# Titan Petrochemicals Group Limited

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

# ANNUAL REPORT **2017**

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# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

On behalf of the board of directors ("**Board**") of Titan Petrochemicals Group Limited (the "**Company**"), I hereby present the Annual Report of the Company for the year ended 31 December 2017.

The present market conditions in the shipbuilding and marine engineering industries remain challenging and sluggish due to sustained lower global commodity prices, therefore, the operating results of the Company would be under certain pressure this year. In addition, we have successfully acquired 江蘇宏強船舶重工有限公司 (the "**OPCO**") in November 2017 through the vigorous support from all sectors of the Company and strenuous efforts of its staff and professional advisers. This symbolizes the Company's embarking on a new journey and stepping into a new chapter.

Last year the situation of overcapacity in shipbuilding and marine engineering industry is unlikely to rebound in a short time. The management of the Company has taken positive steps to cope with this situation and to focus on the development of the ship repair and conversion business by establishing a joint venture company in Shanghai, an international shipping centre and through acquisitions and alliances with some leading large scale ship building and repair bases along the coastal region in China. Meanwhile, the Company has actively initiated debt restructuring with certain creditors, aiming to reduce the Company's debt burden and to gradually improve its operating conditions of the ship building and marine engineering business.

In 2018, the Company will continue with the above industrial distribution and to strive itself to be a leading ship repair and conversion enterprise. The adjustments of the ship building and marine engineering industry for the time being also bring an opportunity for the Company in mergers and acquisitions and business integration with leading enterprises in the industry. The Company will proactively identify high potential targets for mergers and acquisitions and continue to expand its business layout to overseas, including the ASEAN and Asia Pacific countries, in order to build a solid foundation for the sustainability and improvement in profitability of its principal business.

Looking forward, the Company will leverage its inherent competitive strengths and capture new potential business opportunities in the challenging environment and, with the expertise and strategic leadership of the management team, seek a new profit growth point for its business, so as to maximize the return to all the shareholders.

**Tang Chao Zhang**
*Chairman*

Hong Kong, 28 March 2018

# CORPORATE INFORMATION

## Directors

### Executive Directors

Mr. Tang Chao Zhang *(Chairman and Chief Executive)*
*(appointed as Chairman on 5 March 2018)*
Dr. Liu Liming
Dr. Zhang Weibing *(resigned as Chairman and executive director on 2 March 2018)*
Mr. Hu Hongwei *(redesignated from non-executive director to executive director on 1 March 2017 and resigned on 1 February 2018)*

### Non-executive Directors

Mr. Li Jiaqi *(appointed on 5 March 2018)*
Mr. Yin Lantian
*(appointed on 17 January 2018 and resigned on 6 March 2018)*
Mr. Hu Hongwei *(redesignated as executive director on 1 March 2017)*

### Independent Non-executive Directors

Mr. Lau Fai Lawrence
Ms. Xiang Siying
Dr. Han Jun

## Audit Committee

Mr. Lau Fai Lawrence *(Chairman)*
Ms. Xiang Siying
Dr. Han Jun

## Remuneration Committee

Ms. Xiang Siying *(Chairman)*
Mr. Tang Chao Zhang *(appointed on 5 March 2018)*
Dr. Han Jun
Mr. Zhang Weibing *(resigned on 2 March 2018)*

## Nomination Committee

Dr. Han Jun *(Chairman)*
*(redesignated as Chairman on 8 August 2017)*
Mr. Tang Chao Zhang *(appointed on 5 March 2018)*
Ms. Xiang Siying
Mr. Zhang Weibing *(resigned as Chairman on 8 August 2017, re-appointed as member on 17 January 2018 and resigned as member on 2 March 2018)*
Mr. Hu Hongwei *(appointed on 8 August 2017 and resigned on 17 January 2018)*

## Company Secretary

Mr. Wong Chi Shing (appointed on 17 April 2018)
Ms. Au Man Wai (resigned on 17 April 2018)

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Head Office and Principal Place of Business

4902 Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

## Principal Bankers

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd Hong Kong Branch
Citic Bank International (China) Limited
Bank of China Limited

## Auditors

Elite Partners CPA Limited

# CORPORATE INFORMATION

## Solicitors

ONC Lawyers
Angela Ho & Associates
Michael Li & Co.
Guangdong Kings Law Firm

## Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

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

## Company Website

www.petrotitan.com

## Stock Code

1192

# FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's published audited consolidated financial statements, and restated/re-presented as appropriate, as prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **1,024,146** | 760,921 | — | — | 644,325 |
| Gross profit/(loss) | **15,473** | 1,455 | — | — | (29,069) |
| (Loss)/Profit for the year | | | | | |
| Attributable to: | | | | | |
| — Owners of the Company | **(263,630)** | 1,889,840 | (241,781) | 3,779,374 | (4,570,232) |
| — Non-controlling interests | **(1,716)** | (21) | — | — | — |
| | **(265,346)** | 1,889,819 | (241,781) | 3,779,374 | (4,570,232) |

| | | At 31 December | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cash and cash equivalents | **83,385** | 257,712 | 9,989 | 1,315 | 19,664 |
| Current assets | **604,173** | 600,982 | 245,762 | 3,034,617 | 3,625,537 |
| Total assets | **4,143,308** | 3,168,254 | 2,997,452 | 3,203,978 | 3,654,882 |
| Current liabilities | **1,469,454** | 527,169 | 4,600,276 | 6,851,061 | 11,376,208 |
| Total liabilities | **3,896,644** | 3,071,025 | 7,046,510 | 7,036,612 | 11,379,208 |
| Total equity/(deficiency) | **246,664** | 97,229 | (4,049,058) | (3,832,634) | (7,724,326) |
| Equity/(deficiency) attributable to owners of the Company | **231,104** | 97,247 | (4,049,058) | (3,832,634) | (7,724,326) |

# DIRECTOR'S BIOGRAPHIES

**Mr. Tang Chao Zhang**, aged 43, appointed to the Board in 2013, is the chairman of the Board, chief executive and executive director of the Company as well as a director of several subsidiaries of the Company. Mr. Tang holds a bachelor degree in sales and marketing from Guangdong University of Foreign Studies. Mr. Tang is currently a director of 雲南振戎潤德珠寶有限公司(Yunnan Zhenrong Runde Jewellery Ltd*). Mr. Tang was the vice-president of 廣東振戎能源有限公司(Guangdong Zhenrong Energy Co., Ltd.*) and 廣東振戎石油化工有限公司(Guangdong Zhenrong Petrochemical Co., Ltd*).

**Dr. Liu Liming**, aged 68, appointed to the Board in 2016, is the executive director of the Company. Dr. Liu holds a bachelor degree in marine engineering and manufacturing from Tianjin University, a master degree in business administration from Capital University of Economics and Business and a doctoral degree in structural engineering in Tianjin University. Dr. Liu has over 50 years experience in offshore oil exploration and development, including the design, manufacturing and installing of offshore oil drilling rigs, and the design, design review, supervision and management of offshore oilfield development project. Dr. Liu is an independent director of BOMESC Offshore Engineering Company Limited since December 2012. Dr. Liu worked as general manager of China Offshore Oil Development & Engineering Corporation (中海石油工程設計公司),the deputy general manager of CNOOC Research Center, the deputy general manager of Offshore Oil Engineering Co., Ltd. and CNOOC Oil Base Group Company, the deputy executive general manager and general manager of CNOOC Gas & Power Limited, the deputy chief engineer of CNOOC, chief executive of the management committee of Fujian Province CNOOC Haixiningde Industrial Development Limited (福建省中海油海西寧德工業區開發有限公司). Dr. Liu is currently a member of the expert group of "863" Project in China's Ministry of Science and Technology and the evaluation expert of the State Science and Technology Award. Dr. Liu is a senior engineer enjoying government subsidy from china's state council.

**Mr. Li Jiaqi**, aged 34, appointed to the Board in 2018, is the non-executive director of the Company. He joined the Group since 5 March 2018. He holds the bachelor degree of the Shandong University. He is currently the managing director of 普洱印太投資管理有限公司(Puer Yintai Investments Limited*). Mr. Li was the secretary of the managing director of Guangdong Zhenrong Energy Co., Ltd. (in winding up) and previously employed by 廣州市白雲泵業集團有限公司 (Guangzhou Baiyun Pump Group Co., Ltd.*)、武廣鐵路客運專線有限公司(Wuguang Railway Passenger Line Corporation Limited*) and 山東能源新汶礦業集團有限責任公司(Shandong Energy Xinwen Mining Group Co., Ltd.*).

**Mr. Lau Fai Lawrence**, aged 46, appointed to the Board in 2014, is currently an independent non-executive director of the Company and is also the chairman of the audit committee. Mr. Lau is currently a practising certified public accountant in Hong Kong, a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. 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. Mr. Lau is an executive director of Future World Financial Holdings Limited, a non-executive director of Alltronics Holdings Limited, an independent non-executive director of Primeview Holdings Limited, and an independent non-executive director of China HK Bridge Holdings Limited, all the above companies are listed on the main board of Stock Exchange of Hong Kong Limited.

# DIRECTOR'S BIOGRAPHIES

**Ms. Xiang Siying**, aged 55, is an independent non-executive director of the Company. She is the chairman of the remuneration committee, and also a member of the audit committee and the nomination committee. Ms. Xiang holds a bachelor degree in Agriculture Economics from Beijing Agriculture University (now known as China Agriculture University) in 1986 and master degree in finance and economics from Zhongnan University of Economics and Finance (now known as Zhongnan University of Economics, Finance and Laws) as well as The Research Institute of Finance and Economic of China in 1988. Ms. Xiang also holds a master degree in business administration from London Business School in 1999. Ms. Xiang is currently a consultant for CDH Investments ("**CDH**") and has a long career in investment, banking and financial advisory services. From June 2010 to April 2016, Ms. Xiang had worked for CDH as an executive director; and before that from March 2004 to June 2010 she worked for China International Capital Corporation in its direct investment department and East Asia and Pacific department of International Finance Corporation ("**IFC**"), the World Bank Group, in Washington DC from August 1996 to March 2004, and before that Ms. Xiang was an investment analyst of IFC's representative office in China. From July 1988 to July 1991, Ms. Xiang served as an officer of Ministry of Agriculture China, in its Department of World Bank Agriculture Project Management and Department of Rural Reform Research and Farm Management. Currently, Ms. Xiang has been both independent non-executive director of China Ocean Industry Group Limited, and Huili Resources (Group) Limited since September 2017, both of which are listed on the Stock Exchange.

**Dr. Han Jun**, aged 39, appointed to the Board in 2016, is an independent non-executive director of the Company and is also a member of the audit committee, the nomination committee and the remuneration committee. Dr. Han holds a bachelor degree in economics and a master degree in international economics from Peking University, and a PhD degree in accounting from Nanyang Technological University. Dr. Han joined the School of Business of the University of Hong Kong as an Assistant Professor (in Accounting) since July 2005, and became a tenured Associate Professor since July 2011. Dr. Han's primary research interest lies in auditing and financial accounting issues such as earnings management, expectations management, and investors' reactions to financial information disclosures. Dr. Han has published research papers in top tier accounting journals such as *Accounting, Organizations and Society, The Accounting Review, Auditing: A Journal of Practice & Theory, and Journal of Accounting Research*. Dr. Han has a track record of successful research grant applications from Hong Kong Research Grants Council. Dr. Han has more than ten years teaching experience in undergraduate and graduate level courses and has published several teaching cases in both financial accounting and managerial accounting.

# CORPORATE GOVERNANCE REPORT

## Compliance with the Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures for compliance with the principles and code provisions set out from time to time in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**" and "**Listing Rules**", respectively) under Appendix 14 (the Corporate Governance Code and Corporate Governance Report ("**CG Code**")). Throughout the financial year 2017, the Group has complied with all the code provisions set out in the CG Code save for the deviation from code provisions specified below:

Pursuant to code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lau Fai Lawrence and Ms. Xiang Siying, both independent non-executive directors of the Company, were unable to attend the special general meeting held on 4 September 2017. Dr. Han Jun, an independent non-executive director of the Company, was unable to attend the special general meeting held on 20 February 2017, 4 September 2017 and the annual general meeting of the Company held on 26 June 2017 respectively as they have other engagements.

Pursuant to code provision A.1.3 of the CG Code, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year, the Company had convened 22 meetings of the Board, which give all directors to participate in the Company's decision making and operation. The Board considers that the Directors were given sufficient opportunities to raise their concerns and/or participate Board meetings or the meetings held afterwards even the notice period were short.

On 1 February 2018, Mr. Hu Hongwei has tendered his resignation as an executive director of the Company due to disagreement to the Board on issues regarding the corporate governance of the Company, in particular the roles and responsibilities of the executive directors of the Company in approving and endorsing the usage of funds of the Group.

On 2 March 2018, the Company has received a resignation letter from Dr. Zhang Weibing to resign as an executive director, chairman of the Board, a member of the remuneration committee and a member of the nomination committee of the Company due to health reasons.

On 6 March 2018, the Company has received a resignation letter from Mr. Yin Lantian to resign as a non-executive director and the chairman of special investigation committee ("**SIC**") of the Company due to his workload and other personal commitments.

The Board continues to monitor and review the Group's corporate governance practices to ensure compliance. The key corporate governance principles and practices of the Company are summarized as follows:

## The Board of Directors

### 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 the date of this report, the Board was comprised of six directors, including two executive directors, one non-executive director and three independent non-executive directors. Biographical details of the directors are set out in the "Directors' Biographies" section of this Annual Report. The Board members have no other financial, business, family or other material/relevant relationships with each other.

# CORPORATE GOVERNANCE REPORT

In order to take advantage of the skills, experiences and diversity of perspectives of the directors and in order to ensure that the directors give sufficient time and attention to the Group's affairs, we request each of the directors to disclose to the Company, the number and the nature of offices held in public companies or organisations and other significant commitments. The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the balance between the executive directors and the non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group.

The names of the directors during the year and up to the date of this report are set out below:

### Executive Directors

Mr. Tang Chao Zhang *(Chairman and Chief Executive) (appointed as Chairman on 5 March 2018)*
Dr. Liu Liming
Dr. Zhang Weibing *(resigned as Chairman and executive director on 2 March 2018)*
Mr. Hu Hongwei *(redesignated from non-executive director to executive director on 1 March 2017 and resigned on 1 February 2018)*

### Non-executive Directors

Mr. Li Jiaqi *(appointed on 5 March 2018)*
Mr. Yin Lantian *(appointed on 17 January 2018 and resigned on 6 March 2018)*
Mr. Hu Hongwei (*redesignated as executive director on 1 March 2017)*

### Independent Non-executive Directors

Mr. Lau Fai Lawrence
Ms. Xiang Siying
Dr. Han Jun

An updated list of directors identifying their roles and functions is available on the websites of the Company (www.petrotitan.com) and the Stock Exchange (www.hkexnews.hk). 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.

## Chairman and the Chief Executive

During the year under review, the roles of the chairman and chief Executive are segregated and are held by different individuals.

The chairman is responsible for providing leadership and overseeing the functioning of the Board and to ensure that it acts in the best interests of the Company and its subsidiaries (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 a consensus can be reached by the Board members. He also encourages directors to be fully engaged in Board affairs and make contributions to the Board to fulfill 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 chief executive maintains an ongoing dialogue with chairman on major business developments and issues and to adopt and execute Group strategies, policies and objectives. He is also responsible for building and maintaining an effective executive team to support his role.

# CORPORATE GOVERNANCE REPORT

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. Nevertheless, the Board will continue to regularly monitor and review the Company's current structure and to make necessary changes when appropriate.

With effect from 5 March 2018, Mr. Tang Chao Zhang , currently an executive director and chief executive of the Company, has been appointed as the chairman of the Board, a member of remuneration committee and a member of nomination committee.

## Deviation from the Corporate Governance Code

As Mr. Tang now serves as both the chairman of the Board and the chief executive, such practice deviates from code provision A.2.1 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules (the "**CG Code**"). The Board believes that vesting the roles of both the chairman and the chief executive in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of two executive directors, one non-executive director and three independent non-executive directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

## 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.

The Nomination Committee will review the Board Diversity Policy, as appropriate, and recommend any proposed changes to the Board for approval.

## 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 framework 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

During the year under review, 22 Board Meetings were held. The Board has formal procedures to include matters to be referred to the Board for consideration. Notice 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 at the Company's expenses.

# CORPORATE GOVERNANCE REPORT

The company secretary 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 of 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 secretary and are open for inspection by any director/committee member.

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 of the Company (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 close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

## Attendances of Board Meetings

During the year ended 31 December 2017, 22 full Board meetings, 4 audit committee meetings, 5 remuneration committee meetings, 3 nomination committee meetings and 3 general meetings 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 Meetings** | **Nomination Committee Meetings** | **General Meetings** |
| **Executive Directors** | | | | | |
| Mr. Tang Chao Zhang *(Chairman and Chief Executive)* (Note 1) | 22/22 | N/A | N/A | N/A | 3/3 |
| Dr. Liu Liming | 16/22 | N/A | N/A | N/A | 0/3 |
| Dr. Zhang Weibing (Note 2) | 22/22 | N/A | 5/5 | 3/3 | 1/3 |
| Mr. Hu Hongwei (Note 3) | 22/22 | N/A | N/A | 0/3 | 3/3 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Lau Fai Lawrence | 21/22 | 4/4 | N/A | N/A | 2/3 |
| Ms. Xiang Siying | 19/22 | 4/4 | 5/5 | 3/3 | 2/3 |
| Dr. Han Jun (Note 4) | 20/22 | 3/4 | 5/5 | 3/3 | 0/3 |

Note 1: Mr. Tang Chao Zhang appointed as the Chairman of the Board, members of the Nomination Committee and Remuneration Committee on 5 March 2018.

Note 2: Dr. Zhang Weibing resigned as Chairman of the Board, Executive Director, members of Remuneration Committee and Nomination Committee on 2 March 2018. Dr Zhang Weibing resigned as the Chairman of the Nomination Committee on 8 August 2017 and reappointed as the member of the Nomination Committee on 17 January 2018 and resigned on 2 March 2018.

Note 3: Mr. Hu Hongwei redesignated as the executive director on 1 March 2017. Mr. Hu Hongwei was appointed as the member at the Nomination Committee on 8 August 2017 and resigned as the member of the Nomination Committee on 17 January 2018. Mr. Hu Hongwei resigned as the Executive Director on 1 February 2018.

Note 4: Dr. Han Jun redesignated from member to chairman of Nomination Committee on 8 August 2017.

During the year under review, the Chairman of the Board met with the non-executive directors (including independent non-executive directors) without the other executive directors present.

## Continuous Professional Development of Directors

Directors keep themselves abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company.

Every newly-appointed Director will receive formal, comprehensive and tailored induction on his or her first appointment to the Board to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2017, each Director has read books/journals and attended relevant training to facilitate the discharge of their responsibilities.

In addition, relevant reading materials including legal and regulatory updates have been provided to the Directors for their reference and studying. Continuing briefing and professional development for Directors will be arranged when necessary.

## 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 practices 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.

## Nomination Committee

As at the date of this report, the Nomination Committee of the Company consists of three directors, namely Dr. Han Jun, Mr. Tang Chao Zhang and Ms. Xiang Siying. The Nomination Committee is chaired by Dr. Han Jun.

A Nomination Committee of the Board was established on 28 March 2012 to take up the functions of assessing the adequacy of the Board composition and the nomination of directors.

The Committee has specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee is available on the websites of the Company (www.petrotitan.com) and the Stock Exchange (www.hkexnews.hk).

The principal duties of the Nomination Committee include, amongst other things:

- reviewing 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;
- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board;
- assessing the independence of independent non-executive directors and review the independent non- executive director's annual confirmation on their independence;
- making 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;
- reviewing the contribution required from a director to perform his/her responsibilities, and whether he/she is spending sufficient time performing them; and
- reviewing the training and continuous professional development of directors.

During the year ended 31 December 2017, 3 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; and (v) to recommend to the Board for approval of appointment, resignation and redesignation of directors. The individual attendance for the Nomination Committee meeting had been disclosed earlier in this report.

## Audit Committee

As at the date of this report, the Audit Committee of the Company consists of three independent non-executive directors, namely Mr. Lau Fai Lawrence, Ms. Xiang Siying and Dr. Han Jun. The Audit Committee is chaired by Mr. Lau Fai Lawrence who is a practising certified public accountant.

The Audit Committee of the Board has specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee is available on the websites of the Company (www.petrotitan.com) and the Stock Exchange (www.hkexnews.hk).

The principal duties of the Audit Committee include, amongst other things:

- making recommendations to the Board on the appointment and, if necessary, the replacement/resignation or removal of the external auditors and assess their independence, performance and fee levels;
- reviewing the completeness, accuracy and fairness of the Company's interim and annual financial statements and reports;
- ensuring compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;

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

During the year ended 31 December 2017, 4 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 2017; (iii) interim results for the six months ended 30 June 2017; (iv) the adequacy and quality of accounting and financial reporting staff; (v) risk management and the internal control systems of the Group; (vi) the internal audit reports prepared by the internal audit department; and (vii) evaluated the effectiveness of internal audit function. The Audit Committee reviewed and confirmed the external auditors' independence and objectivity and to evaluate the effectiveness of the internal control systems, together with the scope of audit services and fees in connection therewith.

## Remuneration Committee

As at the date of this report, the Remuneration Committee of the Company consists of three directors, namely Ms. Xiang Siying, Mr. Tang Chao Zhang, and Dr. Han Jun. The Remuneration Committee is chaired by Ms. Xiang Siying.

The Remuneration Committee of the Board, has specific written terms of reference. The terms of reference of the Remuneration Committee is available on the websites of the Company (www.petrotitan.com) and the Stock Exchange (www.hkexnews.hk).

The principal duties of the Remuneration Committee include, amongst other things:

- making recommendations to the Board on the Company's policy and structure for all remuneration packages (including performance related pay schemes and long-term incentive arrangements) of directors and senior management of the Group 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 of the Group (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/her 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 2017, 5 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, the performance of executive directors, as well as the service contracts and 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 2017 are set out on pages 87 to 88 of this Annual Report.

## Company Secretay

The company secretary, Ms. Au Man Wai, had been appointed as the company secretary of the Company with effect from 7 July 2017. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators and has confirmed that she has taken no less than 15 hours of relevant professional trainings during the reporting year.

Ms. Au Man Wai resigned her role on 17 April 2018 and Mr. Wong Chi Shing was appointed as company secretary with effect from 17 April 2018. He is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants.

## Directors' Responsibility for Preparing Financial Statements

The directors acknowledge their responsibility for preparing financial statements which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are fair and reasonable and prepared the financial statements on a going concern basis.

The statement by the external auditors of the Company, Elite Partners CPA Limited, with respect to their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditors' Report on pages 49 to 51 of this Annual Report.

# CORPORATE GOVERNANCE REPORT

## Auditor's Remuneration

Elite Partners CPA Limited ("**Elite Partners**") has been re-appointed as the independent auditors of the Company by shareholders at the last annual general meeting. The remuneration in respect of services provided by Elite Partners to the Group in 2017 is summarised as follows:

| | **HK$'000** |
|---|---|
| Auditing services | 1,060 |
| Non-auditing services | |
| (which included agreed upon procedures and other professional services) | 57 |
| Total | 1,117 |

## Internal Control Systems and Risk Management

An internal auditor was employed by the Group on full time basis which assists the Board and the Audit Committee to discharge its duties in internal control and risk management aspects. The internal auditors, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group.

The Board acknowledges its responsibility to ensure that sound and effective internal control and risk management systems are function effectively, 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:

- achieving the Group's business objectives of attaining optimal performance and safeguarding assets against unauthorised use or disposition;
- ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication;
- ensuring compliance with the relevant legislation and regulations; and
- ensuring the controls of risk management functions effectively within the Group.

The Board has strived to ensure that the management have developed and exercised effective internal control and risk management systems and procedures that are suitable for the diversity of the businesses engaged by the Group.

The Group has established systems and procedures for disseminating inside information as defined under the SFO so as to ensure inside information is promptly identified and escalated. Directors and management of the Group received relevant trainings to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Board has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group during the year, including financial, operational and compliance controls and risk management and internal control functions, with a view to safeguarding the shareholders' investment and the Company's assets and business operations, and considers the risk management and internal control systems effective and adequate.

# CORPORATE GOVERNANCE REPORT

## Environmental policies and performance

The Group is committed to promote green operation. The subsidiaries within the Group have implemented relevant environmental protection measures to minimise the environmental damage caused during the production process. Internally, the Group encourages its employees to adopt environmentally responsible behavior to reduce use of resources, minimise waste and increase recycling.

The subsidiaries of the Company in China strictly comply with the country's environmental laws and regulations and there was no material non-compliance with relevant standards, rules and regulations during the year.

Environmental, Social and Governance Report will be reported separately from this report and will be published within three months after the publication of this 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 governing the securities transactions by the directors of the Company. Having made specific enquiries by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017.

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.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

## Shareholders' Communications

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 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 and all other general meetings, to communicate directly with the Board and management in respect of any concerns they may wish to raise.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholder's queries.

# CORPORATE GOVERNANCE REPORT

During the year, all notices of general meetings dispatched by the Company to its shareholders for meeting held were sent for annual general meeting at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual directors, and all resolutions put to the vote of the general meetings were taken by way of poll. At the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of poll were published on the websites of the Company (www.petrotitan.com) and the Stock Exchange (www.hkexnews.hk) respectively.

## Shareholders' Rights

### Convene a special general meeting

In accordance with the Bye-laws, the members holding at the date of deposit of the requisition not less than one-tenth (10%) 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 Company Secretary of the Company, to convene a special general meeting pursuant to Clause 74 of the Companies of 1981 of Bermuda (as amended) 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 Companies Act 1981 of Bermuda (as amended).

### Put forward proposals at shareholders' meetings

Shareholders representing not less than one-twentieth (5%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company or of not less than 100 shareholders of the Company may be requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meetings of the Company pursuant to Clauses 79 and 80 of the Companies Act 1981 of Bermuda (as amended). A written notice to that effect signed by the shareholders concerned must be deposited at the principal office of the Company not less than six weeks before the meeting for requisition requiring notice of resolutions, or not less than one week before the meeting for any other requisition.

### Shareholder's enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's principal office in Hong Kong or by email to the Company. In addition, shareholders can contact Tricor Tengis Limited, the Hong Kong branch share registrars and transfer office of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 3 of this annual report.

## Constitutional Documents

There is no change in the Company's constitutional documents during the year.

## 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

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 26 June 2017, the scheme limit at the New Share Option Scheme has been refreshed for a maximum of 3,203,888,773 Shares.

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

### iv) Maximum entitlement of each participant

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

### v) Time of exercise of options

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

### vi) Amount payable on acceptance

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

### vii) Basis of determining the subscription price

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

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

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

iii) the nominal value of a share.

### viii) Remaining life of the Schemes

The 2002 Share Option Scheme has no remaining life as it was terminated on 20 June 2011 but the provisions of the 2002 Share Option Scheme shall in all other respects remain in full force and effect and options granted during the life of the 2002 Share Option Scheme may continue to be exercisable in accordance with its respective terms of issue.

The remaining life of the New Share Option Scheme, which will expire on 19 June 2021, is approximately 3 years from the date of this report.

## 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:

| | Number of share option | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1 January 2017 | Granted during the year | Lapsed during the year | Exercised during the year | At 31 December 2017 | Date of grant of share options* | Exercise period of share options | Exercise price of share options HK$ |
| **Other employees** | | | | | | | | |
| In aggregate | 3,945,312 | — | (3,945,312) | — | — | 1 February 2008 | 1 February 2012 to 31 January 2017 | 0.3832 |
| | 4,508,928 | — | (3,968,800) | — | 540,128 | 1 February 2008 | 1 February 2013 to 31 January 2018 | 0.3832 |
| | 8,454,240 | — | (7,914,112) | — | 540,128 | | | |
| | *1,056,780 | — | (*989,264) | — | *67,516 | | | *3.0656 |

* Upon effective of the share consolidation on 5 September 2017, the exercise price of the outstanding share options and the number of shares to be allotted and issued upon full exercise of the outstanding share options was adjusted.

During the period, no share options were granted, exercised or cancelled.

# REPORT OF THE DIRECTORS

The directors are presenting their report together with the audited financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

## Principal Activities and Business Review

The Group is principally engaged in the businesses of trading of commodities, shipbuilding, ship repairing and manufacturing of steel structure. The principal activities of the principal subsidiaries are set out in note 45 to the consolidated financial statements.

The business review of the Group for the year ended 31 December 2017, as well as 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 33 to 48 of this Annual Report (the "**Annual Report**"). This discussion forms part of this "**Report of the Directors**".

## Financial Results

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on pages 52 to 126.

## Five-Year Financial Summary

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 127. This summary does not form part of the audited consolidated financial statements.

## Investment Property

Details of movement of the investment property of the Group during the year are set out in note 15 to the consolidated financial statements.

Particulars of the investment property of the Group as at 31 December 2017 are set out in page 128 of this annual report.

## Segmental Information

An analysis of the Group's revenue and contribution to operating results for the year ended 31 December 2017 is set out in note 4 to the consolidated financial statements.

## Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 56 of the Annual Report.

## Convertible Bond, Convertible Preferred Shares, Share Capital and Share Options

Details of the movements in the Company's convertible bond, convertible preferred shares, share capital and share options during the year are set out in notes 26, 29, 31 and 33 to the consolidated financial statements, respectively.

## Shares Issued

During the year, the Company had issued shares as follows:

### (i) Acquisition of Hong Kong Asia Pacific Aluminium Co., Limited ("Asia Pacific Aluminium")

The Group had entered into the framework agreement and the amended framework agreement in January and February 2017 respectively, pursuant to which the Company has conditionally agreed to acquire Asia Pacific Aluminium at the consideration of approximately HK$112,927,997 which shall be satisfied by the allotment and issue of 1,411,599,964 consideration shares of the Company to the vendor under the general mandate at the issue price of HK$0.08 per share by the Company under the amended framework agreement upon completion.

For details, please refer to the announcements of the Company dated 10 January 2017, 15 February 2017, 15 March 2017 and 31 March 2017 respectively.

### (ii) Loan Capitalizations

As disclosed in announcement dated 7 July 2017, there were completion of subscription in an aggregate of 992,259,413 consideration shares by loan capitalizations. An aggregate of 992,259,413 consideration shares have been allotted and issued to the respective nominee(s) of the subscriber(s) at a price of HK$0.10 per consideration share and the consideration for the issue of such consideration shares have been used to set off against the outstanding sum of approximately HK$44,856,480 and HK$54,369,461 owed by the Company to the respective subscribers accordingly.

For details, please refer to the announcements of the Company dated 20 June 2017 and 7 July 2017 respectively.

### (iii) Acquisition of Gold Dragon Enterprise Development Limited ("Gold Dragon")

On 6 October 2017, a subsidiary of the Company and the vendor entered into the sale and purchase agreement, pursuant to which the purchaser has conditionally agreed to acquire and the vendor has agreed to sell the entire issued share capital of Gold Dragon, at the consideration of HK$20,000,000 in cash and 791,666,667 consideration shares. The consideration shares will be issued and allotted under the general mandate.

For details, please refer to the announcements of the Company dated 6 October 2017, 27 October 2017, 1 November 2017, 6 November 2017 and 9 November 2017 respectively.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws 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 the Company's 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.

## Equity-Linked Agreements

Save as disclosed in the sections headed "**Share Option Schemes**" and "**Shares Issued**" on pages 18 to 20 and 22, respectively, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

## Distributable Reserves

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than its liabilities.

At 31 December 2017, the Company did not have any reserves available for distribution as calculated in accordance with the provisions of the laws of Bermuda.

## Major Customers and Suppliers

Revenue attributable to the top five largest customers in aggregate and the single largest customer of the Group accounted for approximately 89% and 50% respectively of the total revenue of the Group for the year ended 31 December 2017. Purchase attributable to the top five largest suppliers in aggregate and the single largest supplier of the Group accounted for approximately 82% and 23% respectively of the total purchase of the Group for the year ended 31 December 2017.

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.

## Borrowings

Bank and other loans repayable to the third parties within one year or on demand are classified as current liabilities. Details of bank and other loans of the Group as at 31 December 2017 are set out in note 25 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

The names of the directors during the year and up to the date of this report are set out below:

## Executive Directors

Mr. Tang Chao Zhang *(Chairman and Chief Executive) (appointed as Chairman on 5 March 2018)*
Dr. Liu Liming
Dr. Zhang Weibing *(resigned as Chairman and executive director on 2 March 2018)*
Mr. Hu Hongwei *(redesignated from non-executive director to executive director on 1 March 2017 and resigned on 1 February 2018)*

## Non-executive Directors

Mr. Li Jiaqi *(appointed on 5 March 2018)*
Mr. Yin Lantian *(appointed on 17 January 2018 and resigned on 6 March 2018)*
Mr. Hu Hongwei *(redesignated as executive director on 1 March 2017)*

## Independent Non-executive Directors

Mr. Lau Fai Lawrence
Ms. Xiang Siying
Dr. Han Jun

Under the Bye-laws, the directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board and such person is subject to retirement and re-election at the first general meeting or first annual general meeting respectively after his/her appointment. All directors are subject to retirement and re-election by the shareholders on a rotation basis and pursuant to the Bye-laws, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation such that each director shall be subject to retirement by rotation at least once every three years at the annual general meeting. The Board published the procedures for shareholders to propose a person for election as a director on the Company's website and delegated its authority to the Nomination Committee for making recommendation to the Board on the appointment or re-appointment of directors.

In accordance with the Bye-laws no. 86(2) of the Company's Bye-laws, Mr. Li Jiaqi will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with the Bye-laws no. 87(1) of the Company's Bye-laws, Mr. Lau Fai Lawrence and Ms. Xiang Siying will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Two of the independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

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.

# REPORT OF THE DIRECTORS

## Directors' Service Contracts

The independent non-executive directors are appointed for a specific term, subject to re-election, which will run until the conclusion of the third annual general meeting from the date of their last re-election and in accordance with the Bye-laws.

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

## Directors' Remuneration

Details of the directors' remuneration are set out in note 9 to the consolidated financial statements. The directors' fees are subject to shareholders' approval at general meetings. Other remunerations are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. In addition, the directors' remuneration is reviewed by the Remuneration Committee annually.

## Directors' Interests in Transactions, Arrangements and Contracts

Save as disclosed in note 37 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any transactions, arrangements and contract, of that is significant to the business of the Group to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests in Competing Business

None of the directors or their respective associates has interests in the businesses, other than being a director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

## Directors' Indemnities and Insurance

As permitted by the Bye-laws, every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in our about the execution of the duties of his or her office or otherwise in relation thereto.

Such provisions were in force during the course of the financial year ended 31 December 2017 and remained in force as at the date of this report. The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

## Connected Transactions and Continuing Connected Transactions

During the year, there was no connected transaction nor continuing connected transaction which need to be disclosed pursuant to Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## Management Contracts

On 9 April 2014, FELS Offshore Pte Ltd ("**FELS**") entered into a management services agreement with TQS and the Company (as supplemented and amended), pursuant to which FELS has conditionally agreed to provide management services for the operations 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 and 8 April 2016 respectively.

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' and Chief Executives' Interest sand Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2017, no directors and chief executives of the Company have interests and short positions in the shares, underlying shares and debentures of the Company or any 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' and Chief Executives' interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 33 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 or any other body corporate be granted to any director of the Company or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company 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 2017, so far as is known to the directors of the Company, the following companies and persons had an interests or short positions in the shares and/or 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 Securities and Futures Ordinance ("**SFO**"):

Long positions:

| **Shareholders** | **Capacity** | **Number of issued ordinary shares held** | **Number of issued preferred shares held** | **Approximate percentage(%) of shareholding** |
|---|---|---|---|---|
| GZE and parties acting in concert (Note 1 and 2) | Corporate Interest | 2,362,556,185 (L) | 69,375,000 (L) | 48.01%/1.10% |
| Sino Team Investment Development Limited | Corporate Interest | 791,666,667 (L) | — | 16.09% |

Note 1:

榮龍國際投資有限公司 (Fame Dragon International Investment Limited) ("**Fame Dragon**") (in liquidation) is directly, wholly and beneficially owned by 廣東振戎(香港)有限公司 (Guangdong Zhenrong (Hong Kong) Company Limited) ("**Guangdong Zhenrong HK**") (in liquidation), which is directly, wholly and beneficially owned by 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd.*) ("**GZE**") (in liquidation). Docile Bright Investments Limited is directly, wholly and beneficially owned by Guangdong Zhenrong HK, which is directly, wholly and beneficially owned by GZE. As disclosed in our announcement dated 5 May 2017, the Official Receiver's Office of The Government of the Hong Kong Special Administrative Region was appointed as the provisional liquidator of Fame Dragon as per a winding up petition filed by 振戎有限公司 (Zhenrong Company Limited*), an offshore subsidiary of 珠海振戎公司 (Zhuhai Zhenrong Company*) ("**Zhuhai Zhenrong**"). Zhuhai Zhenrong is the largest shareholder of GZE, which wholly owns Fame Dragon through its wholly owned subsidiary, Guangdong Zhenrong HK. Zhuhai Zhenrong and 海南利津投資有限公司 (Hainan Li Jin Investment Co. Ltd.*) ("**Hainan Li Jin**") were interested in 44.3% and 35% respectively in the share capital of GZE, and were deemed under the Securities and Futures Ordinance and to be interested in the shares in which GZE had an interest. Hainan Li Jin was owned as to 34% by Xia Ying Yan, as to 33% by He Xiao Qun and as to 33% by Liang Wei. As disclosed in our announcement dated 27 September 2017, GZE and its wholly-owned subsidiary GZE (HK) were ordered for winding up by the High Court of Hong Kong. The order was made according to the petitions filed by Industrial Bank Co., Ltd.. For details, please refer to the announcements of the Company dated 5 May 2017 and 27 September 2017 respectively.

Note 2:

According to the filing of 北京中融穩達資產管理有限公司 made pursuant to Section 336 of the SFO, it held 2,547,323,685 shares in long position and 240,212,500 shares in short position of the Company, representing approximately 61.69% and 5.81% of the issued shares of the Company respectively as at the date of this Announcement.

Save as disclosed above, and as at 31 December 2017, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## Controlling Shareholders' Interest in Contracts of Significance

Save as disclosed in the section headed "connected transactions and continuing connected transactions", at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contracts of significance or any contracts of significance for the provision of services to the Company or its subsidiaries by the controlling shareholder or any of its subsidiaries.

## Director's Interests in Transactions, Arrangements or Contracts

No director nor a connected entity of a director had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of the Company's subsidiaries was a party during the year.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, 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 8 to 20 of this Annual Report.

## Charitable Donations

No charitable donations were made by the Company during the year (2016: Nil).

## Model Code for Securities Transactions by Directors

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 2017.

## 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 all three independent non-executive directors of the Company.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017 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.

## INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

As disclosed in sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in independent auditors' report contained on pages 49 to 51 of this report, the auditor of the Company did not express an opinion on the consolidated financial statements of the Group of the year ended 31 December 2017 as a result of certain matters, including: (1) Scope limitation — Opening balances and corresponding figures; (2) Scope limitation — Impairment assessment of property, plant and equipment and prepaid land lease payments; (3) Scope limitation — Going concern.

## THE BOARD'S REPSONSE TO THE AUDITOR'S OPINION

In regard to the matters described in the section headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the Independent Auditor's Report, the Board would like to take this opportunity to provide the Boards' preliminary response and other relevant information, as well as measures taken or to be taken by management of the Company for information purpose.

### (1) THE BOARD RESPONSE TO "SCOPE LIMITATION — OPENING BALANCES AND CORRESPONDING FIGURES"

Save for the audit qualification may affect the opening balances and corresponding figures in the previous year as mentioned in the audit qualification, there is no effect of this audit qualification to the Company's consolidated financial statements for the year ended 31 December 2017 as the auditor expressed the same disclaimer of opinion on the Company's consolidated financial statements for the year ended 31 December 2016 as follows: a) scope limitation — written off prepayments, deposits and other receivables during the year ended 31 December 2016, b) scope limitation — other gain arising from the derecognition of liabilities during the year ended 31 December 2016 (details please refer to the page 40 to page 42 of the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**")). As the accounting treatment for the above a) and b) were affected only for the year ended 31 December 2016, there was no effect of such audit qualification to the Company's consolidated financial statements for the year ended 31 December 2017.

Moreover, from the Company's point of view, this audit qualification will no longer have any carry forward effect to the Company's financial statements for the year ending 31 December 2018. Therefore, this audit qualification will be no effect on the Company's consolidated financial statements in the future.

After knowing the reasons and non-recurring nature of the qualification, the Company's board and audit committee have no further comment on this qualification as they believed it was just a normal audit procedure and process for auditor to express such views on this matter relating to the opening balances. Furthermore, the Company's board and audit committee agreed that this audit qualification will be removed and will not affect the Company's consolidated financial statements in the future.

## (2) THE BOARD RESPONSE TO "SCOPE LIMITATION — IMPAIRMENT ASSESSMENT OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS"

Details of the audit qualification are as follows: 1) the auditors claimed they have not been provided with sufficient evidences to satisfy themselves as to the viability of the cash flow forecast, including but not limited to the sufficient audit evidence for the estimation of future sales and sufficiency of future working capital; and 2) there was no practical alternative audit procedures that they could perform to satisfy themselves as to whether the carrying amounts of the PPE and the Land in the consolidated statement of financial position were free from material misstatements.

The carrying amounts of the PPE and the Land of approximately HK$2,202,171,000 and HK$279,469,000 respectively were included in the consolidated statement of financial position as at 31 December 2017. Since no impairment of the PPE and the Land being provided based on the 5-year cash flow forecast provided by the management, on the assumption that the cash flow forecast is viable and achievable, the board expected that no material impact on Company's financial statements for the year ended 31 December 2017.

Details of major assumptions adopted in the relevant cash flow forecasts prepared by the management and experts of marine industry division of the Group. Based on the professional judgment of the aforesaid management and experts of marine industry division of the Group, 5-year cash flow forecast had been provided based on their estimation. The major assumptions used in cash flow forecasts include the estimation of future sales based on the corresponding shipbuilding and ship repairing plans, and senior management's estimate of future cash outflow including changes in working capital and the capital expenditure foreseeable to be incurred.

Apart from this, for the purpose of assessing the impairment for the Group's shipbuilding and repairing operation, the assets employed in Titan Quanzhou Shipyard Company Limited ("**TQS**") were identified as separate cash-generating unit ("**CGU**"). The recoverable amounts of the CGU were determined by from the value in use calculation which was based on the cash flow forecasts prepared by the senior management.

Based on the assessment of the value in use, the directors of the Company and audit committee were of the opinion that no impairment loss was required to be provided in the consolidated financial statements for the year ended 31 December 2017.

The Company and its directors consulted and requested the senior management and experts of the marine industry division of the Group to provide the 5-year cash flow forecast. The Company and the directors did question the reasonableness and accuracy of the underlying assumptions via phone conversation with senior management and experts of the marine industry division of the Group from time to time. The main issues questioned by the Company and directors include not only i) the estimation of future sales based on shipbuilding and ship repairing plans, but also ii) the change in working capital and the changes in capital expenditure if need in the 5-year forecast. The Company and its directors trusted the professional expertise and estimation from the senior management. In addition, the Company and its directors also commented and reviewed on the underlying rationale and parameters used in the valuation workings as well as the valuation report.

For the purpose of assessing the impairment for the Group's ship building and repairing operations, discounted cash flow method was chosen instead of the market approach as there is no appropriate market comparable. As said before, the recoverable amounts of the CGU were determined from the value in use calculation which was based on the cash flow forecast which the Company and its directors also believe the valuation report can provide the strong proof that no impairment loss should be provided in the consolidated financial statements for the year ended 31 December 2017.

The respective view of the Board and the audit committee that the carrying amounts of PPE and the Land are free from material misstatements and fairly stated in the company's consolidated financial statements are based on i) the 5-year cash flow forecast showing the increasing trend of the expected revenue and also the expected net cash inflow with the underlying assumptions and predictions, and ii) the valuation report, done by Access Partner Consultancy & Appraisals Limited, using the discounted cash flow method which show the business value which the business value is higher than the net asset value of TQS as at 31 December 2017. Therefore, the Board and the audit committee had different views from that of the auditors and concluded that no impairment loss for the PPE and the Land to be provided for the year ended 31 December 2017.

The audit committee's view is in line with the management's position concerning the audit qualification in particular the major assumptions adopted in the relevant cash flow forecast. Audit committee discussed with Company's auditors if the business and cash flow of TQS can fulfill the 5-year forecast, that means no impairment loss need to be provided in near future. The audit committee believes that it's in an early stage to question the business forecast of TQS as the ship building industry generally has a long business negotiation process before conclusion, thus, no impairment loss should be recorded for the year ended 31 December 2017. However, the business position and order line should be closely monitored to assess the need for impairment on a continuously basis.

The Group from time to time will review and adopt business strategy in order to operate businesses adhere to the 5-year cash flow forecast. While the expected revenue and cash flow meet the 5-year cash flow forecast, and there is sufficiency of working capital, the audit qualification will be removed in the future financial reports. The Company will arrange discussion with its auditors as to the possibility to remove this qualification when the revenue and cash flow meet the expectation as well as the sufficiency of working capital in the near future.

## (3) THE BOARD RESPONSE TO "SCOPE LIMITATION — GOING CONCERN"

The Company will take the following measures: 1) exploration of possibility of fund raising activities, such issue of new shares, issue of convertible bonds/convertible preference shares, etc, 2) considering feasibility of debt financing such as borrowings from outside parties like bank loans, 3) extension of the maturity date of the convertible bond which would be due in April 2018, 4) discussion with its ultimate holding company regarding the delay payment of interest and loan principal, 5) closely monitoring the general administrative expenses and operating cost of the Group, etc to maintain and improve the short-term liquidity.

As the above measures were in preliminary stage, the implementation timetable and status will be updated from time to time.

Besides the measures/actions to be taken mentioned above, the Board and the audit committee will treat the future years as challenging years. The Group has placed focus on shipping building industry and manufacturing of steel structure in the newly acquired the OPCO in late 2017 and also the Group will strengthen the trading of commodities aiming at higher profit margin. By the way, the Group will utilize resources to explore new business opportunities in order that the shareholders can enjoy the fruitful result in the near future.

The audit committee's view is in the same line as management position regarding to this audit qualification. As the Group incurred a net loss of approximately HK$265,346,000 for the year ended 31 December 2017 and had net current liabilities of approximately HK$865,281,000 as at 31 December 2017, there is no much room for the audit committee to discuss with the auditors to remove the qualification. But as said before, the Board and the audit committee are prudently optimistic that the Group will improve in its future operations and will have net current assets in the near future.

The Group targets to improve its performance and has net current asset in near future. The Group will discuss with the auditors in due course in this respect when the Company has net profit and net current asset in near future.

## Auditors

On 13 January 2017, HLB Hodgson Impey Cheng Limited resigned as auditors of the Company and Elite Partners CPA Limited was appointed as auditors of the Company to fill its casual vacancy on 20 February 2017.

The financial statements for the year ended 31 December 2017 have been audited by Elite Partners CPA Limited. A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Elite Partners CPA Limited as auditors of the Company.

On behalf of the Board

**Tang Chao Zhang**
*Director*

Hong Kong
28 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

The Group is principally engaged in the businesses of trading of commodities, shipbuilding, ship repairing and manufacturing of steel structure.

For the year ended 31 December 2017 (the "**Year**"), the audited consolidated revenue of the Group was approximately HK$1,024,146,000 while the audited consolidated revenue of the Group was approximately HK$760,921,000 for the year ended 31 December 2016.

During the Year, the Group's trading of commodities recorded revenue of approximately HK$920,071,000 (2016: HK$760,921,000). Revenue of approximately HK$103,066,000 was generated from shipbuilding, ship repairing and manufacturing of steel structure during the Year. During the fourth quarter of 2017, the completion of acquisition of Gold Dragon Enterprise Development Limited representing the shipbuilding revenue of approximately HK$102,559,000 generated from this sub-group being consolidated into Group. There was no comparative figure for this segment for the year of 2016.

During the Year, the Group recorded other revenue of approximately HK$3,863,000 while the other income was approximately HK$1,415,000 for the year of 2016. The other revenue for the Year was mainly due to HK$1,681,000 rental income generated in the shipyard factory in the PRC.

During the Year, the Group's administrative expenses decreased from approximately HK$155,265,000 for the year of 2016 to approximately HK$126,252,000 for the Year, principally due to the decrease in legal and professional charges occurred during the Year.

Finance cost for the Year was approximately HK$190,796,000 (2016: HK$173,437,000), representing mainly the interest from bank and other loans of approximately HK$27,676,000 (2016: HK$24,021,000) and loan interest from ultimate holding company approximately to HK$144,288,000 (2016: HK$133,058,000).

During the Year, the Group recorded loss attributable to owners of the Company of approximately HK$263,630,000, compared to the profit approximately HK$1,889,840,000 attributable to the owners of the Company for the year of 2016. The reason for the loss of the Year was mainly due to (i) the absence of the one-off non-cash gain arising from the completion of the restructuring of the Group for the Year as compared to the corresponding period in 2016; and (ii) the increase in finance cost comprising accrued on the loans from the Company's ultimate holding company.

The basic loss per share was approximately HK1.16 cents for the Year and the basic earning per share was approximately HK9.77 cents for the year of 2016. While the diluted earning per share was approximately HK1.16 cents (2016: HK9.57 cents) for the Year.

As at 31 December 2017, the cash and cash equivalents of the Group amounted to approximately HK$83,385,000, representing a decrease of approximately HK$174,327,000 as compared with the cash and cash equivalents of approximately HK$257,712,000 as at 31 December 2016. The decrease was mainly resulted from the settlement of trade payable, the operating of the shipyard and the capital injection of new investment opportunities during the Year.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2017 (2016: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### Trading Of Commodities

During the Year, the Group had recorded revenue of its trading business of various bulk commodities products including petroleum, petrochemical and other related products which achieved sales of approximately HK$920,071,000 which the revenue recorded from the trading of commodities was approximately HK$760,921,000 during the year of 2016.

### Shipbuilding, ship repairing and manufacturing of steel structure

The Company is increasing its efforts on its ship repairing business through acquisition in China's coastal regions and/or to make alliance with a number of leading local large-scale ship repair base to ensure the rational use of production settings and deployment of resources, to build up the Asian leading ship repair platform (in term of dock capacity) and to expand the business size in an orderly manner so as to enable the Company to achieve sustainable development.

The market condition in the marine related service industry remain challenging and sluggish due to sustained lower global commodity prices. The Company will review and optimize the business of the Company in due course and formulate appropriate cost-effective and efficient measure for its' shipbuilding and marine engineering business.

In the fourth quarter of 2017, the Group acquired the OPCO which operating a large shipyard situated in Nantong City, Jiangsu Province, which is only 68 kilometers away from Shanghai Pudong. Nantong is a major shipbuilding and offshore engineering base in China, with hundreds of shipbuilding and offshore engineering companies. The location of the shipyard has unique advantages for the shipbuilding business, including favorable weather and water conditions for shipbuilding, close proximity to its major suppliers and subcontractors; and easy access to a large pool of shipbuilding specialists and skilled workers in the region. The Group has been preparing to further enhance its revenue from the ship building business in 2018.

### Outlook

Going forward, the China's shipbuilding industry will face the overcapacity, price-competitiveness and fierce competition. Accordingly, some shipbuilding enterprises with operation performance are expected to ultimately survive and some of them focusing on market segments and specializing in niche market will also survive. It is expected that China's shipbuilding industry will accelerate its transformation and will generally enter into an industrial structure adjustment stage. Following the implementation of the national continuing strategies of "One Belt, One Road", "Made in China 2025" and "The thirteen five year plan", the Group would be take advantages and embracing new opportunities to continually optimize the business structure of the Company, in order to grasp the opportunities when the upturn of the China's shipbuilding market eventually comes.

The Group will continue to adopt diversified business strategies to cope with the risks of the China's domestic economy downturn, and allocate resources flexibly to seize any possible investment opportunities. The Group believes that the business will expand stably and generate fruitful value to the investors. Ultimately, the Group will continue to strengthen its overall financial and operation position in preparation for any possible changes in the industry or any new opportunities. The group is cautiously optimistic with the Group's business performance in the year of 2018.

## Liquidity and Financial Resources

### (i) Loan Capitalizations

As disclosed in announcement dated 7 July 2017, there were completion of subscription in an aggregate of 992,259,413 consideration shares by loan capitalizations. An aggregate of 992,259,413 consideration shares have been allotted and issued to the respective nominee(s) of the subscriber(s) at a price of HK$0.10 per consideration share and the consideration for the issue of such consideration shares have been used to set off against the outstanding sum of HK$54,369,461 and HK$44,856,480 owed by the Company to the respective subscribers accordingly.

For details, please refer to the announcements of the Company dated 20 June 2017 and 7 July 2017 respectively.

### (ii) Share Consolidation

Pursuant to an ordinary resolution passed of the special general meeting held on 4 September 2017, the share consolidation resolution was approved by the shareholders and that with effect from 5 September 2017, every eight of the existing issued shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share having a par value of HK$0.08 per share.

For details, please refer to the announcements and circular of the Company dated 3 July 2017, 8 August 2017 and 4 September 2017 respectively.

### (iii) Convertible Bond

(i) As disclosed in the announcement dated 13 April 2017, the Company and Sino Charm International Limited (the "**Subscriber A**") entered into the subscription agreement, pursuant to which the Company has conditionally agreed to allot and issue and the Subscriber A has conditionally agreed to subscribe for the convertible bond with an aggregate principal amount of HK$78,000,000. Based on the conversion price of HK$0.095 per conversion share, a maximum number of 821,052,631 conversion shares may fall to be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full.

The gross proceeds from the issue of the convertible bond is HK$78,000,000. The net proceeds from the issue of the convertible bond (after deducting the relevant costs and expenses) is approximately HK$77,500,000.

As disclosed in the announcement dated 28 April 2017, the subscription agreement have been fulfilled and that the convertible bonds in the principal amount of HK$78,000,000 have been issued by the Company to the subscriber on 28 April 2017.

For details, please refer to the announcements of the Company dated 13 April 2017 and 28 April 2017 respectively.

(ii) As disclosed in the announcement dated 15 December 2017, the Company and Newton Asset Management Limited (the "**Subscriber B**") entered into the subscription agreement, pursuant to which the Company has conditionally agreed to allot and issue and the Subscriber B has conditionally agreed to subscribe for the Convertible Bonds of up to an aggregate principal amount of HK$150,000,000 in cash. Based on the conversion price of HK$0.11 per conversion share, a maximum number of 1,363,636,363 conversion shares may fall to be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full.

# MANAGEMENT DISCUSSION AND ANALYSIS

As disclosed in the announcement on 21 March 2018, pursuant to the supplemental agreement to the subscription agreement signed by the Company and the Subscriber B on 28 February 2018, the long stop date was extended to 7 March 2018 (the "**Extended Long Stop Date**"). As certain of the conditions precedent of the subscription agreement are not fulfilled or waived in writing by the Company and the Subscriber B on or before the Extended Long Stop Date, and no agreement has been reached by the parties to the subscription agreement to further extend the extended long stop date, the subscription agreement lapsed in accordance with the terms thereof and the special general meeting of the Company to be held on 21 March 2018 had cancelled. The obligation of the Company and the Subscriber B under the subscription agreement immediately ceased and be null and void.

Details of the above were published in the Company's announcements dated 15 December 2017, 28 February 2018 and 7 March 2018 and the circular dated 19 January 2018.

As at 31 December 2017, the Group's net assets amounted to approximately HK$246.7 million, compared to net assets of HK$97.2 million as at 31 December 2016.

The Group financed its operations mainly through the loans from the ultimate holding company, the banks and other independent third parties in Hong Kong, Mainland China and Singapore. As at 31 December 2017,

a) The Group had:

- Cash and bank balances of HK$83.4 million (31 December 2016: HK$257.7 million). The balances were comprised of:

  — an equivalent of HK$29.8 million (31 December 2016: HK$121.0 million) denominated in US dollars ("**USD**");

  — an equivalent of HK$0.9 million (31 December 2016: HK$0.2 million) denominated in Singapore dollars ("**SGD**");

  — an equivalent of HK$8.3 million (31 December 2016: HK$91.7 million) denominated in Renminbi ("**RMB**"); and

  — HK$44.4 million (31 December 2016: HK$44.8 million) in Hong Kong dollars ("**HKD**")

- Bank and other loans of HK$487.3 million (31 December 2016: HK$390.0 million). The Group's bank and other loans having maturities within one year amounted to HK$220.0 million (31 December 2016: HK$Nil); and

- Loans from the ultimate holding company of HK$1,822.5 million (31 December 2016: HK$1,716.7 million), of which HK$1,640.3 million (31 December 2016: HK$1,630.8 million) having maturities over one year.

b) The Group had:

- Current assets of HK$604.2 million (31 December 2016: HK$601.0 million) and total assets of HK$4,143.3 million (31 December 2016: HK$3,168.3 million);
- Bank and other loans of HK$487.3 million (31 December 2016: HK$390.0 million);
- Convertible preferred shares issued by the Company (the "**Titan preferred shares**") with a liability portion of HK$394.1 million (31 December 2016: HK$379.5 million);
- Convertible bond issued by the Company with liability portion of HK$81.9 million (31 December 2016: HK$Nil); and
- Loans from the ultimate holding company of HK$1,822.5 million (31 December 2016: HK$1,716.7 million).

## Charges on Assets

The Group's banking and other facilities, were secured or guaranteed by:

- construction in progress with an aggregate carrying value of HK$780.4 million (31 December 2016: HK$735.1 million);
- machinery with an aggregate net carrying value of HK$189.8 million (31 December 2016: HK$52.8 million);
- buildings with an aggregate net carrying value of HK$490.5 million (31 December 2016: HK$393.2 million);
- prepaid land with an aggregate net carrying value of HK$290.8 million (31 December 2016: HK$244.1 million);
- investment property with an aggregate net carrying value of HK$224.4 million (31 December 2016: HK$172.0 million);
- corporate guarantees to Shanghai Pudong Development Bank executed by the subsidiaries of the ultimate holding company; and
- personal guarantees executed by a related party and a former director of the Company to Shanghai Pudong Development Bank.

## Gearing

The Group's current ratio was 0.41 (31 December 2016: 1.14). The gearing of the Group, calculated as the total bank and other loans, loans from the ultimate holding company and convertible bond to total assets decreased to 0.58 (31 December 2016: 0.66).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Contingent Liabilities

Details regarding the contingent liabilities of the Company are disclosed in note 37 to the consolidated financial statements.

## Foreign Exchange Exposure

The Group operated in PRC, Hong Kong and Singapore and primarily used RMB and USD for the business in PRC, HKD and USD in Hong Kong and USD and SGD in Singapore. The Group exposed to foreign exchange risk based on fluctuations between HKD, USD and RMB arising from its core operation in the PRC and Hong Kong. The Group does not undertake any derivatives financial instruments or hedging instruments for speculative purposes. The Group will constantly review the economic situation and its foreign currency risk profile, continue to actively monitor foreign exchange exposure to minimize the impact of any adverse currency movement.

## Actual use of proceeds from open offer

During the year ended 31 December 2016, 2,606,851,560 open offer shares and 2,600,000,000 subscription shares were allotted and issued to qualifying shareholders and the subscriber respectively on 30 June 2016.

The Company has raised approximately HK$260,685,000 and HK$260,000,000 through the open offer and subscription of shares respectively which took place on 30 June 2016. After deducting share issuance expense and professional fee regarding to the open offer and subscription of new shares, the net proceeds amounted to approximately HK$519,183,000.

The actual use of proceeds from the open offer of (i) approximately HK$264,631,000 was used as to the repayment of scheme creditors; (ii) approximately HK$34,303,000 for the upgrade and modification of Quanzhou Shipyard; (iii) approximately HK$81,711,000 was for the capital injection for the subsidiary; (iv) approximately HK$15,613,000 was for the working capital for the group; and (v) approximately HK$123,968,000 for the trading activities for the Group.

## Actual use of proceeds issuance from convertible bond

The net proceeds from the issuance of convertible bond of HK$77,500,000 were used as following: (i) approximately HK$19,800,000 was used for the payroll for the Group, rental and utilities charges of the office, legal and professional fees arising from the fund raising activities of the Company in 2017; (ii) HK$4,700,000 was used for capital injection into Sinozing Shipyard Stock Limited Company, an associated company of the Group, which focuses on marine engineering equipment and fitting, ship equipment, electro-mechanical equipment and related complementary services (including installation and maintenance service); engaging in the technical development, technical transfer and technical consulting services in the professional fields of shipping and marine engineering machinery, plant leasing arrangement and consulting services to enterprises; (iii) HK$49,000,000 was used for capital injection into Pacific Ocean Marine Limited ("**Pacific Ocean**"), a Hong Kong company which focuses on investment in ship-building industry; and (iv) HK$4,000,000 was use for the capital injection of Century Light Culture Communication Company Limited.

## Employees and Remuneration Policies

As at 31 December 2017, the Group had 415 employees (31 December 2016: 117), of which 391 employees (31 December 2016: 96) worked in Mainland China, all of which were from the OPCO, Titan Quanzhou Shipyard, and Shanghai office; 24 employees and no employee (31 December 2016: 20 and 1) worked 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 ended 31 December 2017 (2016: Nil).

## Events after the Reporting Period

The details of events after the reporting period are disclosed in note 42 to the consolidated financial statements.

## Material Acquisition and Disposal of Subsidiaries and Significant Investment

### (a) Formation of a joint venture company

(i) The Company has through its direct wholly-owned subsidiary company, Titan Oil Storage Investment Limited formed a joint venture company, namely 振戎重工股份有限公司 (Sinozing Shipyard Stock Limited Company*) ("**JV Company**") with the independent third parties in People's Republic of China on 19 January 2017.

The JV Company is located in the North Bund Area of Hongkou District, Shanghai, China ("**North Bund**"), where was entitled of "shipping Headquarter Base" in 2012 by the Ministry of Transport, the PRC. Many famous international and Chinese shipping companies registered their China headquarters in this area. The JV Company is proposed to rely on the policy and geographical advantages of the North Bund, to offer the integrated service of ship repair, shipbuilding, ship conversion, maritime construction and maritime services business starting from China market. The JV Company aims to build up a leading comprehensive service company of ship industry in Asia.

For details, please refer to the announcement of the Company dated 24 January 2017.

(ii) The Company has through its indirect wholly-owned subsidiary, Surplus Full Limited, entered into the joint venture agreement with 雲南省投資控股集團有限公司 (Yunnan Investment Holding Group Co., Ltd.*) for the establishment of the joint venture company namely 雲南雲投振戎能源有限公司 (Yunnan Yuntou Zhenrong Energy Co., Ltd*) on 5 May 2017.

The Group is principally engaged in the business of construction and repair of ship, and upstream and downstream oil and gas business. The Company has been looking for suitable investment or business opportunities to diversify the business of the Group with an objective to broaden the Group's income sources.

For details, please refer to the announcement of the Company dated 5 May 2017.

### (b) Investment in Hong Kong Asia Pacific Aluminium Co., Limited and its subsidiaries ("Asia Pacific Aluminium Group")

The Company has through its direct wholly-owned subsidiary company, Create Treasure Limited to invest in Asia Pacific Aluminium Group.

Asia Pacific Aluminium Group is principally engaged in the business of repair and reconstruction of marine and offshore drilling platforms, marine engineering equipment and facilities.

For details, please refer to the announcements dated 10 January 2017, 15 February 2017, 15 March 2017 and 31 March 2017 respectively.

## (c) Acquisition of Gold Dragon Enterprise Development Limited

On 6 October 2017, Create Treasure Limited ("**Create Treasure**"), a directly wholly-owned subsidiary of the Company, and the Sino Team Investment Development Limited ("**Sino Team**") entered into the Sale and Purchase Agreement, pursuant to which the Create Treasure has conditionally agreed to acquire and the Sino Team has agreed to sell the entire issued share capital of the Gold Dragon Enterprise Development Limited ("**Gold Dragon**"), at the consideration of HK$20 million in cash and 791,666,667 Consideration Shares. The consideration shares will be issued and allotted under the general mandate.

The target group including Gold Dragon, Long Success Shipping Limited, 舟山甬泰船務有限公司, Zhoushan City Deheng Corporate Management Limited and the OPCO.

The OPCO is operating a large shipyard situated in Nantong City, Jiangsu Province, which is only 68 kilometers away from Shanghai Pudong. Nantong is a major shipbuilding and offshore engineering base in China, with hundreds of shipbuilding and offshore engineering companies. The location of the OPCO's shipyard has unique advantages for the OPCO's shipbuilding business, including favorable weather and water conditions for shipbuilding, close proximity to its major suppliers and subcontractors; and easy access to a large pool of shipbuilding specialists and skilled workers in the region.

The OPCO's shipyard currently covers approximately 530,000 square meters and occupies approximately 1,000 meters of Yangtze River shoreline, and possesses advanced shipbuilding facilities, including three large shipbuilding berths (50,000-DWT class, 80,000-DWT class and 100,000-DWT class, respectively), one outfitting wharf, and an 80,000 square meters manufacturing plant (N.B. DWT is the acronym of deadweight tonnage). The shipyard is also equipped with goliath gantry cranes, among which, the largest one has a maximum lifting capacity of 600 tonnes. The size of the shipbuilding berths and the lifting capacity of the gantry cranes allows the shipyard to efficiently build large vessels of up to 100,000 DWT.

All the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled and Completion took place on 9 November 2017 in accordance with the sale and purchase agreement.

It has recently come to the attention of the Company that there may be irregularities in relation to the OPCO, including but not limited to that there was a civil judgment published on 21 November 2017 against Deheng to freeze 100% of the issued share capital of the OPCO. In light of such irregularities, the Board has established a special investigation committee (the "**SIC**") comprising the non-executive Director, namely Mr. Li Jiaqi as the chairman, and all the independent non-executive Directors, namely Mr. Lau Fai Lawrence, Ms. Xiang Siying and Dr. Han Jun, to investigate into the irregularities of the OPCO and the related matters.

For details, please refer to the announcements dated 6 October 2017, 27 October 2017, 1 November 2017, 6 November 2017, 9 November 2017 and 13 February 2018 respectively.

# CONTRACTUAL AGREEMENT

## The VIE Agreements

### Reasons for use of the VIE Agreements

Foreign investment activities in the PRC are mainly governed by the *Guidance Catalog of Industries for Foreign Investment* which was promulgated and amended from time to time jointly by the National Development and Reform Commission of the PRC (the "**NDRC**") and Ministry of Commerce of the PRC (the "**MOFCOM**"). On 28 June 2017, the NDRC and MOFCOM jointly released the 2017 version of the Foreign Investment Industrial Guidance Catalogue ("**2017 Catalogue**") which entered into effect from 28 July 2017. The 2017 Catalogue divides industries into four categories in the context of foreign investment, namely, "encouraged", "restricted" and "prohibited" and those industries which are not listed are "permitted".

Under the 2017 Catalogue, "design, manufacturing and maintenance of vessels (including sub-blocks)" (船舶（含分段）的修理、設計與製造) is categorized as "restricted", and the proportion of foreign investment in it cannot exceed 50%. The shipbuilding business, the principal business of the OPCO, falls within the aforesaid industry, and the Company, as a foreign investor, is subject to the aforesaid restriction in equity interest of the OPCO. Therefore, it is not feasible for the Company to hold the 100% equity interest in the OPCO, whether directly or indirectly.

In light of the above, the Sale and Purchase Agreement requires that Gold Dragon Enterprise Development Limited, Long Success Shipping Limited, Yongtai (舟山甬泰船務有限公司) ("**Yongtai**"), 舟山市德恒企業管理有限公司 (Zhoushan City Deheng Corporate Management Limited*) ("**Deheng**") and the OPCO should be reorganised in the way that Yongtai entered into a series of VIE Agreements with Deheng, Mr. Song Dehua ("**Mr. Song**") and Ms. Zhang Chunyan ("**Ms. Zhang**") ("**the Relevant Shareholder**") and parties as designated by Creature Treasure Limited (as the case may be). The VIE Agreements enabled the financial results, the entire economic benefits and the risks of the business of Deheng, which hold 100% equity interest in the OPCO, to flow into Yongtai and enabled Yongtai to gain control over Deheng. As a result, the Company held 100% equity interest in the OPCO via the VIE structure indirectly.

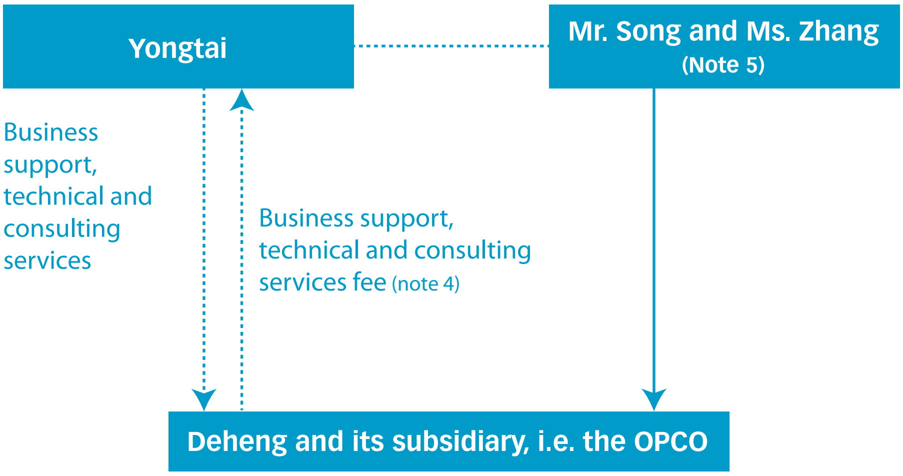
### Details of the VIE Agreements

The following diagram illustrates the flow of economic benefits from Deheng to Yongtai stipulated under the VIE Agreements:

(1) Power of attorney to exercise all shareholders' rights in Yongtai (Note 1)

(2) Exclusive option to acquire all or part of the equity interest in and/or assets of Yongtai (Note 2)

(3) First priority security interest over the entire equity interest in Yongtai (Note 3)




Notes:

1) Please refer to "Power of Attorney" for details

2) Please refer to "Exclusive Option Agreement" for details

3) Please refer to "Share Pledge Agreement" for details

4) Please refer to "Exclusive Business Cooperation Agreement" for details

5) The Relevant Shareholders are Mr. Song and Ms. Zhang, holding 90% and 10% equity interest in Deheng respectively.

"——▶" denotes direct legal and beneficial ownership in the equity interest
"- - - - - -▶" denotes contractual relationship under the VIE Agreements

## Exclusive Option Agreement

Deheng and the Relevant Shareholders entered into an exclusive option agreement with Yongtai ( the "**Exclusive Option Agreement**") , pursuant to which Yongtai ( or its offshore holding company or any subsidiaries directly or indirectly owned by Yongtai, the "**designee**") being granted an irrevocable and exclusive right to purchase from the Relevant Shareholders all or any part of their equity interests for a nominal price, and to purchase from Deheng all or any part of their asset for a nominal price (collectively the "**Purchase Right**") unless the relevant government authorities or the PRC laws request that another amount to be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders and/or Deheng shall return any amount of purchase price they have received to Yongtai. Upon Yongtai's request, the Relevant Shareholders and/or Deheng would promptly and unconditionally transfer their respective equity interests in and/or assets of Deheng to Yongtai after Yongtai exercises the Purchase Right.

The Exclusive Option Agreement valid for an initial term of ten years and will be automatically renewable upon expiry unless the entire Deheng's equity interest and/or assets has been legally and duly transferred to Yongtai or its designee, and Yongtai or its subsidiaries is allowed to conduct relevant business as Deheng will do in the PRC.

In order to prevent the flow of the assets and value of Deheng to the Relevant Shareholders, the Relevant Shareholders irrevocably undertook, during the term of the Exclusive Option Agreement, will not sell, transfer, mortgage or otherwise dispose of any of its equity ownership and/or assets exceeding the value of RMB 5,000 (tangible or intangible asset), legitimate interests of business or income or be allowed to place any encumbrances on them.

## Exclusive Business Cooperation Agreement

Deheng had entered into an exclusive business cooperation agreement with Yongtai (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Deheng agreed to engage Yongtai as its exclusive provider of business support, technical and consulting services, including technical services, business consultation, intellectual property licensing, equipment, leasing, marketing consultation, product research, and provider of management consultancy services related to Deheng's business scope in exchange for service fees. Under these arrangements, the service fee, subject to Yongtai's adjustment, will be equal to all of the net profit of Deheng after deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, if any. Yongtai may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the level of difficulty and complexity of the services, time cost, commercial value provided by Yongtai as well as the market price for the same services. To ensure Deheng fulfill the working capital requirement of daily operation and/or offset any deficit incurred in the process of operation, Yongtai have the right at its sole discretion to provide any financial support (i.e. granting loan) to the extent that relevant PRC laws permit.

Under the Exclusive Business Cooperation Agreement, Yongtai entitled to retain and exercise physical control of company seals and certificates that are important to the daily operation of Deheng, which strengthens the protection of Yongtai's interest over Deheng under the VIE Agreements.

The Exclusive Business Cooperation Agreement valid for an initial term of ten years. It will be automatically renewable upon expiry unless Yongtai confirms a new renewal term in writing.

## Share Pledge Agreement

Yongtai, the Relevant Shareholders and Deheng had entered into a share pledge agreement (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Deheng to Yongtai as collateral security for all of their payments due to Yongtai and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Power of Attorney. The Share Pledge Agreement will not terminate until (a) the final secured indebtedness is repaid and all obligations are satisfied in full; (b) Yongtai or its designee exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders when it is permitted to do so under the applicable PRC laws; (c) Yongtai or its designee exercises its exclusive option to purchase the entire assets of the Relevant Shareholders when it is permitted to do so under the applicable PRC laws; (d) Yongtai exercises its unilateral and unconditional right of termination; or (e) the agreement is required to be terminated in accordance with applicable PRC laws.

The pledges under the Share Pledge Agreement was duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

## Power of Attorney

An irrevocable power of attorney had entered into between the Relevant Shareholders, Yongtai and Deheng (the "**Power of Attorney**"), whereby the Relevant Shareholders appointed Yongtai or a director of its offshore holding company, or a liquidator or its/his/her successor as their exclusive agent and attorney to act on their behalf on all matters concerning Deheng and to exercise all of its rights as a registered shareholder of Deheng. These rights included but not limited to (a) the right to propose, convene and attend shareholders' meetings; (b) the right to sell, transfer, pledge or dispose of shares; (c) the right to exercise shareholders' voting rights; (d) the right to act as the legal representative (chair person), the director, supervisor, the Chief Executive Officer (or General Manager) and other senior management members of Deheng; (e) the authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Deheng on behalf of the Relevant Shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Relevant Shareholders undertook to transfer all assets obtained after the winding up of Deheng to Yongtai at nil consideration or the lowest price permissible by the applicable PRC laws. As a result of the Power of Attorney, the Company, through Yongtai, able to exercise management control over the activities that most significantly impact the economic performance of Deheng.

## RISKS RELATING TO THE VIE AGREEMENTS

### There is no assurance that the VIE Agreements could comply with future changes in the PRC foreign investment legal regime and the PRC government may determine that the VIE Agreements do not comply with applicable regulations.

On 19 January 2015, the MOFCOM circulated "*Foreign Investment Law of the People's Republic of China* (Draft for Comment) (中華人民共和國外國投資法(草案徵求意見稿))" (the "**Draft Law**"), which proposed changes to the PRC foreign investment legal regime and the treatment of the variable interest entity structure, including contractual arrangement such as the VIE Agreements. The Draft Law, if finally adopted, may have material impact on the PRC foreign investment legal regime.

According to our PRC Legal Adviser, the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. Under the MOFCOM's notes accompanying the Draft Law (the "**Notes**"), in the event that the OPCO's business falls within the restricted or prohibited lists of the new foreign investment law, the VIE Group will have to (i) report to competent authorities: if the reporting regime is finally adopted, the existing VIE structure being permitted to continue following reporting to MOFCOM of the VIE structure being ultimately controlled by a PRC investor, but the Draft Law and the Notes have not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the reporting regime; (ii) obtain verification from the competent authorities: if the verification regime is finally adopted, the existing VIE structure being permitted to continue following verification, on the application of the investor, by MOFCOM of the VIE structure being ultimately controlled by a PRC investor, but the Draft Law and the Notes have not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the verification regime; or (iii) obtain access permission from the competent authorities: if the access permission regime is finally adopted, the existing VIE structure being permitted to continue following access permission by MOFCOM after taking into account a number of considerations including, without limitation, the identity (whether PRC investor or foreign investor) of the ultimate control person. However, there is no guarantee that the VIE Group will be able to obtain such verification or permission. If the VIE Group is unable to obtain such verification or permission, the VIE Group may be required to terminate the contractual arrangements under the VIE Agreements. As a result, the VIE Group will lose control of Deheng, which would, in turn, result in a material adverse effect on the VIE Group's business, financial condition and results of operations.

The Board will monitor the development of the Draft Law and discuss with our PRC Legal Adviser on a regular basis in order to assess its possible impact on the VIE Agreements and the business of the VIE Group. In case there would be material impact on the VIE Group or the business of Deheng, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

Despite the foregoing, there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities. Our PRC Legal Adviser has advised that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current laws, regulations or rules of the PRC, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements. If the PRC regulatory authorities find that the VIE Agreements do not comply with the laws and regulations of the PRC, or if these regulations or their interpretations change in the future, the VIE Group could be subject to severe penalties or be forced to relinquish the VIE Group's interests in Deheng and the equity interest to be held by it in the OPCO.

## The VIE Group may bear economic risk which may arise from difficulties in the operation of Deheng and the OPCO

Although the VIE Group will not be obligated to share the losses of Deheng and the OPCO under the VIE Agreements, as the ultimate beneficiary of Deheng, which will hold the 100% equity interest in the OPCO, the VIE Group will bear economic risks which may arise from difficulties in the operation of the business of Deheng and the OPCO. In the event that Deheng or the OPCO requires financial assistance from the VIE Group, the VIE Group may decide and resolve, at its sole and absolute discretion, to provide financial support to Deheng or the OPCO in any manner permitted by relevant laws and regulations of the PRC in order to maintain its sound operation.

## The exercise of the option to acquire the ownership of Deheng may be subject to substantial costs

Under the Exclusive Option Agreement, Yongtai will be granted an irrevocable and exclusive right to purchase from the Relevant Shareholders all or any part of their equity interests for a nominal price, and to purchase from Deheng all or any part of their asset for a nominal price unless the relevant government authorities or the PRC laws request that another amount to be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. The relevant PRC authorities may require Yongtai to pay a substantial amount of enterprise income tax for the income from the ownership transfer if the purchase price is set below the market value.

## The VIE Group relies on the VIE Agreements to control and obtain the economic benefits from Deheng, which may not be as effective in providing operational control as direct ownership

The VIE Agreements may not provide control as effective as direct ownership. Under the VIE Structure, the VIE Group will have to rely on Yongtai's rights under the VIE Agreements to effect changes in the management of Deheng and make an impact on its business decision making, as opposed to exercising its rights directly as a shareholder. If Deheng or the Relevant Shareholders refuse to cooperate, the VIE Group will face difficulties in effecting control over Deheng through the VIE Structure, which may adversely affect the benefiical interests of the VIE Group.

## The Relevant Shareholders may potentially have a conflict of interests with the VIE Group

The Relevant Shareholders may have potential conflicts of interest with the VIE Group. Although there will be provisions under the Exclusive Option Agreement to prevent those situations, conflicts of interest may still arise when the interest of the Relevant Shareholders does not align with that of the VIE Group, and the Relevant Shareholders may breach or cause Deheng to breach the VIE Agreements. If the VIE Group fails to resolve this internally, it may have to resort to dispute resolution. If ultimately the Relevant Shareholders have to be removed, it will be difficult for the Company to maintain investors' confidence in the VIE Structure.

### The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

Under the laws and regulations of PRC, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. The VIE Group could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements under the VIE Agreements do not represent arm's length negotiations and consequently adjust the income and expenses of Yongtai for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect the VIE Group's financial position by increasing the relevant tax liabilities of Yongtai without reducing the tax liabilities of Deheng. In addition, the PRC tax authorities may impose late payment fees and other penalties to Yongtai for any unpaid taxes. As a result, any transfer pricing adjustment could have a material adverse effect on the VIE Group's financial position and results of operations.

### The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Company does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Group, the results of the VIE Group may be adversely affected. However, the Company will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, as mentioned above, the Company will implement relevant internal control measures to reduce the operational risk.

## MATERIAL CHANGES IN RELATION TO THE VIE AGREEMENTS

Saved as the appointment of the director to Deheng from the Group subsequent to the year ended 31 December 2017, there was no material change in the VIE Agreements and/or the circumstances under which they were adopted.

## UNWINDING OF THE VIE AGREEMENT

Up to 31 December 2017, none of the VIE Agreements has been unwound as none of the restrictions that led to the adoption of VIE Agreements has been removed.

## Litigation

### a) 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 issued by Titan Group Investment Limited ("**TGIL**") (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 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 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 BVI Court of Appeal was stayed until 20 March 2013 (BVI time) by consent of TOSIL as appellant and SSL and TGIL as respondents. The BVI Court of Appeal has been withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

A numbers of distributions to creditors of TGIL is still in progress until the liquidators of TGIL released from all obligation under the Order.

## b) Hong Kong Proceedings

On 31 December 2015, Mr. Wong Siu Hung Patrick (the "**Plaintiff**") filed a claim in the Labour Tribunal in Hong Kong against TRML for the sum of HK$1,046,551.15 allegedly due to the termination of the employment contract between the Plaintiff and the TRML (the "**Claim**"). The Plaintiff was a former executive director of the Company. He resigned as an executive director of the Company and also ceased to act as the Company's authorised representative and the directors of the wholly-owned subsidiaries of the Company on 30 September 2015. The Claim was subsequently transferred to the Hong Kong High Court and the Company was joined as second defendant. Pursuant to the directions of Hong Kong High Court dated 13 April 2016, the Plaintiff filed and served the Statement of Claim on 25 April 2016, in which the Claim amount was revised to HK$1,069,251.28. On 17 June 2016, TRML and the Company filed and served the Defense to Hong Kong High Court. The case is under progress of exchanging all the relevant documents to the High Court by the Plaintiff and the Defendants. The Plaintiff and the Defendants are seeking legal advices for possible remedial actions.

## c) PRC Proceedings

(i) TQS, a wholly-owned subsidiary of the Company, as the second defendant, was claimed by Shanghai Pudong Development Bank Fuzhou Branch ("**SPDB**") in Xiamen Maritime Court for overdue bank loan by Guangdong Zhenrong Energy Limited. The council of TQS attend the Court hearing and defended that TQS was not the appropriate defendant for this claim by SPDB against GZE. The Court rendered a judgment on 27 December 2017, declaring that SPDB had withdrawn all the claims against TQS which was the second defendant. For details, please refer to the announcements of the Company dated 31 August 2016, 17 November 2017 and 24 January 2018.

(ii) As per a writ of summons (Hui Action No.: 2483) (the "**Summons**") of the People's Court of Hui'an County, Fujian Province of the People's Republic of China (the "**Court**"), the responsible person of TQS, a directly wholly owned subsidiary of the Company, had been summoned to appear before the Enforcement Division of the Court on afternoon, 15 September 2017. The Summons is in relation to an outstanding case involving a sale and purchase agreement, which is being enforced by the Court. As the case seems to be related to the debts of TQS incurred before the resumption of the Company, which had been assumed by Fame Dragon International Investment Limited ("**Fame Dragon**"), a direct controlling shareholder of the Company.

For details, please refer to the announcement of the Company dated 18 September 2017.

(iii) 廣州華南石化交易中心有限公司 (Guangzhou Southern China Petrochemical Exchange Centre Co., Ltd.*) (the "**Southern China Petrochemical Exchange Centre**"), a subsidiary of the Company, informed the Company today that the Intermediate People's Court of Wuxi City in Jiangsu Province, the People's Republic of China had made an order to freeze 70% equity interest of Southern China Petrochemical Exchange Centre (the "**Freeze of Shares**"). The aforesaid 70% equity interest is beneficially owned by 石獅市益泰潤滑油脂貿易有限責任公司 Shishi Yitai Lubricants Youzhi Trading Co., Ltd.* ("**Shishi Yitai**"), a wholly-owned subsidiary of the Company. On 29 June 2007, Shishi Yitai and 廣州南沙振戎倉儲有限公司 Guangzhou Nansha Zhenrong Storage Co., Ltd.* ("**Nansha Storage**"), which is currently a subsidiary of the substantial shareholder of the Company GZE, entered into a shareholding entrustment agreement, pursuant to which Nansha Storage should hold, as a nominee shareholder, the abovementioned 70% equity interest for and on behalf of Shishi Yitai. The Company was informed that the Freeze of Shares was resulted from the legal proceedings of GZE and Nansha Storage in China. The total asset of Southern China Petrochemical Exchange Centre represents less than 5% of the total asset of the Group and its business is not the principal business of the Group.

For details, please refer to the announcement of the Company dated 26 September 2017.

(iv) TQS, a direct wholly-owned subsidiary of the Company, had received a civil judgment ((2015) Fujian Min Chu Zi No.:153) (the "**Civil Judgment**") on 12 November 2017 issued by the China Fujian Provincial People's High Court (the "**Court**") and informed the Company on 13 November 2017. The Civil Judgment is in relation to the debts dispute between Guangdong Zhenrong Energy Co., Ltd ("**GZE**"), the controlling shareholder of the Company, and its creditor 廈門市金財投資有限公司 Xiamen Jincai Investment Company Limited* ("**Jincai Investment**"). In that case, as GZE is indebted to Jincai Investment, whereas TQS is indebted to GZE, Jincai Investment had, based on its subrogated rights, filed legal proceeding against TQS with the Court and requested TQS for direct repayment. The Court decided to agree with the partial requests of Jincai Investment and as per the Civil Judgment, TQS was ordered to repay directly to Jincai Investment for GZE's loan principal and interest indebted to Jincai Investment in total of RMB527,619,419.31.

For details, please refer to the announcement of the Company dated 13 November 2017 and 17 November 2017.

(v) TQS, a wholly-owned subsidiary of the Company had received a notice of maturity debt note ((2016) Guangdong 01 Zhi 552, one of 553 (the "**Notice of Maturity Debt Note**") issued by Guangdong Province Intermediate People's Court, Guangzhou City. The Notice of Maturity Debt Note involving the financial disputes between GZE and its creditors, 陽泉煤業集團國際貿易有限公司 (Yangquan Coal Industry Group International Trade Company Ltd*), the court had ordered to freeze the rights of the maturity of debts owned by GZE in TQS, in the limit of RMB249,328,173.39.

For details, please refer to the announcement of the Company dated 31 August 2016 and 24 January 2018.

# INDEPENDENT AUDITORS' REPORT

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

**TO THE MEMBERS OF TITAN PETROCHEMICALS GROUP LIMITED**
*(incorporated in Bermuda with limited liability)*

## Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Titan Petrochemicals Group Limited Company ("**the Company**") and its subsidiaries (together the "**Group**") set out on pages 52 to 126, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Disclaimer of Opinion

### 1. Scope limitation — Opening balances and corresponding figures

The auditors' report dated 31 March 2017 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2016 was disclaimed as a result of scope limitation on (i) written off of prepayments, deposits and other receivables; (ii) derecognition of liabilities for amount due to deconsolidated subsidiaries; (iii) derecognition of liabilities for amount due to deconsolidated jointly-controlled entity; and (iv) derecognition of liabilities for other payables and accruals. As a result, 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 2016 and 2017 and its results for the years ended 31 December 2016 and 2017, and the presentation and disclosure thereof in the consolidated financial statements.

## 2. Scope limitation — Impairment assessment of property, plant and equipment and prepaid land lease payments

As at 31 December 2017, property, plant and equipment and prepaid land lease payments of approximately HK$2,202,171,000 and HK$279,469,000 were related to the Group's shipbuilding operation located in Quanzhou, the PRC which was operated by Titan Quanzhou Shipyard Co., Ltd ("**TQS**").

For the purpose of assessing the impairment for the Group's shipbuilding operation, the assets employed in TQS are identified as separate cash-generating unit ("**CGU**"). The recoverable amounts of the CGU were determined from the value in use calculation which was based on the cash flow forecasts prepared by the management. The major assumptions used in the cash flow forecasts mainly comprised of (i) estimation of future sales based on the corresponding shipbuilding production plans; and (ii) management's best estimate of future cash outflow including changes in working capital and the incremental capital expenditure foreseeable to be incurred. Based on the assessment of the value in use, the directors of the Company were in the opinion that no impairment loss have been provided in the consolidated financial statements for the year ended 31 December 2017.

Nevertheless, we have not been provided with sufficient evidences to satisfy ourselves as to the viability of the cash flow forecast, including but not limited to the sufficient audit evidence for the estimation of future sales and sufficiency of future working capital. There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to whether the carrying amounts of property, plant and equipment and prepaid land lease payments of approximately HK$2,202,171,000 and HK$279,469,000 included in the consolidated statement of financial position were free from material misstatements.

## 3. Scope limitation — Going concern

The Group incurred a net loss of approximately HK$265,346,000 for the year ended 31 December 2017 and had net current liabilities of approximately HK$865,281,000 as at 31 December 2017.

As explained in the basis of preparation set out in the consolidated financial statements, the consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group as described to the consolidated financial statements. In view of the extent of the material uncertainties relating to the results of the measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liability as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 Accounts (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA and to issue an auditor's report. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement partner on the audit resulting in this independent auditor's report is Yip Kai Yin with practising certificate number P05131.

**Elite Partners CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 March 2018

10th Floor,
8 Observatory Road, Tsim Sha Tsui,
Kowloon, Hong Kong

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5(i) | **1,024,146** | 760,921 |
| Cost of sales | | **(1,008,673)** | (759,466) |
| **Gross profit** | | **15,473** | 1,455 |
| Other income | 5(ii) | **3,863** | 1,415 |
| Other gain or loss | 6 | **40,590** | 2,221,204 |
| Share results of associated companies | 17 | **(1,878)** | — |
| General and administrative expenses | | **(126,252)** | (155,265) |
| Finance costs | 7 | **(190,796)** | (173,437) |
| (Loss)/Profit before tax | 8 | **(259,000)** | 1,895,372 |
| Income tax expense | 11 | **(6,346)** | (5,553) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(265,346)** | 1,889,819 |
| **(Loss)/Profit for the year attributable to:** | | | |
| Owners of the Company | | **(263,630)** | 1,889,840 |
| Non-controlling interests | | **(1,716)** | (21) |
| | | **(265,346)** | 1,889,819 |
| **BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 12 | | |
| Basic per share (HK cents) | | **(1.16)** | 9.77 |
| Diluted per share (HK cents) | | **(1.16)** | 9.57 |

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 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **(Loss)/Profit for the year** | **(265,346)** | 1,889,819 |
| **Other comprehensive income/(loss)** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of foreign operations | **1,448** | (24,206) |
| Other comprehensive income/(loss) for the year, net of tax | **1,448** | (24,206) |
| **Total comprehensive (loss)/income for the year** | **(263,898)** | 1,865,613 |
| **Total comprehensive (loss)/income attributable to:** | | |
| Owners of the Company | **(262,182)** | 1,865,631 |
| Non-controlling interests | **(1,716)** | (18) |
| | **(263,898)** | 1,865,613 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **2,593,434** | 2,113,588 |
| Prepaid land lease payments | 14 | **337,101** | 281,650 |
| Investment property | 15 | **224,419** | 172,034 |
| Goodwill | 16 | **138,595** | — |
| Interests in associated companies | 17 | **55,426** | — |
| Available-for-sale financial assets | 18 | **190,160** | — |
| Total non-current assets | | **3,539,135** | 2,567,272 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **24,430** | 39,363 |
| Trade receivables | 20 | **309,714** | 209,274 |
| Prepayments, deposits and other receivables | 21 | **177,504** | 94,633 |
| Tax recoverable | | **784** | — |
| Available-for-sale financial assets | 18 | **8,356** | — |
| Cash and cash equivalents | 22 | **83,385** | 257,712 |
| Total current assets | | **604,173** | 600,982 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 23 | **179,194** | 183,352 |
| Other payables and accruals | 24 | **456,554** | 188,000 |
| Bank and other loans | 25 | **221,991** | — |
| Interest payable of bank and other loans | | **77,449** | — |
| Convertible bond | 26 | **81,853** | — |
| Tax payable | | **—** | 930 |
| Amounts due to associated companies | 27 | **46,465** | — |
| Amount due to the ultimate holding company | 28 | **405,948** | 154,887 |
| Total current liabilities | | **1,469,454** | 527,169 |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(865,281)** | 73,813 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,673,854** | 2,641,085 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest payables of other loans | | **261** | 50,290 |
| Bank and other loans | 25 | **265,315** | 390,020 |
| Amount due to the ultimate holding company | 28 | **1,640,251** | 1,630,842 |
| Convertible preferred shares | 29 | **394,116** | 379,509 |
| Deferred tax liabilities | 30 | **127,247** | 93,195 |
| Total non-current liabilities | | **2,427,190** | 2,543,856 |
| **NET ASSETS** | | **246,664** | 97,229 |
| **EQUITY** | | | |
| **Attributable to owners of the Company** | | | |
| Share capital | 31 | **393,645** | 306,273 |
| Reserves | 32 | **(162,541)** | (209,026) |
| | | **231,104** | 97,247 |
| Non-controlling interests | | **15,560** | (18) |
| **TOTAL EQUITY** | | **246,664** | 97,229 |

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2018 and signed on its behalf by:

**Tang Chao Zhang**
*Director*

**Liu Liming**
*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 2017

| | Total equity attributable to the owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Convertible bond reserve HK$'000 | Share option reserve HK$'000 | PRC statutory reserve HK$'000 | Asset revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2016 | 78,206 | 2,473,241 | 18,261 | — | 1,697 | 175 | 108,105 | 180,220 | (6,908,963) | (4,049,058) | — | (4,049,058) |
| Profit/(loss) for the year | — | — | — | — | — | — | — | — | 1,889,840 | 1,889,840 | (21) | 1,889,819 |
| Other comprehensive (loss)/income | — | — | — | — | — | — | — | (24,209) | — | (24,209) | 3 | (24,206) |
| Total comprehensive (loss)/income | — | — | — | — | — | — | — | (24,209) | 1,889,840 | 1,865,631 | (18) | 1,865,613 |
| Issue of shares | 228,067 | 2,052,607 | — | — | — | — | — | — | — | 2,280,674 | — | 2,280,674 |
| Lapse of share options after vesting period | — | — | — | — | (425) | — | — | — | 425 | — | — | — |
| At 31 December 2016 and at 1 January 2017 | 306,273 | 4,525,848 | 18,261 | — | 1,272 | 175 | 108,105 | 156,011 | (5,018,698) | 97,247 | (18) | 97,229 |
| Loss for the year | — | — | — | — | — | — | — | — | (263,630) | (263,630) | (1,716) | (265,346) |
| Other comprehensive income | — | — | — | — | — | — | — | 1,448 | — | 1,448 | — | 1,448 |
| Total comprehensive income/(loss) | — | — | — | — | — | — | — | 1,448 | (263,630) | (262,182) | (1,716) | (263,898) |
| Issue of shares | 87,372 | 308,295 | — | — | — | — | — | — | — | 395,667 | — | 395,667 |
| Issue of convertible bond | — | — | — | 372 | — | — | — | — | — | 372 | — | 372 |
| Lapse of share options after vesting period | — | — | — | — | (1,189) | — | — | — | 1,189 | — | — | — |
| Acquisition of non-controlling interests | — | — | — | — | — | — | — | — | — | — | 17,294 | 17,294 |
| **At 31 December 2017** | **393,645** | **4,834,143** | **18,261** | **372** | **83** | **175** | **108,105** | **157,459** | **(5,281,139)** | **231,104** | **15,560** | **246,664** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| (Loss)/Profit before tax: | **(259,000)** | 1,895,372 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **50,343** | 45,080 |
| Amortisation of prepaid land lease payments | **7,012** | 6,969 |
| Interest income | **(385)** | (80) |
| Finance costs | **190,796** | 173,437 |
| Transaction cost on issue of convertible bond | **500** | — |
| Gain arising on change in fair value of investment property | **(40,030)** | (27,159) |
| Loss on disposal of property, plant and equipment | **57** | — |
| Share results of associated companies | **1,878** | — |
| Gain on loan capitalisation | **(30,760)** | — |
| Gain on sales of available-for-sale financial assets | **(504)** | — |
| Gain on disposal of investment | **(3,948)** | — |
| Provision for obsolete inventories | **39,778** | — |
| Gain on fair value change of preferred shares | **—** | (70,424) |
| Written off of prepayment, deposit and other receivables | **—** | 30,724 |
| Derecognition of other payables and accruals | **—** | (39,145) |
| Gain on restructuring | **—** | (1,542,091) |
| Gain on settlement of amount due to a deconsolidated subsidiary | **—** | (324,209) |
| Derecognition of amount due to deconsolidated subsidiaries | **—** | (141,560) |
| Derecognition of amount due to deconsolidated jointly controlled entity | **—** | (98,953) |
| Reversed of overprovision of legal fee | **—** | (23,400) |
| Operating cash flows before working capital change | **(44,263)** | (115,439) |
| Decrease in inventories | **65,358** | — |
| Decrease/(Increase) in trade receivables | **6,688** | (209,274) |
| (Increase)/Decrease in prepayments, deposits and other receivables | **(14,260)** | 41,816 |
| (Decrease)/Increase in trade payables | **(280,848)** | 183,352 |
| Increase in other payables and accruals | **89,055** | 127,096 |
| Increase in amounts due to associated companies | **46,465** | — |
| Cash (used in)/generated from operations | **(131,805)** | 27,551 |
| Tax paid | **(1,714)** | (7) |
| Net cash (used in)/generated from operating activities | **(133,519)** | 27,544 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **385** | 80 |
| Purchase of property, plant and equipment | **(5,308)** | (831) |
| Sales proceeds from disposal of property, plant and equipment | **17** | — |
| Payment for investment in associated companies | **(57,304)** | — |
| Payment for investment in available-for-sale financial assets | **(56,852)** | — |
| Cash outflow from acquisition of subsidiaries | **(18,809)** | — |
| Net cash used in investing activities | **(137,871)** | (751) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of convertible bond | **77,500** | — |
| Loans from ultimate holding company | **—** | 5,668 |
| Repayment of loans from immediate holding company | **—** | (88,870) |
| Repayment of other loan | **—** | (5,850) |
| Settlement of fixed rate guaranteed senior notes | **—** | (140,772) |
| Settlement of guaranteed senior convertible notes | **—** | (57,489) |
| Settlement of guaranteed senior payment-in-kind notes | **—** | (12,870) |
| Settlement of notes payables | **—** | (20,290) |
| Interest paid | **—** | (70) |
| Issuance of shares | **—** | 520,686 |
| Decrease in restricted cash | **—** | 26,547 |
| Net cash generated from financing activities | **77,500** | 226,690 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(193,890)** | 253,483 |
| Cash and cash equivalents at the beginning of the year | **257,712** | 9,989 |
| Effect of foreign exchange rate changes, net | **19,563** | (5,760) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **83,385** | 257,712 |

## 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 Group is principally engaged in the businesses of trading of commodities, shipbuilding, ship repairing and manufacturing of steel structure. The principal activities of its principal subsidiaries are set out in note 45.

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

On 2 May 2017, Fame Dragon had received an order from the High Court of Hong Kong, appointing the Official Receiver's Office of The Government of the Hong Kong Special Administrative Region as the provisional liquidator of Fame Dragon as per a winding up petition filed by 振戎有限公司 (Zhenrong Company Limited*), an offshore subsidiary of 珠海振戎公司 (Zhuhai Zhenrong Company*, "**Zhuhai Zhenrong**"). Zhuhai Zhenrong is the largest shareholder of 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd*) ("**GZE**"), which wholly owns Fame Dragon through its wholly owned subsidiary, Guangdong Zhenrong (Hongkong) Company Limited. On 13 March 2018, the Company received an order regarding that Mr. Osman Mohammed Arab and Mr. Wong Kwok Keung, both of RSM Corporate Advisory (Hong Kong) Limited, were appointed as the joint and several liquidators of the Fame Dragon. For details, please refer to the announcement of the Company dated 5 May 2017 and 13 March 2018 respectively.

On 27 September 2017, GZE and its wholly-owned subsidiary Guangdong Zhenrong (Hong Kong) Company Limited ("**GZE HK**") were ordered for winding up by the High Court of Hong Kong. The order was made according to the petitions filed by Industrial Bank Co., Ltd.. Fame Dragon is a wholly-owned subsidiary of GZE (HK) and GZE (HK) is a wholly owned subsidiary of GZE. For details, please refer to the announcement of the Company dated 27 September 2017.

## 2.1 Basis of Preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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. These consolidated financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.1 Basis of Preparation (continued)

The Group incurred a net loss of approximately HK$265,346,000 for the year ended 31 December 2017 and had net current liabilities of approximately HK$865,281,000 as at 31 December 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the date of approval of these consolidated financial statements, on the basis that:

(i) the Directors will strengthen to implement measures aiming of improving the working capital and cash flows of the Group including closely monitor the general administrative expenses and operating costs; and

(ii) the Directors will negotiate with certain bankers to obtain additional banking facilities, if necessary.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

## 2.2 Applications of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied for the first time the following amendments to HKFRSs that are mandatorily effective for an accounting period that begins on or after 1 January 2017:

- Amendment to HKAS 7 Disclosure Initiative;
- Amendment to HKAS 12 Recognition of Deferred Tax Assets for Unrealised losses; and
- Annual Improvements to HKFRSs, 2014-2016 Cycle

The amendments to HKAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities. Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

The amendments to HKAS 12 clarify when unrealised losses on a debt instrument measured at fair value would give rise to a deductible temporary difference and how to evaluate whether sufficient future taxable profits are available to utilise a deductible temporary difference. The application of the amendments has not had any material effect on the consolidated financial statements.

## 2.2 Applications of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

Annual improvements to HKFRSs (2014-2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 Non-current Assets held for Sale and Discontinued operations, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 Disclosure of Interests in Other Entities.

The Group has not early adopted any new or revised HKFRSs that are not yet mandatorily effective for the current year.

## 2.3 New and Revised HKFRSs that are not Mandatorily Effective for the Current Year

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 and amendments to HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRS Standards 2014-2016 Cycle[4] |
| HK(IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) Interpretation 23 | Uncertainty over Income Tax Treatments[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 For those amendments that will become effective for annual periods beginning on or after 1 January 2018

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

## 2.4 Summary of Significant Accounting Policies

### Basis of consolidation

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

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

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

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

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

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

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

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

## 2.4 Summary of Significant Accounting Policies (continued)

### Basis of consolidation (continued)

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.

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.

### 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 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Business combinations and goodwill (continued)

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

If the business combination is achieved in stages, the 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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;

## 2.4 Summary of Significant Accounting Policies (continued)

### Related parties (continued)

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

i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

iii) both entities are joint ventures of the same third party;

iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

vi) the entity is controlled or jointly controlled by a person identified in (a);

vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

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

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation (continued)

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 | 3 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.

### 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.

## 2.4 Summary of Significant Accounting Policies (continued)

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

If a prepaid land 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 trade receivables, cash and cash equivalents and other receivables and deposits.

#### Subsequent measurement

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

#### 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets

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

#### Financial assets carried at amortised cost

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

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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the 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 trade payable, other payables and accruals, 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, and liability portion of the convertible preferred shares (the "**Titan preferred shares**").

## 2.4 Summary of Significant Accounting Policies (continued)

### Financial liabilities (continued)

#### Subsequent measurement

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

#### Loans and borrowings

After initial recognition, financial liabilities 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.

### 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.

### 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct 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.

### 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Income tax (continued)

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

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

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

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

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

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

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

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

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

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

## 2.4 Summary of Significant Accounting Policies (continued)

### Revenue recognition

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

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

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

c) 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Share-based payment transactions (continued)

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

### Other employee benefits

#### 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.

### Borrowing costs

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

### Foreign currencies

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

## 2.4 Summary of Significant Accounting Policies (continued)

### Foreign currencies (continued)

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.

### 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Contingent liabilities and contingent assets (continued)

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 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.

#### Fair value of shares issued

For shares issued as part of consideration to extinguish fixed rate guaranteed senior notes, guaranteed senior convertible notes, guaranteed senior payment-in-kind notes, notes payable, their fair values could not be reliably measured as the Company's shares were still under suspension when the shares were issued. Accordingly, the fair value of the liabilities extinguished were used to measure the shares issued as consideration.

#### 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.

## 3. Significant Accounting Judgements and Estimates (continued)

### Net realisable value of inventories

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

### Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

### Control over a subsidiary

Notwithstanding the lack of equity ownership in 舟山市德恒企業管理有限公司 (Zhoushan City Deheng Corporation Management Limited) ("**Deheng**"), the Group is able to exercise control over Deheng through a series of agreements with all of its registered shareholders (the "**VIE agreements**").

The directors of the Company assessed whether or not the Group has control over Deheng based on whether the Group has the practical ability to direct the relevant activities of Deheng unilaterally. In making their judgement, the Directors considered the Group's rights through the VIE Agreements and concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Deheng and therefore the Group has control over Deheng.

### Classification of investments in unlisted equity securities

Certain investments in unlisted equity securities are not classified as an associate nor accounted for using equity method, even though the Group owns or potentially owns more than 20% ownership interest in those investments. In the opinion of the directors, the Group has no significant influence over those investments since the Group and each of the investee entered into a relevant agreement to conclude the followings:

— the Group did not have any representative on the board of directors or equivalent governing body of those investments;

— the Group did not participate in policy-making processes, including participation in decisions about dividends or other distributions; and

— the Group did not interchange any managerial personnel with those investments.

As the Group did not act to fulfill any one of the issues stated above, it does not consider as having significant influence on the investments. Hence, those investments are not considered as the associate of the Group.

## 4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and are principally engaged in: (a) trading of commodities; and (b) shipbuilding, ship repairing and manufacturing of steel structure.

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 results, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax 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 2017.

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. The intersegment sales for the year ended 2017 was approximately HK$12,258,000 (2016: HK$Nil).

**Year ended 31 December 2017**

| | Trading of commodities HK$'000 | Shipbuilding, ship repairing and manufacturing of steel structure HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| — Revenue from external customers | 920,071 | 103,066 | 1,009 | 1,024,146 |
| **Segment results** | 14,400 | (94,981) | — | (80,581) |
| Adjusted for: | | | | |
| — interest income | — | — | 385 | 385 |
| — other income | — | — | 1,400 | 1,400 |
| — other gain | — | — | 5,126 | 5,126 |
| — other expenses | — | — | (36,634) | (36,634) |
| Add: depreciation and amortisation | 348 | 54,884 | 2,123 | 57,355 |
| Operating profit/(loss) before interest, tax, depreciation and amortisation | 14,748 | (40,097) | (27,600) | (52,949) |
| Gain on fair value change of investment property | — | — | 40,030 | 40,030 |
| Gain on disposal of investment | — | — | 3,948 | 3,948 |
| Share results of associated companies | — | — | (1,878) | (1,878) |
| Profit/(loss) before interest, tax, depreciation and amortisation | 14,748 | (40,097) | 14,500 | (10,849) |
| Depreciation and amortisation | (348) | (54,884) | (2,123) | (57,355) |
| Finance costs | — | (165,828) | (24,968) | (190,796) |
| Profit/(loss) before tax | 14,400 | (260,809) | (12,591) | (259,000) |

## 4. Operating Segment Information (continued)

**Year ended 31 December 2016**

| | Trading of commodities HK$'000 | Shipbuilding, ship repairing HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| — Revenue from external customers | 760,921 | — | — | 760,921 |
| **Segment results** | 5,510 | (37,071) | — | (31,561) |
| Adjusted for: | | | | |
| — interest income | — | — | 80 | 80 |
| — other income | — | — | 8,168 | 8,168 |
| — other loss | — | — | (45,737) | (45,737) |
| — other expenses | — | — | (66,537) | (66,537) |
| | 5,510 | (37,071) | (104,026) | (135,587) |
| Add: depreciation and amortisation | 171 | 51,157 | 721 | 52,049 |
| Operating profit/(loss) before interest, tax, depreciation and amortisation | 5,681 | 14,086 | (103,305) | (83,538) |
| Gain arising on change in fair value of investment property | — | — | 27,159 | 27,159 |
| Gain arising on change in fair value of Titan preferred shares | — | — | 70,424 | 70,424 |
| Gain on restructuring | — | — | 1,542,091 | 1,542,091 |
| Gain on settlement of amount due to a deconsolidated subsidiary | — | — | 324,209 | 324,209 |
| Derecognition of amount due to deconsolidated subsidiaries | — | — | 141,560 | 141,560 |
| Derecognition of amount due to a deconsolidated jointly-controlled entity | — | — | 98,953 | 98,953 |
| Profit before interest, tax, depreciation and amortisation | 5,681 | 14,086 | 2,101,091 | 2,120,858 |
| Depreciation and amortisation | (171) | (51,157) | (721) | (52,049) |
| Finance costs | — | (150,266) | (23,171) | (173,437) |
| Profit/(loss) before tax | 5,510 | (187,337) | 2,077,199 | 1,895,372 |

## 4. Operating Segment Information (continued)

### Geographical information

| | Mainland China | | Other Asia Pacific countries | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2017 HK$'000** | 2016 HK$'000 | **2017 HK$'000** | 2016 HK$'000 | **2017 HK$'000** | 2016 HK$'000 |
| a) Revenue | | | | | | |
| Revenue from external customers | **133,496** | — | **890,650** | 760,921 | **1,024,146** | 760,921 |
| b) Other information | | | | | | |
| Segment assets | **583,042** | 2,688,694 | **3,560,266** | 479,560 | **4,143,308** | 3,168,254 |
| Segment liabilities | **620,460** | 2,435,837 | **3,276,184** | 635,188 | **3,896,644** | 3,071,025 |
| Capital expenditures | **6,127** | 817 | **12** | 14 | **6,139** | 831 |
| c) Non-current assets | **3,434,421** | 2,566,508 | **104,714** | 764 | **3,539,135** | 2,567,272 |

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

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Customer A | **513,697** | 479,479 |
| Customer B | **211,344** | 281,442 |

## 5. Revenue and Other Income

### (i) Revenue

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trading of commodities | 920,071 | 760,921 |
| Shipbuilding, ship repairing and manufacturing of steel structure | 103,066 | — |
| Others | 1,009 | — |
| | 1,024,146 | 760,921 |

### (ii) Other income

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Rental income | 1,681 | 1,182 |
| Bank interest income | 385 | 80 |
| Sundry income | 1,797 | 153 |
| | 3,863 | 1,415 |

## 6. Other Gain or Loss

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Gain on restructuring (note (a)) | — | 1,542,091 |
| Gain on settlement of amount due to a deconsolidated subsidiary (note (b)) | — | 324,209 |
| Gain on fair value change of investment property | **40,030** | 27,159 |
| Gain on loan capitalisation | **30,760** | — |
| Gain on fair value change of Titan preferred shares | — | 70,424 |
| Gain on disposal of investment | **3,948** | — |
| Provision for obsolete inventories | **(39,778)** | — |
| Gain on sale of available-for-sale financial assets | **504** | — |
| Derecognition of amount due to deconsolidation subsidiaries (note (c)) | — | 141,560 |
| Derecognition of amount due to a deconsolidated jointly-controlled entity (note (d)) | — | 98,953 |
| Derecognition of other payables and accruals | — | 39,145 |
| Reversal of overprovision of legal fee | — | 23,400 |
| Exchange difference | **5,126** | (45,737) |
| | **40,590** | 2,221,204 |

Note:

(a) Gain on restructuring include the following:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Gain on settlement of fixed rate guaranteed senior notes, guaranteed senior convertible notes, guaranteed senior payment-in-kind notes (note (i)) | — | 1,020,839 |
| Gain on settlement of notes payable (note (ii)) | — | 182,606 |
| Gain on settlement of non-note creditors (note (iii)) | — | 338,646 |
| Gain on restructuring | — | 1,542,091 |

(i) The Senior Notes Due 2012, guaranteed senior convertible notes (the "**Convertible Notes Due 2015**") and guaranteed senior payment-in-kind notes (the "**PIK Notes Due 2015**") are collectively defined as "Notes".

Pursuant to a Bermuda scheme of arrangement (the "**Scheme of Arrangement**"), all liabilities of the Company owed in respect of the 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 accepted liability or accepted portion of 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 Notes constituting the informal creditors' committee entered into an agreement, pursuant to which those creditors agreed that their claims under the 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.

## 6. Other Gain or Loss (continued)

Notes: (continued)

(a) (continued)

(i) (continued)

On 22 October 2014, separate meetings of 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 Creditors' Scheme (the "**Creditors' Scheme**") 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 Bermuda Companies Act 1981 (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), 11 March 2016 (Bermuda time) and 1 April 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, 1 April 2016 and then 15 July 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, 16 March 2016 and 6 April 2016.

All the terms under the "GZE Excess Liabilities Undertaking", the "Working Capital Loan Agreement", the "Debt Rescheduling Agreements", the "Interim Financing Agreements", the "Loan Rescheduling Agreements" and the "GZE Purchase Order MOU" in relation to the debt restructuring have become effective on 24 June 2016. The details in respect of above contracts are included in its Circular on 13 May 2016. The Notes was fully settled at the same date. The Company has recognised a gain on restructuring of approximately HK$1,020,839,000 for the year ended 31 December 2016.

(ii) On 17 April 2014, Kawasaki Kisen Kaisha, Ltd ("**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 debt 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.

All the terms under the GZE Excess Liabilities Undertaking, the Working Capital Loan Agreement, the Debt Rescheduling Agreements, the Interim Financing Agreements, the Loan Rescheduling Agreements and the GZE Purchase Order MOU in relation to the debt restructuring have become effective on 24 June 2016. The K-Line Notes Due 2013 was fully settled at the same date. The Company has recognised a gain on settlement of HK$182,606,000 for the year ended 31 December 2016.

(iii) Pursuant to the creditors' scheme, the non-note creditors will be compromised and released on the release date in exchange for the receipt of scheme consideration in the form of US$0.1 in cash for every US$1 of the amount of their accepted claim. The non-note creditors was fully settled at 24 June 2016. The Company has recognised a gain on settlement of HK$338,646,000 for the year ended 31 December 2016.

## 6. Other Gain or Loss (continued)

Notes: (continued)

(b) The sanctioned scheme of arrangement entered into between a subsidiary of the Company and the scheme creditors pursuant to section 179A of the BVI Business Companies Act, 2004 was completed during the year and a gain of approximately HK$324,209,000 was recognised for the year ended 31 December 2016.

(c) The deconsolidated subsidiaries were placed in liquidation and no requisition of settlement of the liabilities were given by any of the deconsolidated subsidiaries.

(d) The deconsolidated jointly-controlled entity was placed in liquidation and no requisition of settlement of the liabilities were given by the deconsolidated jointly-controlled entity.

## 7. Finance Costs

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank and other loans | 27,675 | 24,021 |
| Loans from the immediate holding company | — | 1,750 |
| Loans from the ultimate holding company | 144,288 | 133,058 |
| Titan preferred shares | 14,608 | 14,608 |
| Convertible bond | 4,225 | — |
| | 190,796 | 173,437 |

## 8. (Loss)/Profit Before Tax

The Group's (loss)/profit before tax is arrived at after charging:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Employee benefits expenses (excluding directors' remuneration): | | |
| Wages and salaries | 14,109 | 14,104 |
| Pension scheme contributions | 1,152 | 3,907 |
| | 15,261 | 18,011 |
| Depreciation | 50,343 | 45,080 |
| Amortisation of prepaid land lease payments | 7,012 | 6,969 |
| Minimum lease payments under operating leases: | | |
| leasehold buildings | 7,600 | 5,282 |
| Auditors' remuneration | 1,132 | 878 |
| Loss on disposal of property, plant and equipment | 57 | — |
| Foreign exchange differences, net | 5,126 | 45,737 |
| Impairment of prepayments, deposits and other receivables | — | 30,724 |
| Provision for obsolete inventories | 39,778 | — |

## 9. Directors' Emoluments

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:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Fees | 10,832 | 1,028 |
| Other emoluments: | | |
| Salaries, allowances and benefits-in-kind | 2,295 | 6,777 |
| Pension scheme contributions | 44 | 36 |
| | 2,339 | 6,813 |
| | 13,171 | 7,841 |

During the years ended 31 December 2017 and 2016, 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 2017 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:** | | | | |
| Dr. Zhang Weibing | 5,100 | 1,138 | 18 | 6,256 |
| Mr. Tang Chao Zhang | 2,720 | 481 | 18 | 3,219 |
| Dr. Liu Liming | 405 | 42 | — | 447 |
| Mr. Hu Hongwei (re-designated on 1 March 2017) | 1,860 | 349 | 8 | 2,217 |
| **Non-executive directors:** | | | | |
| Mr. Hu Hongwei (re-designated on 1 March 2017) | 31 | 200 | — | 231 |
| **Independent non-executive directors:** | | | | |
| Mr. Lau Fai Lawrence | 245 | 35 | — | 280 |
| Ms. Xiang Siying | 245 | 25 | — | 270 |
| Dr. Han Jun | 226 | 25 | — | 251 |
| **Total** | 10,832 | 2,295 | 44 | 13,171 |

## 9. Directors' Emoluments (Continued)

The emoluments of the Directors for the year ended 31 December 2016 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:** | | | | |
| Dr. Zhang Weibing | — | 3,894 | 18 | 3,912 |
| Mr. Tang Chao Zhang | — | 2,555 | 18 | 2,573 |
| Dr. Liu Liming (appointed on 15 July 2016) | — | 191 | — | 191 |
| **Non-executive directors:** | | | | |
| Mr. Fan Qinghua (resigned on 23 September 2016) | 247 | 52 | — | 299 |
| Mr. Hu Hongwei (re-designated on 13 December 2016) | 19 | — | — | 19 |
| **Independent non-executive directors:** | | | | |
| Mr. Lau Fai Lawrence | 240 | 30 | — | 270 |
| Ms. Xiang Siying | 223 | 28 | — | 251 |
| Dr. Han Jun (appointed on 13 December 2016) | 10 | — | — | 10 |
| Ms. Hsu Wai Man Helen (resigned on 30 May 2016) | 83 | — | — | 83 |
| Mr. Hu Hongwei (re-designated on 13 December 2016) | 206 | 27 | — | 233 |
| **Total** | 1,028 | 6,777 | 36 | 7,841 |

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

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

Salaries, allowance and benefits-in-kind paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

## 10. Five Highest Paid Employees

The five highest paid employees during the year included three (2016: two) directors, details of whose remuneration is disclosed in note 9 above. Details of the remuneration of the remaining two (2016: three) non-director, highest paid employee who is neither a director or senior management of the Company are as follows.

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits-in-kind | **1,903** | 2,448 |
| Pension scheme contributions | **21** | 35 |
| | **1,924** | 2,483 |

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

| | **Number of employees** | |
|---|---|---|
| | **2017** | 2016 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$500,001 to HK$1,000,000 | **1** | 1 |
| HK$1 to HK$500,000 | **—** | 1 |
| | **2** | 3 |

During the years ended 31 December 2017 and 2016, 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.

## 11. Income Tax Expense

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:

| | **2017** | 2016 |
|---|---|---|
| Hong Kong | **16.5%** | 16.5% |
| Singapore | **17.0%** | 17.0% |
| Mainland China | **25.0%** | 25.0% |

## 11. Income Tax Expense (Continued)

### Hong Kong

No provision for Hong Kong profits tax has been made as the Group's subsidiaries operated in Hong Kong did not generate any assessable profits in Hong Kong for the year ended 31 December 2017 and 2016.

### 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 2017 and 2016.

### 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.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Overprovision in prior periods — Hong Kong | — | 7 |
| Deferred taxation | (6,346) | (5,560) |
| | (6,346) | (5,553) |

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 expense at the effective tax rate is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| (Loss)/profit before tax | (259,000) | 1,895,372 |
| Tax at the statutory tax rates | (62,591) | 309,513 |
| Adjustments in respect of current tax of previous periods | — | (7) |
| Temporary difference not recognised | 19 | 19 |
| Unrecognised tax losses | 14 | 14 |
| Income not subject to tax | (82,764) | (378,734) |
| Expenses not deductible for tax | 151,668 | 74,748 |
| Income tax expense | 6,346 | 5,553 |

## 12. Basic and Diluted (Loss)/Earnings Per Share Attributable to Owners of the Company

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **(Loss)/Earnings** | | |
| (Loss)/Earnings for the purpose of basic (loss)/earnings per share | | |
| (Loss)/Earnings for the year attributable to owners of the Company | **(263,630)** | 1,889,840 |
| Effect of diluted potential ordinary shares: | | |
| Dividends on Titan preferred shares | **—** | 14,608 |
| (Loss)/Earnings for the purpose of diluted (loss)/earnings per share | **(263,630)** | 1,904,448 |

| | Number of shares | |
|---|---|---|
| **Number of shares** | **2017** | 2016 |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **22,823,055,885** | 19,348,548,183 |
| Effective of dilutive potential ordinary shares: | | |
| Titan preferred shares | **—** | 555,000,000 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | **22,823,055,885** | 19,903,548,183 |

Note:

No adjustment have been made to the basic loss per share amount presented for the year ended 31 December 2017 as Titan preferred shares and convertible bond outstanding had an anti-dilutive effect on the basic loss per share amount presented.

## 13. Property, Plant and Equipment

| | Leasehold improvements HK$'000 | Buildings HK$'000 | Machinery HK$'000 | Furniture, equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2016 | 3,277 | 615,021 | 256,508 | 41,833 | 2,164,339 | 3,080,978 |
| Additions | — | — | — | 831 | — | 831 |
| Exchange realignment | — | (39,312) | (16,383) | (2,307) | (137,119) | (195,121) |
| At 31 December 2016 and 1 January 2017 | 3,277 | 575,709 | 240,125 | 40,357 | 2,027,220 | 2,886,688 |
| Acquisition of subsidiaries | — | 265,650 | 154,678 | 1,450 | — | 421,778 |
| Additions | 482 | — | — | 4,826 | — | 5,308 |
| Disposals | — | — | — | (1,263) | — | (1,263) |
| Exchange realignment | — | 24,201 | 8,025 | 1,963 | 124,747 | 158,936 |
| At 31 December 2017 | 3,759 | 865,560 | 402,828 | 47,333 | 2,151,967 | 3,471,447 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| At 1 January 2016 | 3,185 | 117,969 | 172,995 | 38,815 | 446,460 | 779,424 |
| Provided for the year | 20 | 17,338 | 26,691 | 1,031 | — | 45,080 |
| Exchange realignment | — | (8,369) | (12,322) | (2,176) | (28,537) | (51,404) |
| At 31 December 2016 and 1 January 2017 | 3,205 | 126,938 | 187,364 | 37,670 | 417,923 | 773,100 |
| Provided for the year | 128 | 17,134 | 30,588 | 2,493 | — | 50,343 |
| Disposals | — | — | — | (1,190) | — | (1,190) |
| Exchange realignment | (22) | 11,227 | 17,029 | 1,662 | 25,864 | 55,760 |
| At 31 December 2017 | 3,311 | 155,299 | 234,981 | 40,635 | 443,787 | 878,013 |
| **NET CARRYING AMOUNT** | | | | | | |
| At 31 December 2017 | 448 | 710,261 | 167,847 | 6,698 | 1,708,180 | 2,593,434 |
| At 31 December 2016 | 72 | 448,771 | 52,761 | 2,687 | 1,609,297 | 2,113,588 |

Note:

At 31 December 2017, the Group's construction in progress, buildings and machinery with net carrying values of HK$780,417,000 (2016: HK$735,101,000), HK$490,511,000 (2016: HK$393,245,000) and HK$189,778,000 (2016: HK$52,761,000), respectively, were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group.

## 14. Prepaid Land Lease Payments

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 January | **281,650** | 293,982 |
| Acquisition of subsidiaries | **60,839** | — |
| Amortisation provided for the year | **(7,012)** | (6,969) |
| Exchange realignment | **1,624** | (5,363) |
| At 31 December | **337,101** | 281,650 |

Prepaid land lease payments represent outlays in respect of the acquisition of land use rights that are accounted for as operating leases. These land lease payments are held on a long term basis and are situated in Mainland China. At 31 December 2017, the prepaid land lease payments with an aggregate net carrying value of approximately HK$290,833,000 (2016: HK$244,092,000) were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group.

## 15. Investment Property

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **FAIR VALUE** | | |
| At 1 January | **172,034** | 156,154 |
| Gain arising on change in fair value of investment property | **40,030** | 27,159 |
| Exchange realignment | **12,355** | (11,279) |
| At 31 December | **224,419** | 172,034 |

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.

At 31 December 2017, the investment property under the consolidated statement of financial position with an aggregate net carrying value of approximately HK$224,419,000 (2016: HK$172,034,000) were pledged to secure the bank and other loans granted to the Group.

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 2017 have been arrived at on the basis of a valuation carried out on the respective dates by Access Partner Consultancy & Appraisal Limited (2016: Sino-Infinite Appraisal Limited), an independent qualified 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. There were no transfer among Level 1, Level 2 and Level 3.

The valuation report for the property as at 31 December 2017 was performed by Access Partner Consultancy & Appraisal 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. Goodwill

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 January | — | — |
| Acquisition of subsidiaries | 138,595 | — |
| At 31 December | 138,595 | — |

During the year ended 31 December 2017, the Group acquired 100% issued share capital of Gold Dragon Enterprise Development Limited and its subsidiaries and therefore goodwill of approximately HK$138,595,000 was recognised upon completion of the acquisition which was allocated to shipbuilding and ship repairing cash-generating-unit ("**Ship CGU**").

The recoverable amount of the Ship CGU has been determined based on a value in use calculation. That calculation adopted cash flow projections covering a 5-year period, based on financial budgets approved by the management with discount rate of 12% (post-tax) per annum. Cash flows beyond the 5-year period are extrapolated with 3% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations of the market development. No impairment loss is recognised for the year ended 31 December 2017.

## 17. Interests in Associated Companies

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Investment in associated companies, at cost | 57,304 | — |
| Share of post-acquisition reserves | (1,878) | — |
| Unquoted equity shares, net | 55,426 | — |

## 17. Interests in Associated Companies (continued)

The particulars of the associated companies 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 |
|---|---|---|---|---|
| 振戎重工股份有限公司 ("**振戎重工**") | Mainland China | RMB100,000,000 | 40% | Marine engineering equipment fitting, technical development and consultancy services of shipping |
| 振戎重工(泉州)有限公司 | Mainland China | RMB30,000,000 | 40% | Marine engineering equipment fitting, technical development and consultancy, services of shipping |
| Navigacean Heavy Industries Limited ("**Navigacean**") | Hong Kong | Ordinary HK$1,000,000 | 49% | Provision of marine related services |
| Power On Heavy Lift 1073 Limited | Marshall | Ordinary US$1 | 49% | Investment holding |
| Century Light Communications Company Limited ("**Century Light**") | Hong Kong | Ordinary RMB10,000,000 | 49% | Provision of media services |
| 雲南雲投振戎能源有限公司 ("**雲南雲投**") | Mainland China | RMB10,000,000 | 49% | Petrochemical development and consultancy services to enterprises |

Summarised financial information in respect of the Group's associated companies for the year ended 31 December 2017 is set out below:

| | **振戎重工** *HK$'000* | **Navigacean** *HK$'000* | **Century Light** *HK$'000* | **雲南雲投** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Total assets | 114,846 | 991 | 11,851 | 11,970 | 139,658 |
| Total liabilities | (349) | (11) | — | (33) | (393) |
| Net assets | 114,497 | 980 | 11,851 | 11,937 | 139,265 |
| Group's share of associated companys' net assets | 43,549 | 480 | 5,755 | 5,642 | 55,426 |
| Revenue | 719 | — | — | — | 719 |
| Loss for the year | (4,671) | (20) | — | — | (4,691) |
| Group's share of associated companys' losses for the year | (1,868) | (10) | — | — | (1,878) |

All of the associated companies are accounted for using equity method in these consolidated financial statements.

## 18. Available-For-Sale Financial Assets

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Non-current asset** | | |
| Unlisted equity securities, at cost | | |
| — Pacific Ocean Marine Limited ("**Pacific Ocean**") (note a) | 49,000 | — |
| — Hong Kong Asia Pacific Aluminium Co., Limited ("**Asia Pacific Aluminium**") (note b) | 141,160 | — |
| | 190,160 | — |
| **Current asset** | | |
| — Financial products from bank | 8,356 | — |
| | 198,516 | — |

The above unlisted investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes:

(a) Pacific Ocean is a private entity that was incorporated in Hong Kong. Pacific Ocean is principally engaged in investments and mergers and acquisitions in the shipbuilding industry and the upstream and downstream of the ship-engineering industry chains; and

(b) Asia Pacific Aluminium is a private entity that was incorporated in Hong Kong. Asia Pacific Aluminium and its subsidiaries are principally engaged in repair and reconstruction of marine and offshore drilling platforms, marine engineering equipment and facilities.

## 19. Inventories

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Suppliers for shipbuilding, ship repairing and manufacturing of steel structure | 24,430 | 39,363 |

## 20. Trade Receivables

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Trade receivables | 311,329 | 210,879 |
| Less: Accumulated impairment losses | (1,615) | (1,605) |
| | 309,714 | 209,274 |

The Group reviews the credit terms of trade receivables from time to time and allows credit terms to well-established customers ranging from 30 to 180 days. Efforts are made to maintain strict control over outstanding receivables and overdue balances are reviewed regularly by management. Based on the past experience, the management of the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances are still considered fully recoverable. On this basis and the fact that the Group's trade receivables relate to a large number of diversified customers, there are no significant concentrations of credit risk.

Trade receivables are non-interest-bearing. An aged analysis of trade receivables at the end of the reporting period, based on the invoice date, is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| 0-90 days | 151,323 | 209,274 |
| 181-365 days | 108,506 | — |
| Over one year | 49,885 | — |
| | 309,714 | 209,274 |

Included in the above impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,615,000 (2016: HK$1,605,000) with a carrying amount before provision of HK$311,329,000 (2016: HK$210,879,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2017, trade receivables of approximately HK$309,714,000 (2016: HK$209,274,000) 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.

## 21. Prepayments, Deposits and Other Receivables

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Receivable from the liquidator of Titan Group Investment Limited | 17,227 | 17,227 |
| Receivable from Fame Dragon International Investment Limited | 711 | — |
| Prepayment of expenses | 158,245 | 76,089 |
| Deposits | 1,321 | 1,317 |
| | 177,504 | 94,633 |

## 22. Cash and Cash Equivalents

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Cash and cash equivalents | **83,385** | 257,712 |

At 31 December 2017, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$8,302,000 (2016: HK$91,742,000). 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 are deposited with creditworthy banks with no recent default history.

## 23. Trade Payables

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

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

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| 0-90 days | **108,810** | 183,291 |
| 91-180 days | **2,314** | 61 |
| 181-365 days | **30,645** | — |
| Over one year | **37,425** | — |
| | **179,194** | 183,352 |

## 24. Other Payables and Accruals

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Amounts due to a deconsolidated jointly-controlled entity | **63,418** | 59,735 |
| Receipt in advance | **174,704** | 86,074 |
| Accrued expenses | **65,582** | 2,372 |
| Others | **152,850** | 39,819 |
| | **456,554** | 188,000 |

## 25. Bank and Other Loans

| | 2017 Effective Interest Rate (%) | 2017 HK$'000 | 2016 Effective Interest Rate (%) | 2016 HK$'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank and other loans (secured) | **5.22-8.12** | **191,032** | — | — |
| Other loans (unsecured) | **5.00-8.26** | **30,959** | — | — |
| **Non-current** | | | | |
| Other loans (secured) | **8.12** | **217,680** | 8.14 | 153,498 |
| Other loans (unsecured) | **6.84-8.26** | **47,635** | 1.36-8.14 | 236,522 |
| | | **487,306** | | 390,020 |

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Bank and other loans repayables: | | |
| Within one year | **221,991** | — |
| In the second to five years, inclusive | **172,023** | 254,808 |
| After five years | **93,292** | 135,212 |
| | **487,306** | 390,020 |

The Group's bank and other loans are secured by:

i) investment property with an aggregate carrying value of approximately HK$224,419,000 (2016: HK$172,034,000);

ii) buildings with an aggregate net carrying value of approximately HK$136,688,000 (2016: HK$47,603,000);

iii) machinery with an aggregate net carrying value of approximately HK$148,419,000 (2016: Nil); and

iv) prepaid land lease payments with an aggregate net carrying value of approximately HK$56,831,000 (2016: HK$8,090,000).

## 26. Convertible Bond

On 13 April 2017, the Company and the Sino Charm International Limited (the "**Bondholder**") entered into the subscription agreement, pursuant to which the Company has conditionally agreed to allot and issue and the Bondholder has conditionally agreed to subscribe for the convertible bond with an aggregate principal amount of HK$78,000,000. Based on the conversion price of HK$0.095 per conversion share, a maximum number of 821,052,631 conversion shares may fall to be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. The subscription agreement have been fulfilled and that the convertible bond in the principal amount of HK$78,000,000 have been issued by the Company to the Bondholder on 28 April 2017.

In accordance with Hong Kong Financial Reporting Standard 13 ("**HKFRS 13**"), for calculating the fair value of convertible bond, the valuation carried out on the respective dates by Sino-Infinite Appraisal Limited, an independent qualified valuer not connected to the Group. The calculation was based on the Binomial Option Pricing Model (the "**BP Model**"). The Cox-Ross-Rubinstein Binomial Model was used to determine the fair value of the convertible bond. The BP Model typically incorporates a large number of very short time periods to reflect a realistic range of possible prices that a share could achieve over the bond's contractual term, which could result in several hundred total nodes. Binomial common share price tree is constructed with a set of path that predict common share price movement over time. The liability component of the convertible bond is calculated by discounting the future cash flows of the convertible bond (i.e. principal and coupon, if any) at the hypothetical bond discount rate of the Company for a period commensurate to the remaining time to maturity of the convertible bond as of the valuation date.

The convertible bond contain two components, liability and equity elements. Upon the application of HKAS32, the convertible bond was split into liability and equity components. The equity element is presented in equity heading "**convertible bond reserve**". The effective interest rate of liability component is 7.5% per annum.

The movement of the liability component of convertible bond for the year is set out as below:

| | **Liability component HK$'000** |
|---|---|
| Issuance of convertible bond | 77,628 |
| Add: Imputed interest expense | 4,225 |
| Convertible bond as at 31 December 2017 | 81,853 |

BP Model is used for valuation of conversion option (the "**Option**") of the convertible bond. The inputs into model were as follows:

| | |
|---|---|
| Stock price | HK$0.091 |
| Coversion price | HK$0.095 |
| Volatility (note a) | 106% |
| Option life | 1 year |
| Risk-free rate (note b) | 0.592% |

Notes:

(a) expected volatility was determined by calculating the historical volatility of the Company's share price; and

(b) the risk-free rate is determined by reference to the Hong Kong Government Bond Yield.

The fair value of the convertible bond issued at the date of completion is HK$78,000,000, representing the liability component of approximately HK$77,628,000 (as stated above) and equity component of approximately HK$372,000.

## 27. Amounts Due to Associated Companies

The amounts due to associated companies were unsecured, non-interest bearing and repayable on demand.

## 28. Amount Due to the Ultimate Holding Company

| | 2017 Effective Interest Rate (%) | 2017 HK$'000 | 2016 Effective Interest Rate (%) | 2016 HK$'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Loans from the ultimate holding company (secured) (note a) | **8.26** | **182,250** | 7.19 | 85,834 |
| Interest payables of loans from the ultimate holding company | **—** | **220,325** | — | 65,680 |
| Amount due to the ultimate holding company (note b) | **—** | **3,373** | — | 3,373 |
| **Non-current** | | | | |
| Loans from the ultimate holding company (secured) (note a) | **8.26** | **1,640,251** | 7.19 | 1,630,842 |
| | | **2,046,199** | | 1,785,729 |

The loans from ultimate holding company are repayable as below:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loans repayable: | | |
| Within one year or repayable on demand | **182,250** | 85,834 |
| In the second to fifth years, inclusive | **364,500** | 343,335 |
| After five years | **1,275,751** | 1,287,507 |
| | **1,822,501** | 1,716,676 |

Notes:

(a) the loans from the ultimate holding company with the amount of approximately HK$182,250,000 (2016: HK$85,834,000) and HK$1,640,251,000 (2016: HK$1,630,842,000) are repayable within one year and beyond one year respectively and carry an interest rate at the basic lending rate of the People's Bank of China per annum, and are secured by:

i) construction in progress with an aggregate carrying value of HK$780,417,000 (2016: HK$735,101,000);

ii) prepaid land lease payments with an aggregate net carrying value of HK$234,002,000 (2016: HK$236,002,000);

iii) buildings with an aggregate net carrying value of HK$353,823,000 (2016: HK$345,642,000); and

iv) machinery with an aggregate net carrying value of HK$41,359,000 (2016: HK$52,761,000); and

(b) amount due to the ultimate holding company was unsecured, interest-free and repayment on demand.

## 29. Convertible Preferred Shares

| | Liability portion HK$'000 |
|---|---|
| **Titan preferred shares** | |
| At 1 January 2016 | 435,325 |
| Dividends on Titan preferred shares | 14,608 |
| Gain arising on change in fair value of Titan preferred shares | (70,424) |
| At 31 December 2016 and 1 January 2017 | **379,509** |
| Dividends on Titan preferred shares | **14,607** |
| At 31 December 2017 | **394,116** |

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 Guangdong Zhenrong Energy Co., Ltd. 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, 30 April 2016 and 31 August 2016 respectively.

The Listco Preferred Shares Modification Deed became effective on 24 June 2016. And a gain on fair value change of approximately HK$70,424,000 were recognised for the year ended 31 December 2016.

## 30. Deferred Tax Liabilities

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 January | **93,195** | 90,006 |
| Acquisition of subsidiary | **26,157** | — |
| Deferred tax charged to the consolidated statement of profit or loss (note 11) | **6,346** | 5,560 |
| Exchange realignment | **1,549** | (2,371) |
| At 31 December | **127,247** | 93,195 |

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

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

At 31 December 2017 and 2016, 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 2017 and 2016, 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 2017, the Group has unused tax losses of HK$183,041,000 (2016: HK$298,995,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

## 31. Share Capital

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Number of shares** | **Nominal value of shares HK$'000** | Number of shares | Nominal value of shares HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.08 each at 31 December 2017 and HK$0.01 each at 31 December 2016 (note a) | **10,000,000,000** | **800,000** | 80,000,000,000 | 800,000 |
| Titan preferred shares of HK$0.08 each at 31 December 2017 and HK$0.01 each at 31 December 2016 (note a) (note 29) | **69,375,000** | **5,550** | 555,000,000 | 5,550 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of HK$0.01 each | | | | |
| As at 1 January | **30,627,287,770** | **306,273** | 7,820,554,682 | 78,206 |
| Share consolidation (note a) | **(28,902,253,754)** | **—** | — | — |
| Open offer (note b) | **—** | **—** | 2,606,851,560 | 26,068 |
| Placing (note c) | **—** | **—** | 2,600,000,000 | 26,000 |
| Consideration shares issue (note d, e and f) | **2,203,266,631** | **77,449** | 14,000,000 | 140 |
| Shipyard termination shares (note g) | **—** | **—** | 9,382,164,000 | 93,822 |
| Assumption consideration shares (note h) | **—** | **—** | 3,595,420,415 | 35,954 |
| New shares under the creditors' scheme (note i) | **—** | **—** | 1,920,886,282 | 19,209 |
| New shares under debt rescheduling agreement; the interim financing agreement (note j) | **—** | **—** | 2,687,410,831 | 26,874 |
| Loan capitalization agreement (note k) | **992,259,413** | **9,923** | — | — |
| As at 31 December | **4,920,560,060** | **393,645** | 30,627,287,770 | 306,273 |
| Titan preferred shares of HK$0.08 each at 31 December 2017 and HK$0.01 each at 31 December 2016 (note a) (note 29) | **69,375,000** | **5,550** | 555,000,000 | 5,550 |

## 31. Share Capital (continued)

Notes:

a) by an ordinary resolution passed by the shareholders at special general meeting held on 4 September 2017, the Company's every eight issued and unissued existing share of HK$0.01 each be consolidated into one consolidated share of HK$0.08 each;

b) on 30 June 2016, the Company issued offer shares on the basis of one offer share for every three existing shares held on 7 June 2016, at the subscription price of HK$0.1 per offer share;

c) on 30 June 2016, the Company issued 2,600 million new shares at subscription price of HK$0.1 per share;

d) on 30 June 2016, the Company issued 14,000,000 consideration shares at HK$0.1 each to settle the professional fees;

e) on 10 January 2017 and 15 February 2017, the Company entered into the framework agreement and amended framework agreement respectively, to acquire Hong Kong Asia Pacific Aluminium Co., Limited at the consideration of RMB100,000,000 (equivalent to HK$112,927,997) which was satisfied by issue of 1,411,599,964 consideration shares at the issue price of HK$0.08 by the Company upon completion;

f) on 6 October 2017, Create Treasure Limited, a subsidiary of the Company entered into the sale and purchase agreement to acquire the entire issued capital of Gold Dragon Enterprise Development Limited which was satisfied by issue of 791,666,667 consideration shares at the issue price of HK$0.08 and cash consideration of HK$20,000,000 by the Company to the purchasers;

g) on 30 June 2016, the Company issued 9,382,164,000 new shares at HK$0.1 each, to repay the consideration received in respect of the terminated shipyard sale and purchase agreement;

h) on 30 June 2016, the Company issued 3,595,420,415 new shares at HK$0.1 each, to settle certain account payables and other payable which was assumed by the immediate holding company of the Company;

i) on 30 June 2016, pursuant to the creditor's scheme, the Company issued 1,920,886,282 shares at HK$0.1 each, to settle the liabilities owed to the existing notes creditors;

j) on 30 June 2016, pursuant to the certain debt rescheduling agreements, the Company issued 2,687,410,831 shares at HK$0.1 each, to repay the interest accrued from the loan from the ultimate holding company;

k) on 20 June 2017, the Company entered into two loan capitalization agreements to issue sum of 992,259,413 consideration shares to two subscribers at the issue price of HK$0.10 each per consideration share to repay the outstanding amounts owed by the Group;

l) on 13 April 2017, pursuant to subscription agreement, the Company agreed to issue for the convertible bonds with an aggregate principal amount of HK$78,000,000. A maximum number of 821,052,631 conversion shares may fall to be issued upon exercise of the conversion rights attached to the convertible bonds in full. During the year ended 31 December 2017, none of convertible bond due 2018 was converted into ordinary shares; and

m) all ordinary share rank pari passu in all respects.

## 32. Reserves

### 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.

## 32. Reserves (continued)

### Convertible bond reserve

The convertible bond reserve represents the value of the share unexercised/repurchased equity component of convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond.

### 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 lease payments upon reclassification to investment property.

### Exchange fluctuation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income or loss 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.

## 33. 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 share (the "**Share**") 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.

## 33. 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.

# 33. Share Option Scheme (continued)

## b) Share Option Movement

### i) 2002 Share Option Scheme

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme during the year ended 31 December 2017:

| Name or category of participant | At 1 January 2017 | Granted during the year | Lapsed during the year | Exercised during the year | Adjustment as a result of share consolidation | At 31 December 2017 | Date of grant of share options | Exercise period of share options | Exercise price of share options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Other employees** | | | | | | | | | |
| In aggregate | 3,945,312 | — | (3,945,312) | — | — | — | 1 February 2008 | 1 February 2012 to 31 January 2017 | 3.0656 |
| | 4,508,928 | — | (3,968,796) | — | (472,616) | 67,516 | 1 February 2008 | 1 February 2013 to 31 January 2018 | 3.0656 |
| | 8,454,240 | — | (7,914,108) | — | (472,616) | *67,516 | | | *3.0656 |

* Upon effective of the share consolidation on 5 September 2017, the exercise price of the outstanding share options and the number of shares to be allotted and issued upon full exercise of the outstanding share options was adjusted.

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme during the year ended 31 December 2016:

| Name or category of participant | At 1 January 2016 | Granted during the year | Lapsed during the year | Exercised during the year | Adjustment as a result of open offer | At 31 December 2016 | Date of grant of share options | Exercise period of share options | Exercise price of share options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Other employees** | | | | | | | | | |
| In aggregate | 2,680,000 | — | (2,680,000) | — | — | — | 1 February 2008 | 1 February 2011 to 31 January 2016 | 0.45 |
| | 3,360,000 | — | — | — | 585,312 | 3,945,312 | 1 February 2008 | 1 February 2012 to 31 January 2017 | 0.3832 |
| | 3,840,000 | — | — | — | 668,928 | 4,508,928 | 1 February 2008 | 1 February 2013 to 31 January 2018 | 0.3832 |
| | 9,880,000 | — | (2,680,000) | — | 1,254,240 | 8,454,240 | | | |

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

At the end of the reporting period, the Company had outstanding share options for the subscription of 67,516 (2016: 8,454,240) 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 67,516 (2016: 8,454,240) additional ordinary shares of the Company and additional share capital of HK$5,401 (2016: HK$84,542) and share premium of approximately HK$202,000 (2016: HK$3,155,000) (before issue expenses).

## 33. Share Option Scheme (continued)

### b) Share Option Movement (continued)

#### 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:

| | 2017 Weighted average exercise price per share HK$ | 2017 Number of shares issuable under options | 2016 Weighted average exercise price per share HK$ | 2016 Number of shares issuable under options |
|---|---|---|---|---|
| At 1 January | **0.3832** | **8,454,240** | 0.4500 | 9,880,000 |
| Adjusted as a result of open offer | **—** | **—** | — | 1,254,240 |
| Adjusted as a result of share consolidation | **—** | **(472,616)** | — | — |
| Lapsed | **0.3832** | **(7,914,108)** | 0.4500 | (2,680,000) |
| At 31 December | **1.2504** | **67,516** | 0.3832 | 8,454,240 |

None (2016: None) of the 67,516 (2016: 8,454,240) outstanding options has been exercised during the year ended 31 December 2017.

## 34. Operating Lease Arrangements

### As lessee

The Group leases an office premise and a warehouse under operating lease arrangements. At 31 December 2017, leases for office premise and warehouse are negotiated for terms ranging from one to three years (2016: one to three years).

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Office premise, warehouse and staff quarters** | | |
| Within one year | **7,541** | 4,282 |
| In the second to fifth years, inclusive | **8,292** | 6,097 |
| | **15,833** | 10,379 |

## 35. COMMITMENTS

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Commitments for shipbuilding and ship repair facilities in Mainland China | — | 816,705 |

## 36. Contingent Liabilities

### a) 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 issued by Titan Group Investment Limited ("**TGIL**") (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 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 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 BVI Court of Appeal was stayed until 20 March 2013 (BVI time) by consent of TOSIL as appellant and SSL and TGIL as respondents. The BVI Court of Appeal has been withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

A numbers of distributions to creditors of TGIL is still in progress until the liquidators of TGIL released from all obligation under the Order.

## 36. Contingent Liabilities (continued)

### b) Hong Kong Proceedings

On 31 December 2015, Mr. Wong Siu Hung Patrick (the "**Plaintiff**") filed a claim in the Labour Tribunal in Hong Kong against TRML for the sum of HK$1,046,551.15 allegedly due to the termination of the employment contract between the Plaintiff and the TRML (the "**Claim**"). The Plaintiff was a former executive director of the Company. He resigned as an executive director of the Company and also ceased to act as the Company's authorised representative and the directors of the wholly-owned subsidiaries of the Company on 30 September 2015. The Claim was subsequently transferred to the Hong Kong High Court and the Company was joined as second defendant. Pursuant to the directions of Hong Kong High Court dated 13 April 2016, the Plaintiff filed and served the Statement of Claim on 25 April 2016, in which the Claim amount was revised to HK$1,069,251.28. On 17 June 2016, TRML and the Company filed and served the Defense to Hong Kong High Court. The case is under progress of exchanging all the relevant documents to the High Court by the Plaintiff and the Defendants. The Plaintiff and the Defendants are seeking legal advices for possible remedial actions.

### c) PRC Proceedings

(i) TQS, a wholly-owned subsidiary of the Company, as the second defendant, was claimed by Shanghai Pudong Development Bank Fuzhou Branch ("**SPDB**") in Xiamen Maritime Court for overdue bank loan by Guangdong Zhenrong Energy Limited. The council of TQS attend the Court hearing and defended that TQS was not the appropriate defendant for this claim by SPDB against GZE. The Court rendered a judgment on 27 December 2017, declaring that SPDB had with drawn all the claims against TQS which was the second defendant. For details, please refer to the announcements of the Company dated 31 August 2016, 17 November 2017 and 24 January 2018.

(ii) As per a writ of summons (Hui Action No.: 2483) (the "**Summons**") of the People's Court of Hui'an County, Fujian Province of the People's Republic of China (the "**Court**"), the responsible person of TQS, a directly wholly owned subsidiary of the Company, had been summoned to appear before the Enforcement Division of the Court on afternoon, 15 September 2017. The Summons is in relation to an outstanding case involving a sale and purchase agreement, which is being enforced by the Court. As the case seems to be related to the debts of TQS incurred before the resumption of the Company, which had been assumed by Fame Dragon International Investment Limited ("**Fame Dragon**"), a direct controlling shareholder of the Company.

For details, please refer to the announcement of the Company dated 18 September 2017.

## 36. Contingent Liabilities (continued)

### c) PRC Proceedings (continued)

(iii) 廣州華南石化交易中心有限公司 (Guangzhou Southern China Petrochemical Exchange Centre Co., Ltd.*) (the "**Southern China Petrochemical Exchange Centre**"), a subsidiary of the Company, informed the Company today that the Intermediate People's Court of Wuxi City in Jiangsu Province, the People's Republic of China had made an order to freeze 70% equity interest of Southern China Petrochemical Exchange Centre (the "**Freeze of Shares**"). The aforesaid 70% equity interest is beneficially owned by 石獅市益泰潤滑油脂貿易有限責任公司 Shishi Yitai Lubricants Youzhi Trading Co., Ltd.* ("**Shishi Yitai**"), a wholly-owned subsidiary of the Company. On 29 June 2007, Shishi Yitai and 廣州南沙振戎倉儲有限公司 Guangzhou Nansha Zhenrong Storage Co., Ltd.* ("**Nansha Storage**"), which is currently a subsidiary of the substantial shareholder of the Company GZE, entered into a shareholding entrustment agreement, pursuant to which Nansha Storage should hold, as a nominee shareholder, the abovementioned 70% equity interest for and on behalf of Shishi Yitai. The Company was informed that the Freeze of Shares was resulted from the legal proceedings of GZE and Nansha Storage in China. The total asset of Southern China Petrochemical Exchange Centre represents less than 5% of the total asset of the Group and its business is not the principal business of the Group.

For details, please refer to the announcement of the Company dated 26 September 2017.

(iv) TQS, a direct wholly-owned subsidiary of the Company, had received a civil judgment ((2015) Fujian Min Chu Zi No.:153) (the "**Civil Judgment**") on 12 November 2017 issued by the China Fujian Provincial People's High Court (the "**Court**") and informed the Company on 13 November 2017. The Civil Judgment is in relation to the debts dispute between Guangdong Zhenrong Energy Co., Ltd ("**GZE**"), the controlling shareholder of the Company, and its creditor 廈門市金財投資有限公司 Xiamen Jincai Investment Company Limited* ("**Jincai Investment**"). In that case, as GZE is indebted to Jincai Investment, whereas TQS is indebted to GZE, Jincai Investment had, based on its subrogated rights, filed legal proceeding against TQS with the Court and requested TQS for direct repayment. The Court decided to agree with the partial requests of Jincai Investment and as per the Civil Judgment, TQS was ordered to repay directly to Jincai Investment for GZE's loan principal and interest indebted to Jincai Investment in total of RMB527,619,419.31.

For details, please refer to the announcement of the Company dated 13 November 2017 and 17 November 2017.

(v) TQS, a wholly-owned subsidiary of the Company had received a notice of maturity debt note ((2016) Guangdong 01 Zhi 552, one of 553 (the "**Notice of Maturity Debt Note**") issued by Guangdong Province Intermediate People's Court, Guangzhou City. The Notice of Maturity Debt Note involving the financial disputes between GZE and its creditors, 陽泉煤業集團國際貿易有限公司 (Yangquan Coal Industry Group International Trade Company Ltd*), the court had ordered to freeze the rights of the maturity of debts owned by GZE in TQS, in the limit of RMB249,328,173.39.

For details, please refer to the announcement of the Company dated 31 August 2016 and 24 January 2018.

## 37. Material Related Party Transactions

Save as disclosed elsewhere in these consolidated financial statements and in the directors' report under heading of "connected transactions and continuing connected transactions", the Group had the following material transactions with related parties during 2017 and 2016:

### a) Transaction with ultimate/immediate holding company

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loans from the ultimate holding company (note i) | | |
| — Outstanding principal | **(1,822,501)** | (1,716,676) |
| — Interest for the year | **(144,288)** | (133,058) |
| Loan from the immediate holding company (note i) | | |
| — Interest for the year | **—** | (1,750) |
| Amount due to the ultimate holding company (note ii) | **(223,698)** | (69,053) |
| Amount due from the immediate holding company (note ii) | **711** | — |

Notes:

(i) terms and condition of loans from the ultimate holding company refer to note 28; and

(ii) amounts due from/(to) the immediate/ultimate holding company were unsecured, interest-free and repayment on demand.

### b) Compensation of key management personnel of the Group

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Short term employee benefits | **13,126** | 7,805 |
| Post-employment benefits | **44** | 36 |
| Total compensation paid to key management personnel | **13,170** | 7,841 |

## 38. 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

| | Loans and receivables | |
|---|---|---|
| | 2017 HK$'000 | 2016 HK$'000 |
| Trade receivable | **309,714** | 209,274 |
| Financial assets included in deposits and other receivables | **19,259** | 18,544 |
| Available-for-sale financial assets | **198,516** | — |
| Cash and cash equivalents | **83,385** | 257,712 |
| | **610,874** | 485,530 |

## 38. Financial Instruments by Category (continued)

### Financial liabilities

| | At amortised cost | |
|---|---|---|
| | 2017 HK$'000 | 2016 HK$'000 |
| Trade payables | 179,194 | 183,352 |
| Financial liabilities included in other payables and accruals | 456,554 | 188,000 |
| Bank and other loans | 487,306 | 390,020 |
| Interest payables of bank and other loans | 77,710 | 50,290 |
| Amounts due to associated companies | 46,465 | — |
| Amount due to the ultimate holding company | 2,046,199 | 1,785,729 |
| Convertible bond | 81,853 | — |
| Convertible preferred shares | 394,116 | 379,509 |
| | 3,769,397 | 2,976,900 |

## 39. 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:

### 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).

## 40. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise trade receivables, available-for-sale financial assets, cash and bank balances, bank and other loans, trade payables, amounts due to the ultimate holding company and convertible bond. 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 |
| **2017** | | |
| RMB | **26** | **(698)** |
| RMB | **(26)** | **698** |
| **2016** | | |
| RMB | 26 | (658) |
| RMB | (26) | 658 |

## 40. 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.

Apart from receivable from the liquidator of TGIL and escrow account, 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.

### 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | % | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade payables | — | — | 179,194 | 183,352 | — | — | 179,194 | 183,352 | 179,194 | 183,352 |
| Other payables and accruals | — | — | 456,554 | 188,000 | — | — | 456,554 | 188,000 | 456,554 | 188,000 |
| Bank and other loans | 6.84-8.26 | 1.36-8.14 | 221,991 | — | 265,315 | 390,020 | 487,306 | 390,020 | 487,306 | 390,020 |
| Loans from the ultimate holding company | 8.26 | 7.19 | 182,250 | 85,834 | 1,640,251 | 1,630,842 | 1,822,501 | 1,716,676 | 1,822,501 | 1,716,676 |
| Amounts due to the ultimate holding company | — | — | 3,373 | 3,373 | — | — | 3,373 | 3,373 | 3,373 | 3,373 |
| Amount due to associated companies | — | — | 46,465 | — | — | — | 46,465 | — | 46,465 | — |
| Interest payables of bank and other loans | — | — | 77,449 | — | 261 | 50,290 | 77,710 | 50,290 | 77,710 | 50,290 |
| Interest payables of loans from ultimate holding company | — | — | 220,325 | 65,680 | — | — | 220,325 | 65,680 | 220,325 | 65,680 |
| Convertible bond | 7.50 | — | 81,853 | — | — | — | 81,853 | — | 81,853 | — |
| Convertible preferred shares | 4.70 | 4.70 | — | — | 394,116 | 379,509 | 394,116 | 379,509 | 394,116 | 379,509 |
| | | | 1,469,454 | 526,239 | 2,299,943 | 2,450,661 | 3,769,397 | 2,976,900 | 3,769,397 | 2,976,900 |

## 40. 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.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB 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/(loss) before tax | |
|---|---|---|
| | % | HK$'000 |
| **2017** | | |
| If RMB weakens against HK$ | **7.89** | **9,324** |
| If RMB strengthens against HK$ | **7.89** | **(9,324)** |
| **2016** | | |
| If RMB weakens against HK$ | 5.51 | 4,643 |
| If RMB strengthens against HK$ | 5.51 | (4,643) |

### 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 2017 and 2016.

## 40. 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. The gearing ratios as at the end of the reporting periods were as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Other loans | 487,306 | 390,020 |
| Convertible bond | 81,853 | — |
| Loans from the ultimate holding company | 1,822,501 | 1,716,676 |
| Total debts | 2,391,660 | 2,106,696 |
| Total assets | 4,143,308 | 3,168,254 |
| Gearing ratio | 58% | 66% |

## 41. Dividends

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2017 (2016: HK$Nil).

## 42. Events After the Reporting Period

### Successful launch of bulk carrier

42300 DWT bulk carrier (the "**Bulk Carrier**") was built by the OPCO, for its customer Navigation Maritime Bulgare (a Bulgarian shipowner) (the "**Customer**") was successfully launched on 5 January 2018. The Bulk Carrier has an overall length of 185 meter, moulded breadth of 31 meter, moulded depth 16 meter, and enters into Lloyd's Register class and has adopted the Bluetech 42 design. Compared with bulk carriers in the same model, the bulk capacity and deadweight of the Bulk Carrier was increased by 15% and 5% to 9% respectively, and its energy efficiency is particularly remarkable at low speed sailing. Hongqiang had successfully delivered two bulk carriers in the same model to the Customer before the launching of the Bulk Carrier.

For details, please refer to the announcement of the Company dated 5 January 2018.

### Civil Judgement

泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co., Ltd.*) ("**TQS**"), a wholly-owned subsidiary of the Company had received a civil judgment ((2016) Fujian Min Chu No.:251) (the "**Civil Judgment**") issued by the Xiamen Maritime Court (the "**Court**") and a notice of maturity debt note ((2016) Guangdong 01 Zhi 552, one of 553 (the "**Notice of Maturity Debt Note**") issued by Guangdong Province Intermediate People's Court, Guangzhou City.

## 42. Events After the Reporting Period (continued)

### Civil Judgement (continued)

According to the Civil Judgment, Shanghai Pudong Development Bank Co., Ltd. ("**SPDB**") had withdrawn the litigation claim against TQS. GZE had pledged the TQS debts to secure certain loans from SPDB, SPDB has the preferential claim to the rights of security and its ancillary rights under the accounts receivable of the debts (the "**Accounts Receivable**") and have the power to discount, auction and resell the Accounts Receivable, up to the maximum of RMB1.4 billion. In addition to the Notice of Maturity Debt Note involving the financial disputes between GZE and its creditors, 陽泉煤業集團國際貿易有限公司 (Yangquan Coal Industry Group International Trade Company Ltd*), the court had ordered to freeze the rights of the maturity of debts owned by GZE in TQS, in the limit of RMB249,328,173.

The Company is seeking legal advice pertaining to and assessing any significant impact that such Civil Judgment and the Notice of Maturity Debt Note may have on the Company and the Group. The Company will keep its shareholders and potential investors informed of any further significant development when appropriate.

For details, please refer to the announcement of the Company dated 24 January 2018.

### Lapse of convertible bond

Pursuant to the supplemental agreement to the Subscription Agreement signed by the Company and Newton Asset Management Limited on 28 February 2018, the Long Stop Date was extended to 7 March 2018 (the "**Extended Long Stop Date**"). As certain of the conditions precedent of the Subscription Agreement are not fulfilled or waived in writing by the Company and Newton Asset Management Limited on or before the Extended Long Stop Date, and no agreement has been reached by the parties to the Subscription Agreement to further extend the Extended Long Stop Date, the Subscription Agreement lapsed in accordance with the terms there of and the special general meeting of the Company to be held on 21 March 2018 will be cancelled. The obligation of the Company and Newton Asset Management Limited under the Subscription Agreement immediately ceased and be null and void.

The Company is assessing any significant impact that such event may have on the Company and is seeking opportunities to raise additional funds to meet the possible financial needs of the Group. The Company will keep its shareholders and potential investors informed of any further significant development as and when appropriate.

For details, please refer to the announcement of the Company dated 7 March 2018.

## 43. Business Combination

### Gold Dragon Enterprise Development Limited and its subsidiaries ("Gold Dragon Group")

On 9 November 2017, the Company completed the acquisition of Gold Dragon Enterprise Development Limited, an investment holding company whose subsidiaries are principally engaged in shipbuilding and manufacturing of steel structure.

The net assets/(liabilities) acquired upon the date of transaction are as follows:

| | **Fair value**<br>HK$'000 |
|---|---|
| Net assets/(liabilities) acquired: | |
| Property, plant and equipment | **421,778** |
| Prepaid land lease payments | **60,839** |
| Inventories | **89,789** |
| Trade receivables | **107,128** |
| Prepayments, deposits and other receivables | **47,369** |
| Cash and bank equivalents | **1,191** |
| Trade payables | **(178,302)** |
| Other payables and accruals | **(276,688)** |
| Bank and other loans | **(179,500)** |
| Deferred tax liabilities | **(26,157)** |
| | **67,447** |
| 100% net asset acquired | **67,447** |
| Goodwill | **138,595** |
| Total consideration | **206,042** |
| Satisfied by: | |
| Cash consideration | **20,000** |
| Consideration shares | |
| (791,666,667 shares at HK$0.235 each) | **186,042** |
| | **206,042** |
| Net cash outflow arising on acquisition: | |
| Cash and bank balance acquired | **1,191** |
| Cash consideration paid | **(20,000)** |
| | **(18,809)** |

During the year ended 31 December 2017, Gold Dragon Group contributed approximately HK$102,559,000 to the Group's revenue and approximately HK$87,962,000 to the Group's result in aggregate for the period from the date of acquisition to 31 December 2017.

If the acquisition of the Gold Dragon Group had been completed on 1 January 2017, the Group's revenue for the year ended 31 December 2017 would have been approximately HK$315,215,000 and loss for the year ended 31 December 2017 would have been HK$28,140,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

## 44. Statement of Financial Position and Reserves of the Company

### a) Statement of financial position of the Company

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **NON-CURRENT ASSET** | | |
| Interests in associated companies | 480 | — |
| **CURRENT ASSETS** | | |
| Trade receivables | 14,627 | — |
| Prepayments, deposits and other receivables | 1,422 | 5,764 |
| Cash and cash equivalents | 7,699 | 163,007 |
| Total current assets | 23,748 | 168,771 |
| **CURRENT LIABILITIES** | | |
| Amounts due to subsidiaries | 1,738 | 2,767 |
| Other loans | 14,442 | — |
| Other payables and accruals | 10,035 | 9,841 |
| Convertible bond | 77,628 | — |
| Total current liabilities | 103,843 | 12,608 |
| **NET CURRENT (LIABILITIES)/ASSETS** | (80,095) | 156,163 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | (79,615) | 156,163 |
| **NON-CURRENT LIABILITIES** | | |
| Other loans | — | 54,370 |
| Convertible preferred shares | 394,116 | 379,509 |
| Total non-current liabilities | 394,116 | 433,879 |
| **NET LIABILITIES** | (473,731) | (277,716) |
| **EQUITY** | | |
| Share capital | 393,645 | 306,273 |
| Reserves | (867,376) | (583,989) |
| **TOTAL EQUITY** | (473,731) | (277,716) |

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018 and signed on its behalf by:

**Tang Chao Zhang**
*Director*

**Liu Liming**
*Director*

## 44. Statement of Financial Position and Reserves of the Company (continued)

### b) Movement in the Company's reserves

| | Share premium HK$'000 | Contribution surplus HK$'000 | Convertible bond reserve HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 2,473,241 | 60,916 | — | 1,697 | (6,074,786) | (3,538,932) |
| Total comprehensive income | — | — | — | — | 902,336 | 902,336 |
| Issue of shares | 2,052,607 | — | — | — | — | 2,052,607 |
| Transfer to accumulated losses upon lapse of share options after vesting period | — | — | — | (425) | 425 | — |
| At 31 December 2016 and 1 January 2017 | 4,525,848 | 60,916 | — | 1,272 | (5,172,025) | (583,989) |
| Total comprehensive loss | — | — | — | — | (592,054) | (592,054) |
| Issue of shares | 308,295 | — | — | — | — | 308,295 |
| Issue of convertible bond | — | — | 372 | — | — | 372 |
| Transfer to accumulated losses upon lapse of share options after vesting period | — | — | — | (1,189) | 1,189 | — |
| At 31 December 2017 | 4,834,143 | 60,916 | 372 | 83 | (5,762,890) | (867,376) |

## 45. 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 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|---|
| **Directly held** | | | | | |
| Titan Oil (Asia) Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Titan Oil Storage Investment Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Titan Shipyard Holdings Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Titan Petrochemicals (Fujian) Limited | Mainland China | US$30,000,000 | **100** | 100 | Investment holding |
| Titan Oil Trading (Asia) Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Titan Bunkering Investment Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Harbour Sky Investments Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Create Treasure Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| **Indirectly held** | | | | | |
| Titan Resources Management Limited | BVI/Hong Kong | Ordinary US$1 | **100** | 100 | Provision of consultancy services |
| Ascend Success Investments Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Provision of financing services |
| Petro Titan (H.K.) Limited | Hong Kong | HK$3,000,000 | **100** | 100 | Supply of oil products |
| Best Ace Investments Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Investment holding |
| Brilliance Glory Limited | Hong Kong | Ordinary HK$2 | **100** | 100 | Supply of oil products |
| Shishi Yitai Lubricants Youzhi Trading Company Limited | Mainland China | RMB28,000,000 | **100** | 100 | Investment holding |
| Guangzhou Huanan Petrochemical Trading Centre Company Limited | Mainland China | RMB60,000,000 | **70** | 100 | Provision of commercial services |
| Shengsi Haixin Petrochemical Company Limited | Mainland China | RMB50,000,000 | **100** | 100 | Supply of oil products |
| Titan TQSL Holding Company Limited | BVI | Ordinary US$10,000 | **100** | 100 | Investment holding |
| Titan Quanzhou Shipyard Company Limited | Mainland China | RMB1,040,879,823 | **100** | 100 | Shipbuilding and ship repairing |
| Guangzhou Titan Petrochemicals Company Limited | Mainland China | RMB50,000,000 | **100** | 100 | Supply of oil products |
| Gold Dragon Enterprise Development Limited | BVI | Ordinary US$1 | **100** | — | Investment holding |
| 舟山甬泰船務有限公司 ("**Yongtai**") | Mainland China | HK$1,000,000 | **100** | — | Investment holding |
| 舟山市德恒企業管理有限公司 ("**Deheng**") | Mainland China | RMB20,000,000 | **(Note)** | — | Investment holding |
| 江蘇宏強船舶重工有限公司 ("**the OPCO**") | Mainland China | RMB300,000,000 | **(Note)** | — | Shipbuilding and manufacturing of steel structure |

## 45. Principal Subsidiaries (continued)

Note::

**Structured Contracts**

**Particulars and main business of the Deheng and 江蘇宏強船舶重工有限公司 ("the OPCO")**

江蘇宏強船舶重工有限公司 ("**the OPCO**") is a limited liability company established under the laws of the PRC, a wholly owned subsidiary of Deheng, and is principally engaged in the Ship repairing and manufacturing of steel structure.

Deheng is owned as to 90% and 10% by Mr. Song Dehua and Ms. Zhang Chunyan respectively (the "**Registered Shareholders**"). On 9 November 2017, Yongtai, being a wholly-owned subsidiary of the Group (the "**Yongtai**"), Deheng and the Registered Shareholders entered into a series of agreements (the "**Structured Contracts**").

**Major terms of the structured contracts**

*Irrecoverable option agreement*

Deheng and the Relevant Shareholders entered into an exclusive option agreement with Yongtai (the "**Exclusive Option Agreement**"), pursuant to which Yongtai (or its offshore holding company or any subsidiaries directly or indirectly owned by Yongtai, the "**designee**") being granted an irrevocable and exclusive right to purchase from the Relevant Shareholders all or any part of their equity interests for a nominal price, and to purchase from Deheng all or any part of their asset for a nominal price (collectively the "**Purchase Right**") unless the relevant government authorities or the PRC laws request that another amount to be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders and/or Deheng shall return any amount of purchase price they have received to Yongtai. Upon Yongtai's request, the Relevant Shareholders and/or Deheng will promptly and unconditionally transfer their respective equity interests in and/or assets of Deheng to Yongtai after Yongtai exercises the Purchase Right.

The Exclusive Option Agreement valid for an initial term of ten years and will be automatically renewable upon expiry unless the entire Deheng's equity interest and/or assets has been legally and duly transferred to Yongtai or its designee, and Yongtai or its subsidiaries is allowed to conduct relevant business as Deheng will do in the PRC.

In order to prevent the flow of the assets and value of Deheng to the Relevant Shareholders, the Relevant Shareholders irrevocably undertake, during the term of the Exclusive Option Agreement, will not sell, transfer, mortgage or otherwise dispose of any of its equity ownership and/or assets exceeding the value of RMB5,000 (tangible or intangible asset), legitimate interests of business or income or be allowed to place any encumbrances on them.

Deheng entered into an exclusive business cooperation agreement with Yongtai (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Deheng engaged Yongtai as its exclusive provider of business support, technical and consulting services, including technical services, business consultation, intellectual property licensing, equipment, leasing, marketing consultation, product research, and provider of management consultancy services related to Deheng's business scope in exchange for service fees. Under these arrangements, the service fee, subject to Yongtai's adjustment, will be equal to all of the net profit of Deheng after deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, if any. Yongtai may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the level of difficulty and complexity of the services, time cost, commercial value provided by Yongtai as well as the market price for the same services. To ensure Deheng fulfill the working capital requirement of daily operation and/or offset any deficit incurred in the process of operation, Yongtai will have the right at its sole discretion to provide any financial support (i.e. granting loan) to the extent that relevant PRC laws permit.

Under the Exclusive Business Cooperation Agreement, Yongtai entitled to retain and exercise physical control of company seals and certificates that are important to the daily operation of Deheng, which strengthens the protection of Yongtai's interest over Deheng under the VIE Agreements.

The Exclusive Business Cooperation Agreement valid for an initial term of ten years. It will be automatically renewable upon expiry unless Yongtai confirms a new renewal term in writing.

## 45. Principal Subsidiaries (continued)

Note:: (continued)

**Structured Contracts (continued)**

**Particulars and main business of the Deheng and 江蘇宏強船舶重工有限公司 (the "OPCO") (continued)**

**Major terms of the structured contracts (continued)**

*Share Pledge Agreement*

Yongtai, the Relevant Shareholders and Deheng entered into a share pledge agreement (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Deheng to Yongtai as collateral security for all of their payments due to Yongtai and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Power of Attorney.

The Share Pledge Agreement will not terminate until (a) the final secured indebtedness is repaid and all obligations are satisfied in full; (b) Yongtai or its designee exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders when it is permitted to do so under the applicable PRC laws; (c) Yongtai or its designee exercises its exclusive option to purchase the entire assets of the Relevant Shareholders when it is permitted to do so under the applicable PRC laws; (d) Yongtai exercises its unilateral and unconditional right of termination; or (e) the agreement is required to be terminated in accordance with applicable PRC laws.

*Power of Attorney*

An irrevocable power of attorney were entered into between the Relevant Shareholders, Yongtai and Deheng (the "**Power of Attorney**"), whereby the Relevant Shareholders appointed Yongtai or a director of its offshore holding company, or a liquidator or its/his/her successor as their exclusive agent and attorney to act on their behalf on all matters concerning Deheng and to exercise all of its rights as a registered shareholder of Deheng. These rights included but not limited to (a) the right to propose, convene and attend shareholders' meetings; (b) the right to sell, transfer, pledge or dispose of shares; (c) the right to exercise shareholders' voting rights; (d) the right to act as the legal representative (chair person), the director, supervisor, the Chief Executive Officer (or General Manager) and other senior management members of Deheng; (e) the authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Deheng on behalf of the Relevant Shareholders.

The Relevant Shareholders undertook to transfer all assets obtained after the winding up of Deheng to Yongtai at nil consideration or the lowest price permissible by the applicable PRC laws. As a result of the Power of Attorney, the Company, through Yongtai, able to exercise management control over the activities that most significantly impact the economic performance of Deheng.

The directors of the Company, after consulting legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled Yongtai to have power over Deheng, rights to variable returns from its involvement with Deheng, and has the ability to use its power to affect its returns, despite the absence of formal legal equity interest held by the Group in Deheng. Accordingly, Deheng is accounted for as a consolidated structured entity as a subsidiary of the Group.

The revenue, loss, total assets and total liabilities of Deheng and OPCO included in the consolidated financial statements are set out below:

| | 2017<br>HK$'000 |
|---|---|
| Revenue | 102,559 |
| Loss | 87,962 |
| Total assets | 775,881 |
| Total liabilities | (600,235) |

## 46. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

# 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/re-presented as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Revenue** | **1,024,146** | 760,921 | — | — | 644,325 |
| **(Loss)/Profit before tax** | **(259,000)** | 1,895,372 | (243,136) | 3,778,032 | (4,568,898) |
| **Tax** | **(6,346)** | (5,553) | 1,355 | 1,342 | (1,334) |
| **(Loss)/Profit for the year** | **(256,346)** | 1,889,819 | (241,781) | 3,779,374 | (4,570,232) |
| Attributable to: | | | | | |
| Owners of the Company | **(263,630)** | 1,889,840 | (241,781) | 3,779,374 | (4,570,232) |
| Non-controlling interest | **(1,716)** | (21) | — | — | — |
| | **(265,346)** | 1,889,819 | (241,781) | 3,779,374 | (4,570,232) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Total assets** | **4,143,308** | 3,168,254 | 2,997,452 | 3,203,978 | 3,654,882 |
| **Total liabilities** | **(3,896,644)** | (3,071,025) | (7,046,510) | (7,036,612) | (11,379,208) |
| | **246,664** | 97,229 | (4,049,058) | (3,832,634) | (7,724,326) |

# PARTICULARS OF THE INVESTMENT PROPERTY

At 31 December 2017

## COMPLETED PROPERTY HELD FOR INVESTMENT

| Location | Type | Location |
|---|---|---|
| A parcel of land located at<br>Western side of Houzhu Port and<br>Southern side of Beixing Community<br>in Donghai Street,<br>Fengze District,<br>Quanzhou City,<br>Fujian Province,<br>the PRC<br>(Unit number: 350503/016008/GB00015/W00000000) | Office | Medium-term lease |