the Company issued as at 31 December 2015.

Save as disclosed above, at 31 December 2015, no person, other than the directors and the chief executive of the Company, whose interests are set out in the section "Directors' 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

A detailed Corporate Governance Report is set out on pages 6 to 14 of the Annual Report.

## CHARITABLE CONTRIBUTIONS

During the year, no charitable contributions were made.

## 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 relevant directors during the year, save as disclosed below, all the relevant directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2015.

## EVENTS AFTER THE REPORTING PERIOD

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

## REVIEW OF FINANCIAL STATEMENTS

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 two independent non-executive directors and one non-executive director.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2015 and discussed the same with management and the external auditors and, as a result, 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

HLB Hodgson Impey Cheng Limited will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

## CONTINUED SUSPENSION IN TRADING

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

ON BEHALF OF THE BOARD

**Fan Qinghua**
*Chairman*

Hong Kong
29 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

Titan Petrochemicals Group Limited (the "Company") and its subsidiaries (collectively, the "Group") did not have any operation and thus not generate any revenue from continuing operations for the years ended 31 December 2015 and 2014. The loss before tax from continuing operations was HK$32 million, compared to the profit before tax from continuing operations of HK$3,946 million in 2014. The loss for the year was HK$242 million, mainly comprised of the loss from discontinued operation amounted to HK$210 million, general and administrative expenses amounted to HK$63 million and finance cost amounted to HK$23 million offset by the unrealised exchange gain of HK$54 million as presented as "Other gain".

In view of the Group's financial position, the Board proposed not to declare any dividend for the 2015 fiscal year.

## BUSINESS REVIEW

The Group had been a provider of logistics, transportation, distribution and marine services for oil and petrochemical products in the Asia Pacific region and, in particular, in the People's Republic of China ("Mainland China" or the "PRC"). In addition, we have developed and provided management services for a multi-functional ship repair and shipbuilding yard which is one of the largest of its kind in Asia.

## CONTINUING OPERATIONS

### Offshore Storage

The Group provided oil storage, transit and blending services in Asia on a year round basis. Owing to the uncertain market status, this business segment was suspended since 2013.

### Transportation

The Group offered transportation services for oil and petrochemical products to customers in the Southeast Asian regions. Owing to volatile oil price fluctuations and the uncertain market status, this business segment was suspended since 2012.

### Supply of Oil Products and Provision of Bunker Refueling Services

The Group engaged in the supply of oil products and provision of bunker refueling services. There was no revenue during the year under review, and the segment loss before interest, tax, depreciation and amortisation ("LBITDA") was HK$69,000 as compared to HK$1 million in the prior year.

## DISCONTINUED OPERATION

### Shipbuilding (Shipyard)

In December 2010, the Group entered into a sale and purchase agreement with Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics") (as amended and supplemented by further agreements dated 24 July 2011) (the "GCL Sale and Purchase Agreement") for the disposal of its 95% equity interest in Titan Quanzhou Shipyard Co., Ltd. ("Titan Quanzhou Shipyard") to Grand China Logistics for RMB1,666 million (equivalent to approximately HK$2,001 million). This transaction, however, was not completed as Grand China Logistics failed to comply with its payment obligations.

On 10 June 2013, the Company received a notification from Grand China Logistics informing the Company that it had entered into an agreement with Guangdong Zhenrong Energy Co., Ltd. ("GZE") pursuant to which it transferred to GZE all of its interests, rights and obligations in respect of the GCL Sale and Purchase Agreement.

On 26 December 2013, 上海市第一中级人民法院 (Shanghai No. 1 Intermediate People's Court) (the "Shanghai Intermediate Court") approved the application by Grand China Logistics of the withdrawal of the claim initiated by Grand China Logistics against the Group, in relation to the GCL Sale and Purchase Agreement. Notwithstanding the discontinuation of the proceedings in the Shanghai Intermediate Court, any disposition of the assets of Titan Quanzhou Shipyard remain subject to, among other things, GZE's rights and interests in the indebtedness (the "Indebtedness") originally owed by Titan Quanzhou Shipyard to the Fuzhou branch of Shanghai Pudong Development Bank Co., Ltd. and the collateral and guarantee granted in respect of the Indebtedness (the "Securities"). Since Titan Quanzhou Shipyard had been in default on its payment obligations under the Indebtedness, the Securities are liable to be enforced by GZE.

Despite Grand China Logistics transferring all of its interests, rights and obligations in respect of the GCL Sale and Purchase Agreement, the transaction has not been completed and the business continues to be classified as "discontinued operation".

There was no revenue during the years ended 31 December 2015 and 2014, and segment LBITDA was HK$10 million and segment earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK$23 million for the year ended 31 December 2015 and 2014 respectively.

## DECONSOLIDATION OF SUBSIDIARIES

Titan Storage Limited ("TSL"), Estonia Capital Ltd., Titan Mars Limited, Sino Ocean Development Limited, Brookfield Pacific Ltd., Roswell Pacific Ltd., Titus International Ltd., Wynham Pacific Ltd., Wendelstar International Ltd. and Sewell Global Ltd. were placed into voluntary liquidation on 25 April 2014. Titan Leo Pte. Ltd., Neptune Associated Shipping Pte Ltd and Petro Titan Pte. Ltd. were placed into voluntary liquidation on 29 April 2014.

Accordingly, the Group had deconsolidated these subsidiaries, as a result of which the aggregate amounts due to the subsidiaries have been deconsolidated during the year ended 31 December 2014, while the amounts due from the deconsolidated subsidiaries were considered to be highly unrecoverable and thus were fully impaired as these subsidiaries were put into liquidation during the year ended 31 December 2014. There were no subsidiaries being deconsolidated during the year ended 31 December 2015.

## LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON ASSETS AND GEARING

As at 31 December 2015, the Group's net liabilities amounted to HK$4,049 million, compared to HK$3,833 million as at 31 December 2014.

The Group financed its operations mainly through the loans from the immediate holding company, the ultimate holding company, the banks and other independent third parties in Hong Kong and Mainland China. As at 31 December 2015,

a) The Group had:

- Cash and bank balances of HK$10.0 million (2014: HK$1.4 million) of which HK$0.1 million (2014: HK$0.1 million) was from the discontinued operation in respect of shipbuilding segment; restricted cash of HK$26.5 million (2014: HK$26.5 million) was from continuing operations. These balances were comprised of:
  - an equivalent of HK$28.5 million (2014: HK$26.7 million) denominated in US dollars ("USD")
  - an equivalent of HK$0.1 million (2014: HK$0.2 million) denominated in Singapore dollars ("SG$")

  - an equivalent of HK$1.0 million (2014: HK$0.4 million) of which HK$0.1 million (2014: HK$0.1 million) was from the discontinued operation, denominated in Renminbi ("RMB")

  - HK$6.9 million (2014: HK$0.6 million) in Hong Kong dollars ("HK$")

- Interest-bearing bank and other loans of HK$256 million (2014: HK$272 million), of which HK$250 million (2014: HK$266 million) was from discontinued operation of shipbuilding segment. Floating rate loans denominated in USD amounted to HK$6 million (2014: HK$6 million). Group bank and other loans having maturities within one year amounted to HK$6 million (2014: HK$6 million) of which all were from continuing operations

- Loans from the ultimate holding company of HK$1,936 million (2014: HK$2,048 million), all of which having maturities over one year. Among such, HK$1,840 million (2014: HK$1,946 million) was from discontinued operation of shipbuilding segment

- Loans from the immediate holding company of HK$143 million (2014: HK$52 million), all of which had maturities over one year. However, HK$3 million was in default as disclosed in note 34 of the consolidated financial statements, which were then presented as current liabilities as at 31 December 2015 and 2014

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$785 million (2014: HK$833 million)

- Machinery with an aggregate net carrying value of HK$84 million (2014: HK$119 million)

- Buildings with an aggregate net carrying value of HK$435 million (2014: HK$438 million)

- Prepaid land/seabed lease payments with an aggregate net carrying value of HK$255 million (2014: HK$266 million)

- Investment property with an aggregate net carrying value of HK$156 million (2014: HK$166 million)

- Corporate guarantees executed by the Company and its subsidiaries

- Corporate guarantees executed by the subsidiaries of the ultimate holding company

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

- Certain Company shares owned by related parties of the Company

c) The fixed rate guaranteed senior notes (the "Senior Notes Due 2012") of HK$882 million (2014: HK$882 million), the guaranteed senior convertible notes (the "Convertible Notes Due 2015") of HK$442 million (2014: HK$442 million) and the guaranteed senior payment-in-kind notes (the "PIK Notes Due 2015") of HK$89 million (2014: HK$89 million) were secured by the shares of certain subsidiaries.

d) The Group, including those assets of a disposal group classified as held for sale and liabilities directly associated with the assets classified as held for sale, had:

- Current assets of HK$2,839 million (2014: HK$3,035 million) and total assets of HK$2,997 million (2014: HK$3,204 million), of which HK$2,656 million (2014: HK$2,861 million) was from the discontinued operation of shipbuilding segment

- Total bank and other loans of HK$256 million (2014: HK$272 million) of which HK$250 million (2014: HK$266 million) was from the discontinued operation in respect of shipbuilding segment

- The Senior Notes Due 2012 of HK$882 million (2014: HK$882 million)

- The Convertible Notes Due 2015 of HK$442 million (2014: HK$442 million)

- The PIK Notes Due 2015 of HK$89 million (2014: HK$89 million)

- Convertible preferred shares issued by the Company (the "Titan preferred shares") with a liability portion of HK$435 million (2014: HK$421 million)

- Notes payable (the "K-Line Notes Due 2013") of HK$203 million (2014: HK$203 million)

- Loans from the ultimate holding company of HK$1,936 million (2014: HK$2,048 million), of which HK$1,840 million (2014: HK$1,946 million) was from the discontinued operation of shipbuilding segment

- Loans from the immediate holding company of HK$143 million (2014: HK$52 million)

e) The Group's current ratio was 0.42 (2014: 0.44). The gearing of the Group, calculated as the total bank and other loans, the Senior Notes Due 2012, the Convertible Notes Due 2015, the K-Line Notes Due 2013, the PIK Notes Due 2015, loans from the ultimate holding company and loans from the immediate holding company to total assets, increased to 1.32 (2014: 1.24).

f) The Group operated in Mainland China, Hong Kong and Singapore and primarily used RMB for the business in Mainland China, HK$ in Hong Kong and USD and SG$ in Singapore. The Group does not use any financial instruments for speculative purposes.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had 173 employees (2014: 185), of which 151 employees (2014: 157) worked in Mainland China, all of which were from Titan Quanzhou Shipyard, and 20 employees and 2 employees (2014: 26 and 2) were based in Hong Kong and Singapore, respectively. Remuneration packages, including basic salaries, bonuses and benefits-in-kind, were structured by reference to market terms and individual merit and are reviewed on an annual basis based on performance appraisals. No share options were granted to employees of the Group during the year.

## MATERIAL LITIGATIONS

### a) Bermuda Proceedings

On 4 July 2012, the Company received from Saturn Petrochemical Holdings Limited ("SPHL") a notice to redeem all of the Titan preferred shares held by it at a redemption amount equal to the notional value of the Titan preferred shares (being HK$310.8 million) together with any accrued and unpaid dividends. Redemption monies were payable 30 business days after the date of the redemption notice.

SPHL filed a petition for the winding-up of the Company on 9 July 2012 (Bermuda time) (the "SPHL Petition") and made an application seeking the appointment of Joint Provisional Liquidators ("JPLs") on 27 August 2012 (Bermuda time) with the Supreme Court of Bermuda (the "Bermuda Court"). The SPHL Petition, which remained undismissed or unstayed for a period of 60 consecutive days (i.e. on or before 6 September 2012 (Bermuda time)), caused an event of default to occur under the PIK Notes Due 2015 and the Convertible Notes Due 2015.

The SPHL Petition was subsequently struck out by the Bermuda Court, and KTL Camden Inc. ("Camden") was substituted as the petitioner in place of SPHL upon its application to the Bermuda Court. Camden claimed that TSL, a subsidiary of the Company (which was put into liquidation in April 2014), failed to pay certain hiring charges to Camden pursuant to a bareboat charter party contract and that the Company was liable to Camden for such hiring charges plus interest thereon pursuant to a deed of guarantee issued by the Company in favour of Camden.

On 16 August 2013, the Bermuda Court, upon the application by Camden, ordered an injunction restraining the Company from (i) disposing of any property, including things in action, belonging to the Company; or (ii) consenting to or approving the disposal of property, including things in action, belonging to any subsidiary (as defined in section 86 of the Bermuda Companies Act 1981) (the "Act") of the Company, without the approval of the Bermuda Court or without 7 days' written notice of the same to Camden.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of two JPLs to the Company with specified powers as set out in the announcement of the Company dated 22 October 2013. Those powers were varied by order of the Bermuda Court on 14 February 2014 (Bermuda time) as disclosed in the announcement of the Company dated 18 February 2014.

The hearing of the winding-up petition has been adjourned on numerous occasions to allow the Company to implement its restructuring (the "Restructuring"), with the latest adjournment being until 1 April 2016 (Bermuda time).

The details are disclosed in note 42 of the consolidated financial statements.

**b) British Virgin Islands (“BVI”) Proceedings**

On 18 June 2012, the Company received from Saturn Storage Limited (“SSL”) two notices to exercise its redemption rights under the convertible preferred shares (the “TGIL preferred shares”) and TGIL convertible unsecured notes (the “TGIL Notes Due 2014”), and SSL applied for an order to appoint joint and several provisional liquidators for, and to liquidate Titan Group Investment Limited (“TGIL”).

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

On 18 July 2012 (BVI time), Titan Oil Storage Investment Limited (“TOSIL”), a wholly owned subsidiary of the Company and a shareholder of TGIL, filed a notice of appeal (“Appeal”) at the Court of Appeal of the Eastern Caribbean Supreme Court (the “BVI Court of Appeal”) against the Order and applied for a stay of execution of the Order pending the determination of the appeal. The stay application was subsequently withdrawn.

The Appeal was stayed until 20 March 2013 (BVI time) by consent of TOSIL as appellant and SSL and TGIL as respondents. It is intended that the Appeal will be withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

The liquidators of TGIL have made a numbers of distributions to creditors of TGIL, but continue to hold certain funds pending the resolution of certain tax issues.

The details are disclosed in the note 42 to the consolidated financial statements.

**c) Hong Kong Proceedings**

On 19 July 2012, the Company received from SSL a writ of summons (the “Writ”) issued in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region (the “Hong Kong High Court”) with an indorsement of claim against the Company and other parties including its wholly owned subsidiary, TOSIL, and two directors of the Company. SSL alleged in the Writ among other things (a) breach of the amended and restated investor rights agreement (the “IRA”) in respect of TGIL dated 17 July 2009; and (b) misrepresentations regarding the financial position of TGIL, and its subsidiaries. SSL seeks, among other remedies, specific performance of the IRA, injunctive relief, declaratory relief, an indemnity, damages, interest and costs (the “Hong Kong Proceedings”).

The Hong Kong Proceedings were stayed until 15 March 2013. Subsequently, on 15 November 2013, SSL was ordered by the Hong Kong High Court to provide security for the defendants’ costs of the proceedings. SSL failed to provide such security and the proceedings remained stayed.

A second case management conference was fixed for hearing on 17 November 2014, 13 March 2015, 7 July 2015 and 17 November 2015 respectively. On 6 January 2016 that the case management conference fixed to be heard on 23 February 2016 be vacated and adjourned to 12 April 2016 and attempting the finalisation of the global settlement among the parties.

The details are disclosed in the note 42 to the consolidated financial statements.

**d) Other Proceedings**

Details of other proceedings are disclosed in the note 6 and note 26 to the consolidated financial statements.

## DEBT RESTRUCTURING

On 25 November 2013, the Company announced, among other things, to restructure the scheme claims of all creditors of the Company bound by a Bermudan scheme of arrangement (the "Scheme Creditors") (the "Creditors' Scheme").

On 22 October 2014, separate meetings of Existing Notes Creditors and of Non-Note Creditors (as defined in the Creditors' Scheme) (the "Scheme Meetings") were held on the same date to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), have voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. The Creditors' Scheme was sanctioned by the Bermuda Court on 5 November 2014 and became effective and binding on all Scheme Creditors upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on the same date.

On 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long stop date of the Creditors' Scheme of the Company to 1 April 2016 (Bermuda time).

## SUSPENSION OF TRADING AND LISTING STATUS

The completion of the subscription agreements signed with Paliburg Company Limited and Victory Stand Limited had not been taken place by 4 September 2015. Accordingly, the open offer did not proceed and the agreements entered into pursuant to the restructuring did not become unconditional and had therefore lapsed and the whitewash waiver granted by the Securities and Futures Commission of Hong Kong and approved at the special general meeting of the Company held on 22 June 2015 was invalidated.

On 18 September 2015, the Listing Division of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") issued a letter to the Company informing the Company that they have decided to place the Company in the third stage of delisting under Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The third stage of delisting will expire on 1 April 2016 and at the end of the third stage of delisting, if the Company does not provide a resumption proposal in accordance with the requirement of the Stock Exchange, the Stock Exchange will proceed with cancellation of the Company's listing.

According to the letter, the Company is required to submit a viable resumption proposal to the Stock Exchange at least 10 business days before the third stage of delisting expires (i.e. 15 March 2016) to addressing the following:

i) the Company must demonstrate sufficient operations or assets under Rule 13.24;

ii) the Company must publish all outstanding financial results and address any audit qualifications (if any); and

iii) the Company must have winding up petition against the Company withdrawn or dismissed and the JPLs discharged.

The Stock Exchange requires the resumption proposal to be submitted to the Stock Exchange must be clear, plausible and coherent, and contain sufficient details (including forecasts and clear plan for future business development) for the Stock Exchange's assessment and demonstrate compliance with the Listing Rules and all applicable laws and regulations.

The Company has submitted a resumption proposal on 16 October 2015 (Bermuda time) (the "Resumption Proposal"). In response to the comments from the Stock Exchange in respect of the Resumption Proposal, the Company has submitted to the Stock Exchange updated versions of the Resumption Proposal on 17 November 2015, 31 December 2015 and 25 January 2016. In support of the resumption proposal, the Company has also entered into certain agreements and certain supplemental agreements in relation to its business development and debt restructuring.

On 14 March 2016, the Company received a letter from the Stock Exchange to allow the Company to proceed with the Resumption Proposal subject to satisfying of certain conditions by 15 July 2016, including among others:

i) completion of all transactions contemplated under the Resumption Proposal; and

ii) the Company must have the winding up petition withdrawn or dismissed and the provisional liquidators discharged.

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

The Company has entered into certain agreements in relation to the Restructuring. Further announcement(s) will be made by the Company as and when appropriate.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
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Hong Kong

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF**
**TITAN PETROCHEMICALS GROUP LIMITED**
*(Incorporated in Bermuda with limited liability)*

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We were engaged to audit the consolidated financial statements of Titan Petrochemicals Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 146, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the significant of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## BASIS FOR DISCLAIMER OF OPINION

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

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

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position as at 31 December 2015 was the property, plant and equipment and prepaid land/seabed lease payments of a disposal group classified as held for sale (the "Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments") with net carrying amounts of approximately HK$2,299,402,000 and HK$293,982,000 respectively and related deferred tax liabilities of approximately HK$57,974,000. The directors are of the opinion that the carrying amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments included in the consolidated statement of financial position were lower than their fair values less cost to sell amounts and therefore, no impairment on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments was made during the year ended 31 December 2015. Fair values less costs to sell were determined by the cost approach and the sales comparison approach and were used to determine the amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments with reference to valuation reports. However, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used in arriving at the amounts of the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at the end of the reporting period and therefore, as to whether the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2015 are fairly stated. Any adjustment to the carrying amounts on the Property, Plant and Equipment and Prepaid Land/Seabed Lease Payments as at 31 December 2015 would have a consequential impact on the loss from discontinued operation for the year ended 31 December 2015, the balances of the Group's assets and liabilities of a disposed group classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

## BASIS FOR DISCLAIMER OF OPINION (Continued)

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

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

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were prepayments, deposits and other receivables in respect of Titan Quanzhou Shipyard Co., Ltd. ("Titan Quanzhou Shipyard"), which is the disposal group classified as held for sale, of approximately HK$20,247,000 (the "Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Prepayments, Deposits and Other Receivables of the Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Prepayments, Deposits and Other Receivables of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets of a disposal group classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

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

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were accounts payables of Titan Quanzhou Shipyard of approximately HK$88,806,000 owed to suppliers of Titan Quanzhou Shipyard (the "Accounts Payables of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Accounts Payables of Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Accounts Payables of Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to Accounts Payables of Titan Quanzhou Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Accounts Payables of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's liabilities directly associated with the assets classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

## BASIS FOR DISCLAIMER OF OPINION (Continued)

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

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

As disclosed in note 6 to the consolidated financial statements and included in the consolidated statement of financial position of the Group as at 31 December 2015 were other payables and accruals of Titan Quanzhou Shipyard of approximately HK$395,159,000 (the "Other Payables and Accruals of Titan Quanzhou Shipyard"). We were unable to obtain sufficient appropriate audit evidence regarding the Other Payables and Accruals of the Titan Quanzhou Shipyard because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Other Payables and Accruals of Titan Quanzhou Shipyard; (ii) we were unable to carry out any effective confirmation procedures in relation to the Other Payables and Accruals of Titan Quanzhou Shipyard for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Payables and Accruals of Titan Quanzhou Shipyard were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's liabilities directly associated with the assets classified as held for sale, the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

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

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was amounts due to a deconsolidated jointly-controlled entity of approximately HK$164,606,000 (the "Amounts with the Deconsolidated Jointly-Controlled Entity"). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts with the Deconsolidated Jointly-Controlled Entity because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts with the Deconsolidated Jointly-Controlled Entity; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts with the Deconsolidated Jointly-Controlled Entity for the purpose of our audit; and (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amount due from the deconsolidated jointly-controlled entity were appropriate; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts with the Deconsolidated Jointly-Controlled Entity were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2015, the Group's net liabilities at as 31 December 2015, and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

## BASIS FOR DISCLAIMER OF OPINION (Continued)

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

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was amounts due to deconsolidated subsidiaries of approximately HK$388,139,000 (the "Amounts due to Deconsolidated Subsidiaries"). We were unable to obtain sufficient appropriate audit evidence regarding the Amounts due to Deconsolidated Subsidiaries because: (i) there was inadequate documentary evidence available for us to verify the identity and nature of the Amounts due to Deconsolidated Subsidiaries; (ii) we were unable to carry out any effective confirmation procedures in relation to the Amounts due to Deconsolidated Subsidiaries for the purpose of our audit; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Amounts due to Deconsolidated Subsidiaries were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balances of the Group's other payables and accruals as at 31 December 2015, the Group's net liabilities as at 31 December 2015, and consequently net loss and cash flows of the Group for the year ended 31 December 2015 and the related disclosures thereof in the consolidated financial statements.

**d) Scope limitation – Financial guarantee contracts and commitments**

Included in the balances of other payables and accruals in the consolidated statement of financial position as at 31 December 2015 was financial guarantee liabilities of approximately HK$113,155,000 and as disclosed in notes 41 and 40 to the consolidated financial statements were financial guarantee contracts issued and commitments committed by the Group. We were unable to obtain sufficient appropriate audit evidence regarding the financial guarantee contracts and commitments committed by the Group because (i) we were unable to verify whether all financial guarantee contracts and commitments committed by the Group were included in the consolidated financial statements of the Group and the financial statements of the Company as at 31 December 2014 and 2015; (ii) we were unable to satisfy ourselves the measurements of the financial guarantee contracts and commitments for the years ended 31 December 2014 and 2015 were appropriate; (iii) we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any other significant financial guarantee contracts and commitments committed by the Company and the Group; and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's net liabilities at 31 December 2014 and 2015 respectively, the Company's interests in subsidiaries and consequently net loss and cash flows of the Group for the years ended 31 December 2014 and 2015, and the related disclosures thereof in the consolidated financial statements.

## BASIS FOR DISCLAIMER OF OPINION (Continued)

**e) Scope limitation – Events after the reporting period**

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the events after the reporting period because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the significant transactions or events which may have occurred between the period from 1 January 2016 to the date of this auditors' report as required under the Hong Kong Standard on Auditing 560 "Subsequent Events" issued by the HKICPA. There were no practical alternative procedures that we could perform over the significant transactions which occurred during the period from 1 January 2016 to the date of this auditors' report.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

**f) Scope limitation – Related party transactions**

In light of the matters above, we were unable to obtain sufficient appropriate audit evidence regarding the related party transactions disclosures because there was inadequate documentary evidence available for us to verify the occurrence, accuracy and completeness of the related party transactions which may have occurred during the year ended 31 December 2015 as required under the Hong Kong Standard on Auditing 550 "Related Parties" issued by the HKICPA. There were no practical alternative procedures that we could perform over the related party transactions which occurred during the year ended 31 December 2015.

Any adjustments that might have been found necessary may have an effect on the Group's net liabilities as at 31 December 2015 and consequently net loss and cash flows of the Group for the year ended 31 December 2015, and the related disclosures thereof in the consolidated financial statements.

**g) Scope limitation – Opening balances and corresponding figures**

In light of the matters above, there was inadequate documentary evidence available for us to verify the opening balances and corresponding figures for the year ended 31 December 2014. In addition, the auditors' report dated 31 March 2015 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2014 was disclaimed in view as a result of scope limitation based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

As a result of the above, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities as at 31 December 2014 and 2015 and its results for the years ended 31 December 2014 and 2015, and the presentation and disclosure thereof in the consolidated financial statements.

Any adjustments or additional disclosures found to be necessary in respect of the above matters, including any related tax impact, will have a consequential significant effect on the financial position of the Group as at 31 December 2015 and 2014 and the financial performance and cash flows of the Group for the years then ended, and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant subsequent events related to the Group.

## BASIS FOR DISCLAIMER OF OPINION (Continued)

### h) Material uncertainties relating to the going concern basis

As disclosed in note 2.1 to the consolidated financial statements, the Group incurred a loss attributable to the owners of the Company of approximately HK$241,781,000 for the year ended 31 December 2015 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$3,938,700,000 and its total liabilities exceeded its total assets by approximately HK$4,049,058,000.

As disclosed in notes 24, 28, 29, 30, 31 and 32 to the consolidated financial statements, the Group was in default on repayments of interest-bearing bank and other loans of approximately HK$5,850,000, fixed rate guaranteed senior notes of approximately HK$882,329,000, guaranteed senior convertible notes of approximately HK$441,753,000, guaranteed senior payment-in-kind notes of approximately HK$88,657,000, convertible preferred shares of approximately HK$435,325,000 and notes payable of approximately HK$202,896,000.

As disclosed in note 42 to the consolidated financial statements, the Group was involved in several legal proceedings. One of the legal proceedings is that KTL Camden Inc. ("Camden") has claimed that a deconsolidated subsidiary of the Company failed to pay certain hiring charges pursuant to a bareboat charter party contract and that the Company was liable to Camden for such hiring charges plus interest thereon in the sum of approximately US$6,853,032 pursuant to a deed of guarantee issued by the Company in favour of Camden. On 23 July 2013, the Supreme Court of Bermuda (the "Bermuda Court") allowed Camden to be substituted as the petitioner in place of Saturn Petrochemical Holdings Limited ("SPHL") and on 6 August 2013, Camden also made an application for the appointment of provisional liquidators in the Company. On 18 October 2013, the Bermuda Court ordered the appointment of the joint provisional liquidators of the Company. On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the joint provisional liquidators appointed to the Company (the "Discharge Application"). On 13 December 2013, the Bermuda Court ordered that the Camden Petition and the Discharge application be adjourned to 31 January 2014. The proceedings is still ongoing and further hearings before the Bermuda Court took place on 31 January 2014 (Bermuda time), 14 February 2014 (Bermuda time), 28 February 2014 (Bermuda time), 7 March 2014 (Bermuda time), 17 April 2014 (Bermuda time), 16 May 2014 (Bermuda time), 11 July 2014 (Bermuda time), 8 August 2014 (Bermuda time), 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time).

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the directors of the Company as described in note 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and classification of non-current assets that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors of the Company in the preparation of the consolidated financial statements on a going concern basis were fair and reasonable and, accordingly, we were unable to satisfy ourselves that the use of the going concern assumption was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the use of the going concern assumption, which might have a consequential significant effect on the Group's net liabilities as at 31 December 2015 and the net loss of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## REPORT ON MATTERS UNDER THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the items stated under basis for disclaimer of opinion for the year ended 31 December 2015 above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

**HLB Hodgson Impey Cheng Limited**
*Certified Public Accountants*

**Wong Sze Wai, Basilia**
Practising Certificate Number: P05806

Hong Kong, 29 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | 4 | **–** | – |
| Cost of sales | | **–** | – |
| **Gross loss** | | **–** | – |
| Other revenue | | **61** | 178,353 |
| Other gain | | **54,910** | 2,294 |
| Gain on deconsolidation of subsidiaries | 7(a) | **–** | 4,134,534 |
| General and administrative expenses | | **(63,666)** | (210,901) |
| Finance costs | 8 | **(22,911)** | (22,585) |
| Impairment losses on amounts due from deconsolidated subsidiaries | 7(d) | **–** | (135,461) |
| Loss arising on change in fair value of investment property | 15 | **(505)** | (510) |
| (Loss)/profit before tax from continuing operations | 9 | **(32,111)** | 3,945,724 |
| Income tax credit | 12 | **126** | 113 |
| (Loss)/profit for the year from continuing operations | | **(31,985)** | 3,945,837 |
| **DISCONTINUED OPERATION** | | | |
| Loss for the year from discontinued operation | 6(b) | **(209,796)** | (166,463) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(241,781)** | 3,779,374 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | **(241,781)** | 3,779,374 |
| Non-controlling interests | | **–** | – |
| | | **(241,781)** | 3,779,374 |
| **BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 13 | | |
| From continuing and discontinued operations | | | |
| Basic per share | | **(HK3.09 cents)** | HK48.33 cents |
| Diluted per share | | **(HK3.09 cents)** | HK45.30 cents |
| From continuing operations | | | |
| Basic per share | | **(HK0.41 cents)** | HK50.45 cents |
| Diluted per share | | **(HK0.41 cents)** | HK47.29 cents |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

| | Notes | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(241,781)** | 3,779,374 |
| Other comprehensive income/(loss) | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Revaluation gain of prepaid land lease payment upon reclassification to investment property | 15 | **–** | 142,324 |
| Income tax arising from revaluation gain thereof | | **–** | (34,219) |
| | | **–** | 108,105 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **25,357** | 2,767 |
| | | **25,357** | 2,767 |
| Other comprehensive income for the year, net of tax | | **25,357** | 110,872 |
| **Total comprehensive (loss)/income for the year** | | **(216,424)** | 3,890,246 |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | 38 | **(216,424)** | 3,890,246 |
| Non-controlling interests | | **–** | – |
| | | **(216,424)** | 3,890,246 |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **2,152** | 3,138 |
| Investment property | 15 | **156,154** | 166,223 |
| Total non-current assets | | **158,306** | 169,361 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 21 | **146,926** | 145,555 |
| Restricted cash | 22 | **26,547** | 26,520 |
| Cash and cash equivalents | 22 | **9,869** | 1,315 |
| | | **183,342** | 173,390 |
| Assets of a disposal group classified as held for sale | 6(b) | **2,655,804** | 2,861,227 |
| Total current assets | | **2,839,146** | 3,034,617 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other loans | 24 | **5,850** | 5,850 |
| Accounts payable | 25 | **217,731** | 217,731 |
| Other payables and accruals | 26 | **742,850** | 774,100 |
| Fixed rate guaranteed senior notes | 28 | **882,329** | 882,329 |
| Guaranteed senior convertible notes | 29 | **441,753** | 441,753 |
| Guaranteed senior payment-in-kind notes | 30 | **88,657** | 88,657 |
| Liability portion of convertible preferred shares | 31 | **435,325** | 420,717 |
| Notes payable | 32 | **202,896** | 202,896 |
| Tax payable | | **1,008** | 1,069 |
| Amounts due to the ultimate holding company | 33 | **898,854** | 947,503 |
| Amount due to the immediate holding company | 33 | **2,526** | 87 |
| Loans from the immediate holding company | 34 | **3,000** | 3,000 |
| | | **3,922,779** | 3,985,692 |
| Liabilities directly associated with the assets classified as held for sale | 6(b) | **2,855,067** | 2,865,369 |
| Total current liabilities | | **6,777,846** | 6,851,061 |
| **NET CURRENT LIABILITIES** | | **(3,938,700)** | (3,816,444) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **(3,780,394)** | (3,647,083) |

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Amount due to the immediate holding company | 33 | **–** | 456 |
| Loans from the ultimate holding company | 34 | **96,392** | 102,293 |
| Loans from the immediate holding company | 34 | **140,240** | 48,681 |
| Deferred tax liabilities | 35 | **32,032** | 34,121 |
| Total non-current liabilities | | **268,664** | 185,551 |
| **Net liabilities** | | **(4,049,058)** | (3,832,634) |
| **DEFICIENCY IN ASSETS** | | | |
| **Deficiency attributable to owners of the Company** | | | |
| Share capital | 36 | **78,206** | 78,206 |
| Deficits | 38 | **(4,127,264)** | (3,910,840) |
| **Deficiency in assets** | | **(4,049,058)** | (3,832,634) |

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2016 and signed on its behalf by:

**Tang Chao Zhang**
*Director*

**Zhang Weibing**
*Director*

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | | Attributable to owners of the Company | | |
|---|---|---|---|---|
| | Notes | **Share capital** (Note 36) HK$'000 | **Deficits** (Note 38) HK$'000 | **Total deficiency in assets** HK$'000 |
| At 1 January 2015 | | **78,206** | **(3,910,840)** | **(3,832,634)** |
| Loss for the year | | **–** | **(241,781)** | **(241,781)** |
| Other comprehensive income for the year: | | | | |
| Exchange differences on translation of foreign operations | | **–** | **25,357** | **25,357** |
| Total comprehensive loss for the year | | **–** | **(216,424)** | **(216,424)** |
| At 31 December 2015 | | **78,206** | **(4,127,264)** | **(4,049,058)** |
| At 1 January 2014 | | 78,206 | (7,802,532) | (7,724,326) |
| Profit for the year | | – | 3,779,374 | 3,779,374 |
| Other comprehensive income/(loss) for the year: | | | | |
| Revaluation gain of prepaid land lease payment upon reclassification to investment property | 15 | – | 142,324 | 142,324 |
| Income tax arising from revaluation gain thereof | 35 | – | (34,219) | (34,219) |
| Exchange differences on translation of foreign operations | | – | 2,767 | 2,767 |
| Total comprehensive income for the year | | – | 3,890,246 | 3,890,246 |
| Released upon deconsolidation of subsidiaries | 7(a) | – | 1,446 | 1,446 |
| At 31 December 2014 | | 78,206 | (3,910,840) | (3,832,634) |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| (Loss)/profit before tax from: | | | |
| Continuing operations | | **(32,111)** | 3,945,724 |
| Discontinued operation | 6(b) | **(211,025)** | (167,692) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **49,708** | 48,736 |
| Amortisation of prepaid land/seabed lease payments | 6(c) | **7,112** | 7,315 |
| Interest income | | **(28)** | (29) |
| Finance costs | 8 | **168,412** | 158,337 |
| Loss on disposal/write off of items of property, plant and equipment | 9 | **–** | 261 |
| Impairment of accounts receivable | 9, 20 | **–** | 180 |
| Impairment of prepayments, deposits and other receivables | 9, 21 | **–** | 2,361 |
| Gain on deconsolidation of subsidiaries | 7(a) | **–** | (4,134,534) |
| Impairment losses on amounts due from deconsolidated subsidiaries | 7(d) | **–** | 135,461 |
| Loss arising on change in fair value of investment property | 15 | **505** | 510 |
| Recognition of financial guarantee contracts | | **–** | 113,101 |
| Reversal of finance cost | | **–** | (213,229) |
| Reversal of guaranteed senior payment-in-kind notes | | **–** | (11,320) |
| | | **(17,427)** | (114,818) |
| Decrease in prepayments, deposits and other receivables | | **330** | 2,152 |
| Increase in accounts payable | | **378** | 608 |
| (Decrease)/increase in other payables and accruals | | **(70,623)** | 41,163 |
| Increase in amounts due to the ultimate holding company | | **–** | 3,822 |
| Cash used in operations | | **(87,342)** | (67,073) |
| Interest received | | **28** | 29 |
| Net cash flows used in operating activities | | **(87,314)** | (67,044) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | | **(54)** | (48) |
| Net cash flows used in investing activities | | **(54)** | (48) |

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Inception of loans from the immediate holding company | | **89,609** | 48,681 |
| Inception of loans from the ultimate holding company | | **6,393** | – |
| Increase in restricted cash | | **(27)** | (23) |
| Net cash flows generated from financing activities | | **95,975** | 48,658 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **8,607** | (18,434) |
| Cash and cash equivalents at the beginning of the year | | **1,446** | 19,891 |
| Effect of foreign exchange rate changes, net | | **(64)** | (11) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **9,989** | 1,446 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **9,869** | 1,315 |
| Cash and bank balances attributable to discontinued operation | 6(b) | **120** | 131 |
| **Cash and cash equivalents as stated in the consolidated statement of cash flows** | | **9,989** | 1,446 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents per consolidated statement of cash flows | | **9,989** | 1,446 |
| Cash and bank balances attributable to discontinued operation | 6(b) | **(120)** | (131) |
| **Cash and cash equivalents as stated in the consolidated statement of financial position** | | **9,869** | 1,315 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. CORPORATE INFORMATION

Titan Petrochemicals Group Limited (the "Company") was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Bermuda Companies Act 1981 (the "Act").

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

The Company acts an investment holding company. The activities of its principal subsidiaries are set out in note 51.

The Company and its subsidiaries (collectively, the "Group") discontinued its shipbuilding and building of ship repair facilities operations in 2010 as detailed in note 6.

The immediate holding company and the ultimate holding company are Fame Dragon International Investment Limited ("Fame Dragon", incorporated in Hong Kong) and Guangdong Zhenrong Energy Co., Ltd ("GZE", incorporated in the People's Republic of China (the "Mainland China" or the "PRC")) respectively.

## 2.1 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). They have been prepared under the historical cost convention, except for the investment property, which has been measured at fair value. All the assets and liabilities as at 31 December 2015 included in the disposal group classified as held for sale, representing the shipbuilding and building of ship repair facilities operations, were stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 6. These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Loss of access to books and records of the Group

The directors of the Company (the "Directors") have used their best endeavors to locate all the financial and business records of the Group. The access to most of the books and records of its subsidiaries which operated in Singapore have not been able to be located as a consequence of the re-location of the operating office and servers, together with the resignations of key management and most of the former operating and accounting personnel have once left the Group. Compounding the difficulties in obtaining information is the fact that most of the Singapore and certain British Virgin Islands (the "BVI") subsidiaries were put into liquidation in 2013 and 2014 and the records have since been under the control of the Liquidators. As a result, the Directors have been unable to obtain sufficient information to satisfy themselves regarding the treatment of various transactions and balances of the Group for the year ended 31 December 2014.

## 2.1 BASIS OF PREPARATION (Continued)

### Going concern basis

During the year ended 31 December 2015, the Group incurred losses of HK$241,781,000, and as of that date, the Group had net current liabilities and net liabilities of HK$3,938,700,000 and HK$4,049,058,000 respectively. These conditions together with events set out below, indicate the existence of a material uncertainty which may cast significant effect on the Group's ability to continue as a going concern.

Major events in which the Group are involved are summarised below:

a) *Material Proceedings*

Bermuda proceedings
On 9 July 2012 (Bermuda time), Saturn Petrochemical Holdings Limited ("SPHL") served on the Company a petition (the "SPHL Petition") at the Supreme Court of Bermuda (the "Bermuda Court") for an order, among other things, to wind up and to appoint a provisional liquidator against the Company.

On 23 July 2013 (Bermuda time), the Bermuda Court ordered (i) the SPHL Petition be struck out, and the Company be awarded the costs of the SPHL Petition up to the date upon which the skeleton argument for the strike-out application was filed; (ii) KTL Camden Inc. ("Camden") (the "Camden Petition") was allowed to be substituted as the petitioner in place of SPHL.

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of Mr. Garth Calow and Ms. Alison Tomb, both of PricewaterhouseCoopers, as the joint provisional liquidators ("JPLs") of the Company with limited powers.

On 14 February 2014 (Bermuda time), the powers of the JPLs were varied by the Bermuda Court.

The winding up petition against the Company by Camden was adjourned to 1 April 2016 (Bermuda time), further details of which are set out in note 42.

## 2.1 BASIS OF PREPARATION (Continued)

**Going concern basis** (Continued)

*b) Debt restructuring*

The Directors have adopted the going concern basis in the preparation of the consolidated financial statements and have implemented measures to improve the working capital, liquidity and cash flow position of the Group.

The Company has been engaging in discussions with the Group's creditors, potential creditors as well as investors or potential investors in relation to the debt restructuring and fund raising (by way of debt financing and equity financing) proposals. Certain agreements in relation to the debt restructuring and fund raising have been entered into with the relevant parties (details of the agreements are set out in the announcements of the Company dated 25 November 2013, 5 May 2014 and 30 May 2014). As announced by the Company on 30 May 2014, the Company has submitted a resumption proposal on 5 May 2014 and has entered into certain agreements in relation to its business development and debt restructuring.

As further set out in note 49, the resumption proposal submitted to the Stock Exchange lapsed on 18 September 2015. As announced by the Company on 5 November 2015, the Company has submitted another resumption proposal on 16 October 2015 (Bermuda time) (the "Resumption Proposal"). In support of the Resumption Proposal, the Company has also entered into certain agreements and certain supplemental agreements in relation to its business development and debt restructuring.

Further details of the agreements will be disclosed in a separate announcement to be released by the Company.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company (the "Restructuring") will be successfully completed and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue to operate as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

## 2.1 BASIS OF PREPARATION (Continued)

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following amended HKFRSs and HKASs issued by the HKICPA which became effective for accounting periods beginning on or after 1 January 2015.

| | |
|---|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle |

**Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions**

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

**Annual Improvements to HKFRSs 2010-2012 Cycle**

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below. The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

**Annual Improvements to HKFRSs 2011-2013 Cycle**

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

a) the property meets the definition of investment property in terms of HKAS 40; and

b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs and HKASs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[4] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to HKAS 1 | Disclosure Initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[3] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 January 2019.

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

The Group is in the process of assessing the potential impact of the above new and revised HKFRSs upon initial application but is not yet in a position to state whether the above HKFRSs will have a significant impact on the Group's results of operations and financial position.

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

**HKFRS 9 Financial Instruments** (Continued)

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**HKFRS 15 Revenue from Contracts with Customers**

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

### HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors will assess the impact of the application of HKFRS 16. However, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

### Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

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

**Amendments to HKAS 1 – Disclosure Initiative**

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

**Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

**Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants**

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

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

**Amendments to HKAS 27 Equity Method in Separate Financial Statements**

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

**Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

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

**Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (Continued)

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

**Annual Improvements to HKFRSs 2012-2014 Cycle**

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained profits at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

## 2.4 NEW HONG KONG COMPANIES ORDINANCE (CAP. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the new Hong Kong Companies Ordinance (Cap. 622). The main impact relates to the presentation and disclosure of certain information in the consolidated financial statements.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of consolidation** (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) the contractual arrangement with the other vote holders of the investee;

b) rights arising from other contractual arrangements; and

c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

**Business combinations and goodwill**

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

## 2.5 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value which changes in fair value are either recognised in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

## 2.5 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 non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

### Related parties

a) A person or a close member of that person's family is related to the Group if that person:

   i) has control or joint control of the Group;
   ii) has significant influence over the Group; or
   iii) is a member of the key management personnel of the Group or of a parent of the Group;

b) an entity is related to the Group if any of the following conditions applies:

   i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   iii) both entities are joint ventures of the same third party;
   iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
   vi) the entity is controlled or jointly controlled by a person identified in (a);
   vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
   viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 2.5 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 consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | |
|---|---|
| Buildings | 20 to 45 years |
| Machinery | 5 to 20 years |
| Leasehold improvements | The shorter of the lease terms and 6 years |
| Furniture, equipment and motor vehicles | 5 to 10 years |

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

### Investment property

Investment property is a property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. All of the Group's property interests held for capital appreciation purposes are accounted for as an investment property and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

## 2.5 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.

### Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

### Licenses

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

### Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases** (Continued)

If a prepaid land/seabed lease payment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in asset revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

### Financial assets

*Initial recognition and measurement*

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

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

The Group's financial assets include pledged deposits and restricted cash, cash and cash equivalents and other receivables and deposits.

*Subsequent measurement*

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

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets** (Continued)

*Subsequent measurement (Continued)*

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss.

### Impairment of financial assets

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

*Financial assets carried at amortised cost*

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

The amount of the impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the other revenue/expenses in the consolidated statement of profit or loss.

## 2.5 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts and other payables, amounts due to the ultimate holding company, amount due to the immediate holding company, loans from the ultimate holding company, loans from the immediate holding company, interest-bearing bank and other loans, fixed rate guaranteed senior notes (the "Senior Notes Due 2012"), guaranteed senior convertible notes (the "Convertible Notes Due 2015"), guaranteed senior payment-in-kind notes (the "PIK Notes Due 2015"), notes payable (the "K-Line Notes Due 2013") and liability portion of the Company's convertible preferred shares (the "Titan preferred shares").

## 2.5 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 consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

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

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

**Derecognition of financial liabilities**

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transactions costs. For financial instrument where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, and a discounted cash flow analysis.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Titan preferred shares

The components of Titan preferred shares that exhibit characteristics of a liability are recognised as liabilities in the consolidated statement of financial position, net of transaction costs. On issuance of the Titan preferred shares, the fair value of the liability portion is determined by using a market rate for an equivalent non-convertible share to discount future expected cash flows; and this amount is carried as a non-current financial liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the equity component of the Titan preferred shares. The carrying amount of the conversion option is not remeasured in subsequent years. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

The transaction costs are apportioned between the liability and equity components of the Titan preferred shares based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

### Convertible Notes Due 2015 and K-Line Notes Due 2013

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Ship stores and spare parts**

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

**Inventories**

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

**Cash and cash equivalents**

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

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

**Provisions**

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

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

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

**Income tax**

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income tax** (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

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

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

### Revenue recognition

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition** (Continued)

b) revenue from the provision of logistic services:

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

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

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

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

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

**Share-based payment transactions**

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

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or services conditions are satisfied.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions (Continued)

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

### Other employee benefits

*Paid leave carried forward*

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

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

Difference arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which the cumulative amount is reclassified to the consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

The functional currencies of certain subsidiaries are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries with functional currencies other than HK$ are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

### Financial guarantee

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the date of the consolidated statement of financial position and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgement of management of the Group.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

*Income tax*

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

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

## 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 non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value, of those cash flows.

*Impairment of loans and receivables*

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

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

*Useful lives and residual values of property, plant and equipment*

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

*Net realisable value of inventories*

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

**Estimation uncertainty** (Continued)

*Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 6(b), 15 and 45 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

## 4. REVENUE

The Group did not generate any revenue during the year ended 31 December 2015 (2014: HK$Nil).

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and are principally engaged in (a) provision of logistic services (including offshore storage and transportation); and (b) supply of oil products and provision of bunker refueling services. In 2010, the Group classified its shipbuilding operation as being discontinued for the reason as detailed in note 6(a).

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in the Company's Annual Report for the year ended 31 December 2015.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. There were no intersegment sales in the current year (2014: HK$Nil).

## 5. OPERATING SEGMENT INFORMATION (Continued)

### Year ended 31 December 2015

| | Provision of logistic services | | Supply of oil products and provision of bunker refueling services | Continuing operations | Discontinued operation | | |
|---|---|---|---|---|---|---|---|
| | Offshore storage HK$'000 | Transportation HK$'000 | HK$'000 | Total HK$'000 | Shipbuilding HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| **Segment revenue** | | | | | | | |
| – Revenue from external customers | – | – | – | – | – | – | – |
| **Segment results** | – | – | (69) | (69) | (65,524) | – | (65,593) |
| Adjusted for: | | | | | | | |
| – Interest income | – | – | – | – | – | 28 | 28 |
| – Other revenue | – | – | – | – | – | 33 | 33 |
| – Other gain | – | – | – | – | – | 54,910 | 54,910 |
| – Other expenses | – | – | – | – | – | (63,597) | (63,597) |
| | – | – | (69) | (69) | (65,524) | (8,626) | (74,219) |
| Add: Depreciation and amortisation | – | – | – | – | 55,838 | 982 | 56,820 |
| Operating loss before interest, tax, depreciation and amortisation ("LBITDA") | – | – | (69) | (69) | (9,686) | (7,644) | (17,399) |
| Loss arising on change in fair value of investment property | – | – | – | – | – | (505) | (505) |
| LBITDA | – | – | (69) | (69) | (9,686) | (8,149) | (17,904) |
| Depreciation and amortisation | – | – | – | – | (55,838) | (982) | (56,820) |
| Finance costs | – | – | – | – | (145,501) | (22,911) | (168,412) |
| **Loss before tax** | – | – | (69) | (69) | (211,025) | (32,042) | (243,136) |

## 5. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2014

| | Provision of logistic services | | Supply of oil products and provision of bunker refueling services | Continuing operations | Discontinued operation | | |
|---|---|---|---|---|---|---|---|
| | Offshore storage HK$'000 | Transportation HK$'000 | HK$'000 | Total HK$'000 | Shipbuilding HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| **Segment revenue** | | | | | | | |
| – Revenue from external customers | – | – | – | – | – | – | – |
| **Segment results** | 142 | 67 | (1,363) | (1,154) | (31,941) | – | (33,095) |
| Adjusted for: | | | | | | | |
| – Interest income | – | – | – | – | 1 | 28 | 29 |
| – Other revenue | – | – | – | – | – | 178,323 | 178,323 |
| – Other gain | – | – | – | – | – | 2,085 | 2,085 |
| – Other expenses | – | – | – | – | – | (209,536) | (209,536) |
| | 142 | 67 | (1,363) | (1,154) | (31,940) | (29,100) | (62,194) |
| Add: Depreciation and amortisation | – | – | 41 | 41 | 54,650 | 1,360 | 56,051 |
| Operating earnings before interest, tax, depreciation and amortisation ("EBITDA")/ (LBITDA) | 142 | 67 | (1,322) | (1,113) | 22,710 | (27,740) | (6,143) |
| Impairment losses on amounts due from deconsolidated subsidiaries | – | – | – | – | – | (135,461) | (135,461) |
| Gain on deconsolidation of subsidiaries | – | – | – | – | – | 4,134,534 | 4,134,534 |
| Loss arising on change in fair value of investment property | – | – | – | – | – | (510) | (510) |
| EBITDA/(LBITDA) | 142 | 67 | (1,322) | (1,113) | 22,710 | 3,970,823 | 3,992,420 |
| Depreciation and amortisation | – | – | (41) | (41) | (54,650) | (1,360) | (56,051) |
| Finance costs | – | – | – | – | (135,752) | (22,585) | (158,337) |
| **Profit/(loss) before tax** | 142 | 67 | (1,363) | (1,154) | (167,692) | 3,946,878 | 3,778,032 |

## 5. OPERATING SEGMENT INFORMATION (Continued)

**Year ended 31 December 2015**

| | Provision of logistic services | | Supply of oil products and provision of bunker refueling services | Continuing operations | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Offshore storage HK$'000 | Transportation HK$'000 | HK$'000 | Total HK$'000 | Shipbuilding HK$'000 | Consolidated HK$'000 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | – | – | – | – | 55,838 | 55,838 |
| Unallocated depreciation and amortisation | | | | 982 | | 982 |
| | | | | 982 | | 56,820 |
| Capital expenditures* | – | – | – | – | – | – |
| Unallocated capital expenditures | | | | 54 | | 54 |
| | | | | 54 | | 54 |
| Impairment of accounts receivable | – | – | – | – | – | – |
| Impairment of prepayments, deposits and other receivables | – | – | – | – | – | – |
| Unallocated impairment of prepayments, deposits and other receivables | | | | – | | – |
| | | | | – | | – |

* Capital expenditure consists of additions to property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2014

| | Provision of logistic services | | Supply of oil products and provision of bunker refueling services | Continuing operations | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Offshore storage HK$'000 | Transportation HK$'000 | HK$'000 | Total HK$'000 | Shipbuilding HK$'000 | Consolidated HK$'000 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | – | – | 41 | 41 | 54,650 | 54,691 |
| Unallocated depreciation and amortisation | | | | 1,360 | | 1,360 |
| | | | | 1,401 | | 56,051 |
| Capital expenditures* | – | – | – | – | 19 | 19 |
| Unallocated capital expenditures | | | | 29 | | 29 |
| | | | | 29 | | 48 |
| Impairment of accounts receivable | – | – | 180 | 180 | – | 180 |
| Impairment of prepayments, deposits and other receivables | – | – | – | – | – | – |
| Unallocated impairment of prepayments, deposits and other receivables | | | | 2,361 | | 2,361 |
| | | | | 2,361 | | 2,361 |

* Capital expenditure consists of additions to property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

| | Mainland China | | Other Asia Pacific countries | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **a) Revenue** | | | | | | |
| Revenue from external customers | **–** | – | **–** | – | **–** | – |
| Attributable to discontinued operation – shipbuilding | **–** | – | **–** | – | **–** | – |
| Revenue from continuing operations | **–** | – | **–** | – | **–** | – |
| **b) Other information** | | | | | | |
| Segment assets | **2,816,998** | 3,032,569 | **180,454** | 171,409 | **2,997,452** | 3,203,978 |
| Segment liabilities | **3,192,033** | 3,216,717 | **3,854,477** | 3,819,895 | **7,046,510** | 7,036,612 |
| Capital expenditures | **–** | 19 | **54** | 29 | **54** | 48 |
| Impairment of accounts receivable | **–** | 180 | **–** | – | **–** | 180 |
| Impairment of prepayments, deposits and other receivables | **–** | 1,147 | **–** | 1,214 | **–** | 2,361 |

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

### Information about major customers

The Group did not generate any revenues for the years ended 31 December 2015 and 2014, thus, no customers nor transactions have exceeded 10% of the Group's total revenue.

## 6. DISCONTINUED OPERATION

### a) Shipbuilding – Titan Quanzhou Shipyard Co., Ltd. ("Titan Quanzhou Shipyard" or "TQS")

On 11 December 2010, the Company entered into a sale and purchase agreement with Grand China Logistics Holding (Group) Company Limited ("Grand China Logistics") (the "GCL Sale and Purchase Agreement") in relation to the disposal of its 95% equity interest in Titan Quanzhou Shipyard at a consideration of RMB1,865,670,000 (equivalent to approximately HK$2,241,011,000) or a maximum reduced consideration of RMB1,465,670,000 (equivalent to approximately HK$1,760,538,000) if Titan Quanzhou Shipyard's profit targets for the two years ending 31 December 2012 were not met. Pursuant to a supplemental agreement signed in 2011, such net profit targets were cancelled and the consideration for the proposed disposal was fixed at RMB1,665,670,000 (equivalent to approximately HK$2,000,774,000).

However, only RMB740,000,000 was received from Grand China Logistics in connection with the GCL Sale and Purchase Agreement and, accordingly the equity interests in Titan Quanzhou Shipyard have not yet been transferred to Grand China Logistics.

## 6. DISCONTINUED OPERATION (Continued)

### a) Shipbuilding – Titan Quanzhou Shipyard Co., Ltd. ("Titan Quanzhou Shipyard" or "TQS") (Continued)

On 30 May 2012, Grand China Logistics commenced legal proceedings against the Company, Titan TQSL Holding Company Ltd ("Titan TQSL" or "TQSL Holding") and Titan Petrochemicals (Fujian) Ltd ("Titan Fujian") seeking, among other things, the termination of the GCL Sale and Purchase Agreement and repayment of the aggregate amount of RMB740,000,000 (equivalent to approximately HK$888,875,000) paid in accordance with the GCL Sale and Purchase Agreement.

On 10 June 2013, the Company received a notification that Grand China Logistics had assigned all of its interests, rights and obligations in respect of the sale and purchase of the 95% equity interest in Titan Quanzhou Shipyard to GZE and on 26 December 2013 上海市第一中级人民法院 (Shanghai No.1 Intermediate People's Court) (the "Shanghai Intermediate Court") ordered the discontinuation of proceedings.

On 5 May 2014, the Company, Titan Fujian and TQSL Holding entered into an agreement (as supplemented and amended by the supplemental agreements on 27 February 2015, 28 May 2015, 30 July 2015 and 16 October 2015) (the "Shipyard Termination Agreement") with GZE, pursuant to which the parties conditionally agreed that the GCL Sale and Purchase Agreement be terminated and that, in lieu of the repayment of the RMB740,000,000 originally paid by Grand China Logistics to Titan Fujian and TQSL Holding, the Company would issue 9,382,164,000 new ordinary shares of the Company (the "Shares") at the issue price of HK$0.10 to GZE.

The Shipyard Termination Agreement will only be effective upon the satisfaction of certain conditions.

As disclosed in the Company's announcements dated 28 May 2015, 7 August 2015 and 5 November 2015, on 28 May 2015, 30 July 2015 and 16 October 2015, the Company, Titan Fujian and Titan TQSL entered into supplemental agreements, pursuant to which the parties agreed to extend the long stop date of the Shipyard Termination Agreement to 31 July 2015, 31 August 2015, 30 April 2016 respectively.

Further details in respect of the above were included in the announcement on 5 November 2015. Further announcement(s) will be made by the Company as and when appropriate.

As at 31 December 2015 and 2014, the assets and liabilities related to the discontinued operation, shipbuilding and building of ship repair facilities, have been presented in the consolidated statement of financial position as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with the assets classified as held for sale". The results for the years ended 31 December 2015 and 2014 are included in the consolidated statement of profit and loss as "Loss for the year from discontinued operation".

## 6. DISCONTINUED OPERATION (Continued)

### b) Financial information on Titan Quanzhou Shipyard

The combined results of Titan Quanzhou Shipyard for the year are presented below.

| | Notes | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| Other revenue | | **20** | 50,256 |
| Other gain | | **11,542** | 687 |
| General and administrative expenses | | **(77,086)** | (82,883) |
| Finance costs | 8 | **(145,501)** | (135,752) |
| **Loss before tax** | 6(c) | **(211,025)** | (167,692) |
| Income tax credit | 12 | **1,229** | 1,229 |
| **Loss for the year from discontinued operation** | | **(209,796)** | (166,463) |

The major classes of assets and liabilities of Titan Quanzhou Shipyard classified as held for sale as at 31 December 2015 and 2014 are as follows:

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment (Note a) | **2,299,402** | 2,488,687 |
| Prepaid land/seabed lease payments (Note b) | **293,982** | 306,345 |
| Inventories | **42,053** | 44,627 |
| Prepayments, deposits and other receivables | **20,247** | 21,437 |
| Cash and cash equivalents | **120** | 131 |
| Assets of a disposal group classified as held for sale | **2,655,804** | 2,861,227 |
| **Liabilities** | | |
| Interest-bearing bank and other loans | **250,333** | 265,658 |
| Accounts payable (Note c) | **88,806** | 93,861 |
| Other payables and accruals (Note d) | **424,447** | 416,533 |
| Amounts due to the ultimate holding company | **193,532** | 83,949 |
| Loans from the ultimate holding company | **1,839,975** | 1,946,165 |
| Deferred tax liabilities | **57,974** | 59,203 |
| Liabilities directly associated with the assets classified as held for sale | **2,855,067** | 2,865,369 |
| **Net liabilities directly associated with the disposal group** | **(199,263)** | (4,142) |

## 6. DISCONTINUED OPERATION (Continued)

### b) Financial information on Titan Quanzhou Shipyard (Continued)

Notes:

a) At 31 December 2015, included in the assets of a disposal group classified as held for sale, the Group's construction in progress, buildings and machinery with net carrying values of HK$785,296,000 (2014: HK$833,371,000), HK$435,246,000 (2014: HK$438,260,000) and HK$83,513,000 (2014: HK$118,659,000), respectively, were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group (notes 24 and 34).

The recoverable amounts of the property, plant and equipment classified as held for sale for as at 31 December 2015 and 2014 were determined based on a valuation performed by an independent valuer not connected to the Group. The recoverable amount was calculated by either or combination of (i) the cost approach with reference to the cost to reproduce or replace in new condition of the valued assets in accordance with current market prices for similar assets, with allowance for accrued deprecation as evidence by observed condition or obsolescence present; or (ii) the sales comparison approach with reference to the prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the valued assets relative to the market. The fair value less costs to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

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

At 31 December 2015, the prepaid land/seabed lease payments under the consolidated statement of financial position and under assets of a disposal group classified as held for sale with an aggregate net carrying value of HK$254,811,000 (2014: HK$265,557,000) were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group (notes 24 and 34).

The recoverable amounts of the prepaid land/seabed lease payments classified as held for sale as at 31 December 2015 and 2014 were determined based on a valuation performed by an independent valuer not connected to the Group. The recoverable amount was calculated by direct comparison approach. The fair value less cost to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

c) Included in the trade payables of Titan Quanzhou Shipyard amounted to approximately HK$34,728,000 (2014: HK$36,854,000) were claimed from various suppliers in respect of legal actions brought to the courts of the PRC against Titan Quanzhou Shipyard.

d) Included in the other payables and accruals of Titan Quanzhou Shipyard amounted to approximately HK$35,698,000 (2014: HK$32,335,000) were claimed from various parties in respect of legal actions brought to the courts of the PRC against Titan Quanzhou Shipyard.

The combined net cash flows incurred by Titan Quanzhou Shipyard are summarised as follows:

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| **Net cash (outflow)/inflow from:** | | |
| Operating activities | **(6,409)** | (77) |
| Investing activities | **–** | (19) |
| Financing activities | **6,394** | – |
| **Net cash outflow** | **(15)** | (96) |

## 6. DISCONTINUED OPERATION (Continued)

### c) Loss before tax

The Group's loss before tax is arrived at after (crediting)/charging the amounts in discontinued operation as set out below.

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Employee benefits expenses (excluding directors' remuneration): | | |
| Wages and salaries | **4,263** | 5,344 |
| Pension scheme contributions | **1,491** | 869 |
| | **5,754** | 6,213 |
| Depreciation | **48,726** | 47,520 |
| Amortisation of prepaid land/seabed lease payments | **7,112** | 7,130 |
| Minimum lease payments under operating leases: | | |
| Leasehold buildings | **57** | 74 |
| Auditors' remuneration | **–** | 51 |
| Foreign exchange differences, net | **(11,542)** | (687) |
| Bank interest income | **–** | (1) |

## 7. DECONSOLIDATION OF SUBSIDIARIES

During the year ended 31 December 2014, ten wholly owned subsidiaries of the Group that were incorporated in the BVI and three wholly owned subsidiaries of the Group that were incorporated in Singapore have been placed into liquidation.

Titan Storage Limited ("TSL"), Estonia Capital Ltd., Titan Mars Limited, Sino Ocean Development Limited, Brookfield Pacific Ltd., Roswell Pacific Ltd., Titus International Ltd., Wynham Pacific Ltd., Wendelstar International Ltd. and Sewell Global Ltd. were placed into voluntary liquidation on 25 April 2014. Titan Leo Pte. Ltd., Neptune Associated Shipping Pte Ltd and Petro Titan Pte. Ltd. were placed into voluntary liquidation on 29 April 2014.

Accordingly, the Group had deconsolidated these subsidiaries as the Directors considered that the Group's control over these subsidiaries had been lost during the year ended 31 December 2014 and there were no subsidiaries being deconsolidated during the year ended 31 December 2015.

The gain on deconsolidation of these subsidiaries and the net cash outflow arising on deconsolidation of subsidiaries were set out as below.

## 7. DECONSOLIDATION OF SUBSIDIARIES (Continued)

### a) Gain on deconsolidation of subsidiaries

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Prepayments, deposits and other receivables | | – | 11,679 |
| Amounts due from deconsolidated fellow subsidiaries | | – | 2,087,170 |
| Accounts payable | | – | (133,710) |
| Amounts due to the intermediate holding company | | – | (134,987) |
| Amounts due to fellow subsidiaries | | – | (476) |
| Amounts due to deconsolidated fellow subsidiaries | | – | (5,918,946) |
| Other payables and accruals | | – | (46,710) |
| **Net liabilities of deconsolidated subsidiaries attributable to the Group** | | – | (4,135,980) |
| Release of exchange fluctuation reserve | 38 | – | (1,446) |
| Net liabilities of deconsolidated subsidiaries attributable to the Group | | – | 4,135,980 |
| Gain on deconsolidation of subsidiaries | | – | 4,134,534 |

### b) Net cash outflow arising on deconsolidation of subsidiaries

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Cash and cash equivalents of deconsolidated subsidiaries | | – | – |

### c) Amounts due to deconsolidated subsidiaries were included in the consolidated statement of financial position as follows:

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Other payables and accruals | 26 | – | 390,121 |
| Liabilities directly associated with the assets classified as held for sale | | – | 114,000 |
| | | – | 504,121 |

### d) Impairment losses:

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Impairment losses on amounts due from deconsolidated subsidiaries (Note) | | – | 135,461 |

Note:

There was no impairment made for the amounts due from deconsolidated subsidiaries for the year ended 31 December 2015.

During the year ended 31 December 2014, impairments have been made for the amounts due from deconsolidated subsidiaries due to the amounts are highly unrecoverable and which are determined by reference to the estimation of future cash flows expected to be generated from the deconsolidated subsidiaries. Accordingly, impairment losses of HK$135,461,000 were recognised during the year ended 31 December 2014.

## 8. FINANCE COSTS

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Interest on: | | | |
| Bank and other loans | | **25,159** | 171,80 |
| Loans from the immediate holding company | | **1,983** | 516 |
| Loans from the ultimate holding company | | **126,662** | 125,133 |
| Dividends on the Titan preferred shares | 31 | **14,608** | 14,607 |
| Other finance costs | | **–** | 901 |
| Total interest expenses | | **168,412** | 158,337 |
| Attributable to continuing operations | | **22,911** | 22,585 |
| Attributable to discontinued operation | 6(b) | **145,501** | 135,752 |
| | | **168,412** | 158,337 |

## 9. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after (crediting)/charging the amounts in continuing operations as set out below.

| | Notes | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| Employee benefits expenses (excluding directors' remuneration): | | | |
| Wages and salaries | | **9,516** | 9,280 |
| Pension scheme contributions | | **405** | 324 |
| | | **9,921** | 9,604 |
| Depreciation | | **982** | 1,216 |
| Amortisation of prepaid land/seabed lease payments | | **–** | 185 |
| Minimum lease payments under operating leases: | | | |
| Leasehold buildings | | **4,664** | 4,751 |
| Auditors' remuneration | | **1,192** | 2,029 |
| Loss on disposal/write off of items of property, plant and equipment | | **–** | 261 |
| Foreign exchange differences, net | | **(54,910)** | (2,294) |
| Impairment of accounts receivable | 20 | **–** | 180 |
| Impairment of prepayments, deposits and other receivables | | **–** | 2,361 |
| Bank interest income | | **(28)** | (28) |

## 10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is detailed as follows:

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Fees | **1,186** | 1,238 |
| Other emoluments: | | |
| Salaries, allowances and benefits-in-kind | **8,134** | 9,878 |
| Pension scheme contributions | **69** | 68 |
| | **8,203** | 9,946 |
| | **9,389** | 11,184 |

## 10. DIRECTORS' REMUNERATION (Continued)

During the years ended 31 December 2015 and 2014, no emoluments have been paid by the Group to any of the directors as an inducement to join or upon joining the Group as compensation for loss of office.

The emoluments of the Directors for the year ended 31 December 2015 are set out below.

| | Fees HK$'000 | Salaries, allowances and benefits-in-kind HK$'000 | Pension scheme contributions HK$'000 | Total emoluments HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Mr. Tang Chao Zhang* | – | 1,200 | 18 | 1,218 |
| Dr. Zhang Weibing (appointed on 23 July 2015) | – | 799 | 9 | 808 |
| Mr. Zhao Xu Guang* (resigned on 16 September 2015) | – | 2,736 | 14 | 2,750 |
| Mr. Wong Siu Hung Patrick (resigned on 30 September 2015) | – | 2,568 | 14 | 2,582 |
| Mr. Fu Yong Yuan (resigned on 30 September 2015) | – | 831 | 14 | 845 |
| **Non-executive directors:** | | | | |
| Mr. Fan Qinghua *(Chairman)* | 250 | – | – | 250 |
| Mr. Hu Zhong Shan (resigned on 30 September 2015) | 188 | – | – | 188 |
| **Independent non-executive directors:** | | | | |
| Mr. Lau Fai Lawrence | 240 | – | – | 240 |
| Ms. Xiang Siying (appointed on 23 July 2015) | 98 | – | – | 98 |
| Mr. Hu Hongwei (appointed on 11 November 2015) | 28 | – | – | 28 |
| Ms. Hsu Wai Man Helen (appointed on 18 December 2015) | 8 | – | – | 8 |
| Mr. Foo Meng Kee (resigned on 30 September 2015) | 195 | – | – | 195 |
| Mr. Cheung Hok Fung Alexander (resigned on 21 March 2015) | 53 | – | – | 53 |
| Mr. Lau Yiu Kit (appointed on 23 March 2015 and resigned on 30 September 2015) | 126 | – | – | 126 |
| **Total** | 1,186 | 8,134 | 69 | 9,389 |

## 10. DIRECTORS' REMUNERATION (Continued)

The emoluments of the Directors for the year ended 31 December 2014 are set out below.

| | Fees HK$'000 | Salaries, allowances and benefits-in-kind HK$'000 | Pension scheme contributions HK$'000 | Total emoluments HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Mr. Zhao Xu Guang *(Chairman)** | – | 3,800 | 17 | 3,817 |
| Mr. Tang Chao Zhang* | – | 1,200 | 17 | 1,217 |
| Mr. Wong Siu Hung Patrick | – | 3,678 | 17 | 3,695 |
| Mr. Fu Yong Yuan | – | 1,200 | 17 | 1,217 |
| **Non-executive directors:** | | | | |
| Mr. Hu Zhong Shan | 250 | – | – | 250 |
| Mr. Fan Qinghua | 250 | – | – | 250 |
| **Independent non-executive directors:** | | | | |
| Mr. Foo Meng Kee | 260 | – | – | 260 |
| Mr. Lau Fai Lawrence (appointed on 13 March 2014) | 193 | – | – | 193 |
| Mr. Cheung Hok Fung Alexander (appointed on 24 March 2014 and resigned on 21 March 2015) | 186 | – | – | 186 |
| Mr. John William Crawford (contract expired on 27 February 2014) | 59 | – | – | 59 |
| Mr. Abraham Shek Lai Him (contract expired on 27 February 2014) | 40 | – | – | 40 |
| **Total** | 1,238 | 9,878 | 68 | 11,184 |

* Mr. Zhao Xu Guang ceased to act as chief executive on 16 September 2015. Mr. Tang Chao Zhang was appointed as chief executive on 16 September 2015.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

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

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2014: four) directors, details of whose remuneration is disclosed in note 10 above. There is no remaining highest paid non-director for the year ended 31 December 2015. Details of the remuneration of the remaining one non-director, highest paid employee who is neither a director or senior management of the Company for the year ended 31 December 2014 are as follows:

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits-in-kind | **–** | 650 |
| Pension scheme contributions | **–** | 17 |
| | **–** | 667 |

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

| | **Number of employees** | |
|---|---|---|
| | **2015** | 2014 |
| HK$500,001 to HK$1,000,000 | **–** | 1 |
| | **–** | 1 |

During the years ended 31 December 2015 and 2014, no emoluments have been paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group as compensation for loss of office.

## 12. INCOME TAX CREDIT

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

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

| | **2015** | 2014 |
|---|---|---|
| Hong Kong | **16.5%** | 16.5% |
| Singapore | **17.0%** | 17.0% |
| Mainland China | **25.0%** | 25.0% |

### Hong Kong

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong for the year ended 31 December 2015 (2014: HK$Nil).

### Singapore

No provision for taxation has been made as the subsidiaries in Singapore did not generate any assessable profit for the year ended 31 December 2015 (2014: HK$Nil).

## 12. INCOME TAX CREDIT (Continued)

**Mainland China**

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Regulation in the Implementation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

| | Notes | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| Current tax: | | | |
| Hong Kong: | | | |
| Underprovision in prior years | | **–** | 14 |
| | | **–** | 14 |
| Deferred tax: | | | |
| Credit for the year | 35 | **(126)** | (127) |
| | | **(126)** | (113) |

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

| | Notes | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| (Loss)/profit before tax | | **(243,136)** | 3,778,032 |
| Tax at the statutory tax rates | | **(58,686)** | 608,295 |
| Adjustments in respect of current tax of previous periods | | **–** | 14 |
| Income not subject to tax | | **(11,962)** | (724,209) |
| Expenses not deductible for tax | | **69,293** | 114,558 |
| Income tax credit at the Group's effective rate | | **(1,355)** | (1,342) |
| Represented by: | | | |
| Tax credit attributable to continuing operations | | **(126)** | (113) |
| Tax credit attributable to discontinued operation | 6(b) | **(1,229)** | (1,229) |
| | | **(1,355)** | (1,342) |

## 12. INCOME TAX CREDIT (Continued)

**Income tax recognised in other comprehensive income**

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Deferred tax | | | |
| Arising on income and expenses recognised in other comprehensive income: | | | |
| Revaluation of investment property | 35 | – | 34,219 |
| Total income tax recognised in other comprehensive income | | – | 34,219 |

## 13. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

**From continuing and discontinued operations**

The calculation of the basic and diluted (loss)/earnings per Share attributable to owners of the Company is based on the following data:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| **(Loss)/earnings** | | |
| (Loss)/earnings for the purpose of basic (loss)/earnings per Share | | |
| (Loss)/profit for the year attributable to owners of the Company | **(241,781)** | 3,779,374 |
| Effect of dilutive potential ordinary shares: | | |
| Dividends on Titan preferred shares (Note) | – | 14,607 |
| (Loss)/earnings for the purpose of diluted (loss)/earnings per Share | **(241,781)** | 3,793,981 |

**Number of shares**

| | 2015 | 2014 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per Share | **7,820,554,682** | 7,820,554,682 |
| Effect of dilutive potential ordinary shares: | | |
| Titan preferred shares (Note) | – | 555,000,000 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per Share | **7,820,554,682** | 8,375,554,682 |

## 13. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (Continued)

### From continuing operations

The calculation of the basic and diluted (loss)/earnings per Share from continuing operations attributable to owners of the Company is based on the following data:

(Loss)/earnings figures are calculated as follows:

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| (Loss)/profit for the year attributable to owners of the Company | **(241,781)** | 3,779,374 |
| Add: | | |
| Loss for the year from discontinued operation | **209,796** | 166,463 |
| (Loss)/earnings for the purpose of basic (loss)/earnings per Share from continuing operations | **(31,985)** | 3,945,837 |
| Effect of dilutive potential ordinary shares: | | |
| Dividends on Titan preferred shares (Note) | **–** | 14,607 |
| (Loss)/earnings for the purpose of diluted (loss)/earnings per Share from continuing operations | **(31,985)** | 3,960,444 |

Note:

As the Company failed to redeem the Titan preferred shares, the convertible right was deemed to continue for the purpose of calculating diluted (loss)/earnings per Share. No adjustment have been made to the basic loss per Share amounts presented for the year ended 31 December 2015 as the Titan preferred shares outstanding had an anti-dilutive effect on the basic loss per Share amounts presented.

The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per Share.

### From discontinued operation

Basic loss per Share for the discontinued operation is HK2.68 cents per Share (2014: HK2.12 cents) and diluted loss per Share for the discontinued operation is HK2.68 cents per Share (2014: HK1.99 cents), based on the loss for the year from the discontinued operation of HK$209,796,000 (2014: HK$166,463,000) and the denominators detailed above for both basic and diluted (loss)/earnings per Share.

## 14. PROPERTY, PLANT AND EQUIPMENT

| 31 December 2015 | Leasehold improvements HK$'000 | Furniture, equipment and motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2014 and 1 January 2015: | | | |
| Cost | 3,277 | 11,786 | 15,063 |
| Accumulated depreciation and impairments | (3,127) | (8,798) | (11,925) |
| Net carrying amount | 150 | 2,988 | 3,138 |
| At 1 January 2015, net of accumulated depreciation and impairments | 150 | 2,988 | 3,138 |
| Additions | – | 54 | 54 |
| Depreciation provided during the year | (58) | (924) | (982) |
| Exchange realignments | – | (58) | (58) |
| At 31 December 2015, net of accumulated depreciation and impairments | 92 | 2,060 | 2,152 |
| At 31 December 2015: | | | |
| Cost | 3,277 | 11,524 | 14,801 |
| Accumulated depreciation and impairments | (3,185) | (9,464) | (12,649) |
| Net carrying amount | 92 | 2,060 | 2,152 |

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

| 31 December 2014 | Leasehold improvements HK$'000 | Furniture, equipment and motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2013 and 1 January 2014: | | | |
| Cost | 3,895 | 16,773 | 20,668 |
| Accumulated depreciation and impairments | (3,648) | (12,233) | (15,881) |
| Net carrying amount | 247 | 4,540 | 4,787 |
| At 1 January 2014, net of accumulated depreciation and impairments | 247 | 4,540 | 4,787 |
| Additions | – | 29 | 29 |
| Disposals/written off | – | (452) | (452) |
| Depreciation provided during the year | (96) | (1,120) | (1,216) |
| Exchange realignments | (1) | (9) | (10) |
| At 31 December 2014, net of accumulated depreciation and impairments | 150 | 2,988 | 3,138 |
| At 31 December 2014: | | | |
| Cost | 3,277 | 11,786 | 15,063 |
| Accumulated depreciation and impairments | (3,127) | (8,798) | (11,925) |
| Net carrying amount | 150 | 2,988 | 3,138 |

## 15. INVESTMENT PROPERTY

| | Notes | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| FAIR VALUE | | | |
| At 1 January | | **166,223** | – |
| Transfer from prepaid land/seabed lease payments | 16 | **–** | 24,275 |
| Revaluation gain of prepaid land/seabed lease payments upon reclassification to investment property | | **–** | 142,324 |
| Loss arising on change in fair value of investment property | | **(505)** | (510) |
| Exchange realignments | | **(9,564)** | 134 |
| At 31 December | | **156,154** | 166,223 |
| Unrealised loss on property revaluation included in profit or loss | | **505** | 510 |

The Group's property interests held under operating leases for investment purpose are measured using the fair value model and are classified and accounted for as investment property. That investment property is held on a long-term basis and is situated in Mainland China.

In the prior year, a piece of land located in Fujian, subsequent to initial recognition, was stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation was recognised so as to write off the cost of land over its estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. According to the Board resolution dated 2 May 2014, the use of the land in Fujian changed from own use to investment purpose. As a result, the land has been reclassified as an investment property and the measurement method subsequent to initial recognition has been changed to fair values. Any change in fair value of the land after reclassification is included in profit or loss for the year in which they arise.

At 31 December 2015, the investment property under the consolidated statement of financial position with an aggregate net carrying value of HK$156,154,000 (2014: HK$166,223,000) were pledged to the interest-bearing bank and other loans granted to the Group (note 24).

## 15. INVESTMENT PROPERTY (Continued)

The fair value of the investment property is determined at the end of each reporting period based on its market value and by adopting direct comparison method. Direct comparison method assumes the property is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

The fair values of the Group's investment property as at 31 December 2015 and 2014 have been arrived at on the basis of a valuation carried out on the respective dates by an independent valuer not connected to the Group. The investment property located in Mainland China with medium term lease categorised as Level 2 fair value measurement was determined by making reference to the comparable market transactions/asking prices as available in the relevant markets where appropriate. The fair value less costs to sell being the recoverable amount was within the Level 2 of the fair value hierarchy.

There were no transfers among Level 1, Level 2 and Level 3.

Property valuation as at 31 December 2015 was carried out by Access Partner Consultancy & Appraisals Limited, an independent qualified professional valuer, in respect of the Group's investment property in Mainland China.

The valuation report for the property as at 31 December 2015 is signed by the associate director of Access Partner Consultancy & Appraisals Limited, who is the member of The Hong Kong Institute of Surveyors. The valuation was performed in accordance with "The HKIS Valuation Standards 2012 Edition" published by The Hong Kong Institute of Surveyors.

## 16. PREPAID LAND/SEABED LEASE PAYMENTS

| | Notes | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|---|
| At 1 January | | **–** | 24,558 |
| Amortisation provided during the year | | **–** | (185) |
| Transfer to investment property | 15 | **–** | (24,275) |
| Exchange realignments | | **–** | (98) |
| At 31 December | | **–** | – |

## 17. LICENSES

| | HK$'000 |
|---|---|
| **31 December 2015** | |
| At 1 January 2015 and 31 December 2015, net of accumulated amortisation and impairments | **–** |
| At 31 December 2015: | |
| Cost | **–** |
| Accumulated amortisation and impairments | **–** |
| Net carrying amount | **–** |
| At 31 December 2014: | |
| Cost | – |
| Accumulated amortisation and impairments | – |
| Net carrying amount | – |

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

During the year ended 31 December 2014, the subsidiary which hold the licenses was placed into liquidation on 25 April 2014 and accordingly, the cost and accumulated amortisation of the licenses were written off.

## 18. GOODWILL

| | HK$'000 |
|---|---|
| **31 December 2015** | |
| At 1 January 2015 and 31 December 2015, net of accumulated impairments | **–** |
| At 31 December 2015: | |
| Cost | **16,568** |
| Accumulated impairments | **(16,568)** |
| Net carrying amount | **–** |
| At 31 December 2014: | |
| Cost | 16,568 |
| Accumulated impairments | (16,568) |
| Net carrying amount | – |

## 18. GOODWILL (Continued)

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

| | Oil supply | | Shipbuilding and ship repair | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Carrying amount | **–** | – | **–** | – | **–** | – |

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

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

## 19. INVENTORIES

At 31 December 2015, the Group had supplies of HK$42,053,000 (2014: HK$44,627,000) for shipbuilding and building of ship repair facilities operations, which amount is included in assets of a disposal group classified as held for sale at 31 December 2015 as set out in note 6(b).

## 20. ACCOUNTS RECEIVABLE

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accounts receivable | **1,616** | 1,627 |
| Impairments | **(1,616)** | (1,627) |
| | **–** | – |

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

There is no aged analysis of accounts receivable as at 31 December 2015 and 2014, as the accounts receivable were fully impaired.

## 20. ACCOUNTS RECEIVABLE (Continued)

The movements in the provision for impairments of accounts receivable are as follows:

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| At 1 January | | **1,627** | 14,259 |
| Released upon deconsolidation of subsidiaries | | **–** | (12,812) |
| Impairment losses recognised | 9 | **–** | 180 |
| Exchange realignments | | **(11)** | – |
| At 31 December | | **1,616** | 1,627 |

Included in the above impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$1,616,000 (2014: HK$1,627,000) with a carrying amount before provision of HK$1,616,000 (2014: HK$1,627,000). The Group does not hold any collateral or other credit enhancements over these balances.

There is no aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired as the accounts receivable were fully impaired.

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there has been no recent history of default and expected to be recovered in full.

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

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Receivables from the liquidator of Titan Group Investment Limited ("TGIL") | **103,360** | 137,813 |
| Receivable – Escrow account (Note a) | **34,452** | – |
| Prepayment of expenses | **4,422** | 3,047 |
| Deposits | **1,220** | 1,081 |
| Others | **3,472** | 3,614 |
| | **146,926** | 145,555 |

Note:

a) As at 31 December 2015, included in the Receivable – Escrow account was the dividend received from liquidator of TGIL of HK$34,452,000 during 2015, being placed into an escrow account nominated by the JPLs pursuant to an order dated 14 February 2014. Further detail in respect of the above arrangement is included in the Company's announcement dated 18 February 2014.

During the year ended 31 December 2015, the Group did not recognise any impairment loss (2014: HK$2,361,000) on prepayments, deposits and other receivables in continuing operations, based on estimated irrecoverable amounts determined by reference to past experience.

## 22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Cash and bank balances | **9,869** | 1,315 |
| Restricted cash | **26,547** | 26,520 |
| | **36,416** | 27,835 |
| Less: Restricted cash: | | |
| Bank balances | **(19)** | (19) |
| Time deposit | **(26,528)** | (26,501) |
| | **(26,547)** | (26,520) |
| Cash and cash equivalents | **9,869** | 1,315 |

At 31 December 2015, including those classified under assets of a disposal group classified as held for sale, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$999,000 (2014: HK$387,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are usually made for one week, and earn interest at the market short term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent default history.

## 23. NON-CASH TRANSACTIONS

In addition to non-cash transactions disclosed elsewhere in these consolidated financial statements, the Group entered into the following non-cash financing activities which are not reflected in the consolidated statement of cash flows:

a) During the year ended 31 December 2015, a loan from the immediate holding company was paid and settled from the immediate holding company directly to a third party payable amounting to HK$1,950,000. This constituted a non-cash transaction in 2015.

b) During the year ended 31 December 2014, an entrusted loan included in liabilities directly associated with the assets classified as held for sale amounting to RMB360,000,000 (equivalent to approximately HK$458,692,000) was fully settled by a pledged deposit of the same amount held under a subsidiary of the Company. This constituted a non-cash transaction in 2014.

## 24. INTEREST-BEARING BANK AND OTHER LOANS

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank and other loans – unsecured | **0.00** | **2012** | **5,850** | 0.00 | 2012 | 5,850 |
| | | | **5,850** | | | 5,850 |

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Interest-bearing bank and other loans repayable: | | |
| Within one year | **5,850** | 5,850 |

As at 31 December 2015, the Group, including those classified as held for sale, was in default on repayment of an unsecured bank borrowing with overdue portion in principal amount of HK$5,850,000 (2014: HK$5,850,000). The Company was continually in discussions with the bank on the terms of the settlement of such defaulted loan.

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

i) investment property with an aggregate carrying value of HK$156,154,000 (2014: HK$166,223,000).

ii) buildings with an aggregate net carrying value of HK$52,795,000 (2014: HK$58,086,000); and

iii) prepaid land/seabed lease payments with an aggregate net carrying value of HK$8,673,000 (2014: HK$9,258,000);

The carrying amounts of the Group's current and floating rate loans approximate to their fair values.

## 25. ACCOUNTS PAYABLE

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

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

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Over 12 months | **217,731** | 217,731 |
| | **217,731** | 217,731 |

## 26. OTHER PAYABLES AND ACCRUALS

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Amounts due to deconsolidated subsidiaries | | **388,139** | 390,121 |
| Amounts due to a deconsolidated jointly-controlled entity | | **164,606** | 174,665 |
| Financial guarantee contracts | 27 | **113,155** | 113,155 |
| Receipt in advance | | **23,400** | 23,400 |
| Provision and accrual of expenses | | **4,677** | 6,831 |
| Others | | **48,873** | 65,928 |
| | | **742,850** | 774,100 |

Included in the other payables and accruals as at 31 December 2015 was a provision related to a claim from a former director against the Company amounted to approximately HK$1,167,000 (2014: HK$Nil).

## 27. FINANCIAL GUARANTEE CONTRACTS

At 31 December 2015, the carrying value of financial guarantee contracts arising from financial guarantees granted by the Company to (i) a bank for a loan to a subsidiary of the Group, (ii) shipowners for charter hire expenses of a subsidiary of the Group which was put into liquidation in 2014 and (iii) the K-Line Notes Due 2013, aggregated amounted to HK$321,996,000 (2014: HK$321,996,000). During the year ended 31 December 2014, TSL, a deconsolidated subsidiary of the Group, was placed into the liquidation. The Group had deconsolidated TSL as the Directors considered that the Group's control over TSL had been lost. Accordingly, the financial guarantees of HK$113,155,000 provided by the Company to TSL in respect of charter expenses of vessels were no longer considered as the guarantees to the subsidiary of the Group. It was recognised as financial guarantee contracts under "Other payables and accruals" in the consolidated statement of financial position as set out in note 26. The remaining financial guarantee contracts amounting to HK$208,841,000 (2014: HK$208,841,000) are eliminated on consolidation and are reflected in the Company's statement of financial position as set out in note 50(a).

## 28. FIXED RATE GUARANTEED SENIOR NOTES (THE "SENIOR NOTES DUE 2012")

Pursuant to an indenture dated 17 March 2005 entered into by the Company, together with certain subsidiaries of the Company, which guarantee the issue of the Senior Notes Due 2012 (the "Subsidiary Guarantors") with Deutsche Bank Trust Company Americas as the original trustee and the trustee subsequently changed to the Bank of New York Mellon in 2010, the Company issued the Senior Notes Due 2012 in the aggregate principal amount of US$400,000,000 (equivalent to approximately HK$3,120,000,000) with directly attributable transaction costs of HK$90,709,000. The Senior Notes Due 2012 were due on 18 March 2012 with a lump sum repayment, unless redeemed earlier pursuant to specified terms. The Senior Notes Due 2012 bear interest at the rate of 8.5% per annum, payable semi-annually in arrears on 18 March and 18 September each year, commencing on 18 September 2005, and are listed on the Singapore Exchange Securities Trading Limited.

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

On the maturity date, 19 March 2012, the Company was unable to repay overdue principal and interest on the Senior Note Due 2012 in the amount of US$105,870,000 (equivalent to approximately HK$825,786,000) and US$4,499,000 (equivalent to approximately HK$35,092,000) respectively.

## 28. FIXED RATE GUARANTEED SENIOR NOTES (THE "SENIOR NOTES DUE 2012") (Continued)

As a result of the above, a cross default was triggered in respect of a bilateral loan with a financial institution in an outstanding principal amount of US$750,000 (equivalent to approximately HK$5,850,000). An early redemption event was also triggered in respect of the Titan preferred shares and the TGIL convertible preferred shares (the "TGIL preferred shares") and caused the TGIL warrants issued to Saturn Storage Limited ("SSL") to become exercisable.

The Senior Notes Due 2012, Convertible Notes Due 2015 and PIK Notes Due 2015 are collectively defined as "Existing Notes".

Pursuant to a Bermudan scheme of arrangement (the "Creditors' Scheme"), all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US$1.00 of the amount of their claims arising under the Existing Notes:

i) US$0.10 in cash and US$0.30 in new Shares to be issued by the Company; or

ii) US$0.20 in cash and US$0.10 in new Shares to be issued by the Company.

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors' committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 1 September 2014.

On 22 October 2014, separate meetings of Existing Notes Creditors and of Non-Note Creditors (as defined in the Creditors' Scheme) (the "Scheme Meetings") were held to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of all creditors of the Company bound by the Creditors' Scheme (the "Scheme Creditors") present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

On 5 November 2014 (Bermuda time), the Creditors' Scheme was sanctioned by the Bermuda Court. The Creditors' Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

## 28. FIXED RATE GUARANTEED SENIOR NOTES (THE "SENIOR NOTES DUE 2012") (Continued)

Pursuant to the terms of the Creditors' Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors' Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors' Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 12 November 2014.

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors' Scheme (as set out in the Creditors' Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company's announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

The effective interest rate on the Senior Notes Due 2012 was 0.00% per annum in 2015 (2014: 0.00%). The outstanding principal in respect of the Senior Notes Due 2012 as at 31 December 2015 was US$105,870,000 (equivalent to approximately HK$825,786,000) (2014: US$105,870,000 (equivalent to approximately HK$825,786,000)), while the fair value of the Senior Notes Due 2012 as at 31 December 2015 and 2014 was US$5,722,000 (equivalent to approximately HK$44,634,000) and US$9,528,000 (equivalent to approximately HK$74,321,000), respectively.

Except for the reversal of overprovision of interest on Senior Notes Due 2012 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

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

The Company issued US$78,728,000 (equivalent to approximately HK$614,078,000) aggregate principal amount of the Convertible Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered the Senior Notes Due 2012. The Convertible Notes Due 2015 were due on 13 July 2015 with a single repayment at 151.621% of their principal amount, unless earlier redeemed, repurchased or purchased by the Company or converted. The Convertible Notes Due 2015 bear no interest, and are listed on the Singapore Exchange Securities Trading Limited. Holders of the Convertible Notes Due 2015 are entitled to convert their Convertible Notes Due 2015 with a minimum principal amount of US$1,000 or integral multiples of US$500 in excess thereof based on an initial conversion rate of 10,915 conversion shares per US$1,000 in principal amount of the Convertible Notes Due 2015, subject to adjustments. This implies an initial conversion price (subject to adjustments) of US$0.0916 (equivalent to approximately HK$0.7145) per conversion share. Conversion may occur on any day prior to (and including) the seventh business day prior to the maturity date of the Convertible Notes Due 2015.

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

## 29. GUARANTEED SENIOR CONVERTIBLE NOTES (THE "CONVERTIBLE NOTES DUE 2015") (Continued)

On 31 December 2015, the outstanding principal of the Convertible Notes Due 2015 was US$47,960,000 (equivalent to approximately HK$374,088,000) (2014: US$47,960,000 (equivalent to approximately HK$374,088,000)).

On 6 September 2012, an event of default occurred under the Convertible Notes Due 2015 upon the winding up petition against the Company remained undismissed or unstayed for a period of 60 consecutive days as set out in note 42.

Pursuant to the Creditors' Scheme, all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US$1.00 of the amount of their claims arising under the Existing Notes:

i) US$0.10 in cash and US$0.30 in new Shares to be issued by the Company; or

ii) US$0.20 in cash and US$0.10 in new Shares to be issued by the Company.

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors' committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 1 September 2014.

On 22 October 2014, the Scheme Meetings were held to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

On 5 November 2014 (Bermuda time), the Creditors' Scheme was sanctioned by the Bermuda Court. The Creditors' Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

Pursuant to the terms of the Creditors' Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors' Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors' Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 12 November 2014.

## 29. GUARANTEED SENIOR CONVERTIBLE NOTES (THE "CONVERTIBLE NOTES DUE 2015") (Continued)

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors' Scheme (as set out in the Creditors' Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company's announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

During the years ended 31 December 2015 and 2014, none of the Convertible Notes Due 2015 were converted into ordinary shares.

The Convertible Notes Due 2015 comprise a financial liability at amortised cost and an embedded derivative. The effective interest rate on the Convertible Notes Due 2015 was 0.00% per annum in 2015 (2014: 0.00%).

Except for the reversal of overprovision of interest on Convertible Notes Due 2015 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

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

The Company issued US$14,193,000 (equivalent to approximately HK$110,705,000) aggregate principal amount of the PIK Notes Due 2015 on 28 July 2010 (27 July 2010, New York City Time) in exchange for tendered the Senior Notes Due 2012. The PIK Notes Due 2015 were due on 13 July 2015 with a single repayment of the principal, unless earlier repurchase pursuant to the terms of the PIK Notes Due 2015 indenture. The PIK Notes Due 2015 bear interest at the rate of 8.50% per annum payable semi-annually in arrears commencing on 13 January 2011 either by cash or in the form of additional PIK Notes Due 2015, and are listed on the Singapore Exchange Securities Trading Limited.

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

On 6 September 2012, an event of default under the terms of the PIK Notes Due 2015 occurred upon the winding up petition against the Company remained undismissed or unstayed for a period of 60 consecutive days as set out in note 42.

Pursuant to the Creditors' Scheme, all liabilities of the Company owed in respect of the Existing Notes will be compromised and discharged in exchange for the payment of scheme consideration in the form of, for every US$1.00 of the amount of their claims arising under the Existing Notes:

i) US$0.10 in cash and US$0.30 in new Shares to be issued by the Company; or

ii) US$0.20 in cash and US$0.10 in new Shares to be issued by the Company,

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

On 14 August 2014, the Company and certain beneficial owners of the Existing Notes constituting the informal creditors' committee entered into an agreement, pursuant to which those creditors agreed that their claims under the Existing Notes would be compromised under the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 1 September 2014.

On 22 October 2014, the Scheme Meetings were held to consider and approve the Creditors' Scheme. At both Scheme Meetings, a majority in number of the Scheme Creditors present and voting (in person or by proxy), representing not less than three-fourths in value of the accepted claims of Scheme Creditors present and voting (either in person or by proxy), voted in favour of the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

On 5 November 2014 (Bermuda time), the Creditors' Scheme was sanctioned by the Bermuda Court. The Creditors' Scheme became effective and binding on the Company and all Scheme Creditors on the same date, upon a copy of the order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

Pursuant to the terms of the Creditors' Scheme, on 12 November 2014, the Company gave notice to all Scheme Creditors that the Bar Time (as defined in the Creditors' Scheme) shall be 5:00 p.m. (Hong Kong time) on 5 February 2015; any Scheme Creditors who failed to submit an account holder letter (for each Existing Notes Creditor) or notice of claim (for each Non-Note Creditor) prior to that time would have no entitlement to scheme consideration under the Creditors' Scheme, yet would have their claims against the Company compromised and discharged in accordance with the terms of the Creditors' Scheme. Further details in respect of the above are included in the Company's announcement dated 12 November 2014.

At the hearings on 6 March 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court agreed to extend the long stop date for completion of the Creditors' Scheme (as set out in the Creditors' Scheme) to 31 July 2015, 31 August 2015, 30 September 2015, 20 November 2015, 8 January 2016, 11 March 2016 and then 1 April 2016, respectively. Further details in respect of above are included in the Company's announcements on 9 March 2015, 30 July 2015, 17 August 2015, 8 December 2015, 18 January 2016 and 16 March 2016.

The PIK Notes Due 2015 are carried at amortised cost with an effective interest rate of 0.00% per annum in 2015 (2014: 0.00%). At 31 December 2015, the outstanding principal of the PIK Notes Due 2015 was US$10,912,751 (equivalent to approximately HK$85,119,458) (2014: US$10,912,751 (equivalent to approximately HK$85,119,458)).

Except for the reversal of overprovision of interest on PIK Notes Due 2015 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

## 31. CONVERTIBLE PREFERRED SHARES

| | Notes | Equity portion HK$'000 | Liability portion HK$'000 |
|---|---|---|---|
| **Titan preferred shares** | | | |
| At 1 January 2014 | | – | 406,110 |
| Add: Dividends on Titan preferred shares (classified as financial liabilities) | 8 | – | 14,607 |
| At 31 December 2014 and 1 January 2015 | | **–** | **420,717** |
| Add: Dividends on Titan preferred shares (classified as financial liabilities) | 8 | **–** | **14,608** |
| At 31 December 2015 | | **–** | **435,325** |

In 2007, the Company issued 555,000,000 Titan preferred shares at the stated value of HK$0.56 per share. The fair values of the liability portion of the Titan preferred shares was estimated at the issuance date.

On 4 July 2012, the Company received from SPHL a notice to redeem all of the outstanding 555,000,000 Titan preferred shares held by it at a redemption amount equal to the notional value of the Titan preferred shares (being HK$310,800,000) together with any accrued and unpaid dividends.

On 10 October 2013, SPHL entered into certain arrangements, including the execution of an instrument of transfer, a declaration of trust and an irrevocable power of attorney by SPHL in favour of Docile Bright Investments Limited ("DBIL"), a wholly owned subsidiary of GZE whereby DBIL became entitled to the benefit of all interests arising under or in connection with the Titan preferred shares.

The Company and DBIL (as the lawful attorney of SPHL) subsequently entered into a deed dated 22 August 2014 (as supplemented and amended on 27 February 2015, 28 May 2015, 30 July 2015 and 16 October 2015) (the "Listco Preferred Shares Modification Deed") in relation to, among others, the extension of the redemption period of the Titan Preferred Shares and the restriction of the conversion of the Titan Preferred Shares. The Listco Preferred Shares Modification Deed will be conditional upon the fulfillment of certain conditions.

As disclosed in the Company's announcements dated 28 May 2015, 7 August 2015 and 5 November 2015, on 28 May 2015, 30 July 2015 and 16 October 2015, the Company and DBIL entered into supplemental agreements, pursuant to which the parties agreed to extend the long stop date for the satisfaction of the conditions under the Listco Preferred Shares Modification Deed to 31 July 2015, 31 August 2015 and 30 April 2016 respectively.

Further details in respect of the above was included in the announcement on 5 November 2015. Further announcement(s) will be made by the Company as and when appropriate.

## 32. NOTES PAYABLE (THE "K-LINE NOTES DUE 2013")

On 5 August 2008, the Group signed an agreement with Kawasaki Kisen Kaisha, Ltd. ("K-Line") for K-Line to purchase notes for US$25,000,000 (equivalent to approximately HK$195,000,000) with an interest rate of 1% per annum. Prior to 31 March 2013, at the sole option of the Company, the notes were exchangeable for up to 5% of the issued share capital of one of its subsidiaries, Titan TQSL, which holds Titan Quanzhou Shipyard in Mainland China.

At maturity, the notes are required to be repaid in full in cash equal to the greater of (i) 110% of the principal amount plus all accrued but unpaid interest; and (ii) the fair market value of 5.5% of the issued share capital of Titan TQSL on a fully diluted basis (the "Applicable Redemption Amount"). The Group had the right to redeem the notes in full prior to maturity date at the Applicable Redemption Amount, while K-Line had a right of early redemption at the Applicable Redemption Amount in the event of a change of control.

The K-Line Notes Due 2013 comprised a financial liability at amortised cost and an embedded derivative. As at 31 December 2015, the fair value of the embedded derivatives asset was HK$Nil (2014: HK$Nil).

On 31 March 2013, the Company did not redeem the K-Line Notes Due 2013 in full at cash at the Applicable Redemption Amount.

On 17 April 2014, K-Line, Titan Shipyard Holdings Limited ("Shipyard Holdings") and the Company entered into a support agreement, pursuant to which K-Line agreed to support the Restructuring and the Creditors' Scheme and agreed to effect the compromise of its claims in respect of the K-Line Notes Due 2013 either within the Creditors' Scheme or pursuant to a separate settlement agreement conditional upon the Creditors' Scheme becoming effective. On 8 October 2014, the same parties entered into a settlement agreement whereby K-Line agreed to accept a payment equivalent to US$0.1 in cash in respect of every US$1.00 of the principal outstanding under the K-Line Notes Due 2013 and interest as at 9 July 2012.

Except for the reversal of overprovision of interest on K-Line Notes Due 2013 for prior years in 2014, the Company has not recognised any gain derived from the Creditors' Scheme for the years ended 31 December 2015 and 2014.

## 33. AMOUNTS DUE TO THE ULTIMATE/IMMEDIATE HOLDING COMPANY

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| **Current** | | |
| Amounts due to the ultimate holding company | | |
| – Partial receipt of the disposal consideration of Titan Quanzhou Shipyard | **888,875** | 943,291 |
| – Interest payable | **9,979** | 4,212 |
| | **898,854** | 947,503 |
| Amount due to the immediate holding company | | |
| – Interest payable | **2,526** | 87 |
| | **901,380** | 947,590 |
| **Non-current** | | |
| Amount due to the immediate holding company | | |
| – Interest payable | **–** | 456 |

Interest payable to the ultimate holding company were unsecured, interest-free and settled within one year. Other amounts due to the ultimate holding company was unsecured, interest-free and had no fixed terms of repayment.

Amount due to the immediate holding company was unsecured, interest-free and settled within one year.

## 34. LOANS FROM THE ULTIMATE/IMMEDIATE HOLDING COMPANY

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Unsecured loan | | | | | | |
| – immediate holding company (Note b) | **2.0** | **Repayable on demand** | **3,000** | 2.00 | Repayable on demand | 3,000 |
| | | | **3,000** | | | 3,000 |
| **Non-current** | | | | | | |
| Unsecured loans | | | | | | |
| – ultimate holding company (Note a) | **6.24** | **2021-2022** | **96,392** | 6.09-7.03 | 2021-2022 | 102,293 |
| – immediate holding company (Note b) | **2.00** | **2017-2018** | **140,240** | 2.00 | 2016 | 48,681 |
| | | | **236,632** | | | 150,974 |

## 34. LOANS FROM THE ULTIMATE/IMMEDIATE HOLDING COMPANY (Continued)

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loans repayable: | | |
| Within one year or repayable on demand | **3,000** | 3,000 |
| In the second to fifth years, inclusive | **217,353** | 110,057 |
| After five years | **19,279** | 40,917 |
| | **239,632** | 153,974 |

Notes:

a) The loans from the ultimate holding company denominated in RMB with the amount of RMB80,247,000 (equivalent to approximately HK$96,392,000) (2014: RMB80,247,000 (equivalent to approximately HK$102,293,000)) are unsecured, repayable beyond one year and carry an interest rate at basic lending rate of the People's Bank of China under same period and same grade per annum.

b) i) On 12 March 2013, the Company entered into a loan agreement with Fame Dragon pursuant to which Fame Dragon agreed to provide interim financing on request of the Company of up to approximately HK$62,240,000 at an interest rate of 2% per annum payable on maturity (the "First Loan Agreement"), subject to the dismissal, stay or adjournment of the hearing of the SPHL Petition and the application of provisional liquidators, in order to allow time for the Company to implement the debt restructuring proposal. Details of the above was set out in the Company's announcement dated 15 March 2013.

However, certain events of default occurred under the First Loan Agreement, most notably the appointment of Mr. Garth Calow and Ms. Alison Tomb as the JPLs of the Company with limited powers on 18 October 2013 (Bermuda time). Accordingly, the loans from the immediate holding company under the First Loan Agreement of HK$3,000,000 were then presented as current liabilities as at 31 December 2015 and 2014.

ii) On 13 March 2014, the Company entered into a loan agreement with Fame Dragon pursuant to which Fame Dragon agreed to provide an interim financing on request of the Company of up to approximately HK$62,240,000 at an interest rate of 2% per annum payable on maturity (the "Second Loan Agreement") subject to certain conditions precedent being satisfied. Details of the Second Loan Agreement were set out in the Company's announcement dated 11 March 2014. As at 31 December 2015, the loans from the immediate holding company under the Second Loan Agreement of HK$62,240,000 (31 December 2014: HK$48,681,000) were repayable beyond one year.

iii) On 27 February 2015, the Company entered into another loan agreement with Fame Dragon in relation to the provision of an uncommitted term loan of US$10,000,000 at an interest rate of 2% per annum by Fame Dragon to the Company (the "2015 Loan Agreement"). As at 31 December 2015, the loans from the immediate holding company under the 2015 Loan Agreement of HK$78,000,000 (31 December 2014: HK$Nil) were repayable beyond one year.

c) The loans from the ultimate holding company denominated in RMB with the amount of RMB1,531,803,000 (equivalent to approximately HK$1,839,975,000) (2014: RMB1,526,742,000 (equivalent to approximately HK$1,946,165,000)) classified as disposal group held for sale (note 6(b)) are repayable beyond one year and carry an interest rate at the basic lending rate of the People's Bank of China per annum, in which RMB1,526,742,000 (equivalent to approximately HK$1,833,896,000) (2014: RMB1,526,742,000 (equivalent to approximately HK$1,946,165,000)) are secured by:

i) construction in progress with an aggregate carrying value of HK$785,296,000 (2014: HK$833,371,000);

ii) prepaid land/seabed lease payments with an aggregate net carrying value of HK$246,138,000 (2014: HK$256,299,000);

iii) buildings with an aggregate net carrying value of HK$382,451,000 (2014: HK$380,174,000); and

iv) machinery with an aggregate net carrying value of HK$83,513,000 (2014: HK$118,659,000).

## 34. LOANS FROM THE ULTIMATE/IMMEDIATE HOLDING COMPANY (Continued)

Notes: (Continued)

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Loans from the ultimate holding company | **96,392** | 102,293 | **116,875** | 107,528 |
| Loans from the immediate holding company | **140,240** | 48,681 | **148,350** | 49,965 |
| | **236,632** | 150,974 | **265,225** | 157,493 |

The fair values of the loans from the ultimate holding company and immediate holding company of the Group are estimated by discounting the expected future cash flows at prevailing interest rates.

## 35. DEFERRED TAX LIABILITIES

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

| | | Investment property | |
|---|---|---|---|
| | | **2015** | 2014 |
| | Notes | **HK$'000** | HK$'000 |
| At 1 January | | **34,121** | – |
| Deferred tax charged to other comprehensive income | 12 | **–** | 34,219 |
| Deferred tax credited to the consolidated statement of profit or loss | 12 | **(126)** | (127) |
| Exchange realignment | | **(1,963)** | 29 |
| At 31 December | | **32,032** | 34,121 |

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

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

## 35. DEFERRED TAX LIABILITIES (Continued)

At 31 December 2015 and 2014, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is unlikely that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2015 and 2014, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no material liabilities for additional taxes should such amounts be remitted.

At 31 December 2015, the continuing operations of the Group and the Company have unused tax losses of HK$80,225,000 (2014: HK$84,503,000) and HK$1,587,000 (2014: HK$28,894,000), respectively, available for offset against future profits. Among such, HK$33,795,000 (2014: HK$60,752,000) may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

## 36. SHARE CAPITAL

### Shares

| | | **2015** | | 2014 | |
|---|---|---|---|---|---|
| | Notes | **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) | | **80,000,000,000** | **800,000** | 14,445,000,000 | 144,450 |
| Convertible preferred shares of HK$0.01 each at 31 December | 31 | **555,000,000** | **5,550** | 555,000,000 | 5,550 |
| **Issued and fully paid:** | | | | | |
| Ordinary shares of HK$0.01 each at 1 January and 31 December | | **7,820,554,682** | **78,206** | 7,820,554,682 | 78,206 |
| Convertible preferred shares of HK$0.01 each at 1 January and 31 December | | **555,000,000** | **5,550** | 555,000,000 | 5,550 |

Notes:

a) By an ordinary resolution passed at the special general meeting held on 22 June 2015, the Company's authorised ordinary share capital was increased to HK$800,000,000 by the creation of an additional 65,555,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing Shares in all respects.

b) During the years ended 31 December 2015 and 2014, none of the Convertible Notes Due 2015 were converted into ordinary shares.

c) All ordinary shares rank pari passu in all respects.

## 36. SHARE CAPITAL (Continued)

**Share option scheme**

Details of the Company's share option schemes and the movements in share options issued by the Company are included in note 37 to the consolidated financial statements.

## 37. SHARE OPTION SCHEME

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

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

### a) Summary of the Schemes

*i) Purposes of the Schemes*

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

*ii) Participants in the Schemes*

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

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

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

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

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

*iv) Maximum entitlement of each participant*

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

## 37. 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 it was terminated on 20 June 2011 but the provisions of the 2002 Share Option Scheme shall in all other respects remain in full force and effect and options granted during the life of the 2002 Share Option Scheme may continue to be exercisable in accordance with its respective terms of issue.

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

## 37. SHARE OPTION SCHEME (Continued)

### b) Share Option Movements

#### i) *2002 Share Option Scheme*

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme held by employees and directors during the year:

| Name or category of participant | Number of share option: At 1 January 2015 | Granted during the year | Lapsed during the year | Exercised during the year | At 31 December 2015 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ |
|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | |
| Mr. Wong Siu Hung Patrick (resigned on 30 September 2015) | 10,000,000 | – | (10,000,000) | – | – | 1 February 2008 | 1 February 2010 to 31 January 2015 | 0.45 |
| | 10,000,000 | – | (10,000,000) | – | – | 1 February 2008 | 1 February 2011 to 31 January 2016 | 0.45 |
| | 20,000,000 | – | (20,000,000) | – | – | | | |
| **Other employees** | | | | | | | | |
| In aggregate | 450,000 | – | (450,000) | – | – | 1 February 2008 | 1 February 2010 to 31 January 2015 | 0.45 |
| | 5,070,000 | – | (2,390,000) | – | 2,680,000 | 1 February 2008 | 1 February 2011 to 31 January 2016 | 0.45 |
| | 5,100,000 | – | (1,740,000) | – | 3,360,000 | 1 February 2008 | 1 February 2012 to 31 January 2017 | 0.45 |
| | 5,620,000 | – | (1,780,000) | – | 3,840,000 | 1 February 2008 | 1 February 2013 to 31 January 2018 | 0.45 |
| | 16,240,000 | – | (6,360,000) | – | 9,880,000 | | | |
| | 36,240,000 | – | (26,360,000) | – | 9,880,000 | | | |

## 37. SHARE OPTION SCHEME (Continued)

### b) Share Option Movements (Continued)

#### i) *2002 Share Option Scheme (Continued)*

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme in the prior year:

| Name or category of participant | Number of share option: At 1 January 2014 | Granted during the year | Lapsed during the year | Exercised during the year | At 31 December 2014 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ |
|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | |
| Mr. Wong Siu Hung Patrick | 10,000,000 | – | – | – | 10,000,000 | 1 February 2008 | 1 February 2010 to 31 January 2015 | 0.45 |
| | 10,000,000 | – | – | – | 10,000,000 | 1 February 2008 | 1 February 2011 to 31 January 2016 | 0.45 |
| | 20,000,000 | – | – | – | 20,000,000 | | | |
| **Other employees** | | | | | | | | |
| In aggregate | 1,450,000 | – | (1,000,000) | – | 450,000 | 1 February 2008 | 1 February 2010 to 31 January 2015 | 0.45 |
| | 6,230,000 | – | (1,160,000) | – | 5,070,000 | 1 February 2008 | 1 February 2011 to 31 January 2016 | 0.45 |
| | 5,420,000 | – | (320,000) | – | 5,100,000 | 1 February 2008 | 1 February 2012 to 31 January 2017 | 0.45 |
| | 6,000,000 | – | (380,000) | – | 5,620,000 | 1 February 2008 | 1 February 2013 to 31 January 2018 | 0.45 |
| | 19,100,000 | – | (2,860,000) | – | 16,240,000 | | | |
| | 39,100,000 | – | (2,860,000) | – | 36,240,000 | | | |

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

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

## 37. SHARE OPTION SCHEME (Continued)

### b) Share Option Movements (Continued)

*i) 2002 Share Option Scheme (Continued)*

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

At the end of the reporting period, the Company had outstanding share options for the subscription of 9,880,000 ordinary shares under the 2002 Share Option Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 9,880,000 additional ordinary shares of the Company and additional share capital of HK$98,800 and share premium of HK$4,347,200 (before issue expenses).

*ii) New Share Option Scheme*

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

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Weighted average exercise price per share HK$** | **Number of shares issuable under options** | Weighted average exercise price per share HK$ | Number of shares issuable under options |
| At 1 January | **0.450** | **36,240,000** | 0.450 | 39,100,000 |
| Lapsed | **0.450** | **(26,360,000)** | 0.450 | (2,860,000) |
| At 31 December | **0.450** | **9,880,000** | 0.450 | 36,240,000 |

None (2014: None) of the 9,880,000 outstanding options (2014: 36,240,000) has been exercised during the year ended 31 December 2015.

No diluted loss per share for the year ended 31 December 2015 has been presented as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year ended 31 December 2015.

No diluted earnings per share for the year ended 31 December 2014 has been presented as the exercise price of the share options outstanding during the year was higher than the average market price of the Company's shares for the year ended 31 December 2014.

## 38. DEFICITS

| | Notes | Share premium 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 31 December 2013 and 1 January 2014 | | 2,473,241 | 18,261 | 6,236 | 175 | – | 150,650 | (10,451,095) | (7,802,532) |
| Total comprehensive income for the year | | – | – | – | – | 108,105 | 2,767 | 3,779,374 | 3,890,246 |
| Released upon deconsolidation of subsidiaries | 7(a) | – | – | – | – | – | 1,446 | – | 1,446 |
| Transfer to accumulated losses upon lapse of share options after vesting periods | | – | – | (452) | – | – | – | 452 | – |
| At 31 December 2014 and 1 January 2015 | | 2,473,241 | 18,261 | 5,784 | 175 | 108,105 | 154,863 | (6,671,269) | (3,910,840) |
| Total comprehensive income/(loss) for the year | | **–** | **–** | **–** | **–** | **–** | **25,357** | **(241,781)** | **(216,424)** |
| Transfer to accumulated losses upon lapse of share options after vesting periods | | **–** | **–** | **(4,087)** | **–** | **–** | **–** | **4,087** | **–** |
| At 31 December 2015 | | **2,473,241** | **18,261** | **1,697** | **175** | **108,105** | **180,220** | **(6,908,963)** | **(4,127,264)** |

### Share premium

The application of share premium is governed by Section 40 of the Act. The share premium account may be distributed in the form of fully paid bonus shares.

### Contributed surplus

The contributed surplus arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the excess of the nominal value of the shares of the subsidiaries acquired, pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

### Share option reserve

The share option reserve comprises the fair value of the share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or lapse.

### PRC statutory reserve

PRC statutory reserve represents the application of 10% of profit after taxation, calculation in accordance with the accounting standards and regulations applicable to subsidiaries of the Company established in the PRC. When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

### Asset revaluation reserve

The asset revaluation reserve of the Group, after deduction of deferred tax liabilities, arose as a result of the restatement to fair value of certain prepaid land/seabed lease payments upon reclassification to investment property.

## 38. DEFICITS (Continued)

### Exchange fluctuation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (HK$) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

## 39. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases an office premise and a warehouse under operating lease arrangements. At 31 December 2015, leases for office premise and warehouse are negotiated for terms ranging from one to three years (2014: one to three years).

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| **Office premise, warehouse and staff quarters*** | | |
| Within one year | **4,277** | 3,897 |
| In the second to fifth years, inclusive | **8,230** | – |
| | **12,507** | 3,897 |

* At 31 December 2014, such commitments were associated with the disposal group classified as held for sale.

## 40. COMMITMENTS

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Commitments for shipbuilding and ship repair facilities in Mainland China* | **817,928** | 867,953 |

* At 31 December 2015 and 2014, such commitments were associated with the disposal group classified as held for sale.

## 41. GUARANTEES

As at 31 December 2015, guarantees with aggregated amounts of HK$321,996,000 (2014: HK$321,996,000) were given by the Company to (i) a bank for a loan to a subsidiary of the Group, (ii) shipowners for charter hire expenses to a deconsolidated subsidiary of the Group which was put into liquidation in 2014 and (iii) the K-Line Notes Due 2013.

As at 31 December 2015, an amount of HK$321,996,000 (2014: HK$321,996,000) has been recognised in the Company's statement of financial position as disclosed in note 50(a).

As at 31 December 2015, guarantees in the aggregate amount of HK$113,155,000 (2014: HK$113,155,000) had been provided to a deconsolidated subsidiary to ship owners for the charter hire expenses. They had been utilised and recognised as liabilities in the consolidated statement of financial position.

Other than those as disclosed above, the Group and the Company had no other material guarantees outstanding as at 31 December 2015 and 2014.

## 42. CONTINGENT LIABILITIES

### Material Arbitrations

### Arbitrations between KTL Mayfair Inc. ("Mayfair") and the Company and the Arbitrations between Mayfair and TSL

Mayfair served notices of appointment of arbitrator on both TSL and the Company on 16 July 2013.

The claims relate to disputes between the Company/TSL and Mayfair in relation to the alleged breaches by TSL of a bareboat charter party contract executed in 2010 (the "Charterparty"), including but not limited to the Company/TSL's failure to pay hire and contractual interest on hire; and the alleged failure to insure the Mayfair vessel. The total amount of Mayfair's claim is US$23,021,040.61 and SG$5,296,30. TSL and the Company have also counterclaimed against Mayfair for US$20,755,188.89.

On 5 May 2014, the Company announced that the Company and TSL entered into a settlement agreement (the "Settlement Agreement") with Camden, Edinburgh Navigation S.A. ("Edinburgh") and Mayfair (collectively, the "Creditors") on 2 May 2014, pursuant to which the parties have agreed:

a) on the amounts of the claims by Camden, Edinburgh and Mayfair (collectively, the "Creditor Debt") to be recognised as unsecured claims (the "Agreed Claim Amounts") in the Restructuring by way of the Creditors' Scheme as announced by the Company on 25 November 2013;

b) that subject to and upon receipt by the Creditors of the full cash payment under the Creditors' Scheme of US$0.10 for every US$1.00 of the Agreed Claim Amounts (the "Settlement Payment"), the parties will be released from all liabilities arising out of or in connection with the Creditor Debt, the Creditor Debt Documents and the subject matter thereof and any previous arrangement between the Company, TSL and the Creditors in relation to the Arbitration Proceedings;

c) that promptly and in any event within three business days of the date of the Settlement Agreement, the parties will take all steps reasonably required to effect a stay of the Arbitration Proceedings; and

d) that promptly and in any event within three business days of the date of the Settlement Payment has been made, the parties will take all steps to inform the arbitral tribunal that the Arbitration Proceedings have been settled and/or terminated.

## 42. CONTINGENT LIABILITIES (Continued)

**Material Arbitrations** (Continued)

**Arbitrations between KTL Mayfair Inc. ("Mayfair") and the Company and the Arbitrations between Mayfair and TSL** (Continued)

Further, each of the Creditors has agreed under the Settlement Agreement that:

i) during the Support Period, it will take any actions that are reasonably required to facilitate the Restructuring, including taking all reasonable steps necessary to vote in favour of the Creditors' Scheme;

ii) until expiry of the Support Period or such other period as agreed between the parties, it will not oppose any application by the Company for any adjournment of the petition for the winding up of the Company pending before the Bermuda Court; and

iii) subject to the terms of the Settlement Agreement, it will not, during the Support Period, commence any legal or Arbitration Proceedings or insolvency proceedings against the Company or any of its subsidiaries in relation to the Creditor Debt Documents.

"Support Period", under the Settlement Agreement means the period between the date of the Settlement Agreement and the date upon which the Settlement Agreement terminates, being the earlier of:

1) 31 December 2014 (or such later date as may be agreed between the parties);

2) the date on which a final non appealable order of a governmental body of competent jurisdiction first comes into effect prohibiting the implementation and consummation of the Restructuring;

3) the date on which an order is made in any jurisdiction for the winding up of the Company;

4) the Company's failure, within 5 business days of receipt of a notice from any of the Creditors notifying the Company its intention to treat the Settlement Agreement as having terminated, to withdraw a condition, term or modification of the Restructuring proposed by the Company to the Bermuda Court or the Company's unsecured creditors, the addition of which condition or term to the Restructuring or which modification of the Restructuring would affect certain rights of the Company's unsecured creditors under the Creditors' Scheme as set out in the Settlement Agreement; and

5) the date on which the scheme document is deposited with the Bermuda Registrar of Companies following sanction of the Creditors' Scheme by the Bermuda Court and approval by qualifying majorities of creditors.

The Scheme Meetings were held on 22 October 2014 as scheduled to consider and, if thought fit, approve the Creditors' Scheme. Mayfair present and voting by proxy has voted in favour of the Creditors' Scheme. Accordingly the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

The Creditors' Scheme was sanctioned by the Bermuda Court on 5 November 2014 and became effective and binding on all Scheme Creditors (as defined in the Creditors' Scheme) upon a copy of the Order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on 5 November 2014. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date of the Creditors' Scheme of the Company to 1 April 2016 (Bermuda time). Further details in respect of the above are included in the Company's announcement dated 16 March 2016.

## 42. CONTINGENT LIABILITIES (Continued)

### Material Arbitrations (Continued)

**Arbitration between the Company and Edinburgh; Arbitration between the Company and Camden; Arbitration between Edinburgh and TSL and Arbitration between Camden and TSL**

The Company served notices of arbitration on Edinburgh and Camden on 20 July 2013. Edinburgh and Camden subsequently served notices of appointment of an arbitrator on TSL on 26 November 2013.

The parties involved in the aforesaid arbitrations are (i) the Company, TSL and Edinburgh and (ii) the Company, TSL and Camden. The claims relate to disputes arising out of the charterparty agreements (the "Charterparty Agreements") executed in 2010 entered into between TSL and Edinburgh/Camden in relation to the vessels MT Titan Aries/MT Titan Venus (the "Vessels"). In 2012, Frontline Management SA ("Frontline") as agents of the Vessels demanded the Vessels to be re-delivered sooner. TSL agreed to such redelivery relying on Frontline's representation that Frontline would arrange a suitable time charter arrangement such that TSL's oil storage business would not be affected (the "New Arrangement"). However, Frontline, later refused to carry on with the New Arrangement. The Company is now claiming that the conduct of Edinburgh/Camden has resulted in TSL not being able to perform its oil storage business and suffered loss as a result. The total amount of claim against each of Edinburgh and Camden is US$20,755,188.89. Edinburgh and Camden have also counterclaimed against the Company and TSL for US$7,449,911.02 and US$6,425,312.50 respectively.

On 5 May 2014, the Company announced that the Company and TSL entered into the Settlement Agreement with the Creditors on 2 May 2014, pursuant to which the parties have agreed:

a) on the Agreed Claim Amounts in the Restructuring by way of the Creditors' Scheme as announced by the Company on 25 November 2013;

b) that subject to and upon receipt by the Creditors of the full cash payment under the Creditors' Scheme of US$0.10 for every US$1.00 of the Settlement Payment, the parties will be released from all liabilities arising out of or in connection with the Creditor Debt, the Creditor Debt Documents and the subject matter thereof and any previous arrangement between the Company, TSL and the Creditors in relation to the Arbitration Proceedings;

c) that promptly and in any event within three business days of the date of the Settlement Agreement, the parties will take all steps reasonably required to effect a stay of the Arbitration Proceedings; and

d) that promptly and in any event within three business days of the date of the Settlement Payment has been made, the parties will take all steps to inform the arbitral tribunal that the Arbitration Proceedings have been settled and/or terminated.

Further, each of the Creditors has agreed under the Settlement Agreement that:

i) during the Support Period, it will take any actions that are reasonably required to facilitate the Restructuring, including taking all reasonable steps necessary to vote in favour of the Creditors' Scheme;

ii) until expiry of the Support Period or such other period as agreed between the parties, it will not oppose any application by the Company for any adjournment of the petition for the winding up of the Company pending before the Bermuda Court; and

iii) subject to the terms of the Settlement Agreement, it will not, during the Support Period, commence any legal or Arbitration Proceedings or insolvency proceedings against the Company or any of its subsidiaries in relation to the Creditor Debt Documents.

## 42. CONTINGENT LIABILITIES (Continued)

**Material Arbitrations** (Continued)

**Arbitration between the Company and Edinburgh; Arbitration between the Company and Camden; Arbitration between Edinburgh and TSL and Arbitration between Camden and TSL** (Continued)

"Support Period", under the Settlement Agreement means the period between the date of the Settlement Agreement and the date upon which the Settlement Agreement terminates, being the earlier of:

1) 31 December 2014 (or such later date as may be agreed between the parties);

2) the date on which a final non appealable order of a governmental body of competent jurisdiction first comes into effect prohibiting the implementation and consummation of the Restructuring;

3) the date on which an order is made in any jurisdiction for the winding up of the Company;

4) the Company's failure, within 5 business days of receipt of a notice from any of the Creditors notifying the Company its intention to treat the Settlement Agreement as having terminated, to withdraw a condition, term or modification of the Restructuring proposed by the Company to the Bermuda Court or the Company's unsecured creditors, the addition of which condition or term to the Restructuring or which modification of the Restructuring would affect certain rights of the Company's unsecured creditors under the Creditors' Scheme as set out in the Settlement Agreement; and

5) the date on which the scheme document is deposited with the Bermuda Registrar of Companies following sanction of the Creditors' Scheme by the Bermuda Court and approval by qualifying majorities of creditors.

The Scheme Meetings were held on 22 October 2014 as scheduled to consider and, if thought fit, approve the Creditors' Scheme. Edinburgh and Camden present and voting by proxy has voted in favour of the Creditors' Scheme. Accordingly the Creditors' Scheme was duly approved at the Scheme Meetings. Further details in respect of the above are included in the Company's announcement dated 22 October 2014.

The Creditors' Scheme was sanctioned by the Bermuda Court on 5 November 2014 and became effective and binding on all Scheme Creditors (as defined in the Creditors' Scheme) upon a copy of the Order of the Bermuda Court being delivered to the Bermuda Registrar of Companies in accordance with section 99 of the Act on 5 November 2014. Further details in respect of the above are included in the Company's announcement dated 6 November 2014.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date of the Creditors' Scheme of the Company to 1 April 2016 (Bermuda time). Further details in respect of the above are included in the Company's announcement dated 16 March 2016.

## 42. CONTINGENT LIABILITIES (Continued)

### Bermuda Proceedings

On 4 July 2012, the Company received from SPHL a notice to redeem all of the outstanding 555,000,000 Titan preferred shares held by it at a redemption amount equal to the notional value of the Titan preferred shares (being HK$310,800,000) together with any accrued and unpaid dividends. Redemption monies are payable 30 business days after the date of the redemption notice.

On 9 July 2012 (Bermuda time), SPHL served on the Company the SPHL Petition at the Bermuda Court for an order, among other things, to wind up and to appoint a provisional liquidator against the Company. Further details in respect of the above are included in the Company's announcement dated 12 July 2012. The SPHL Petition, which remained undismissed or unstayed for a period of 60 consecutive days (i.e. on or before 6 September 2012 (Bermuda time)), caused an event of default to occur under the Convertible Notes Due 2015 and the PIK Notes Due 2015.

The Company made an application to the Bermuda Court to strike out the SPHL Petition on the grounds that SPHL is not a creditor or contributory of the Company and/or has no interest in such a winding up of the Company and/or the proceedings are an abuse of process. The strike out application was heard in the Bermuda Court on 1 May 2013 (Bermuda time).

On 10 May 2013 (Bermuda time), the Bermuda Court handed down its ruling in relation to the Company's application to strike out the SPHL Petition and found that it would exercise its discretion to strike out the SPHL Petition (the "10 May Decision"). The Bermuda Court further ordered that the actual striking out of the SPHL Petition be adjourned to 23 July 2013 in order to facilitate the hearing of an application by Camden to be substituted as the petitioner (the "Camden Substitution Application"). Further details in respect of the above are included in the Company's announcement dated 13 May 2013.

Camden claimed that TSL, a subsidiary of the Company, failed to pay certain hiring charges to Camden pursuant to a bareboat charter party contract and that the Company was liable to Camden for such hiring charges plus interest thereon in the sum of approximately US$6,853,032 (up to 16 April 2013) pursuant to a deed of guarantee issued by the Company in favour of Camden.

Subsequently, SPHL made an application to the Bermuda Court for leave to appeal the 10 May Decision (the "SPHL Leave Application"). Further details in respect of the above are included in the Company's announcement dated 25 July 2013.

On 19 July 2013 (Bermuda time), the Company made an application to the Bermuda Court seeking to (a) stay the SPHL Petition pending arbitration between the Company and Camden or (b) strike out the SPHL Petition on the basis that it was an abuse of process (the "Titan Stay Application").

The Camden Substitution Application, the SPHL Leave Application and the Titan Stay Application were all heard by the Bermuda Court on 23 July 2013 (Bermuda time). At the hearing, the Bermuda Court made the following orders:

i) the SPHL Petition was struck out, and the Company was awarded the costs of the petition against SPHL from the date upon which its skeleton argument for the Striking Out Application was filed;

ii) SPHL was granted leave to appeal the 10 May Decision;

iii) the Titan Stay Application was dismissed;

## 42. CONTINGENT LIABILITIES (Continued)

**Bermuda Proceedings** (Continued)

iv) Camden was allowed to be substituted as the petitioner in place of SPHL and granted leave to amend the Camden Petition, Camden was also awarded its costs against the Company of the Camden Substitution Application; and

v) the hearing of the Camden Petition was adjourned to 16 August 2013.

Further details in respect of the above are included in the Company's announcement dated 25 July 2013.

On 29 July 2013 (Bermuda time), Camden made an application to the Bermuda Court by way of an ex parte summons (on notice) seeking an interim injunction (the "Interim Injunction") restraining the Company from, among others, taking any action or consenting to any action to be taken by any subsidiary to transfer any rights, titles or interests in relation to certain assets and agreements of the Company, without the approval of the Bermuda Court or 7 days' written notice to Camden.

Camden also made an application for the appointment of provisional liquidators in the Company on 6 August 2013 (Bermuda time) (the "PLs Application").

The Company made an application with the Bermuda Court on 6 August 2013 (Bermuda time) for leave to appeal the judgment of the Bermuda Court dated 23 July 2013 in relation to the substitution of Camden as the petitioner in place of SPHL on the grounds of a dispute as to Camden's claim (the "Leave to Appeal Application").

The Camden Petition, the application for the Interim Injunction, the PLs Application and the Leave to Appeal Application were all heard by the Bermuda Court on 16 August 2013 (Bermuda time) and no order was made for the appointment of provisional liquidators or to wind up the Company at that hearing. The following orders were made by the Bermuda Court:

i) until the first hearing in the matter following the hearing of 16 August 2013, an injunction was granted restraining the Company, whether alone or in concert with others, acting through its directors, officers, employees, servants, agents or otherwise, from (i) disposing of any property, including things in action, belonging to the Company, save the payment of salaries, rent, utilities, professional fees or other similar payments in the ordinary course of its business; or (ii) consenting to or approving the disposal of property, including things in action, belonging to any subsidiary (as defined in section 86 of the Act) of the Company, without the approval of the Bermuda Court or without 7 days' written notice of the same to Camden (the "Interim Injunction Order"); and

ii) the Company shall pay Camden's costs of the application for the Interim Injunction.

Further details in respect of the above are included in the Company's announcement dated 20 August 2013.

On 30 August 2013, the Bermuda Court ordered that the Company and Camden to agree on setting up an informal committee of creditors (the "Informal Committee") to facilitate information exchange between the Company and its creditors, failing which the Bermuda Court would make an order in this regard. No agreement was reached between the Company and Camden and hence, the Bermuda Court made an order on 10 September 2013 for the set up of the Informal Committee.

## 42. CONTINGENT LIABILITIES (Continued)

**Bermuda Proceedings** (Continued)

On 18 October 2013 (Bermuda time), the Bermuda Court ordered the appointment of Mr. Garth Calow and Ms. Alison Tomb, both of PricewaterhouseCoopers, as the JPLs of the Company with the powers as set out in the Company's announcement dated 22 October 2013.

The Company made an application for a stay, and filed a motion for leave to appeal, in respect of the order of the Bermuda Court appointing JPLs, both of which were rejected by the Bermuda Court at a hearing on 5 November 2013. Further applications for stay and leave to appeal were made by the Company.

On 12 December 2013, the Company made an application to the Bermuda Court for the discharge of the JPLs appointed to the Company on 18 October 2013 (the "Discharge Application").

The Camden Petition and the Discharge Application were heard by the Bermuda Court on 13 December 2013 (Bermuda time) and the following orders were made by the Bermuda Court:

i) the Camden Petition and the Discharge Application be adjourned to 31 January 2014 (Bermuda time);

ii) costs of the hearing be awarded to the JPLs to be paid out of the assets of the Company on an indemnity basis; and

iii) the costs of hearing of Camden as the petitioner be reserved.

For the purposes of being able to properly advise the Bermuda Court on the feasibility of the restructuring proposals, the Bermuda Court has required the Company to consult and agree an extension of the powers for the JPLs (the "Extension of the JPLs' Powers") and report back to the Bermuda Court accordingly. Further details in respect of the above are included in the Company's announcement dated 18 December 2013.

On 14 February 2014, the order made by the Bermuda Court on 18 October 2013 (Bermuda time) in relation to the appointment of the JPLs of the Company was varied as follows:

i) the JPLs would have the following powers (among others):

   1) to consult with the Company in respect of, and review, on an ongoing basis, all issues relating to feasibility of the restructuring proposal of the Company or any variation thereof, including with respect to the necessary steps which need to be taken, and conditions to be met, in order for such restructuring proposal to be successfully implemented;

   2) to consider the terms of any scheme of arrangement proposed by the Company under the provisions of section 99 of the Act and, if so advised, to report to the Bermuda Court thereon at or before the hearing of the application to convene a scheme meeting. In this regard the Company shall at least seven days prior to any application being made to the Bermuda Court to convene a scheme meeting provide to the JPLs a final draft of the Company's application to convene a scheme meeting;

   3) to review the financial position of the Company and in particular to assess the feasibility of any restructuring proposal of the Company;

   4) to monitor the continuation of the business of the Company by the existing Board;

## 42. CONTINGENT LIABILITIES (Continued)

**Bermuda Proceedings** (Continued)

5) to monitor, consult with and otherwise liaise with the creditors and shareholders of the Company in determining whether any restructuring proposal will be successfully implemented; and

6) to see, review and copy books, papers, writings, documents and records in the possession or control of the Company situate in Bermuda or in any other jurisdiction, solely insofar as reasonably necessary to permit the JPLs to exercise and discharge their powers and functions;

ii) save as specifically set out in the order, the JPLs will have no general or additional powers or duties with respect to the property or records of the Company, and the Board will continue to manage the Company's affairs in all respects and exercise the powers conferred upon it by the Company's Memorandum of Association and Bye-laws, provided always that, should the JPLs consider at any time that the Board is not acting in the best interests of the Company and its creditors, the JPLs shall have the power to report the same to the Bermuda Court and seek such directions from the Bermuda Court as the JPLs are advised are appropriate;

iii) the JPLs shall be entitled to receive advance materials, receive advance notice of, and, at the expense of the Company, attend all Board meetings and such meetings of management as the JPLs request;

iv) the Company shall at all times comply with the Funding Terms referred to the letter, dated 13 February 2014, from the JPLs to the Company; and

v) the Company shall procure that any necessary instructions are given to the liquidator of TGIL (the "Liquidator") to ensure that any dividends payable by the Liquidator after the date of the order be paid into an account to be nominated by the JPLs to be held in such account for the benefit of creditors until otherwise directed by the Bermuda Court.

Further details in respect of the above are included in the Company's announcement dated 18 February 2014.

On 28 February 2014 (Bermuda time), at which the Bermuda Court ordered a further adjournment of the Camden Petition to 7 March 2014 (Bermuda time) to allow GZE to consider if it would be willing to fund the costs of the Company's debt restructuring on an unsecured basis, and if GZE was not willing to do so, the Company would be wound up. Further details in respect of the above are included in the Company's announcement dated 4 March 2014 and 6 March 2014 respectively.

At the hearing held on 7 March 2014 (Bermuda time), a draft unsecured loan agreement (the "Loan Agreement") to be entered into between the Company and Fame Dragon, in relation to the provision of an unsecured loan by Fame Dragon to the Company was presented to the Bermuda Court. The Bermuda Court ordered that:

a) the Company be permitted to enter into the Loan Agreement with Fame Dragon;

b) the Camden Petition be adjourned to 17 April 2014; and

c) the Company and the JPLs of the Company be awarded 90% of the costs of the hearing as against Camden in any event of the cause.

## 42. CONTINGENT LIABILITIES (Continued)

**Bermuda Proceedings** (Continued)

Further details in respect of the above are included in the Company's announcement dated 11 March 2014.

At the hearing held on 17 April 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 16 May 2014 (Bermuda time). Further details are included in the Company's announcement dated 22 April 2014.

At the hearing held on 16 May 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 11 July 2014 (Bermuda time). Further details in respect of the above are included in the Company's announcement dated 19 May 2014.

At the hearing held on 4 June 2014, SPHL filed a notice of withdrawal of the appeal dated 29 May 2014.

At the hearing held on 11 July 2014 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 8 August 2014 (Bermuda time). The Bermuda Court further ordered that the costs and fees of the JPLs and their advisors were to be paid out of the liquidation account. Further details in respect of the above are included in the Company's announcement dated 15 July 2014.

At the hearings held on 8 August 2014 (Bermuda time), 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 29 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time) and 11 March 2016 (Bermuda time), the Bermuda Court ordered a further adjournment of the Camden Petition to 3 October 2014 (Bermuda time), 31 October 2014 (Bermuda time), 21 November 2014 (Bermuda time), 16 January 2015 (Bermuda time), 13 March 2015 (Bermuda time), 27 March 2015 (Bermuda time), 10 April 2015 (Bermuda time), 8 May 2015 (Bermuda time), 29 May 2015 (Bermuda time), 3 July 2015 (Bermuda time), 14 August 2015 (Bermuda time), 28 August 2015 (Bermuda time), 4 September 2015 (Bermuda time), 8 September 2015 (Bermuda time), 9 October 2015 (Bermuda time), 20 November 2015 (Bermuda time), 8 January 2016 (Bermuda time), 11 March 2016 (Bermuda time) and 1 April 2016 (Bermuda time), respectively. Further details in respect of the above are included in the Company's announcement dated 11 August 2014, 6 October 2014, 3 November 2014, 25 November 2014, 19 January 2015, 16 March 2015, 30 March 2015, 13 April 2015, 11 May 2015, 2 June 2015, 30 July 2015, 17 August 2015, 31 August 2015, 7 September 2015, 9 September 2015, 12 October 2015, 25 November 2015, 18 January 2016 and 16 March 2016 respectively.

**BVI Proceedings**

On 18 June 2012, the Company received from SSL two notices to exercise its redemption rights under the TGIL preferred shares and TGIL convertible unsecured notes (the "TGIL Notes Due 2014"), and SSL applied for an order to appoint joint and several liquidators for, and to liquidate TGIL.

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

On 18 July 2012 (BVI time), Titan Oil Storage Investment Limited ("TOSIL"), a wholly owned subsidiary of the Company and a shareholder of TGIL, filed a notice of appeal at the Court of Appeal of the Eastern Caribbean Supreme Court (the "BVI Court of Appeal") against the above order and applied for a stay of execution thereof pending the determination of the appeal. The stay application was subsequently withdrawn. Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

## 42. CONTINGENT LIABILITIES (Continued)

### BVI Proceedings (Continued)

The BVI Court of Appeal was stayed until 20 March 2013 (BVI time) by consent of TOSIL as appellant and SSL and TGIL as respondents. It is intended that the Appeal will be withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

The liquidators of TGIL have made a numbers of distributions to creditors of TGIL, but continue to hold certain funds pending the resolution of certain tax issues.

### Hong Kong Proceedings

On 19 July 2012, the Company received from SSL a writ of summons (the "Writ") issued in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region (the "Hong Kong High Court") with an indorsement of claim against the Company and other parties including its wholly owned subsidiary, TOSIL, and two directors of the Company. SSL alleged in the Writ among other things (a) breach of the amended and restated investor rights agreement (the "IRA") in respect of TGIL dated 17 July 2009; and (b) misrepresentations regarding the financial position of TGIL, and its subsidiaries. SSL seek, among other remedies, specific performance of the IRA, injunctive relief, declaratory relief, an indemnity, damages, interest and costs (the "Hong Kong Proceedings"). Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

On 14 September 2012, the Company received a statement of claim filed by SSL in connection with the Writ. Further details in respect of the above are included in the Company's announcement dated 19 September 2012.

On 10 November 2012, the Hong Kong High Court, among other things, stayed the proceedings for a period of 90 days which was then subsequently extended until 15 March 2013.

On 15 November 2013, SSL was ordered by the Hong Kong High Court to provide security in various sums for the Defendants' costs of the proceedings. SSL was ordered by the Hong Kong High Court to provide security for the defendants' costs of the proceedings. SSL failed to provide such security and the proceedings remained stayed.

The Company has obtained the permission from the Bermuda Court to enter into a deed of settlement with SSL and other relevant parties relating to the Hong Kong proceedings on 12 December 2014. Further details in respect of the above are included in the Company announcement dated 2 January 2015.

The Hong Kong High Court fixed a second case management conference for hearing on 21 November 2014 and further adjourned to 13 March 2015, 7 July 2015 and 17 November 2015. On 6 January 2016, the Hong Kong High Court ordered (by consent) that (i) the second case management conference due to be heard on 23 February 2016 be vacated and adjourned to 12 April 2016; and (ii) attempting the finalisation of the global settlement among the parties. Further details in respect of the above are included in the Company's announcement dated 25 November 2014, 30 March 2015, 24 June 2015, 4 December 2015 and 11 January 2016 respectively.

### Other Proceedings

Details of other proceedings are disclosed in the note 6 and note 26 to the consolidated financial statements.

## 43. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements and in the directors' report under heading of "Connected Transactions", the Group had the following material transactions with related parties during 2015 and 2014:

## 43. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### i) Guarantees to GZE

At 31 December 2015, a personal guarantee and security of certain shares of the Company were provided by one of the former directors of the Company to GZE in connection with loans of RMB1,526,742,000 (equivalent to approximately HK$1,833,896,000) (2014: RMB1,526,742,000 (equivalent to approximately HK$1,946,165,000)) granted to Titan Quanzhou Shipyard.

### ii) Loans from the ultimate holding company

At 31 December 2015, 嵊泗海鑫石油有限公司 (Shengsi Haixin Petroleum Co., Ltd) ("Shengsi Haixin") had a loan from GZE in the principal amount of RMB36,367,000 (equivalent to approximately HK$43,684,000 (2014: RMB36,367,000 (equivalent to approximately HK$46,358,000)) and interest accrued of RMB3,765,000 (equivalent to approximately HK$4,522,000) (2014: RMB1,497,000 (equivalent to approximately HK$1,909,000)). The interest on the loan was RMB2,268,000 (equivalent to HK$2,865,000) for the year ended 31 December 2015 (2014: RMB2,182,000 (equivalent to HK$2,780,000)). The loan was unsecured, carried at basic lending rate of the People's Bank of China under same period and same grade and repayable beyond one year.

At 31 December 2015, 广州泰山石化有限公司 (Guangzhou Titan Petrochemicals Co., Ltd) ("Guangzhou Titan") had a loan from GZE in the principal amount of RMB43,880,000 (equivalent to approximately HK$52,708,000) (2014: RMB43,880,000 (equivalent to approximately HK$55,935,000)) and interest accrued of RMB4,543,000 (equivalent to approximately HK$5,457,000) (2014: RMB1,807,000) (equivalent to approximately HK$2,303,000)). The interest on the loan was RMB2,736,000 (equivalent to HK$3,456,000) for the year ended 31 December 2015 (2014: RMB2,968,000 (equivalent to HK$3,781,000)). The loan was guaranteed by 泉州振戎石化码头有限公司 (formerly known as 泉州泰山石化码头发展有限公司), 广州南沙振戎仓储有限公司 (formerly known as 南方石化仓储（广州南沙）有限公司 and 广州南沙泰山石化发展有限公司) and Titan Quanzhou Shipyard, carried at basic lending rate of the People's Bank of China under same period and same grade and repayable beyond one year.

On 28 October 2013, the Company received a notice issued by the Guangdong Province branch of China Cinda Asset Management Co., Ltd ("China Cinda") to Titan Quanzhou Shipyard whereby China Cinda informed Titan Quanzhou Shipyard that it has transferred to GZE the rights and interests in (i) the Indebtedness owed by Titan Quanzhou Shipyard; and (ii) the collateral and guarantee granted in respect of the Indebtedness in (i) above. At 31 December 2015, the loan due to GZE was RMB1,526,742,000 (equivalent to approximately HK$1,833,896,000) (31 December 2014: RMB1,526,742,000 (equivalent to approximately HK$1,946,165,000)) and interest accrued of RMB158,056,000 (equivalent to approximately HK$189,854,000) (31 December 2014: RMB62,857,000 (equivalent to approximately HK$80,125,000)). The interest on the loan was RMB95,199,000 (equivalent to HK$120,264,000) for the year ended 31 December 2015 (2014: RMB93,060,000 (equivalent to HK$118,572,000)). The loan was secured, carried at basic lending rate of the People's Bank of China under same period and same grade and repayable beyond one year.

Further details in respect of above are included in the Company's announcements dated 29 October 2013, 14 January 2014, 6 March 2014 and 1 April 2014.

At 31 December 2015, Titan Quanzhou Shipyard had another loan from GZE in the principal amount of RMB5,061,000 (equivalent to approximately HK$6,079,000) (31 December 2014: RMBNil) and interest accrued of RMB61,000 (equivalent to approximately HK$74,000) (2014: RMBNil). The interest on the loan was RMB61,000 (equivalent to HK$77,000) for the year ended 31 December 2015 (2014: RMBNil). The loan was unsecured, carried at basic lending rate of the People's Bank of China under the same period and same grade and repayable beyond one year.

## 43. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### iii) Loans from the immediate holding company

At 31 December 2015, the Group had loans from Fame Dragon in the principal amount of HK$143,240,000 (2014: HK$51,681,000), interest accrued of HK$2,526,000 (2014: HK$543,000). The interest on the loans was HK$1,983,000 for the year ended 31 December 2015 (2014: HK$516,000).

The loans were unsecured, carried interest at 2% per annum and were repayable from 3 to 5 years from the dates of entering into the loan agreements. The accrued interest is interest-free, unsecured and was settled within one year. However, as the Company has triggered the events of default as detailed in note 34, the loans from the immediate holding company of HK$3,000,000 under the First Loan Agreement was then presented as current liabilities as at 31 December 2015 and 2014.

Further details in respect of above are included in the Company's announcements dated 6 March 2014, 11 March 2014 and 1 April 2014.

### iv) Amounts due to the ultimate holding company

At 31 December 2015, the Group had an amount due to GZE of RMB740,000,000 (equivalent to approximately HK$888,875,000) (2014: RMB740,000,000 (equivalent to approximately HK$943,291,000)) in respect of the Company entered into an assignment of the sale and purchase of the 95% equity interest in Titan Quanzhou Shipyard with GZE. The balance was unsecured, interest-free and had no fixed terms of repayment.

Further details in respect of above are included in the Company's announcements dated 25 November 2013, 30 December 2013, 14 January 2014 and 5 February 2014.

### v) Advances from/to the Company owned by Mr. Tsoi Tin Chun

At 31 December 2015, the Group had an amount due from a Company which is owned by Mr. Tsoi Tin Chun (the former Chairman and director of the Company) of RMB874,000 (equivalent to approximately HK$1,050,000) (2014: RMB874,000 (equivalent to approximately HK$1,114,000)), however, based on estimated irrecoverable amounts determined by reference to past experience, the Group had recognised an impairment loss of RMB874,000 (equivalent to approximately HK$1,114,000) for the year ended 31 December 2014. At 31 December 2015, the Group also had an amount due to a Company which is owned by Mr. Tsoi Tin Chun (the former Chairman and director of the Company) of RMB14,319,000 (equivalent to approximately HK$17,200,000) (2014: RMB14,319,000 (equivalent to approximately HK$18,253,000)) which were unsecured, interest-free and had no fixed terms of repayment.

### vi) Compensation of key management personnel of the Group

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Short term employee benefits | **9,320** | 11,116 |
| Post-employment benefits | **69** | 68 |
| Total compensation paid to key management personnel | **9,389** | 11,184 |

Further details of directors' emoluments are included in note 10 to the consolidated financial statements.

## 44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial assets

| | Financial assets at fair value through profit or loss | | Loans and receivables | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Financial assets included in deposits and other receivables | **–** | – | **142,503** | 142,508 | **142,503** | 142,508 |
| Restricted cash | **–** | – | **26,547** | 26,520 | **26,547** | 26,520 |
| Cash and cash equivalents | **–** | – | **9,869** | 1,315 | **9,869** | 1,315 |
| | **–** | – | **178,919** | 170,343 | **178,919** | 170,343 |

### Financial liabilities

| | Financial liabilities at fair value through profit or loss | | Financial liabilities at amortised cost | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Accounts payable | **–** | – | **217,731** | 217,731 | **217,731** | 217,731 |
| Financial liabilities included in other payables and accruals | **–** | – | **738,365** | 767,475 | **738,365** | 767,475 |
| Interest-bearing bank and other loans | **–** | – | **5,850** | 5,850 | **5,850** | 5,850 |
| Loans from the ultimate holding company | **–** | – | **96,392** | 102,293 | **96,392** | 102,293 |
| Loans from the immediate holding company | **–** | – | **143,240** | 51,681 | **143,240** | 51,681 |
| Amounts due to the ultimate holding company | **–** | – | **898,854** | 947,503 | **898,854** | 947,503 |
| Amount due to the immediate holding company | **–** | – | **2,526** | 543 | **2,526** | 543 |
| Senior Notes Due 2012 | **–** | – | **882,329** | 882,329 | **882,329** | 882,329 |
| Convertible Notes Due 2015 | **–** | – | **441,753** | 441,753 | **441,753** | 441,753 |
| PIK Notes Due 2015 | **–** | – | **88,657** | 88,657 | **88,657** | 88,657 |
| Liability portion of Titan preferred shares | **–** | – | **435,325** | 420,717 | **435,325** | 420,717 |
| K-Line Notes Due 2013 | **–** | – | **202,896** | 202,896 | **202,896** | 202,896 |
| | **–** | – | **4,153,918** | 4,129,428 | **4,153,918** | 4,129,428 |

## 45. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amounts at which instruments could be exchanged in current transactions between willing parties, other than in a forced or liquidation sale. The methods and assumptions as set out below were used to estimate the fair values:

The fair values of financial assets included in deposits and other receivables, restricted cash, cash and cash equivalents, accounts payable, financial liabilities included in other payables and accruals, interest-bearing bank and other loans, loans from the ultimate holding company, loans from the immediate holding company, amounts due to the ultimate holding company, amount due to the immediate holding company, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, liability portion of Titan preferred shares and K-Line Notes Due 2013 approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the liability portion of the Titan preferred shares are estimated using equivalent market interest rates for similar instruments. There is no non-current position of the above financial instruments.

### Fair value hierarchy

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

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

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

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

*Assets and liabilities measured at fair value:*

The Group did not have any financial assets nor liabilities measured at fair value as at 31 December 2015 and 2014.

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other loans, Senior Notes Due 2012, Convertible Notes Due 2015, PIK Notes Due 2015, K-Line Notes Due 2013, loans from the immediate holding company, loans from the ultimate holding company, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise and/or retain funds for the Group's operations. The Group has various other financial assets and liabilities such as deposits and other receivables and accounts payable, which arise directly from its operations.

The Group is principally exposed to interest rate risks, credit risks, liquidity risks and foreign currency risks. The Directors review and agree policies for managing each of these risks and they are summarised below.

### Interest rate risks

The Group's exposure to the risks of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's accounting and finance department continually monitors the positions and explores other ways to reduce interest costs.

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

| | Increase/ (decrease) in basis points | (Increase)/ decrease in loss before tax (decrease)/ increase in profit before tax HK$'000 |
|---|---|---|
| **2015** | | |
| RMB | **26** | **(689)** |
| RMB | **(26)** | **689** |
| 2014 | | |
| RMB | 29 | (757) |
| RMB | (29) | 757 |

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risks

Credit risks arise from the inability of a counterparty to meet payment terms. It is the Group's policy to minimise such credit exposures by careful assessment of customer credit worthiness. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risks of the Group's other financial assets, which comprise cash and cash equivalents, restricted cash and deposits and other receivables, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of such instruments. The Company is also exposed to credit risks through the granting of financial guarantees, further details of which are disclosed in note 41 to the consolidated financial statements.

Apart from receivable from the liquidator of TGIL and escrow account (as stated in note 21), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to that the receivable from the liquidator of TGIL and escrow account did not exceed 5% of the Group's total assets at any time during the year.

The credit risk on cash and cash equivalents and restricted cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative data in respect of the Group's exposure to credit risks arising from accounts receivable are disclosed in note 20 to the consolidated financial statements.

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risks

The Group's treasury department oversees the Group's cash flow positions on a regular basis to ensure the cash flow of the Group is closely monitored.

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

| | Weighted average effective interest rate | | On demand or within one year | | Over one year | | Total | | Total carrying amount | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **%** | % | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Accounts payable | **–** | – | **217,731** | 217,731 | **–** | – | **217,731** | 217,731 | **217,731** | 217,731 |
| Financial liabilities included in other payables and accruals | **–** | – | **738,365** | 767,475 | **–** | – | **738,365** | 767,475 | **738,365** | 767,475 |
| Interest-bearing bank and other loans | **0.00** | 0.00 | **5,850** | 5,850 | **–** | – | **5,850** | 5,850 | **5,850** | 5,850 |
| Loans from the ultimate holding company | **6.24** | 6.09-7.03 | **–** | – | **96,392** | 102,293 | **96,392** | 102,293 | **96,392** | 102,293 |
| Loans from the immediate holding company | **2.00** | 2.00 | **3,000** | 3,000 | **140,240** | 48,681 | **143,240** | 51,681 | **143,240** | 51,681 |
| Amounts due to the ultimate holding company | **–** | – | **906,193** | 953,881 | **20,796** | 23,046 | **926,989** | 976,927 | **898,854** | 947,503 |
| Amount due to the immediate holding company | **–** | – | **3,556** | 147 | **7,191** | 1,950 | **10,747** | 2,097 | **2,526** | 543 |
| Senior Notes Due 2012 | **0.00** | 0.00 | **882,329** | 882,329 | **–** | – | **882,329** | 882,329 | **882,329** | 882,329 |
| Convertible Notes Due 2015 | **0.00** | 0.00 | **441,753** | 441,753 | **–** | – | **441,753** | 441,753 | **441,753** | 441,753 |
| PIK Notes Due 2015 | **0.00** | 0.00 | **88,657** | 88,657 | **–** | – | **88,657** | 88,657 | **88,657** | 88,657 |
| Liability portion of Titan preferred shares | **4.70** | 4.70 | **435,325** | 420,717 | **–** | – | **435,325** | 420,717 | **435,325** | 420,717 |
| K-Line Notes Due 2013 | **0.00** | 0.00 | **202,896** | 202,896 | **–** | – | **202,896** | 202,896 | **202,896** | 202,896 |
| | | | **3,925,655** | 3,984,436 | **264,619** | 175,970 | **4,190,274** | 4,160,406 | **4,153,918** | 4,129,428 |

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Foreign currency risks**

Several subsidiaries of the Company have foreign currency costs and expenses, which expose the Group to foreign currency risk.

The Group is mainly exposed to the effects of fluctuation in RMB and Singapore dollar (the "SG$").

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

| | % | Decrease/ (increase) in loss before tax increase/ (decrease) in profit before tax HK$'000 |
|---|---|---|
| **2015** | | |
| If RMB weakens against HK$ | **5.76** | **51,224** |
| If SG$ weakens against HK$ | **6.50** | **20** |
| | | **51,244** |
| If RMB strengthens against HK$ | **5.76** | **(51,224)** |
| If SG$ strengthens against HK$ | **6.50** | **(20)** |
| | | **(51,244)** |
| 2014 | | |
| If RMB weakens against HK$ | 2.51 | 23,679 |
| If SG$ weakens against HK$ | 4.31 | 109 |
| | | 23,788 |
| If RMB strengthens against HK$ | 2.51 | (23,679) |
| If SG$ strengthens against HK$ | 4.31 | (109) |
| | | (23,788) |

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital management (Continued)

The Group monitors capital using gearing ratios, which is total debts divided by total assets, including the respective items classified as held for sale. The gearing ratios as at the end of the reporting periods were as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Interest-bearing bank and other loans | 256,183 | 271,508 |
| Senior Notes Due 2012 | 882,329 | 882,329 |
| Convertible Notes Due 2015 | 441,753 | 441,753 |
| PIK Notes Due 2015 | 88,657 | 88,657 |
| K-Line Notes Due 2013 | 202,896 | 202,896 |
| Loans from the ultimate holding company | 1,936,367 | 2,048,458 |
| Loans from the immediate holding company | 143,240 | 51,681 |
| Total debts | 3,951,425 | 3,987,282 |
| Total assets | 2,997,452 | 3,203,978 |
| Gearing ratio | 132% | 124% |

## 47. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015 (2014: Nil).

## 48. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year presentation. In the opinion of the Directors, such reclassifications provide a more appropriate presentation on the consolidated financial statements.

## 49. EVENTS AFTER THE REPORTING PERIOD

### Listing status

As disclosed in the announcement of the Company dated 26 November 2013, the Listing Division of the Stock Exchange issued a letter on 22 November 2013 to inform the Company that they have decided to place the Company in the second stage of delisting under Practice Note 17 to the Listing Rules and required the Company to submit a viable resumption proposal at least 10 business days before the second stage of delisting expires (i.e. 5 May 2014).

## 49. EVENTS AFTER THE REPORTING PERIOD (Continued)

**Listing status** (Continued)

The Company has submitted the resumption proposal on 5 May 2014 (and the updated versions of the resumption proposal in response to the comments from the Stock Exchange have been submitted on 10 June 2014, 22 August 2014, 16 September 2014, 10 October 2014 and 25 November 2014 respectively). As disclosed in the Company's announcement dated 2 December 2014, the Board announced that as informed by a letter dated 1 December 2014, the Stock Exchange has decided to allow the Company to proceed with the resumption proposal subject to satisfying the conditions by 31 May 2015.

Since the completion of the subscription agreement signed with Paliburg Company Limited (the "Paliburg Subscription Agreement") and Victory Stand Limited (the "Victory Stand Subscription Agreement") did not take place by 4 September 2015, the open offer proposed to be put forward by the Company on the basis of one offer share for every two existing shares held by the qualifying shareholders on the record date with issuance of the Warrants on the same terms as those being offered to the subscribers for no additional consideration to the qualifying shareholders who take up the offer shares on the basis of one warrant for one of offer share taken up (the "First Open Offer") would not proceed and the agreements entered into pursuant to the Restructuring would not become unconditional and had therefore been lapsed and the whitewash waiver granted by the Securities and Futures Commission of Hong Kong and approved at the special general meeting of the Company held on 22 June 2015 was invalidated accordingly.

As a result of the lapse of the First Open Offer and the agreements entered into pursuant to the Restructuring, and that the second stage of delisting had expired and the resumption proposal submitted to the Stock Exchange lapsed, on 18 September 2015, the Listing Division of the Stock Exchange issued a letter to the Company informing the Company that they have decided to place the Company in the third stage of delisting under Practice Note 17 to the Listing Rules. The third stage of delisting will expire on 1 April 2016 and at the end of the third stage of delisting, if the Company does not provide a resumption proposal in accordance with the requirement of the Stock Exchange, the Stock Exchange will proceed with cancellation of the Company's listing.

According to the letter, the Company is required to submit a viable resumption proposal to the Stock Exchange at least 10 business days before the third stage of delisting expires to addressing to the following:

i) the Company must demonstrate sufficient operations or assets under Rule 13.24;

ii) the Company must publish all outstanding financial results and address any audit qualifications (if any); and

iii) the Company must have the winding up petition against the Company withdrawn or dismissed and the JPLs.

## 49. EVENTS AFTER THE REPORTING PERIOD (Continued)

### Listing status (Continued)

The Company has submitted the Resumption Proposal on 16 October 2015 (Bermuda time). In response to the comments from the Stock Exchange in respect of the Resumption Proposal, the Company has submitted to the Stock Exchange updated versions of the Resumption Proposal on 17 November 2015, 31 December 2015 and 25 January 2016. In support of the Resumption Proposal, the Company has also entered into certain agreements and certain supplemental agreements in relation to its business development and debt restructuring. Further announcement(s) will be made by the Company as and when appropriate.

On 14 March 2016, the Company received a letter from the Stock Exchange to allow the Company to proceed with the Resumption Proposal subject to satisfying of certain conditions by 15 July 2016, including among others:

i) completion of all transactions contemplated under the Resumption Proposal; and

ii) the Company must have the winding up petition withdrawn or dismissed and the provisional liquidators discharged.

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

### Creditors' Scheme

By an order dated 15 September 2014, the Bermuda Court directed the Scheme Meetings of the Scheme Creditors which were then held on 22 October 2014. The Bermuda Court has ordered the Scheme Meetings with the Existing Notes Creditors and Non-Note Creditors respectively. During the Scheme Meetings, a majority in number of the Scheme Creditors present and voting, representing not less than three-fourths in value of the accepted claims of the Scheme Creditors present and voting, have voted in favour to the Creditors' Scheme. Accordingly, the Creditors' Scheme was duly approved at the Scheme Meetings.

## 49. EVENTS AFTER THE REPORTING PERIOD (Continued)

**Creditors' Scheme** (Continued)

By an order dated 5 November 2014 (Bermuda time), the Bermuda Court sanctioned the proposed Creditors' Scheme between the Company and its Scheme Creditors. The Creditors' Scheme became effective and binding on the Company and all of the Scheme Creditors on 5 November 2014 (Bermuda time), upon the delivery of a copy of the order to the Bermuda Registrar of Companies.

Pursuant to the terms of the Creditors' Scheme, the Bar Time was set on 5 February 2015. In order to be entitled to receive consideration under the Creditors' Scheme in respect of any accepted liabilities:–

i) Each Existing Notes Creditor must ensure that a duly completed account holder letter is prepared by the relevant account holder and lodged with the information agent prior to the Bar Time; and

ii) Each Non-Note Creditor must ensure that a duly completed notice of claim is submitted to the information agent prior to the Bar Time.

The Scheme Creditors who fail to submit an account holder letter or notice of claim prior to the Bar Time shall have no entitlement to Scheme Consideration under the Scheme.

At the hearing held on 11 March 2016 (Bermuda time), the Bermuda Court ordered to extend the long-stop date to 1 April 2016. Details of the above were set in the Company's announcement dated 22 September 2014, 22 October 2014, 6 November 2014, 12 November 2014, 18 February 2015, 3 March 2015, 9 March 2015, 16 March 2015, 30 March 2015, 13 April 2015, 11 May 2015, 2 June 2015, 30 July 2015, 17 August 2015, 31 August 2015, 7 September 2015, 9 September 2015, 12 October 2015, 25 November 2015, 18 January 2016 and 16 March 2016 respectively.

## 50. STATEMENT OF FINANCIAL POSITION AND DEFICITS OF THE COMPANY

### a) Statement of financial position of the Company

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| **NON-CURRENT ASSET** | | |
| Interests in subsidiaries | **–** | – |
| **CURRENT ASSETS** | | |
| Amounts due from subsidiaries | **–** | – |
| Prepayments, deposits and other receivables | **3,957** | 2,539 |
| Cash and cash equivalents | **8,058** | 295 |
| Total current assets | **12,015** | 2,834 |
| **CURRENT LIABILITIES** | | |
| Amounts due to subsidiaries | **2,767** | 2,767 |
| Other payables and accruals | **265,273** | 285,573 |
| Financial guarantee contracts | **321,996** | 321,996 |
| Fixed rate guaranteed senior notes | **882,329** | 882,329 |
| Guaranteed senior convertible notes | **441,753** | 441,753 |
| Guaranteed senior payment-in-kind notes | **88,657** | 88,657 |
| Liability portion of convertible preferred shares | **435,325** | 420,717 |
| Amounts due to the ultimate holding company | **888,875** | 943,291 |
| Amount due to the immediate holding company | **2,526** | 87 |
| Loans from the immediate holding company | **3,000** | 3,000 |
| Total current liabilities | **3,332,501** | 3,390,170 |
| **NET CURRENT LIABILITIES** | **(3,320,486)** | (3,387,336) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **(3,320,486)** | (3,387,336) |
| **NON-CURRENT LIABILITIES** | | |
| Amount due to the immediate holding company | **–** | 456 |
| Loans from the immediate holding company | **140,240** | 48,681 |
| Total non-current liabilities | **140,240** | 49,137 |
| **Net liabilities** | **(3,460,726)** | (3,436,473) |
| **DEFICIENCY IN ASSETS** | | |
| Share capital | **78,206** | 78,206 |
| Deficits | **(3,538,932)** | (3,514,679) |
| **Deficiency in assets** | **(3,460,726)** | (3,436,473) |

The financial statements were approved and authorised for issue by the board of directors on 29 March 2016 and signed on its behalf by:

| **Tang Chao Zhang** | **Zhang Weibing** |
|---|---|
| *Director* | *Director* |

## 50. STATEMENT OF FINANCIAL POSITION AND DEFICITS OF THE COMPANY (Continued)

### b) Movement in the Company's deficit

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 31 December 2013 and 1 January 2014 | 2,473,241 | 60,916 | 6,236 | (6,020,536) | (3,480,143) |
| Total comprehensive loss for the year | – | – | – | (34,536) | (34,536) |
| Transfer to accumulated losses upon lapse of share options after vesting period | – | – | (452) | 452 | – |
| At 31 December 2014 and 1 January 2015 | 2,473,241 | 60,916 | 5,784 | (6,054,620) | (3,514,679) |
| Total comprehensive loss for the year | **–** | **–** | **–** | **(24,253)** | **(24,253)** |
| Transfer to accumulated losses upon lapse of share options after vesting period | **–** | **–** | **(4,087)** | **4,087** | **–** |
| At 31 December 2015 | **2,473,241** | **60,916** | **1,697** | **(6,074,786)** | **(3,538,932)** |

## 51. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Titan Oil (Asia) Ltd. | BVI | Ordinary US$1 | 100 | Investment holding |
| Titan FSU Investment Limited | BVI | Ordinary US$1,000 | 100 | Investment holding |
| TOSIL | BVI | Ordinary US$1 | 100 | Investment holding |
| Titan Oil Trading (Asia) Limited | BVI | Ordinary US$1 | 100 | Investment holding |
| Titan Bunkering Investment Limited | BVI | Ordinary US$1 | 100 | Investment holding |
| Harbour Sky Investments Limited | BVI | Ordinary US$1 | 100 | Investment holding |

## 51. PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** (Continued) | | | | |
| Shipyard Holdings | BVI | Ordinary US$1 | 100 | Investment holding |
| Create Treasure Limited | BVI | Ordinary US$1 | 100 | Investment holding |
| Titan Fujian# | Mainland China | US$30,000,000 | 100 | Investment holding |
| **Indirectly held** | | | | |
| Titan Resources Management Limited | BVI/Hong Kong | Ordinary US$1 | 100 | Provision of consultancy services |
| Ascend Success Investments Limited | Hong Kong | Ordinary HK$1 | 100 | Provision of financing services |
| Brilliance Glory Limited | Hong Kong | Ordinary HK$2 | 100 | Supply of oil products |
| 石狮市益泰润滑油脂贸易有限责任公司 | Mainland China | RMB28,000,000 | 100 | Investment holding |
| Shengxi Haixin | Mainland China | RMB50,000,000 | 100 | Supply of oil products |
| Titan TQSL | BVI | Ordinary US$10,000 | 100 | Investment holding |
| Titan Quanzhou Shipyard† | Mainland China | RMB1,040,879,823 | 100 | Shipbuilding and ship repair |
| Guangzhou Titan | Mainland China | RMB50,000,000 | 100 | Supply of oil products |

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

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

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

On 11 December 2010, the Company entered into the GCL Sale and Purchase Agreement to dispose of its 95% equity interest in a subsidiary, Titan Quanzhou Shipyard. As separately disclosed, this disposal has not yet been completed at the date of this report.

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

## 52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2016.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Revenue** | | | | | |
| Continuing operations | **–** | – | 644,325 | 1,272,127 | 1,915,886 |
| Discontinued operations | **–** | – | – | 89,577 | 281,147 |
| | **–** | – | 644,325 | 1,361,704 | 2,197,033 |
| **(Loss)/profit before tax** | | | | | |
| Continuing operations | **(32,111)** | 3,945,724 | (4,818,150) | (482,177) | (480,614) |
| Discontinued operations | **(211,025)** | (167,692) | 249,252 | (3,556,131) | (296,426) |
| | **(243,136)** | 3,778,032 | (4,568,898) | (4,038,308) | (777,040) |
| **Tax** | | | | | |
| Continuing operations | **126** | 113 | 440 | 7,854 | (5,716) |
| Discontinued operations | **1,229** | 1,229 | (1,774) | 53,310 | (576) |
| | **1,355** | 1,342 | (1,334) | 61,164 | (6,292) |
| **(Loss)/profit for the year** | **(241,781)** | 3,779,374 | (4,570,232) | (3,977,144) | (783,332) |
| Attributable to: | | | | | |
| Owners of the Company | **(241,781)** | 3,779,374 | (4,570,232) | (3,977,144) | (783,332) |
| Non-controlling interests | **–** | – | – | – | – |
| | **(241,781)** | 3,779,374 | (4,570,232) | (3,977,144) | (783,332) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **2,997,452** | 3,203,978 | 3,654,882 | 3,472,311 | 10,622,591 |
| Total liabilities | **(7,046,510)** | (7,036,612) | (11,379,208) | (6,610,884) | (9,516,000) |
| Equity portion of convertible unsecured notes in a jointly-controlled entity | **–** | – | – | – | (85,015) |
| Contingently redeemable equity in a jointly-controlled entity | **–** | – | – | – | (477,083) |
| | **(4,049,058)** | (3,832,634) | (7,724,326) | (3,138,573) | 544,493 |

# PARTICULARS OF THE INVESTMENT PROPERTY

At 31 December 2015

## COMPLETED PROPERTY HELD FOR INVESTMENT

| Location | Type | Lease term |
|---|---|---|
| A parcel of land located at Western side of Houzhu Port and Southern side of Beixing Community in Donghai Street, Fengze District, Quanzhou City, Fujian Province, the PRC | Office | Long-term lease |