Titan Petrochemicals Group Limited

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

INTERIM REPORT 2018

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tang Chao Zhang *(Chairman and Chief Executive)*
Dr. Liu Liming
Mr. Zhang Qiandong (Appointed on 26 July 2018)
Mr. Chen Bingyan (Appointed on 26 July 2018)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Mr. Hu Hongwei (Resigned on 1 February 2018)

Non-executive Directors

Mr. Osman Mohammed Arab
(Appointed on 26 July 2018)
Mr. Lai Wing Lun (Appointed on 26 July 2018)
Mr. Li Jiaqi (Appointed on 5 March 2018 and retired on 26 July 2018)
Mr. Yin Lantian (Appointed on 17 January 2018 and resigned on 6 March 2018)

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Sun Feng (Appointed on 26 July 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Dr. Han Jun (Resigned on 1 August 2018)

AUDIT COMMITTEE

Mr. Lau Fai Lawrence *(Chairman)*
Mr. Sun Feng (Appointed on 10 August 2018)
Mr. Lai Wing Lun (Appointed on 10 August 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Dr. Han Jun (Resigned on 1 August 2018)

REMUNERATION COMMITTEE

Mr. Lau Fai Lawrence *(Chairman)*
(Appointed on 10 August 2018)
Mr. Sun Feng (Appointed on 10 August 2018)
Mr. Lai Wing Lun (Appointed on 10 August 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Mr. Tang Chao Zhang (Appointed on 5 March 2018 and resigned on 10 Aug 2018)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Dr. Han Jun (Resigned on 1 August 2018)

NOMINATION COMMITTEE

Mr. Sun Feng *(Chairman)*
(Appointed on 10 August 2018)
Mr. Lau Fai Lawrence (Appointed on 10 August 2018)
Mr. Lai Wing Lun (Appointed on 10 August 2018)
Dr. Han Jun (Resigned on 1 August 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Mr. Tang Chao Zhang (Appointed on 5 March 2018 and resigned on 10 Aug 2018)
Dr. Zhang Weibing (Appointed on 17 January 2018 and resigned on 2 March 2018)
Mr. Hu Hongwei (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

SOLICITORS

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

For the six months ended 30 June 2018 (the "**Period**"), the unaudited consolidated revenue of the Group was approximately HK$25,769,000, whereas the revenue of the Group was approximately HK$616,002,000 for the six months ended 30 June 2017 (the "**Comparative Period**").

During the Period, the Group's trading of commodities recorded revenue of approximately HK$5,173,000 (HK$615,173,000 for the Comparative Period). Revenue of approximately HK$20,059,000 was generated from shipbuilding, ship-repairing and manufacturing of steel structure during the Period (HK$829,000 for the Comparative Period).

During the Period, the Group recorded other income of approximately HK$3,563,000 (HK$80,547,000 for the Comparative Period). The Group had been granted subsidies from the shipbuilding and ship-repairing sectors in the People's Republic of China ("**PRC**") of approximately HK$2,135,000 during the Period. The other income for the Comparative Period was mainly due to the capital gain of approximately HK$78,755,000 from the acquisition of 舟山亞泰船舶工業有限公司 (Zhoushan Yatai Shipbuilding Engineering Co. Ltd*) completed during the first half of year 2017. The Group recorded other loss of approximately HK$454,239,000 during the Period, and there was the provision for impairment of trade receivables amounting to approximately HK$263,971,000 after the evaluation and assessment of the recoverability and ageing analysis by the Board. The Board considered and doubted the recoverability of such relatively long-outstanding receivable amounts, and therefore relevant provision was made to reflect the true and fair view. After evaluation and assessment, the Group made the provision for impairment of available-for-sale financial assets amounting to approximately HK$190,160,000 during the Period.

The Group's general and administrative expenses increased from approximately HK$57,498,000 for the Comparative Period to approximately HK$100,675,000 for the Period, mainly including depreciation and amortisation of approximately HK$53,936,000 and employees and directors benefit expenses of approximately HK$22,500,000.

Finance costs for the Period was approximately HK$105,406,000, representing mainly the interests from bank and other loans amounting to approximately HK$19,686,000 and loan interest from ultimate holding company amounting to approximately HK$76,423,000.

During the Period, the Group recorded a loss attributable to owners of the Company of approximately HK$647,339,000, while the loss attributable to owners of the Company of approximately HK$66,487,000 for the Comparative Period. As at 30 June 2018, besides the provision for impairment made for the above-mentioned trade receivables amounting to approximately HK$263,971,000, there was another provision for impairment of available-for-sale assets amounting to approximately HK$190,160,000. In the first half of year 2017, the Group invested approximately HK$112,928,000 by the consideration shares to acquire 100% of the issued share capital of an entity where its subsidiaries and associated company are principally engaged in repairing and reconstruction of marine and offshore drilling platforms, marine engineering equipment and facilities. During the Period, the Group had a dispute with the original vendor, and the Group strived to have access to the books and records of this entity and its subsidiaries and associated company, but failed to obtain any substantive information. The Board doubted the recoverability of this amount and therefore, the provision for the impairment of the available-for-sale assets was made at 30 June 2018. The Group will continue to negotiate with the original vendor, and seek various methods including legal means or dispose the interest of that entity and its subsidiaries and associated company to third parties to maximize the recovery or return in this investment. The Group invested HK$49,000,000 in an investment which mainly consisted of preferred shares of a private entity that was incorporated in Hong Kong. It is principally engaged in investments and mergers and acquisitions in the shipbuilding industry and the upstream and downstream of the ship-engineering industry chains. As at the date of reporting period, the Group has been unable to gain access to the financials of this entity in the recent months and, inter alia unable to assess the recoverability of such investment, therefore, the impairment was provided for the available-for-sale financial assets under the conservative view. The Group will continue to pursue recovery action to maximize the recovery and return.

The basic loss per share was approximately HK13.16 cents for the Period, and the basic loss per share was approximately HK0.21 cents for the Comparative Period.

As at 30 June 2018, the cash and cash equivalents of the Group amounted to approximately HK$34,106,000, representing a decrease of approximately HK$49,279,000 as compared with the cash and cash equivalents of approximately HK$83,385,000 as at 31 December 2017. The decrease of cash and cash equivalents was mainly resulted from the operating of shipyard factories.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Revenue of the Group for the Period was approximately HK$25,769,000, which was mainly attributable to the income from the shipbuilding, ship-repairing and manufacturing of steel structure and also the trading of commodities business. For the Comparative Period, the revenue of the Group was mainly from the trading of bulk commodities business, including petroleum, petrochemical and other related products.

The Group recorded a loss attributable to owners of the Company of approximately HK$647,339,000 for the Period, as compared to the loss attributable to owners of the Company of approximately HK$66,487,000 for the Comparative Period. The increase of loss attributable to owners of the Company during the Period was mainly due to (1) incurrence of employee costs which amounted to approximately HK$22,500,000 for the Period (HK$12,444,000 for the Comparative Period) and depreciation and amortisation costs amounting to approximately HK$53,936,000 during the Period (HK$22,281,000 for the Comparative Period), such increase was arising mainly from the acquisition of 江蘇宏強船舶重工有限公司 ("**OPCO**") in the fourth quarter of 2017 being record in the books under the category of general and administration expenses; (2) an exceptional capital gain of approximately HK$78,755,000 for the Comparative Period while there was no exceptional gain in the first half of year 2018; (3) the provision for impairment of trade receivables which amounted to approximately HK$263,971,000 for the Period; and (4) the provision for impairment of available-for-sale financial assets which amounted to approximately HK$190,160,000 for the Period.

TRADING OF COMMODITIES

During the Period, the Group recorded revenue of its trading business of various commodities products which achieved sales of approximately HK$5,173,000 while during the Comparative Period, the Group had recorded revenue of its trading business of various bulk commodities products like petroleum, petrochemical and other related products which achieved sales of approximately HK$615,173,000. The management from time to time reviews the global market trend of bulk commodities business and will deploy internal resources whenever this sector of business is fruitful to the Group.

SHIPBUILDING, SHIP-REPAIRING AND MANUFACTURING OF STEEL STRUCTURE

The Company placed its effort on its ship-repairing and shipbuilding business 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 ship-repairing platform (in terms of dock capacity) and to strengthen the business size in an orderly manner so as to enable the Company to achieve sustainable development.

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

In the fourth quarter of 2017, the Group acquired 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's net liabilities amounted to approximately HK$370.2 million, compared to net assets amounted to approximately HK$246.7 million as at 31 December 2017.

The Group financed its operations mainly through the loans from the ultimate holding company, the banks and other independent lenders, convertible preferred shares and convertible bonds. As at 30 June 2018, the Group had:

- cash and bank balances of approximately HK$34.1 million (31 December 2017: HK$83.4 million). These balances were comprised of:

  — an equivalent of approximately HK$3.1 million (31 December 2017: HK$29.8 million) denominated in US dollars ("**USD**");

  — an equivalent of approximately HK$2,000 (31 December 2017: HK$0.9 million) denominated in Singapore dollars ("**SG$**");

  — an equivalent of approximately HK$24.2 million (31 December 2017: HK$8.3 million), denominated in Renminbi ("**RMB**"). The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC; and

  — approximately HK$6.8 million (31 December 2017: HK$44.4 million) in Hong Kong dollars ("**HK$**").

- bank and other loans of approximately HK$475.2 million (31 December 2017: HK$487.3 million). The Group's bank and other loans having maturity within one year amounted to approximately HK$218.8 million (31 December 2017: HK$222.0 million). The effective interest rates ranged from 5.22% to 28.00% per annum as at 30 June 2018 (31 December 2017: 5.22% to 8.26% per annum);

- loan from the ultimate holding company of approximately HK$1,799.8 million (31 December 2017: HK$1,822.5 million), of which having maturity within one year amounted to approximately HK$270.0 million (31 December 2017: HK$182.3 million). The effective interest rate was 8.26% per annum as at 30 June 2018 (31 December 2017: 8.26% per annum);

- convertible preferred shares issued by the Company with liability portion of approximately HK$401.4 million (31 December 2017: HK$394.1 million); and

- convertible bonds issued by the Company with liability portion of HK$Nil (31 December 2017: HK$81.9 million).

CHARGES ON ASSETS

The Group's loans, were secured or guaranteed by:

- construction in progress with an aggregate carrying value of approximately HK$770.7 million (31 December 2017: HK$780.4 million);

- machineries with an aggregate net carrying value of approximately HK$83.2 million (31 December 2017: HK$189.8 million);

- buildings with an aggregate net carrying value of approximately HK$489.7 million (31 December 2017: HK$490.5 million);

- prepaid land lease payments with an aggregate net carrying value of approximately HK$296.7 million (31 December 2017: HK$299.9 million);

- investment property with an aggregate net carrying value of approximately HK$221.6 million (31 December 2017: HK$224.4 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 RATIO

The Group's current ratio was 0.15 (31 December 2017: 0.41). The gearing ratio of the Group, calculated as the loans from the ultimate holding company and bank and other loans divided by total assets, was 0.66 (31 December 2017: 0.58).

CAPITAL EXPENDITURES AND COMMITMENTS

During the Period, there were additions in capital expenditures of property, plant and equipment amounting to approximately HK$3,279,000 (HK$4,190,000 for Comparative Period).

During the Period, the Group disposed property, plant and equipment amounting to approximately HK$13,000 (HK$430,000 for Comparative Period).

As at 30 June 2018, no capital expenditure commitment contracted by the Group but not provided for (31 December 2017: Nil). All contracts for ship-repairing facilities in PRC had already expired over several years, the Group's management expected that those contracts were remote and there would be no capital expenditure incurred and no provision would be made and accounted for all such commitment.

PROSPECTS

Going forward, the China's shipbuilding industry will continue to face the overcapacity, price-competitiveness and fierce competition. Accordingly, some shipbuilding enterprises with superior operation performance are expected to ultimately survive and those focusing on market segments and specialising 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 king advantages and embracing new opportunities to continually optimise 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 our business will continue to expand and generate value to our investors. Ultimately, the Group will continue to strengthen its overall financial position in preparation for any possible changes in the industry. The Group is cautiously optimistic with the Group's business performance in the second half of year 2018.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group had no material acquisitions, disposals and significant investment during the Period.

LITIGATIONS

For details of the litigations of the Company, please refer to note 23 of the notes to the condensed consolidated financial statements under the section of "Contingent Liabilities" in this report.

CAPITAL STRUCTURE

For details of the capital structure of the Company, please refer to note 18 of the notes to the condensed consolidated financial statements under the section of "Share Capital" in this report.

FOREIGN EXCHANGE EXPOSURE

The Group operated in PRC, Hong Kong and Singapore and primarily used RMB for the business in PRC, HK$ in Hong Kong and USD and SG$ in Singapore. The Group was exposed to foreign exchange risk based on fluctuations between HK$ and RMB arising from its core operation in the PRC. 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. It is generally acknowledged that the People's Bank of China exercises real-time foreign exchange control in PRC. It would be difficult to adopt measures in order to hedge exchange risk of foreign currencies and the Group will minimise the adverse impact caused by loss from exchange as mentioned above.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 320 employees (31 December 2017: 415), of which 307 employees (31 December 2017: 391) worked in PRC, all of which were from OPCO, Quanzhou shipyard, and Shanghai office, and 13 employees (31 December 2017: 24) were based in Hong Kong and no employee worked in Singapore (31 December 2017: Nil), 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 Period (Nil for Comparative Period).

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (Nil for the Comparative Period).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 30 June 2018, the Directors and the chief executives of the Company who held office did not have any interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") (the "**Model Code**").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, so far as is known to the Directors and the chief executives of the Company, the following persons had interests and short positions in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Shareholders	Capacity	Number of issued ordinary shares held	Number of issued convertible preferred shares held	Approximate percentage (%) of shareholding
GZE and parties acting in concert *(Note 1 and 2)*	Corporate Interest	2,362,556,185	69,375,000	48.01%/1.10%
Sino Team Capital Development Limited ("**Sino Team**") *(Note 3)*	Corporate Interest	791,666,667	—	16.09%
Mr. Zhang Qiandong ("**Mr. Zhang**") *(Note 3)*	Beneficial Interest	10,785,000	—	0.22%
	Corporate Interest	879,891,665	—	17.88%
Mr. Osman Mohammed Arab ("**Mr. Arab**") *(Note 4)*	Corporate Interest	2,378,940,978	—	48.35%
Mr. Wong Kwok Keung ("**Mr. Wong**") *(Note 4)*	Corporate Interest	2,378,940,978	—	48.35%

OTHER INFORMATION

Note 1:

榮龍國際投資有限公司 (Fame Dragon International Investment Limited) ("**Fame Dragon**") (in compulsory 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 compulsory 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 compulsory liquidation).

As disclosed in our announcements dated 5 May 2017 and 13 March 2018 respectively, Mr. Arab and Mr. Wong, both of RSM Corporate Advisory (Hong Kong) Limited, were appointed as the joint and several liquidators of Fame Dragon as per a winding up petition filed by 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 announcements dated 18 July 2016 and 27 September 2017 respectively, 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.. As disclosed in our announcement dated 25 June 2018, Mr. Arab and Mr. Wong, both of RSM Corporate Advisory (Hong Kong) Limited, were appointed as the joint and several liquidators of Guangdong Zhenrong HK.

The 69,375,000 convertible preferred shares of the Company are currently held by an affiliated company of GZE.

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 Part XV 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 51.77% and 4.88% of the total number of issued shares of the Company respectively as at the date of this Report.

Note 3:

Sino Team is wholly owned under the name of Mr. Song Dehua, the shares of which were held under trust for Mr. Zhang.

Mr. Zhang is interested in 879,891,665 ordinary shares of the Company through two controlled corporations, and is also beneficially interested in 10,785,000 ordinary shares of the Company, representing in aggregate approximately 18.10% of the total number of issued shares of the Company.

Note 4:

Mr. Arab is jointly interested with Mr. Wong, as joint and several liquidators of Fame Dragon (in compulsory liquidation) in 2,378,940,978 ordinary shares of the Company owned by Fame Dragon and its related companies including Winford Hong Kong Investment Limited, Universal View Investments Limited, Fukmao Limited, Link Elite Limited, Wider Link Global Limited and Fast Luck Global Limited, representing approximately 48.35% of the total number of issued shares of the Company.

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any persons (other than the Directors and chief executives of the Company) who had any interests and short positions in the shares and underlying shares of the Company 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 Part XV of the SFO.

SHARE OPTION SCHEMES

A share option scheme (the "**2002 Share Option Scheme**") was approved and adopted by the then shareholders of the Company on 31 May 2002 (as amended on 24 June 2010) and terminated on 20 June 2011, for a period of 10 years commencing on the adoption date.

On 20 June 2011, a share option scheme (the "**2011 Share Option Scheme**") was approved and adopted by the then shareholders of the Company, for a period of 10 years commencing on the adoption date. The scheme limit under 2011 Share Option Scheme is refreshed and was approved and adopted by the shareholders of the Company at the annual general meeting held on 26 June 2017, and the Company is allowed to grant further options under the 2011 Share Option Scheme carrying the rights to subscribe for a maximum of 3,203,888,773 shares. As the share consolidation became effective on 5 September 2017, 400,486,096 shares may be issued under the 2011 Share Option Scheme.

OTHER INFORMATION

Subject to the terms and conditions of the 2011 Share Option Scheme, the Board may, at its discretion, grant share options to any eligible person to subscribe for the shares in the Company within the validity period of the scheme. The Group offered to grant a total of 389,233,600 share options to the Directors and its eligible participants on 22 January 2018 (subject to the acceptance of the grantees). As no grantees had accepted the aforesaid share options before the expiry date, the offer for grant of share options was lapsed on 20 February 2018.

	Number of share options							
Name or category of participant	As at 1 January 2018	Granted during the Period	Lapsed during the Period	Exercised during the Period	As at 30 June 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$
Directors	—	94,000,000	94,000,000	—	—	22 January 2018	22 January 2018 to 21 January 2020	0.107
Other eligible participants								
In aggregate	—	295,233,600	295,233,600	—	—	22 January 2018	22 January 2018 to 21 January 2020	0.107
Other employees								
In aggregate	67,516*	—	67,516*	—	—	1 February 2008	1 February 2013 to 31 January 2018	3.0656*
	67,516	389,233,600	389,301,116	—	—			

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

As at 30 June 2018, there were no share options remain outstanding under the 2002 Share Option Scheme and 2011 Share Option Scheme respectively.

PRE-EMPTIVE RIGHTS

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

CONVERTIBLE BONDS

As disclosed in the announcement dated 13 April 2017, the Company and Sino Charm International Limited (the "**Subscriber**") entered into the subscription agreement, pursuant to which the Company had conditionally agreed to allot and issue and the Subscriber had conditionally agreed to subscribe for the convertible bonds with an aggregate principal amount of HK$78,000,000. Based on the conversion price of HK$0.095 per each of 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 bonds were HK$78,000,000. The net proceeds from the issue of the convertible bonds (after deducting the relevant costs and expenses) were HK$77,500,000.

As disclosed in the announcement dated 28 April 2017, the subscription agreement had been fulfilled and that the convertible bonds in the principal amount of HK$78,000,000 had 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.

The convertible bonds expired with its conversion rights not being exercised upon the expiry date on its first year of anniversary on 28 April 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the code provisions of Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except for certain deviations which are summarised below:

In accordance to provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Dr. Zhang Weibing ("**Dr. Zhang**") has resigned as Chairman of the Board with effect from 2 March 2018 due to health reasons. Mr. Tang Chao Zhang ("**Mr. Tang**"), the Chief Executive of the Company, took the role of the Chairman of the Board in replacement of Dr. Zhang with effect from 5 March 2018. Since then, Mr. Tang acts as both the chairman and the chief executive of the Company. The Board believes that vesting the roles of both chairman and chief executive in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group.

In accordance to 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. Yin Lantian ("**Mr. Yin**"), the non-executive Director, was unable to attend the special general meetings of the Company on 5 February 2018 and 21 February 2018 respectively as he had other engagements. Mr. Lau Fai Lawrence ("**Mr. Lau**"), Ms. Xiang Siying ("**Ms. Xiang**") and Dr. Han Jun ("**Dr. Han**"), the independent non-executive Directors, were unable to attend the special general meeting of the Company on 5 February 2018 as they have other engagements.

On 26 July 2018, Mr. Li Jiaqi ("**Mr. Li**") was retired as a non-executive Director and Ms. Xiang was retired as an independent non-executive Director. Following the retirement of Ms. Xiang, the audit committee of the Company (the "**Audit Committee**") comprised two members which falls below the minimum number of members required under Rule 3.21 of the Listing Rules ("**R3.21 Requirement**"). The chairman position of the remuneration committee of the Company (the "**Remuneration Committee**") had vacated and the members of the Remuneration Committee did not comprise a majority of independent non-executive Directors as required under Rule 3.25 of the Listing Rules ("**R3.25 Requirement**"). Further, as the nomination committee of the Company (the "**Nomination Committee**") comprised two members which fell below the minimum number of members required under the terms of reference of the Nomination Committee and deviated from the code provision A.5.1 of the CG Code contained in Appendix 14 of the Listing Rules (the "**NC Requirement**").

On 1 August 2018, Dr. Han resigned as an independent non-executive Director. The number of independent non-executive Director had fallen below the minimum number and fell below one-third of the Board as required under Rules 3.10(1) and 3.10A of the Listing Rules. In addition, the Audit Committee comprised one member which fell below the R3.21 Requirement. The member of the Remuneration Committee did not comply with R3.25 Requirement. Further, the Nomination Committee comprised one member, and was not in compliance with the NC Requirement.

On 10 August 2018, the Company changed its composition of board committees, and therefore had complied with the (i) R3.21 Requirement; (ii) R3.25 Requirement; and (iii) NC Requirement.

As at the date of this report, the number of independent non-executive Director is still below the minimum number, and it falls below one-third of the Board as required under Rules 3.10(1) and 3.10A of the Listing Rules.

The Company will endeavour to identify suitable candidate(s) to meet the minimum number of independent non-executive Director as soon as practicable as required under Rule 3.11 of the Listing Rules.

In accordance to provision F.1.2 of the CG Code, the appointment of the company secretary should be dealt with by a physical board meeting rather than a written resolution. The appointment of the current company secretary was dealt with by a written resolution in April 2018. The Board considers that, prior to the execution of the written resolution to appoint the current company secretary, all Directors were individually consulted on the matter without any dissenting opinion and there was no need to approve the matter by a physical board meeting instead of a written resolution.

CHANGE OF DIRECTORS AND CHIEF EXECUTIVES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of Directors and chief executives of the Company are as follows:

- On 1 February 2018, Mr. Hu Hongwei ("**Mr. Hu**") has tendered his resignation as an executive Director due to disagreement with the Board. As disclosed in the announcement of the Company dated 4 April 2018, Mr. Hu confirmed that he had disagreement with 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 to resign as an executive Director, chairman of the Board, a member of the Remuneration Committee and a member of the Nomination Committee due to health reasons.

- On 6 March 2018, the Company has received a resignation letter from Mr. Yin to resign as a non-executive Director and the chairman of special investigation committee (the "**SIC**") of the Company due to his workload and other personal commitments. As disclosed in the announcement of the Company dated 4 April 2018, Mr. Yin confirmed that he was not sentenced for a period of imprisonment of six months or more within the past 10 years prior to his appointment as director of the Company. Mr. Yin was sentenced for 受賄罪 (*bribery) and 簽訂、履行合同失職被騙罪 (*dereliction of duty and being cheated on signing and fulfilling contracts) in 1998 in China for an imprisonment of 12 years. In 2001, the court adjudged to reduce the imprisonment period for one year and three months. As a result of his good performance, Mr. Yin was early released on parole in October 2004. His entire sentence was ended on 11 October 2007.

- At the adjourned annual general meeting of the Company held on 26 July 2018 (the "**Adjourned AGM**"), the proposed resolutions relating to the re-election of Mr. Li and Ms. Xiang as Directors were not passed at the Adjourned AGM. Accordingly, Mr. Li and Ms. Xiang have retired as non-executive Director and independent non-executive Director respectively with effect from the conclusion of the Adjourned AGM. Following the retirement of Mr. Li as non-executive Director, Mr. Li has ceased to be the chairman of the SIC. Following the retirement of Ms. Xiang as independent non-executive Director, Ms. Xiang has ceased to be a member of the SIC, the chairman of the Remuneration Committee and also has ceased to be the member of each of the Audit Committee and the Nomination Committee.

- Mr. Chen Bingyan and Mr. Zhang has been appointed as executive Directors with effect from the conclusion of the Adjourned AGM.

OTHER INFORMATION

- Mr. Arab has been appointed as a non-executive Director with effect from the conclusion of the Adjourned AGM, and was appointed as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 10 August 2018.
- Mr. Lai Wing Lun ("**Mr. Lai**") has been appointed as a non-executive Director with effect from the conclusion of the Adjourned AGM, and was appointed as a chairman of the SIC and each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 10 August 2018.
- Mr. Sun Feng ("**Mr. Sun**") has been appointed as an independent non-executive Director with effect from the conclusion of the Adjourned AGM, and was appointed as a member of the SIC and each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 10 August 2018.
- The Company has received a resignation letter from Dr. Han to resign as an independent non-executive Director due to her other business commitments, with effect from 1 August 2018. Following the resignation of Dr. Han as an independent non-executive Director, Dr. Han has ceased to be a member of the SIC, the chairman of the Nomination Committee and also has ceased to be the member of each of the Audit Committee and the Remuneration Committee.
- The Company has established a SIC on 13 February 2018. As at the date of this report, the SIC currently comprises Mr. Lai, a non-executive Director as chairman, Mr. Lau and Mr. Sun Feng, both independent non-executive Directors as members.

Save as disclosed above, the Directors are not aware of any other change in the information of Directors and chief executives of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules as at the date of this report.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee of the Company consists of two independent non-executive Directors, namely Mr. Lau and Mr. Sun and one non-executive Director, namely Mr. Lai. The Audit Committee is chaired by Mr. Lau who is a practising certified public accountant. The Audit Committee had reviewed the accounting principles and practices adopted by the Group and discussed with the management in respect to the financial reporting matters, including review of the unaudited interim results of the Group for the Period, and was of the opinion that such statements complied with the applicable accounting standards and the Listing Rules and that adequate disclosures had been made.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors and the relevant employees of the Group. The Company, having made specific enquiries to all Directors, confirmed that all Directors have complied with the required standard of dealings set out therein throughout the Period.

By Order of the Board

Tang Chao Zhang
Chairman, Chief Executive
and Executive Director

31 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Revenue	2	**25,769**	616,002
Cost of sales		**(20,332)**	(614,109)
Gross profit		**5,437**	1,893
Other income		**3,563**	80,547
Other loss	3	**(454,239)**	(35)
Share results of associated companies		**(1,498)**	—
General and administrative expenses		**(100,675)**	(57,498)
Finance costs	4	**(105,406)**	(93,181)
Loss before tax	5	**(652,818)**	(68,274)
Income tax credit	6	**3,840**	615
Loss for the period		**(648,978)**	(67,659)
Loss for the period attributable to:			
Owners of the Company		**(647,339)**	(66,487)
Non-controlling interests		**(1,639)**	(1,172)
		(648,978)	(67,659)
Loss per share attributable to owners of the Company			
Basic and diluted (HK cents)	8	**(13.16)**	(0.21)

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

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Loss for the period	**(648,978)**	(67,659)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**3,998**	4,381
Other comprehensive income for the period, net of tax	**3,998**	4,381
Total comprehensive loss for the period	**(644,980)**	(63,278)
Total comprehensive loss attributable to:		
Owners of the Company	**(643,341)**	(62,106)
Non-controlling interests	**(1,639)**	(1,172)
	(644,980)	(63,278)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	2,516,812	2,593,434
Prepaid land lease payments		331,177	337,101
Investment property	10	221,625	224,419
Goodwill		138,595	138,595
Interests in associated companies		10,395	55,426
Available-for-sale financial assets		—	190,160
Total non-current assets		3,218,604	3,539,135
Current assets			
Inventories		35,791	24,430
Trade receivables	11	12,539	309,714
Prepayments, deposits and other receivables		138,669	177,504
Tax recoverable		1,364	784
Available-for-sale financial assets		—	8,356
Cash and cash equivalents		34,106	83,385
Total current assets		222,469	604,173
Current liabilities			
Trade payables	12	173,838	179,194
Other payables and accruals	13	453,455	456,554
Interest payable of bank and other loans		89,841	77,449
Bank and other loans	14	218,807	221,991
Amounts due to the ultimate holding company	15	564,632	405,948
Amounts due to associated companies		485	46,465
Convertible bonds	16	—	81,853
Total current liabilities		1,501,058	1,469,454
Net current liabilities		(1,278,589)	(865,281)
Total assets less current liabilities		1,940,015	2,673,854

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Non-current liabilities			
Interest payable of bank and other loans		**—**	261
Bank and other loans	14	**256,352**	265,315
Amounts due to the ultimate holding company	15	**1,529,834**	1,640,251
Convertible preferred shares	17	**401,420**	394,116
Deferred tax liabilities		**122,626**	127,247
Total non-current liabilities		**2,310,232**	2,427,190
Net (liabilities)/assets		**(370,217)**	246,664
Equity			
Attributable to owners of the Company			
Share capital	18	**393,645**	393,645
Reserves	19	**(800,279)**	(162,541)
		(406,634)	231,104
Non-controlling interests		**36,417**	15,560
Total (deficits)/equity		**(370,217)**	246,664

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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$'000	**Asset revaluation reserve** HK$'000	**PRC statutory reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**(Accumulated losses)/ Retained profits** HK$'000	**Subtotal** HK$'000	**Non-controlling interest** HK$'000	**Total** HK$'000
At 1 January 2017 (Re-presented) (Audited)	306,273	4,525,848	18,261	—	1,272	108,105	175	156,011	(5,018,698)	97,247	(18)	97,229
Loss for the period	—	—	—	—	—	—	—	—	(66,487)	(66,487)	(1,172)	(67,659)
Other comprehensive income	—	—	—	—	—	—	—	4,381	—	4,381	—	4,381
Total comprehensive income/(loss)	—	—	—	—	—	—	—	4,381	(66,487)	(62,106)	(1,172)	(63,278)
Issue of consideration shares	14,116	127,044	—	—	—	—	—	—	—	141,160	—	141,160
Issue of convertible bonds	—	—	—	372	—	—	—	—	—	372	—	372
Lapse of share options	—	—	—	—	(1,156)	—	—	—	1,156	—	—	—
Acquisition of non-controlling interest	—	—	—	—	—	—	—	—	—	—	69,069	69,069
At 30 June 2017 (Unaudited)	320,389	4,652,892	18,261	372	116	108,105	175	160,392	(5,084,029)	176,673	67,879	244,552
At 1 January 2018 (Audited)	**393,645**	**4,834,143**	**18,261**	**372**	**83**	**108,105**	**175**	**157,459**	**(5,281,139)**	**231,104**	**15,560**	**246,664**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(647,339)**	**(647,339)**	**(1,639)**	**(648,978)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,998**	**—**	**3,998**	**—**	**3,998**
Total comprehensive income/(loss)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,998**	**(647,339)**	**(643,341)**	**(1,639)**	**(644,980)**
Expire of convertible bonds	**—**	**372**	**—**	**(372)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Lapse of share options	**—**	**—**	**—**	**—**	**(83)**	**—**	**—**	**—**	**83**	**—**	**—**	**—**
Acquisition of non-controlling interest	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,607**	**(4)**	**5,603**	**22,522**	**28,125**
Disposal of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(26)**	**(26)**
At 30 June 2018 (Unaudited)	**393,645**	**4,834,515**	**18,261**	**—**	**—**	**108,105**	**175**	**167,064**	**(5,928,399)**	**(406,634)**	**36,417**	**(370,217)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(40,482)**	(130,530)
Cash flows from investing activities		
Interest received	**707**	103
Purchase of property, plant and equipment	**(1,400)**	(4,206)
Sale proceeds from disposal of property, plant and equipment	**2**	14
Investment in available-for-sale financial assets	**—**	(49,821)
Net cash outflow from acquisition of a subsidiary	**(7,993)**	—
Net cash inflow from disposal of subsidiaries	**3,150**	—
Net cash used in investing activities	**(5,534)**	(53,910)
Cash flows from financing activities		
Repayment of bank and other loans	**(5,900)**	—
Sale proceeds from available-for-sale financial assets	**8,403**	—
Issuance of convertible bonds	**—**	78,000
Net cash generated from financing activities	**2,503**	78,000
Net decrease in cash and cash equivalents	**(43,513)**	(106,440)
Cash and cash equivalents as at 1 January	**83,385**	257,712
Effect of foreign exchange rate changes, net	**(5,766)**	2,782
Cash and cash equivalents at 30 June	**34,106**	154,054

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard (the "**HKAS**") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange at Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

The unaudited consolidated financial statements for the six months ended 30 June 2018 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2017,which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 1.1 below.

The unaudited consolidated financial statements for the six months ended 30 June 2018 have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value and are presented in Hong Kong Dollars and all values are rounded to the nearest thousand except when otherwise indicated. The functional currency of the Group is Renminbi and the presentation currency is Hong Kong Dollars.

1.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

For the six months ended 30 June 2018, the Group have applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant to the Group for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the above amendments to HKFRSs for the six months ended 30 June 2018 has had no material effect on the amounts reported in the unaudited consolidated financial statements and/or disclosures set out in the unaudited consolidated financial statements. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

2. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

For management purposes, the Group identifies its 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 resource allocations and performance assessments. Segment results represent the profit or loss before tax from continuing operations before taking into account interest income from bank and loan, other income and loss, unallocated expenses (including general and administrative costs) and finance costs.

The accounting policies of the operating segments are 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 prevailing market prices. No intersegment sales was generated for the Period (approximately HK$12,706,000 for the Comparative Period).

2. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

The following tables present the unaudited segment information for the six months ended 30 June 2018 and 2017.

Six months ended 30 June 2018

	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	5,173	20,059	537	25,769
Segment results	5	5,296	136	5,437
Adjusted for:				
— Interest income	234	2	471	707
— Other income	(31)	961	1,926	2,856
— Other expenses	(6,681)	(69,117)	(24,877)	(100,675)
	(6,473)	(62,858)	(22,344)	(91,675)
Add: Depreciation and amortisation	154	52,814	968	53,936
Operating loss before interest, tax depreciation and amortisation	(6,319)	(10,044)	(21,376)	(37,739)
Loss on disposal of subsidiaries	—	—	(108)	(108)
Share results of associated companies	(78)	—	(1,420)	(1,498)
Provision for impairment loss of available-for-sale financial assets	—	—	(190,160)	(190,160)
Provision for impairment loss of trade receivables	(103,857)	(160,114)	—	(263,971)
Loss before interest, tax, depreciation and amortisation	(110,254)	(170,158)	(213,064)	(493,476)
Depreciation and amortisation	(154)	(52,814)	(968)	(53,936)
Finance costs	(10,266)	(92,944)	(2,196)	(105,406)
Loss before tax	(120,674)	(315,916)	(216,228)	(652,818)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2017

	Trading of commodities HK$'000	Shipbuilding and ship-repairing HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment revenue				
— Revenue from external customers	615,173	829	—	616,002
— Intersegment	12,200	506	(12,706)	—
	627,373	1,335	(12,706)	616,002
Segment results	221	(27,597)	—	(27,376)
Adjusted for:				
— Interest income	—	—	103	103
— Other income	—	—	78,748	78,748
— Other expenses	—	—	(26,568)	(26,568)
	221	(27,597)	52,283	24,907
Add: Depreciation and amortisation	161	21,599	521	22,281
Profit/(loss) before interest, tax, depreciation and amortisation	382	(5,998)	52,804	47,188
Depreciation and amortisation	(161)	(21,599)	(521)	(22,281)
Finance costs	(3,649)	(81,138)	(8,394)	(93,181)
(Loss)/Profit before tax	(3,428)	(108,735)	43,889	(68,274)

3. OTHER LOSS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Provision for impairment of available-for-sale financial assets *(Note a)*	**190,160**	—
Provision for impairment of trade receivables *(Note b)*	**263,971**	—
Others	**108**	35
	454,239	35

Notes:

(a) Provision for impairment of available-for-sale financial assets

In the first half of year 2017, the Group invested approximately HK$112,928,000 by the consideration shares to acquire 100% of the issued share capital of an entity where its subsidiaries and associated company are principally engaged in repairing and reconstruction of marine and offshore drilling platforms, marine engineering equipment and facilities. During the Period, the Group had a dispute with the original vendor, and the Group strived to have access to the books and records of this entity and its subsidiaries and associated company, but failed to obtain any substantive information. The Board doubted the recoverability of this amount and therefore, the provision for impairments of the available-for-sale financial assets was made at 30 June 2018.

Besides this, the Group invested HK$49,000,000 in an investment which mainly consisted of preferred shares of a private entity that was incorporated in Hong Kong. It is principally engaged in investments and mergers and acquisitions in the shipbuilding industry and the upstream and downstream of the ship-engineering industry chains.

As at the date of reporting period, the Group has been unable to gain access to the financials of this entity in the recent months and, inter alia unable to assess the recoverability of such investment, therefore, the impairment was provided for the available-for-sale financial assets under the conservative view.

(b) Provision for impairment of trade receivables

After the evaluation and assessment of the recoverability and ageing analysis by the Board, the Board considered and doubted the recoverability of such relatively long-outstanding receivable amounts, and therefore relevant provision was made to reflect the true and fair view.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interests on:		
Bank and other loans	**19,686**	13,576
Loan from the ultimate holding company	**76,423**	71,211
Titan Preferred Shares	**7,304**	7,304
Convertible bonds	**1,993**	1,090
	105,406	93,181

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Employee benefits expenses (excluding directors' remuneration):		
Wages and salaries	**18,091**	6,394
Pension scheme contributions	**3,678**	425
	21,769	6,819
Auditors' remuneration	**544**	465
Minimum lease payments under operating leases: leasehold buildings	**4,778**	4,316
Amortisation of prepaid land lease payments	**4,659**	3,448
Depreciation of property, plant and equipment	**49,277**	18,833
Bank interest income	**(482)**	(103)
Interest received from loan receivable	**(225)**	—
Gain on disposal of property, plant and equipment	**(2)**	—
Loss on disposal of investment in subsidiaries	**108**	—
Provision for impairment of available-for-sale financial assets	**190,160**	—
Provision for impairment of trade receivables	**263,971**	—
Foreign exchange differences, net	**873**	35

6. INCOME TAX CREDIT

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

Hong Kong

No provision for Hong Kong profits tax has been made as the subsidiaries of the Group did not generate any assessable profits in Hong Kong for the Period (HK$Nil for the Comparative Period).

Singapore

No provision for taxation has been made as the subsidiaries of the Group in Singapore did not generate any assessable profit for the Period (HK$Nil for the Comparative Period).

Mainland China

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax:		
Deferred taxation	**3,840**	615
	3,840	615

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (Nil for the Comparative Period).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

Loss

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period attributable to owner of the Company for the purpose of basic and diluted loss per share	**647,339**	66,487

Number of shares

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**4,920,560,060**	31,235,601,567

Note:

No adjustment has been made to the basic loss per share amount presented for the Period as Titan Preferred Shares outstanding had an anti-dilutive effect on the basic loss per share amount presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment amounting to approximately HK$3,279,000 (HK$4,190,000 for the Comparative Period).

During the Period, the Group disposed property, plant and equipment amounting to approximately HK$13,000 (HK$430,000 for the Comparative Period).

10. INVESTMENT PROPERTY

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 PRC.

At 30 June 2018, the investment property under the condensed consolidated statement of financial position with an aggregate net carrying value of approximately HK$221,625,000 (31 December 2017: HK$224,419,000) was 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 status with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. The fair value of the Group's investment property as at 30 June 2018 has been arrived at on the basis of a valuation carried out on the respective dates by Ravia Global Appraisal Advisory Limited (31 December 2017: Access Partner Consultancy & 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 was no transfer among Level 1, Level 2, and Level 3.

The valuation report for the investment property as at 30 June 2018 was performed by Ravia Global Appraisal Advisory Limited. The person in charge of the valuation report is a member of The Hong Kong Institute of Surveyors. The valuation was performed in accordance with "The HKIS Valuation Standards 2017 Edition" published by The Hong Kong Institute of Surveyors.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE RECEIVABLES

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. The management of the Group was of the opinion that provision for impairment was necessary in respect of these balances as there had been a significant change in credit quality.

Provision for impairment of trade receivables of approximately HK$263,971,000 (HK$Nil for the Comparative Period) recognised during the Period was based on estimated irrecoverable amounts by reference to the creditability of individual customers, past default experience, subsequent settlement and payment history of the customers. After consulting with the Company's legal adviser, the Group has commenced the legal steps to recover the outstanding amounts. The Group was unable to estimate the possible recoverability of this amount, therefore, provision for impairment of trade receivables has been made based on the prudence view. Trade receivables are non-interest-bearing.

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade receivables	**272,522**	311,329
Less: Provision for impairment of trade receivables	**(259,983)**	(1,615)
	12,539	309,714

An aged analysis of trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
0–90 days	**10,565**	151,323
91–180 days	**1,044**	—
181–365 days	**137,215**	108,506
Over one year	**123,698**	51,500
	272,522	311,329

12. 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 and services rendered, is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
0–90 days	**100,456**	108,810
91–180 days	**5,356**	2,314
181–365 days	**18,091**	30,645
Over one year	**49,935**	37,425
	173,838	179,194

13. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Amount due to a deconsolidated jointly-controlled entity	**62,628**	63,418
Receipt in advance	**87,221**	174,704
Accrued expenses	**81,626**	65,582
Others	**221,980**	152,850
	453,455	456,554

14. BANK AND OTHER LOANS

Bank and other loans are interest-bearing with fixed and floating interest rates ranging from 5.22% to 28.00% per annum. As at 30 June 2018, the Group's bank and other loans having maturities within one year and over one year amounted to approximately HK$218.8 million and HK$256.4 million respectively (31 December 2017: HK$222.0 million and HK$265.3 million respectively).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. AMOUNTS DUE TO THE ULTIMATE HOLDING COMPANY

As at 30 June 2018, the Group had amounts due to the ultimate holding company of approximately HK$2,094.5 million (31 December 2017: HK$2,046.2 million) which included a loan from the ultimate holding company of approximately HK$1,799.8 million (31 December 2017: HK$1,822.5 million) of which maturity within one year amounted to approximately HK$270.0 million (31 December 2017: HK$182.3 million). The effective interest rate of loan from the ultimate holding company was 8.26% per annum as at 30 June 2018 (31 December 2017: 8.26% per annum).

16. CONVERTIBLE BONDS

As disclosed in the Company's announcement dated 13 April 2017, the Company and Subscriber entered into the subscription agreement, pursuant to which the Company had conditionally agreed to allot and issue and the Subscriber had conditionally agreed to subscribe for the convertible bonds with an aggregate principal amount of HK$78,000,000. Based on the conversion price of HK$0.095 per each of 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 bonds were HK$78,000,000. The net proceeds from the issue of the convertible bonds (after deducting the relevant costs and expenses) were HK$77,500,000.

As disclosed in the announcement dated 28 April 2017, the subscription agreement had been fulfilled and that the convertible bonds in the principal amount of HK$78,000,000 had 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.

The convertible bonds expired with its conversion right not being exercised upon the expiry date on its first year of anniversary on 28 April 2018.

17. CONVERTIBLE PREFERRED SHARES

In 2007, the Company issued 555,000,000 convertible preferred shares (the "**Titan Preferred Shares**") at the stated value of HK$0.56 per share. The fair value of the liability portion of the Titan Preferred Shares was estimated at the issuance date. Upon effective of the share consolidation on 5 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. The adjusted number of convertible preferred shares was 69,375,000 at the date of the report.

On 4 July 2012, the Company received from Saturn Petrochemical Holdings Limited ("**SPHL**") a notice to redeem all of the Company's outstanding 555,000,000 preferred shares (adjusted number of convertible preferred share: 69,375,000) held by it at a redemption amount equal to the notional value of the Company's preferred shares (being HK$310,800,000) together with any accrued and unpaid dividends.

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

The Company and DBIL (as the lawful attorney of SPHL) subsequently entered into a deed dated 22 August 2014 (as supplemented and amended on 27 February 2015 and 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.

As disclosed in the Company's announcements dated 28 May 2015, 7 August 2015, 5 November 2015 and on 28 May 2015, 30 July 2015, 16 October 2015, 5 May 2016 and 29 April 2016, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE CAPITAL

	30 June 2018		31 December 2017	
	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 as at 1 January 2018 and HK$0.01 each as at 1 January 2017	**10,000,000,000**	**80,000**	80,000,000,000	80,000
Share consolidation *(Note a)*	**—**	**—**	(70,000,000,000)	—
Ordinary shares of HK$0.08 each as at 30 June 2018 and 31 December 2017	**10,000,000,000**	**800,000**	10,000,000,000	800,000
Convertible preferred shares of HK$0.08 each as at 1 January 2018 and HK$0.01 each as at 1 January 2017	**69,375,000**	**5,500**	555,000,000	5,500
Share consolidation *(Note a)*	**—**	**—**	(485,625,000)	—
Convertible preferred shares of HK$0.08 each as at 30 June 2018 and 31 December 2017	**69,375,000**	**5,550**	69,375,000	5,550
Issued and fully paid:				
Ordinary shares of HK$0.08 each as at 1 January 2018 and HK$0.01 each as at 1 January 2017	**4,920,560,060**	**393,645**	30,627,287,770	306,273
Share consolidation *(Note a)*	**—**	**—**	(28,902,253,754)	—
Consideration shares issue *(Note b and Note c)*	**—**	**—**	2,203,266,631	77,449
Loan capitalisation agreements *(Note d)*	**—**	**—**	992,259,413	9,923
Ordinary shares of HK$0.08 each as at 30 June 2018 and 31 December 2017	**4,920,560,060**	**393,645**	4,920,560,060	393,645
Convertible preferred shares of HK$0.08 each as at 1 January 2018 and HK$0.01 each as at 1 January 2017	**69,375,000**	**5,500**	555,000,000	5,500
Share consolidation *(Note a)*	**—**	**—**	(485,625,000)	—
Convertible preferred shares of HK$0.08 each as at 30 June 2018 and 31 December 2017	**69,375,000**	**5,550**	69,375,000	5,550

18. SHARE CAPITAL (CONTINUED)

Notes:

a) by an ordinary resolution passed by the shareholders at a 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 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 Aluminum Co., Limited at a consideration of RMB100,000,000 (equivalent to approximately HK$112,928,000) which was satisfied by issue of 1,411,599,964 consideration shares at the issue price of HK$0.08 each by the Company upon completion;

c) on 6 October 2017, Create Treasure Limited, a subsidiary of the Company, entered into the sale and purchase agreement to acquire the entire issued share 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 each and cash consideration of HK$20,000,000 by the Company to the purchasers;

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

e) all ordinary shares rank pari passu in all respects.

19. 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.

Convertible bond reserve

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

Share option reserve

The share option reserve comprises the fair value of the share options granted by the Company 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.

19. RESERVES (CONTINUED)

Asset revaluation reserve

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

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.

Exchange fluctuation reserve

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

20. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its part of shipyard factories under operating lease arrangement, with leases negotiated for terms of five years.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within one year	**1,374**	—
In the second to fifth year, inclusive	**4,154**	—
	5,528	—

20. OPERATING LEASE ARRANGEMENTS (CONTINUED)

As lessee

The Group leases office premises and staff quarters under operating lease arrangements. As at 30 June 2018, leases for office premises and staff quarters are negotiated for terms ranging from one to three years (31 December 2017: one to three years) with an option to renew the lease when all terms are negotiated. None of the leases includes contingent rentals.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Office premises and staff quarters		
Within one year	**3,261**	7,541
In the second to fifth year, inclusive	**2,718**	8,292
	5,979	15,833

21. COMMITMENTS

As all contracts for ship-repairing facilities in PRC had already expired over several years, the Group's management expected that those contracts were remote and there would be no capital expenditure incurred and therefore no provision would be made and accounted for all such commitments as at 30 June 2018 (31 December 2017: Nil).

22. GUARANTEES

As at 30 June 2018, there was no guarantee for the Group (31 December 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. CONTINGENT LIABILITIES

a) BVI Proceedings

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

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

On 18 July 2012 (BVI time), Titan Oil Storage Investment Limited ("**TOSIL**"), a wholly owned subsidiary of the Company, and a shareholder of TGIL filed a notice of appeal at the Court of Appeal of the Eastern Caribbean Supreme Court (the "**BVI Court of Appeal**") against the above order and applied for a stay of execution thereof pending the determination of the appeal. The stay application was subsequently withdrawn. Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

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 Appeal has been withdrawn as part of the settlement of all litigation relating to the Group pursuant to the settlement deed.

A number of distributions to the creditors of TGIL is still in progress until the liquidators of TGIL are released from all the obligations under the Order.

b) PRC Proceedings

(i) 泉州船舶工業有限公司(Titan Quanzhou Shipyard Co., Ltd*) ("**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 GZE. The lawyer of TQS attended 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, respectively.

(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 PRC (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 the afternoon of 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 (in compulsory liquidation), a direct controlling shareholder of the Company.

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

23. CONTINGENT LIABILITIES (CONTINUED)

b) 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 that the Intermediate People's Court of Wuxi City in Jiangsu Province, the PRC 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 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 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 the total amount of RMB527,619,419.

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

(v) TQS 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*), and 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.

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

c) Hong Kong Proceedings

There was no Hong Kong proceeding as at 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. MATERIAL RELATED PARTY TRANSACTIONS

Loan from the ultimate holding company

As at 30 June 2018, the loan due to GZE was approximately HK$1,799.8 million (31 December 2017: HK$1,822.5 million). The loan was secured, carried an interest rate at basic lending rate of the People's Bank of China per annum.

The loan from the GZE denominated in RMB with the amount of approximately RMB$229.0 million (equivalent to approximately HK$270.0 million) and RMB1,297.7 million (equivalent to approximately HK$1,529.8 million) are repayable within one year and beyond one year respectively and was secured by:

i) construction in progress with an aggregate carrying value of approximately HK$770.7 million (31 December 2017: HK$780.4 million);

ii) prepaid land lease payments with an aggregate net carrying value of approximately HK$240.1 million (31 December 2017: HK$234.0 million);

iii) buildings with an aggregate net carrying value of approximately HK$388.8 million (31 December 2017: HK$353.8 million); and

iv) machineries with an aggregate net carrying value of approximately HK$30.4 million (31 December 2017: HK$41.4 million).

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Group's financial assets that are measured at fair value on a recurring basis

The Group's financial assets at fair value through profit and loss are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

26. SUBSEQUENT EVENTS

There has been no major subsequent event of the Company from 30 June 2018 to the date of this report.