Titan Petrochemicals Group Limited

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

Annual Report 2018

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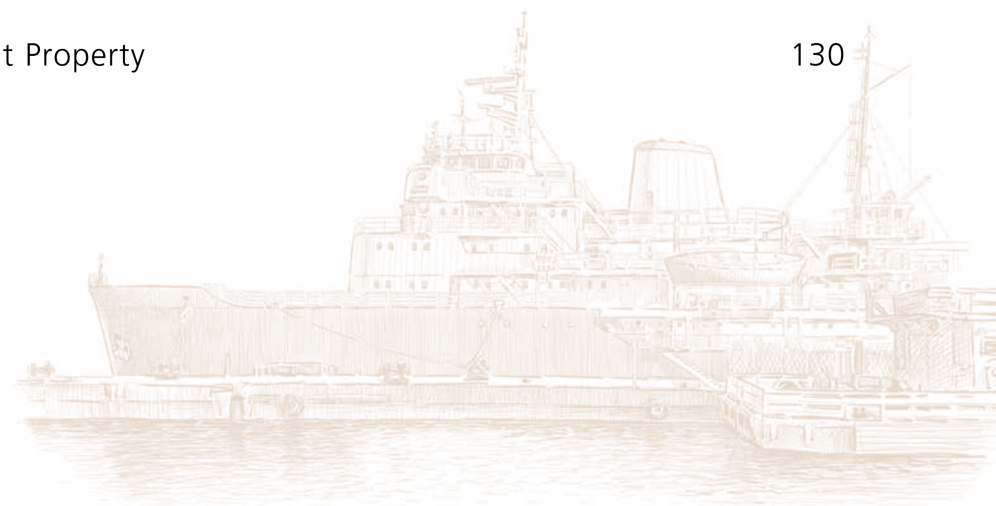

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board ("**Board**") of Directors (the "**Directors**") of Titan Petrochemicals Group Limited (the "**Company**"), I hereby present the Annual Report of the Company for the year ended 31 December 2018.

The Company together with its subsidiaries (the "**Group**") recorded significant increase in consolidated loss attributable to owners of the Company for the year ended 31 December 2018. The reason for the loss of the year of 2018 was mainly due to the one-off impairment of assets, trade receivables, prepaid land lease payments and goodwill. The Board is deeply regretted with the unsatisfactory performance of the Group as a whole.

2018 was a year in which the company had encountered great difficulties, but it was also the year for the transformation and upgrading of the Company. The Company would be under certain pressure due to the environment of the shipbuilding and offshore market continues to be affected by the global trade downturn. The management of the Company was committed to maintain the stable operation of its existing business of 江蘇宏強船舶重工有限公司 ("**OPCO**"). Meanwhile, the Company also actively promoted the comprehensive development and utilization of the parcel of land in Quanzhou in Fujian Province in the People's of Republic of China ("**PRC**"). The construction plan of the above-mentioned parcel of land had been carried out, and the construction process will start shortly.

In 2019, the Company will continue to seek breakthroughs in the above industries. In the beginning of 2019, OPCO had successfully delivered one bulk carrier which brought considerable income to the Group before. Meanwhile, the Company will actively seek to actuate the debt restructuring of Titan Quanzhou Shipyard Company Limited ("**TQS**") with certain creditors. This will not only reduce the debt burden of the Group, it will also help to restart the operation capacity of TQS and develop advanced ship-repairing and transformation business. Moreover, the Company will also actively develop its accumulated experience and deploy resources in the bulk trade industry. The Company had signed framework agreements with the customers on new trade conduits. To achieve the above targets, the Board will seek for various financial means to enrich the equity capital of the Group in order to build solid foundation for the sustainability and improvement in profitability of its principal business.

Looking forward, the Group will grasp new potential business opportunities in the challenging environment, with the expertise and strategic leadership under the management, so that the Group will aim at new profit growth point for its business, so as to maximize the returns to all the shareholders and investors.

Chen Bingyan
Co-Chairman

Hong Kong, 29 March 2019

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Chen Bingyan (Co-Chairman)
(Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Dr. Liu Liming
Mr. Zhang Qiandong (Appointed on 26 July 2018)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Mr. Hu Hongwei (Resigned on 1 February 2018)
Mr. Tang Chao Zhang (Resigned as Chairman and Chief Executive on 29 October 2018)

Non-executive Directors

Mr. Lai Wing Lun (Co-Chairman)
(Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Mr. Osman Mohammed Arab
(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)
Mr. Teng Yue (Appointed on 23 October 2018)
Mr. Cheung Hok Fung Alexander
(Appointed on 23 October 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)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Mr. Tang Chao Zhang (Appointed on 5 March 2018 and resigned on 10 August 2018)
Ms. Xiang Siying (Retired on 26 July 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. Zhang Weibing (Appointed on 17 January 2018 and resigned on 2 March 2018)
Mr. Hu Hongwei (Resigned on 17 January 2018)
Mr. Tang Chao Zhang (Appointed on 5 March 2018 and resigned on 10 August 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Dr. Han Jun (Resigned on 1 August 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

CORPORATE INFORMATION

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

http://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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**64,883**	1,024,146	760,921	—	—
Gross profit	**16,703**	15,473	1,455	—	—
(Loss)/Profit for the year					
Attributable to:					
— Owners of the Company	**(2,368,589)**	(263,630)	1,889,840	(241,781)	3,779,374
— Non-controlling interests	**(1,897)**	(1,716)	(21)	—	—
	(2,370,486)	(265,346)	1,889,819	(241,781)	3,779,374

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash and cash equivalents	**11,305**	83,385	257,712	9,989	1,315
Current assets	**129,699**	604,173	600,982	245,762	3,034,617
Total assets	**1,565,940**	4,143,308	3,168,254	2,997,452	3,203,978
Current liabilities	**1,974,057**	1,469,454	527,169	4,600,276	6,851,061
Total liabilities	**3,809,729**	3,896,644	3,071,025	7,046,510	7,036,612
Total equity/(deficiency)	**(2,243,789)**	246,664	97,229	(4,049,058)	(3,832,634)
Equity/(deficiency) attributable to owners of the Company	**(2,256,830)**	231,104	97,247	(4,049,058)	(3,832,634)

DIRECTORS' BIOGRAPHIES

Mr. Chen Bingyan ("Mr. Chen"), 69 years old, was appointed as an executive Director on 26 July 2018, and the co-chairman of the Company on 21 November 2018. Mr. Chen has over 40 years of overseas working experience and was actively involved in introduction and financing of several mega cross-border projects. Mr. Chen worked as the legal representative and the president of China Tian Ping Industrial Company, South China Region Branch and the commander in chief of the development and construction of Zhuhai West Region and Pingsha District in Zhuhai city. Mr. Chen is also the president of Zhongan Guotai Investment Co., Ltd. Mr. Chen is currently a Director for two subsidiary companies of the Group.

Dr. Liu Liming ("Dr. Liu"), 69 years old, was appointed as an executive Director on 15 July 2016. 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 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. Dr. Liu has over 50 years experiences 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 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).

Mr. Zhang Qiandong ("Mr. Zhang"), 27 years old, was appointed as an executive Director on 26 July 2018. Mr. Zhang graduated with a bachelor degree from the International Economics and Trading Faculty in Shanghai Maritime University. Mr. Zhang is currently the Supervisor of Sinozing Drydock (Quanzhou) Co., Ltd., an indirect non wholly-owned subsidiary of the Company. Mr. Zhang is currently an executive director of Ningbo Daxie Jinshuo Trading Company Limited and the director of Fushun Pacific Industrial Company Limited. Mr. Zhang has worked for multiple real estate companies, and has ample experience in the area of real estates and financial activities. Mr. Zhang is currently a Director for certain subsidiary companies of the Group.

Mr. Lai Wing Lun ("Mr. Lai"), 40 years old, was appointed as a non-executive Director of the Company on 26 July 2018, and the co-chairman of the Company on 21 November 2018. Mr. Lai is a director of RSM Corporate Advisory (Hong Kong) Limited and he was nominated by the liquidators of Fame Dragon International Investment Limited (In Compulsory Liquidation), the major shareholder of the Company. Mr. Lai is a member of the American Institute of Certified Public Accountants, Chartered Financial Analyst Institute, the Association of Certified Fraud Examiners and the Global Association of Risk Professionals. Mr. Lai is currently a Director for a subsidiary company of the Group.

Mr. Osman Mohammed Arab ("Mr. Arab"), 48 years old, was appointed as a non-executive Director on 26 July 2018. Mr. Arab is a director of RSM Corporate Advisory (Hong Kong) Limited and he is currently one of the liquidators of Fame Dragon International Investment Limited (In Compulsory Liquidation), the major shareholder of the Company, pursuant to the Order of the High Court dated 6 February 2018. Mr. Arab is a member of CPA Australia and a fellow member of Hong Kong Institute of Certified Public Accountants.

Mr. Lau Fai Lawrence ("Mr. Lau"), 47 years old, was appointed as an independent non-executive Director on 13 March 2014. Mr. Lau is currently a certified public accountant in Hong Kong and 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 degree in business administration in 1994 and obtained a master degree in corporate finance from Hong Kong Polytechnic University in 2007. Mr. Lau has been the company secretary of BBMG Corporation (北京金隅集團股份有限公司) since August 2008, an executive director of Future World Financial Holdings Limited since January 2014. Mr. Lau was also a non-executive director of Alltronics Holdings Limited from March 2017 to December 2018. Besides, Mr. Lau has been an independent non-executive director of Primeview Holdings Limited since April 2008, HKBridge Holdings Limited since March 2016, Tenwow International Holdings Limited (in provisional liquidation) since November 2018 and Winto Group (Holdings) Limited since 15 April 2019, all the above companies are listed on The Stock Exchange of Hong Kong Limited.

Mr. Sun Feng ("Mr. Sun"), 65 years old, was appointed as an independent non-executive Director on 26 July 2018. Mr. Sun graduated from The Party School of the Central Committee of the Communist Party in the People's Republic of China ("**PRC**") in July 2000. Mr. Sun had successively served as a deputy director and secretary (section level) of State Economic and Trade Commission in the PRC during the period from 1979 to 1994. Mr. Sun had also served as an assistant of Quanzhou mayor and a council member of the Chinese Overseas Friendship Association in the PRC during the period from 1994 to 1996. In addition, Mr. Sun had served as a deputy director of the Fujian provincial government in Beijing and a party committee secretary and the chairman of CITIC Guoan Group. Besides, Mr. Sun was an executive director and the chairman of the board of Future Bright Mining Holdings Limited (the company is listed on the main board of The Stock Exchange of Hong Kong Limited) for the period from June 2016 to October 2016.

Mr. Teng Yue ("Mr. Teng"), 42 years old, was appointed as an independent non-executive Director on 23 October 2018. Mr. Teng holds a bachelor degree of Science in Management from Beijing Institute of Technology and a master degree of Science in Finance from the LeBow College of Business, Drexel University in Philadelphia, United States. Mr. Teng is a chartered financial analyst. Mr. Teng is the head of overseas business division under First Capital Investment Banking Co. Ltd.. He is a Beijing based Investment Banking Division merge and acquisitions veteran previously working with CITIC Securities, Morgan Stanley and Deloitte Financial Advisory Service in the United States. Mr. Teng has collectively 17 years investment banking related experience in United States and China. Mr. Teng's professional responsibility was venture capital investment analysis and A-share private placement transactions in late 90s before leaving to United States for education and employment. The job responsibility of Mr. Teng in the United States was primarily in merge and acquisitions related business valuation. Mr. Teng's team was in the valuation review group of Morgan Stanley's private equity portfolio under various business lines, e.g. Morgan Stanley Capital Partners, Morgan Stanley Infrastructure Partners, Morgan Stanley Real Estate Fund, Morgan Stanley Investment Banking Division, and etc. Covered industries include energy, infrastructure, manufacturing, consumer, media, healthcare, financial services. After joining CITIC Securities Investment Banking Division Merge and Acquisitions department in early 2011, the job function of Mr. Teng had expanded into client coverage, deal origination and execution. In the years onwards, the client's portfolio of Mr. Teng's covers included Chinese oil/gas majors, oil/gas service companies, power utility majors, nuclear companies, major engineering, procurement and construction contractors, architect design companies, alternative energy companies, energy conservation companies, manufacturing companies, consumer goods companies, as well as financial service companies. Mr. Teng has solid experience in cross-border transactions and leadership roles in various positions. Mr. Teng was invited to various conferences as key note speaker or guest speaker and was invited as instructor for cross-border related topic training programs.

DIRECTORS' BIOGRAPHIES

Mr. Cheung Hok Fung Alexander ("Mr. Cheung"), 54 years old, was appointed as an independent non-executive Director on 23 October 2018. Mr. Cheung is currently a barrister practising in Hong Kong. He is also a certified public accountant in Hong Kong and a chartered accountant in Australia and New Zealand. He holds a professional diploma in company secretaryship and administration from the Hong Kong Polytechnic, a master and a bachelor degree of laws from the University of New England, Australia. Mr. Cheung is currently an independent non-executive director of Combine Will International Holdings Limited, and was formerly an independent non-executive director of Shanghai Turbo Enterprises Limited, both of which are listed on the main board of the Singapore Exchange Limited. He has over 25 years of experience in corporate governance, auditing, tax planning and compliance. Mr. Cheung was appointed as an independent non-executive Director of the Company from March 2014 to March 2015.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year under review, except for certain deviations which are summarised below:

In accordance to the code 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**") had resigned as the 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 with effect from 5 March 2018. Since then, Mr. Tang acted as both the chairman of the Board 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.

Mr. Tang had resigned as the chairman of the Board, chief executive and executive Director of the Company on 29 October 2018.

Mr. Chen and Mr. Lai were appointed as co-chairmen of the Board of the Company with effect from 21 November 2018 and the Company will arrange for the appointment of chief executive of the Company as soon as practicable in order to fill the vacancy arising from the resignation of Mr. Tang on 29 October 2018.

In accordance to the 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. 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, Ms. Xiang Siying ("**Ms. Xiang**") and Dr. Han Jun ("**Dr. Han**"), the independent non-executive Directors ("**INED(s)**"), were unable to attend the special general meeting of the Company on 5 February 2018 as they had other engagements. Mr. Tang, the chairman of the Board, chief executive and executive Director and Mr. Arab, the non-executive Director, were unable to attend the special general meeting of the Company on 23 October 2018 as they had other engagements.

On 26 July 2018, Mr. Li Jiaqi ("**Mr. Li**") retired from his role as non-executive Director and Ms. Xiang retired from her role as independent non-executive Director. Following the retirement of Ms. Xiang, the audit committee of the Company (the "**Audit Committee**") comprised two members which fell 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.

On 23 October 2018, Mr. Teng and Mr. Cheung were appointed as INEDs of the Company respectively, and that the Company had compiled with the minimum number, and constituted one-third of the Board as required under Rules 3.10(1) and 3.10A of the Listing Rules.

In accordance to the code provision F.1.2 of the CG Code, the appointment of the company secretary of the Company should be dealt with by a physical board meeting rather than a written resolution. The appointment of the current company secretary of the Company was dealt with by a written resolution in April 2018. The Board considered that, prior to the execution of the written resolution to appoint the current company secretary of the Company, 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.

During the year under review, neither the two former chairmen of the Board nor the existing co-chairmen of the Board had a meeting with independent non-executive Directors without the presence of other executive Directors in accordance with the code provision of A.2.7 of the CG Code.

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 of the Board

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

Executive Directors

Mr. Chen Bingyan (Co-Chairman) (Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Dr. Liu Liming
Mr. Zhang Qiandong (Appointed on 26 July 2018)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Mr. Hu Hongwei (Resigned on 1 February 2018)
Mr. Tang Chao Zhang (Resigned as Chairman and Chief Executive on 29 October 2018)

Non-executive Directors

Mr. Lai Wing Lun (Co-Chairman) (Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Mr. Osman Mohammed Arab (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)
Mr. Teng Yue (Appointed on 23 October 2018)
Mr. Cheung Hok Fung Alexander (Appointed on 23 October 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Dr. Han Jun (Resigned on 1 August 2018)

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

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, the Company requested each of the Directors to disclose to the Company, the number and the nature of their 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.

An updated list of Directors identifying their roles and functions is available on the websites of the Company (http://www.petrotitan.com) and the HKExnews's website of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (http://www.hkexnews.hk) respectively. 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

The roles of the chairman of the Board and chief executive of the Company are segregated and are held by different individuals until the resignation of Dr. Zhang as the chairman of the Board on 2 March 2018. Mr. Tang, the chief executive of the Company also took the role of the chairman of the Board on 5 March 2018.

With effect from 5 March 2018, Mr. Tang, the executive Director and chief executive of the Company, had been appointed as the chairman of the Board, a member of Remuneration Committee and a member of Nomination Committee. Mr. Tang was served as both the chairman of the Board and the chief executive of the Company from 5 March 2018 until his resignation from the Board on 29 October 2018, such practice deviates from code provision A.2.1 of the CG Code. The Board believes that vesting the roles of both the chairman and the chief executive of the Company 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 three executive Directors, two non-executive Directors and four 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.

Co-Chairmen of the Board

Mr. Chen and Mr. Lai were both appointed as the co-chairmen of the Board of the Company with effective from 21 November 2018. The co-chairmen arrangement is to utilise the expertise of the co-chairmen.

Mr. Chen has over 40 years overseas working experience and was actively involved in introduction and financing of several mega cross-border projects. Mr. Lai is a director of RSM Corporate Advisory (Hong Kong) Limited and is a member of the American Institute of Certified Public Accountants, Chartered Financial Analyst Institute, the Association of Certified Fraud Examiners and the Global Association of Risk Professionals. While the Company will benefit from the services of the co-chairmen in their expertise areas, the co-chairmen can be complementary to each other on sharing knowledge and experience and also creating synergy on common areas.

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.

For the details of the duties of co-chairmen of the Board, please refer to the announcement of the Company dated 30 November 2018.

The Company will arrange for the appointment of chief executive of the Company as soon as practicable in order to fill the vacancy arising from the resignation of Mr. Tang on 29 October 2018.

Board Diversity

In compliance with the requirement set out in code provision A.5.6 of the CG Code, the Company had adopted a board diversity policy (the "**Board Diversity Policy**") on 2014 which set out its approach to achieve diversity on the Board with a view to achieve 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 balance of skills, background, experience, knowledge, expertise, culture, independence, race, gender, and other qualities of Directors appropriate to the requirements of the Company's business.

The Board and the Nomination Committee will review the Board Diversity Policy, as appropriate from time to time, and to 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

The Board meets regularly and holds at least four Board meetings a year with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice is given in a reasonable time in advance. At least three days prior to any regular Board meeting or such other period as agreed for other Board meetings. All Directors are given draft agenda and the accompanying board papers for all matters for deliberation and resolution at the meetings. The Directors are allowed to include into the draft agenda any additional matters that they wish to discuss and resolve at the meetings. The management also provides information to the Directors on the activities of and developments in the business of the Group from time to time. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication with the bye-laws (the "**Bye-Laws**") of the Company.

The company secretary is responsible to prepare and circulate the abovementioned draft agenda and board papers. The company secretary is also responsible for keeping all Board meetings' minutes recorded in sufficient detail of the matters considered and decisions reached. Draft and final versions of the minutes are circulated to the Directors for comments and records respectively within reasonable time after each meeting and the final version is open for the Directors' inspection.

If a matter to be considered by the Board involves a conflict of interests of any substantial or controlling shareholder of the Company or Director and if the Board considers that the matter is material, it would be dealt with by a physical meeting rather than a written resolution of the Directors.

The Board ensures that there are sufficient INEDs (who, and whose close associates, have no material interests in the transaction) participating in discussing and voting on the resolution. A Director having material interests would abstain from deliberating and voting on the resolution to avoid any conflict of interests.

The Board as well as the Nomination Committee had reviewed the annual written confirmation of independence from each of the INEDs and based on such confirmations and not aware of any unfavourably reported incidents. The Company considers that all the INEDs are independent and have met the independence guidelines as set out in Rule 3.13 of the Listing Rules during the year under review and up to date of this annual report.

The Directors can seek independent professional advice for performing their duties through the company secretary at the expense of the Company.

The Directors at all times have full access to information of the Group and they can also access to information from the senior management of the Company independently. The Board is provided with monthly operating information which contains the up-to-date performance of the Group and information of the Company to enable the Board as a whole and each Director to discharge their duties.

ATTENDANCES OF BOARD MEETINGS

During the year under review, 16 full Board meetings, 3 Audit Committee meetings, 4 Remuneration Committee meetings, 5 Nomination Committee meetings, 2 special general meetings, 1 adjourned special general meeting, 1 annual general meeting and 1 adjourned annual general meeting were held at which the individual attendance records of the Directors were as follows:

	Meetings attended/Eligible to attend					
Name of Directors	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meetings**	**Special General Meetings (including 1 adjourned Special General Meeting)**	**Annual General Meetings (including 1 adjourned Annual General Meeting)**
Executive Directors						
Mr. Chen Bingyan (Co-Chairman) (Note 1)	6/7	N/A	N/A	N/A	1/1	N/A
Dr. Liu Liming	15/16	N/A	N/A	N/A	2/3	2/2
Mr. Zhang Qiandong (Note 2)	7/7	N/A	N/A	N/A	1/1	N/A
Dr. Zhang Weibing (Note 3)	4/4	N/A	1/1	1/1	1/2	N/A
Mr. Hu Hongwei (Note 4)	3/4	N/A	N/A	N/A	N/A	N/A
Mr. Tang Chao Zhang (Note 5)	13/13	N/A	1/1	2/2	2/3	2/2
Non-executive Directors						
Mr. Lai Wing Lun (Co-Chairman) (Note 6)	7/7	2/2	1/1	1/1	1/1	N/A
Mr. Osman Mohammed Arab (Note 7)	6/7	N/A	N/A	N/A	0/1	N/A
Mr. Li Jiaqi (Note 8)	4/4	N/A	N/A	N/A	N/A	2/2
Mr. Yin Lantian (Note 9)	3/3	N/A	N/A	N/A	0/2	N/A
Independent Non-executive Directors						
Mr. Lau Fai Lawrence (Note 10)	16/16	3/3	1/1	1/1	2/3	2/2
Mr. Sun Feng (Note 11)	4/7	1/2	1/1	1/1	1/1	N/A
Mr. Teng Yue (Note 12)	4/4	N/A	N/A	N/A	N/A	N/A
Mr. Cheung Hok Fung Alexander (Note 13)	2/4	N/A	N/A	N/A	N/A	N/A
Ms. Xiang Siying (Note 14)	8/9	1/1	3/3	4/4	1/2	2/2
Dr. Han Jun (Note 15)	8/9	1/1	3/3	4/4	1/2	2/2
Total No. of meetings	16	3	4	5	3	2

Notes:

1. Mr. Chen Bingyan was appointed as an executive Director on 26 July 2018 and appointed as the co-chairman on 21 November 2018.

2. Mr. Zhang Qiangdong was appointed as an executive Director on 26 July 2018.

3. Dr. Zhang Weibing resigned as the chairman of the Board, executive Director, the member of the Remuneration Committee and the Nomination Committee on 2 March 2018.

4. Mr. Hu Hongwei resigned as an executive Director on 1 February 2018 and the member of the Nomination Committee on 17 January 2018.

5. Mr. Tang Chao Zhang was appointed as the chairman of the Board, the member of the Remuneration Committee and the Nomination Committee on 5 March 2018. he resigned as the member of Remuneration Committee and Nomination Committee on 10 August 2018 and resigned as the chairman of the Board, the chief executive of the Company and executive Director on 29 October 2018

6. Mr. Lai Wing Lun was appointed as a non-executive Director on 26 July 2018 and appointed as the co-chairman on 21 November 2018, he was also appointed as the member of the Audit Committee, Remuneration Committee and Nomination Committee on 10 August 2018.

7. Mr. Osman Mohammed Arab was appointed as a non-executive Director on 26 July 2018.

8. Mr. Li Jiaqi was appointed as a non-executive Director on 5 March 2018 and retired on 26 July 2018.

9. Mr. Yin Lantian was appointed as a non-executive Director on 17 January 2018 and resigned on 6 March 2018.

10. Mr. Lau Fai Lawrence was appointed as the chairman of Remuneration Committee and the member of Nomination Committee on 10 August 2018.

11. Mr. Sun Feng was appointed as an independent non-executive Director on 26 July 2018, and appointed as the chairman of the Nomination Committee and the member of the Audit Committee and Remuneration Committee on 10 August 2018.

12. Mr. Teng Yue was appointed as an independent non-executive Director on 23 October 2018.

13. Mr. Cheung Hok Fung Alexander was appointed as an independent non-executive Director on 23 October 2018.

14. Ms. Xiang Siying was retired as an independent non-executive Director on 26 July 2018, she had ceased as the chairman of the Remuneration Committee and the member of Audit Committee and Nomination Committee on 26 July 2018.

15. Dr. Han Jun resigned as an independent non-executive Director, the chairman of the Nomination Committee, the member of Audit Committee and Remuneration Committee on 1 August 2018.

CHANGES OF DIRECTORS AND CHIEF EXECUTIVES

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

- On 1 February 2018, Mr. Hu Hongwei ("**Mr. Hu**") had 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 in approving and endorsing the usage of funds of the Group.

- On 2 March 2018, the Company had received a resignation letter from Dr. Zhang to resign as an executive Director, chairman of the Board, the member of the Remuneration Committee and Nomination Committee due to health reasons.

- On 6 March 2018, the Company had 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. 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 had 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 a non-executive Director, Mr. Li had ceased to be the chairman of the SIC. Following the retirement of Ms. Xiang as an independent non-executive Director, Ms. Xiang had ceased to be a member of the SIC, the chairman of the Remuneration Committee and also had ceased to be the member of each of the Audit Committee and the Nomination Committee.

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

- Mr. Arab had been appointed as a non-executive Director with effect from the conclusion of the Adjourned AGM.

- Mr. Lai had been appointed as a non-executive Director with effect from the conclusion of the Adjourned AGM, and was appointed as the chairman of the SIC and the member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 10 August 2018.

- Mr. Sun had been appointed as an independent non-executive Director with effect from the conclusion of the Adjourned AGM, and was appointed as the member of the SIC, the member of the Audit Committee and the Remuneration Committee, as well as the chairman of the Nomination Committee on 10 August 2018.

- Mr. Lau had been appointed as the chairman of the Remuneration Committee and the member of the Nomination Committee on 10 August 2018.

- The Company had 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 had 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.

- Mr. Teng had been appointed as an independent non-executive Director with effect from the conclusion of the special general meeting held on 23 October 2018.

- Mr. Cheung had been appointed as an independent non-executive Director with effect from the conclusion of the special general meeting held on 23 October 2018.

- The Company had received a resignation letter from Mr. Tang to resign as an executive Director, the chairman of the Board and the chief executive of the Company due to his other business commitments, with effect from 29 October 2018. Mr. Tang had ceased to be the member of each of Remuneration Committee and Nomination Committee on 10 August 2018.

- Mr. Chen and Mr. Lai were appointed as the co-chairmen of the Board with effect from 21 November 2018.

- The Company had 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 the chairman, Mr. Lau and Mr. Sun, both independent non-executive Directors as members.

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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.

All Directors should keep themselves abreast of responsibilities as Directors and of the conduct, business activities and development of the Company. All 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 under review, each Director has read books/journals and/or 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 FUNCTIONS

The Board and the Audit Committee are collectively responsible for determining the policy for the corporate governance of the Company, and the co-chairmen will work collaboratively to ensure that good corporate governance practices and procedures are established. Such duties include but are not limited to:

(i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

(ii) reviewing and monitoring the Company's policies and practices on compliance with all legal and regulatory requirements;

(iii) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the employees and Directors; and

(iv) reviewing the Company's compliance with the code provision under Appendix 14 of the Listing Rule and disclosure in the corporate governance in this report.

During the year under review and up to the date of this report, the Board and the Audit Committee had reviewed and performed the abovesaid corporate governance functions.

BOARD COMMITTEES

Nomination Committee

As at the date of this report, the Nomination Committee of the Company consists of two INEDs, namely Mr. Lau and Mr. Sun and one non-executive Director, namely Mr. Lai. The Nomination Committee is chaired by Mr. Sun.

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

The Committee has specific written terms of reference which deal clearly with its authorities and duties. The Company had re-adopted the new terms of reference of the Nomination Committee on 11 March 2019. The terms of reference of the Nomination Committee is available on the websites of the Company (http://www.petrotitan.com) and HKEx (http://www.hkexnews.hk) respectively.

The Nomination Committee shall have the following duties and powers:

(a) Review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, the skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) Identity individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) Assess the independence of INEDs and review the INEDs' annual confirmation on their independence having regard to relevant guidelines or the requirements of the Listing Rules in place from time to time and, if a proposed Director will be holding their seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;

(d) Make recommendations to the Board on the appointment and re-appointment of Directors and the succession planning for Directors in particular the chairman and chief executive (if have). Taking in account all factors which the Nomination Committee considers appropriate including objective criteria and potential contributions a candidate can bring with due regard for the benefits of diversity on the Board, the challenges and opportunities facing the Group and skills and expertise required in the future and ensure that senior management succession planning is discussed at the Board at least once annually;

(e) Review annually the time commitment required of a Director to perform his/her responsibilities, and whether he/she is committed adequate time to discharge their responsibilities;

(f) Review the training and continuous professional development of Directors with a view to ensuring the continued ability of the Group to function effectively and compete in the market;

(g) Identify and nominate candidates to fill casual vacancies of the Directors for the Board's approval;

(h) Determine and review the board diversity policy of the Company, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy of the Company, and the progress on achieving such objectives;

(i) Develop, review and implement, as appropriate, the nomination policy concerning the selection criteria and procedures for the appointment and reappointment of Directors;

(j) To do any such things to enable the Nomination Committee to discharge its power and functions conferred on it by the Board; and

(k) To confirm any requirement, direction, and regulation that may from time to time be prescribed by the Board.

During the year under review, 5 Nomination Committee meetings were held (i) to review the structure, size composition and diversity of the Board; (ii) to assess the independence of INEDs; (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 meetings, had been disclosed earlier in this report.

Audit Committee

As at the date of this report, the Audit Committee consists of two INEDs, 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 has specific written terms of reference which deal clearly with its authorities and duties. The Company had re-adopted the new terms of reference of the Audit Committee on 11 March 2019. The terms of reference of the Audit Committee is available on the websites of the Company (http://www.petrotitan.com) and the HKEx (http://www.hkexnews.hk) respectively.

The Audit Committee is responsible for reviewing and monitoring the financial reporting, corporate governance, risk management and internal control system of the Company, and assists the Board to fulfill its responsibility over the audit, their duties and powers should mainly include:

(a) make recommendations to the Board on the appointment, re-appointment and removal of the external auditors and assess their independence, performance and fee levels;

(b) review the completeness, accuracy and fairness of the Company's interim and annual financial statements and reports;

(c) ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosures;

(d) review the arrangements for the Company's employees to raise concerns about financial reporting and any other improprieties;

(e) oversee the effectiveness of financial reporting systems;

(f) ensure ongoing assessments of the Group's risk management and the internal control systems over financial, operational, compliance and risk management processes; and

(g) review and perform the corporate governance functions with the Board.

For the details of the Audit Committee's duties and powers, please refer to the announcement of the Company under the section of "Duties and Powers" of the Terms of Reference of Audit Committee of the Company dated 11 March 2019.

During the year under review, 3 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 2018; (iii) interim results for the six months ended 30 June 2018; (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 consists of two INEDs, namely Mr. Lau and Mr. Sun and one non-executive Director, namely Mr. Lai. The Remuneration Committee is chaired by Mr. Lau.

The Remuneration Committee, has specific written terms of reference. The terms of reference of the Remuneration Committee is available on the websites of the Company (http://www.petrotitan.com) and the HKEx (http://www.hkexnews.hk) respectively.

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

- make 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;

- make 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;

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

- review and approve 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;

- review and approve 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

- ensure no Director or any of their associates is involved in deciding their 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 under review, 4 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 Directors and independent non-executive Directors.

Details of the emoluments of each Director for the year under review are set out on pages 94 to 95 of this report.

COMPANY SECRETARY

The company secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The company secretary of the Company is also responsible for advising the Board on corporate governance and the implementation of the CG Code. The company secretary of the Company is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The company secretary of the Company reports to the Board. All Directors also have access to the advice and services of the company secretary of the Company to ensure that board procedures, and all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the company secretary of the Company are subject to the Board approval.

The company secretary, Mr. Wong Chi Shing ("**Mr. Wong**"), had been appointed as the company secretary and the chief financial officer of the Company with effect from 17 April 2018. Mr. Wong confirmed that he had taken no less than 15 hours of relevant professional trainings as required under Rule 3.29 of the Listing Rules during the reporting year. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants.

Ms. Au Man Wai resigned her role as the company secretary of the Company on 17 April 2018.

DIRECTORS' RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to applicable statutory requirements, such that they give a true and fair view of the state of affairs of the Group. The Board also confirms that the Company has an effective process for financial reporting and compliance with the Listing Rules.

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company. In preparing the financial statements for the year under review, the Directors had, with sufficient information provided by the senior management for an informed assessment, selected appropriate accounting policies and applied them consistently, made judgements and estimates that were prudent 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 ("**Elite Partners**"), with respect to their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditors' Report on pages 48 to 51 of this report.

AUDITOR'S REMUNERATION

Elite Partners had been re-appointed as the independent auditors of the Group for the year under review.

The remuneration paid/payable to Elite Partners is set out below:

	HK$'000
Auditing services	980
Non-auditing services (which included agreed upon procedures and other professional services)	86
Total	1,066

INTERNAL CONTROL AND RISK MANAGEMENT

An internal auditor was employed by the Group on full time basis until May 2018 which assisted the Board and the Audit Committee to discharge its duties in internal control and risk management of the Company. The internal auditor, which was independent to the operational departments of the Group, was responsible for conducting regular audits on the major activities of the Group.

A review on the internal control systems of the Company, including financial, operational and compliance controls and risk management functions had been carried out by an independent consultancy firm with staff in possession of relevant expertise to conduct an independent review during the year.

The Directors acknowledge that they have overall 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 and risk management 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 internal control and risk management systems function effectively within the Group.

The Board has strived to ensure that the management has 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.

INSIDE INFORMATION

The Group has established systems and procedures for disseminating inside information as defined under the Securities and Futures Ordinance ("**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 under review, including financial, operational and compliance control and risk management and internal control functions, with a view to safeguarding the shareholders' investment and the Company's assets and business operations, and considering the risk management and internal control systems are effective and adequate.

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 operational and production process. The Group also encourages its employees to adopt environmentally responsible behavior to reduce use of resources, minimise waste and increase recycling.

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

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.

DIRECTORS' SECURITY TRANSACTIONS

The Company has adopted a model code for securities transactions by the Directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules ("**Model Code**").

The Directors and senior management of the Company are required to comply with the Model Code from time to time. Notices are sent to the Directors and the relevant employees reminding that they must not deal in the securities of the Company during the "black-out period" specified in the Model Code and before publishing any inside information announcement. The Directors and the senior management of the Company are required to notify the Company and receive from the Company a dated written acknowledgement before dealing in the Company's securities.

Following a specific enquiry made by the Company to each of the Director, all Directors had confirmed that they had complied with the Model Code during the year under review. No incident of non-compliance with the Model Code by the Directors and relevant employees was noted by the Company.

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 (http://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.

During the year under review, 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 (http://www.petrotitan.com) and the HKEx (http://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 registered 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 4 of this Annual Report.

CONSTITUTIONAL DOCUMENTS

Reference was made to the announcements of the Company dated 21 November 2018 and 30 November 2018 respectively regarding the appointment of Co-Chairmen of the Company.

The Board proposes to put forward a proposal relating to the proposed amendments of the Bye-Laws regarding the appointment of Co-Chairmen of the Company. Details of the proposed amendments to the Bye-Laws will set out in the circular and notice regarding the forthcoming annual general meeting to be despatched to the shareholders on April 2019.

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 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 2 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 options							
Name or category of participant	As at 1 January 2018	Granted during the Year	Lapsed during the Year	Exercised during the Year	As at 31 December 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$
Other employees								
In aggregate	67,516*	–	67,516*	–	–	1 February 2008	1 February 2013 to 31 January 2018	3.0656*
	67,516	–	67,516	–	–			

* 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.

The Group offered to grant a total of 389,233,600 share options to the Directors and its eligible participants on 22 January 2018. 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.

As at 31 December 2018, there were no share options remain outstanding under the 2002 Share Option Scheme and New Share Option Scheme respectively.

REPORT OF THE DIRECTORS

The Directors are presenting their report together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the business of trading of commodities, shipbuilding, ship repairing and manufacturing of steel structure. The principal activities of the principal subsidiaries are set out in note 44 to the consolidated financial statements.

The business review of the Group for the year ended 31 December 2018, 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 40 to 47 of this 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 2018 are set out in the consolidated financial statements on pages 52 to 128.

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 129. 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 2018 are set out in page 130 of the Annual Report.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to operating results for the year ended 31 December 2018 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.

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

During the year under review and thereafter up to the date of the Annual Report, the Company did not redeem any of its listed securities nor did the Company or any of its subsidiaries purchase or sell such securities.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Schemes" herein, 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 2018, 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 93% and 58% respectively of the total revenue of the Group for the year ended 31 December 2018. Purchase attributable to the top five largest suppliers in aggregate and the single largest supplier of the Group accounted for approximately 16% and 10% respectively of the total purchase of the Group for the year ended 31 December 2018.

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 2018 are set out in note 25 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Chen Bingyan (Co-Chairman)
(Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Dr. Liu Liming
Mr. Zhang Qiandong (Appointed on 26 July 2018)
Dr. Zhang Weibing (Resigned on 2 March 2018)
Mr. Hu Hongwei (Resigned on 1 February 2018)
Mr. Tang Chao Zhang (Resigned as Chairman and Chief Executive on 29 October 2018)

Non-executive Directors

Mr. Lai Wing Lun (Co-Chairman)
(Appointed on 26 July 2018 and appointed as Co-Chairman on 21 November 2018)
Mr. Osman Mohammed Arab (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)
Mr. Teng Yue (Appointed on 23 October 2018)
Mr. Cheung Hok Fung Alexander (Appointed on 23 October 2018)
Ms. Xiang Siying (Retired on 26 July 2018)
Dr. Han Jun (Resigned on 1 August 2018)

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. Any Director so appointed by the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election of that meeting. Under the Bye-Laws, all Directors are subject to retirement and re-election by the shareholders on a rotation basis, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation, and 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 clause 87(1) of the Bye-Laws, Dr. Liu Liming, Mr. Lau Fai Lawrence and Mr. Sun Feng will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

At least one of the independent non-executive Directors has 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 Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such Director to be independent.

DIRECTORS' SERVICE CONTRACTS

All Directors are appointed for a specific term and are 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 Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in note 9 to the 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 or his connected entities 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 subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or his 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 business 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 or about the execution of the duties of his/her office or otherwise in relation thereto.

Such provisions were in force during the course of the financial year ended 31 December 2018 and remained in force as at the date of this Annual Report. The Company has arranged appropriate Directors' and officer's liability coverage for the Directors and officers of the Company.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

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

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 had 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 were set out in the announcements dated 11 April 2014, 5 January 2015, 28 May 2015, 7 August 2015 and 8 April 2016 respectively.

As per the announcement of the Company dated 3 April 2018, with the downturn in the offshore and marine business resulting in a lack of demand for the construction of offshore rigs, after careful consideration, the Company, TQS and FELS entered into a termination agreement on 3 April 2018 (the "**Termination Agreement**"), which involves, inter alia, (i) to release the obligation of each party in the management services agreement; (ii) the Company will issue 250,000,000 FELS Warrants (which is adjusted from 379,012,686 consolidated FELS Warrants) to FELS; and (iii) FELS will waive the management fee payable by TQS in approximately of US$3.4 million accrued from 15 July 2016 to 31 March 2018 upon the fulfillment of above (ii). The Board considers that the entering of the Termination Agreement is to reduce the operation cost of TQS as well as the management fee payable by the Company to FELS, and that all terms and conditions are fair and reasonable and in the interests of the Company and Shareholders as a whole. As the issuance of FELS Warrants was approved in the special general meeting of the Company held on 30 May 2016, the proposed amendments represent material changes to the terms and conditions of the management services agreement. The Company will convene a special general meeting to approve the Termination Agreement.

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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests of the Directors and the chief executives of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of 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 pursuant to the Model Code were as follows:

		Number of issued ordinary shares held			
Name of Director	**Capacity**	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of issued share capital**
Mr. Arab(Note 1)	Interest of a controlled corporation	—	2,378,940,978	2,378,940,978	48.35%
Mr. Zhang(Note 2)	Interest of a controlled corporation	—	879,891,665	879,891,665	17.88%
	Beneficial owner	12,425,000	—	12,425,000	0.25%

Notes:

1. Mr. Arab is jointly interested with Mr. Wong Kwok Keung, as joint and several liquidators of 榮龍國際投資有限公司Fame Dragon International Investment Limited (in compulsory liquidation) ("**Fame Dragon**") 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.

2. Sino Team Capital Development Limited ("**Sino Team**") is wholly owned under the name of Mr. Song Dehua, the shares of which are 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 12,425,000 ordinary shares of the Company, representing in aggregate approximately 18.13% of the total number of issued shares of the Company.

Save as disclosed above, as at 31 December 2018, none of the company's Directors and the chief executives of the Company or their respective associates had any other personal, family, corporate and other interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to 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 and Underlying Shares of the Company or Any Other Associated Corporations" above and in the share option scheme disclosures in note 33 to the consolidated financial statements, at no time during the year under review 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 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 OF THE COMPANY

At 31 December 2018, so far as was known to the Directors and the chief executives 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 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(Notes 1 and 2)	Corporate Interest	2,362,556,185	69,375,000	48.01%/1.10%
Sino Team(Note 3)	Corporate Interest	791,666,667	—	16.09%
Mr. Zhang(Note 3)	Beneficial Interest Corporate Interest	12,425,000 879,891,665	— —	0.25% 17.88%
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%

REPORT OF THE DIRECTORS

Notes :

1. 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.

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.

3 Sino Team is wholly owned under the name of Mr. Song Dehua, the shares of which are 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 12,425,000 ordinary shares of the Company, representing in aggregate approximately 18.13% of the total number of issued shares of the Company.

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 31 December 2018, the Directors were not aware of any persons (other than the Directors and chief executive 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 the SFO.

As disclosed in the announcement of the Company dated 15 March 2019, the Company received (i) a legal letter (the "**First Letter**") from a law firm acting on behalf of Capital Creation Holdings Limited ("**CCH**") containing a requisition (the "**Requisition**") of a special general meeting of the Company made by CCH on the basis of holding 10% or more of the paid-up capital of the Company (the "**Shareholding**") and (ii) a legal letter from another law firm acting on behalf of the joint and several liquidators of Fame Dragon International Investment Limited ("**Fame Dragon**") relating to the ownership of the said Shareholding as referred in the First Letter.

The Company understands that there are fundamental disputes as to the ownership of the said Shareholding of the Company as referred to in the First Letter, which in turn affect the right to make such a Requisition. As such, the Company will take no action in respect of the Requisition at this stage until the ownership of the Shareholding having been determined by the courts in Hong Kong and/or Bermuda and the Company will seek further legal opinion on the Requisition thereafter.

Further announcement(s) will be made as and when appropriate by the Company.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transaction and Continuing Connected Transaction", 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, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

DIVIDEND POLICY

The Company had adopted a dividend policy ("**Dividend Policy**") on 11 March 2019, pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "**Shareholders**"), provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders.

In deciding whether to declare a dividend, the Board shall also take into account, inter alia:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(d) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(e) the Group's expected working capital requirements and future expansion plans;

(f) general economic conditions, business cycle of the Group's shipbuilding, ship-repairing, trading and other related business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

(g) any other factors that the Board deem appropriate.

Any payment of the dividend by the Company is also subject to any restrictions under the Companies Act of Bermuda, the Bye-Laws and the Shareholders.

CORPORATE GOVERNANCE

A detailed Corporate Governance Report is set out on pages 9 to 27 of this report.

CHARITABLE DONATIONS

No charitable donation was made by the Company during the year (2017: Nil).

MODEL CODE FOR SECURITY TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' security transactions. Having made specific enquiries with each of the Director, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2018.

REVIEW OF RESULTS BY AUDIT COMMITTEE

The Company had established an Audit Committee with written terms of reference in compliance with code provision C.3 of the CG Code and Rule 3.22 of the Listing Rules. The Audit Committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and discussed the same with the management of the Company and the external auditors. As a result, it was of the view that the preparation of such statements had complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosure had been made.

INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

As disclosed in sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the independent auditors' report contained on pages 48 to 51 of the Annual Report, the auditors of the Company (the "**Auditors**") did not express an audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 as a result of certain matters.

The Board's Response to the Disclaimer Opinion

(i) Scope limitation — Opening balances and corresponding figures

Save for that audit qualification may affect the opening balances and corresponding figures in the previous years as mentioned in the audit qualification as a result of scope limitation on (i) impairment assessment of property, plant and equipment and prepaid land lease payments; (ii) fair value of equity investments classified as FVTOCI, (iii) going concern and (iv) interest in an associate, the Company is of the view that the accounting treatment shall only affect the opening balances and corresponding figures for the year ended 31 December 2018 and such audit qualification shall have no effect to the Company's consolidated financial statements for the year ending 31 December 2019.

From the Company's point of view, this audit qualification will no longer be carried forward to the year ending 31 December 2019. As such, that audit qualification will have no effect on the Company's consolidated financial statements in the future.

(ii) Scope limitation — Impairment assessment of property, plant and equipment and prepaid land lease payments

The Auditors are of the view that they have not been provided with sufficient evidences to satisfy themselves as to the appropriateness of amount of the current construction costs to reproduce or replace the assets to a new condition and the allowance for depreciation arising from physical, functional or economic obsolescence. There were also no other practical alternative audit procedures that the Auditors could perform to satisfy themselves as to whether the carrying amounts of property, plant and equipment and prepaid lease payments included in the consolidated statement of financial position were free from material misstatements.

In previous years, the Company had applied a discounted cash flow model to assess whether Impairment was required for property, plant and equipment and prepaid land lease payments. However, in this year, in view of the long suspension of production and the uncertainty as to when production can be resumed, the management decided to change the impairment assessment method to the fair value less loss of disposal. Based on the assessment of the fair value less loss of disposal, the directors of the Company were in the opinion that an impairment loss of HK$1,229,513,000 in respect of property, plant and equipment has been provided in the consolidated financial statements for the year ended 31 December 2018. The amount of the current construction cost to reproduce or replace the assets to a new condition and the allowance for depreciation arising from physical, functional or economic obsolescence were determined based on valuation report issued by a Hong Kong professional valuation firm and confirmed by external PRC valuation experts and the impairment loss was agreed by management and experts of marine industry division of the Group. After making reasonable enquiry, the directors of the Company and the audit committee of the Company are of the view that the Company concurs with the judgment of the aforesaid management and experts of marine industry division of the Group. As such, it is reasonable to include such impairment loss. However, the aforesaid management and experts of marine industry division of the Group could not provide sufficient evidences such as quotation(s) from a reputable construction firm to rebuild the shipyard in order to demonstrate the current construction cost to reproduce or replace the assets to a new condition from the recognized body in the PRC (defined by the Auditors) to meet the audit requirements.

From the Company's point of view, whilst this audit qualification will affect the opening balances of property, plant and equipment and prepaid lease payments for the year ending 31 December 2019, the impairment loss is not recurring in nature. Subject to whether the Company can address the concerns of the Auditors, that audit qualification may or may not have effect on the Company's consolidated financial statements in the future. The management is in the course of seeking the requested quotation from reputable construction firm or alternative evidence which is acceptable by the Auditors in order to satisfy the Auditors' requirement.

(iii) Scope limitation — Fair value of equity investments classified as FVTOCI

In the absence of the latest financial information of the Investments and direct access to the management of Investments, the Auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the appropriateness of written off the Investments. There were no other satisfactory audit procedures that the Auditors could perform to determine whether any adjustments to the carrying value of the Investments as at 31 December 2018 were necessary.

The Group was unable to obtain any financial information of the Investments as of and for the year ended 31 December 2018. As such, the Group was unable to estimate the fair value of the Investments as of 31 December 2018. For prudence, the directors of the Company consider that it is reasonable and appropriate to write off the amounts of approximately HK$189,054,000 in relation to the Investments for the year ended 31 December 2018. The audit committee reviewed and agreed with the directors of the Company's position in relation to the written off of the Investments.

From the Company's point of view, whilst this audit qualification will affect the opening balances of investments for the year ending 31 December 2019, the written off is one-off and is not recurring in nature. Subject to whether the Company can address the Auditors' concern, that audit qualification may or may not have effect on the Company's consolidated financial statements in the future. The Company is seeking legal advice to compel the relevant party(ies) to disclose the relevant financial information.

(iv) Scope limitation — Going concern

It is noted that a significant portion of the liabilities of the Group is recorded at its subsidiaries level, in particular TQS and the Group has been actively engaged in negotiations with the major creditor of TQS to undergo debt restructuring including but not limited to the feasibility of capitalizing such liabilities into equity interests.

The Company will also be proactive to consider the feasibility of fund raising exercise such as issue of new shares in order to enhance the working capital and equity of the Group in the year of 2019. Besides, the Company has commenced legal action to recover the outstanding receivables of approximately HK$100 million, and the Company will seek different means to follow up and recover the other outstanding receivables.

As disclosed in the 2018 Results, 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 majority of current liabilities recorded in one of the PRC subsidiaries which the Group will strive to negotiate the terms of repayment and it may have minimal effects to the Group's liquidity;

(ii) 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

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

The Company's audit committee and Directors take the view that upon successful completion of the intended debt restructuring at the subsidiary level of the Group, the intended debt restructuring should be adequate to address the underlying going concern issues.

(v) Scope limitation — Interest in an associate

The Auditors are of the view that in the absence of the books and records of the振戎重工股份有限公司 (the "**Associate**") which became the subsidiary of the Group (the "**Subsidiary**") after the Group further acquired 20% equity interest in the Associate on January 2018, there were no alternative audit procedures that they could perform to satisfy themselves as to whether the Subsidiary should be consolidated to the Group and whether the basis for impairment was appropriate (Details please refer to 'Scope limitation — Interest in an Associate' on page 50 of the Annual Report). Any adjustments that might have been found to be necessary in respect of the qualification would have a significant effect on the net assets of the Group as at 31 December 2018, its net loss for the year ended 31 December 2018 and the related disclosures in the consolidated financial statements.

In view that the Group was unable to exercise control over the Subsidiary, the directors of the Company took a prudent approach such that the financial information of the Subsidiary has not been consolidated into the Group with full impairment of the corresponding investment costs. It is noted that the legal action against the Subsidiary is still ongoing as at the date of the annual report. The audit committee of the Company reviewed and concurred with the view of the directors of the Company.

The Company has commenced legal action for the disclosure of books and records and regaining control. The Company will closely monitor the development of the legal action. In the meantime, the Company considers that it is appropriate to deconsolidate the Subsidiary in view of the limited information obtained by the Group.

Since the deconsolidation is one-off and non-recurring in nature, the audit qualification may have no effect on the Company's consolidated financial statements in the future from the Company's point of view. Depending on the outcome of the legal action, there may be an impact on the Company's future consolidated financial statements in the event that the Group can obtain control over the Subsidiary.

AUDITORS

The financial statements for the year ended 31 December 2018 had been audited by Elite Partners CPA Limited ("**Elite Partners**"). A resolution will be submitted in the forthcoming annual general meeting of the Company to re-appoint Elite Partners as the auditors of the Company.

On behalf of the Board

Chen Bingyan
Co-Chairman and Executive Director

Hong Kong
29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

For the year ended 31 December 2018 (the "**Year**"), the audited consolidated revenue of the Group was approximately HK$64,883,000 while the audited consolidated revenue of the Group was approximately HK$1,024,146,000 for the year ended 31 December 2017.

During the Year, the Group's trading of commodities recorded revenue of approximately HK$5,053,000 (2017: HK$920,071,000). Revenue of approximately HK$59,108,000 (2017: HK$103,066,000) was generated from shipbuilding, ship repairing and manufacturing of steel structure during the Year. During the 4th quarter of 2017, the completion of acquisition of Gold Dragon Enterprise Development Limited representing the shipbuilding revenue generated from this sub-group was being consolidated into the Group.

During the Year, the Group recorded other revenue of approximately HK$13,047,000 while the other income was around HK$3,863,000 for the year of 2017. The other revenue for the Year was mainly due to HK$6,630,000 dividend income from the third party.

During the Year, the Group's administrative expenses increased from approximately HK$126,252,000 for the year of 2017 to approximately HK$183,229,000 for the Year, including mainly the depreciation and amortisation in shipyard factories, staff remuneration and related expenses and also the legal and professional charges.

Finance cost for the Year was approximately HK$213,623,000 (2017: HK$190,796,000), representing mainly the interest from bank and other loans of approximately HK$47,361,000 (2017: HK$27,675,000) and loan interest from ultimate holding company approximately to HK$149,661,000 (2017: HK$144,288,000).

During the Year, the Group recorded loss attributable to the owners of the Company of approximately HK$2,368,589,000, compared to the loss approximately HK$263,630,000 attributable to the owners of the Company for the year of 2017. The reason for the loss of the Year was mainly due to (i) the impairment of assets including impairment of property, plant and equipment; (ii) the provision for impairment of trade receivables; (iii) the impairment of prepaid land lease payments; and (iv) the impairment of goodwill.

The basic loss per share was approximately HK48.14 cents for the Year and the basic earning per share was approximately HK6.38 cents for the year of 2017.

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately HK$11,305,000, representing a decrease of approximately HK$72,080,000 as compared with the cash and cash equivalents of approximately HK$83,385,000 as at 31 December 2017. The decrease was mainly resulted from the operating of the shipyard and the capital injection of new investment opportunities during the year.

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$5,053,000 which the revenue recorded from the trading of commodities was approximately HK$920,071,000 during the year of 2017.

SHIPBUILDING, SHIP REPAIRING AND MANUFACTURING OF STEEL STRUCTURE

In the 4th quarter of 2017, the Group acquired OPCO which operated a large shipyard situated in Nantong City, Jiangsu Province, and 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.

However the market condition in the marine related service industry remains 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.

During the year of 2018, the revenue generated over HK$50 million from the building of bulk carrier and the manufacturing of steel structure. The Company completed one bulk carrier and handed over to the customer.

Outlook

In the beginning of 2019, OPCO successfully delivered one bulk carrier with carrying capacity of over 40,000 ton, the selling price of which was around US dollars 22 million which brought the OPCO fruitful revenue. After the delivery of this bulk carrier, the management of OPCO will try to negotiate with the present vessel purchaser for the building of another new bulk carrier for a consideration of around US dollars 20 million. OPCO had signed a contract which it will help two bulk carrier to process supplied material, and the total expected revenue would be over Renminbi 42 million per bulk carrier. OPCO will also deploy more resources on amendment work on vessels. Moreover, OPCO will fully utilize the resources to strengthen the manufacturing of steel structure; the Group optimistically forecast that the revenue from the manufacturing of steel structure will be over Renminbi 100 million during the year of 2019.

Since the gradual implementation of BWM convention (壓載水公約) and the increase demand of ship/ vessels desulphurization and the macro ship-repairing industry will be recovered during the year 2019, it will provide a good opportunity to OPCO to maintain its operation and business. The Management of OPCO will grasp such rosy opportunity and deploy more resources internally on refitted ship, manufacturing of steel structure, vessels processing with supplied material, so that OPCO will be targeted as multi-operation unit.

Facing the dramatic changes in the real estate sector and the rapid improvement of people's living standard, the Group believes that the cornerstone position of the real estate sector, the demand of property arising from the urbanization process as well as people's pursuit of a better life will remain unchanged.

The Group has the comprehensive building plan to develop a parcel of land (stated as "**investment properties**" in the consolidated statement of financial position) located in Fujian, PRC. The area of the planned land use is 26,000 square meters. According to the preliminary plan, one block of office tower, two block of staff hostel and one block of commercial building would be developed. The building construction plan has been prepared and the process of the construction will be commenced after communicating with the related parties.

As mentioned before, the Board strived to figure out historical matters not only made provision for certain assets like the long-outstanding trade receivables, but also some investments which the books and records are not accessible. The board from time to time reviewing the financial data and may seek legal advice in order to safeguard the present assets and resources of the Group as well as finding different means to investigate some loopholes that the ex-management might have brought to the Group and further announcement will be made to update the shareholders and the investors.

The Group will continue to adopt diversified business strategies to cope with the risks of the domestic economy downturn in China, 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 shareholders and 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 2019.

Liquidity and Financial Resources

As at 31 December 2018, the Group's net liabilities amounted to approximately HK$2,243.8 million, compared to net assets of 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 third parties in Hong Kong and Mainland China. As at 31 December 2018,

a) The Group had:

- Cash and bank balances of HK$11.3 million (31 December 2017: HK$83.4 million). The balances were comprised of:

  — an equivalent of HK$7.4 million (31 December 2017: HK$29.8 million) denominated in US dollars ("**USD**");

  — an equivalent of HK$Nil (31 December 2017: HK$0.9 million) denominated in Singapore dollars ("**SGD**");

  — an equivalent of HK$1.8 million (31 December 2017: HK$8.3 million) denominated in Renminbi ("**RMB**"); and

  — HK$2.1 million (31 December 2017: HK$44.4 million) in Hong Kong dollars ("**HKD**")

- Bank and other loans of HK$467.0 million (31 December 2017: HK$487.3 million). The Group's bank and other loans having maturities within one year amounted to HK$229.3 million (31 December 2017: HK$222.0 million); and

- Loans from the ultimate holding company of HK$1,738.5 million (31 December 2017: HK$1,822.5 million), of which HK$1,477.7 million (31 December 2017: HK$1,640.3 million) having maturities over one year.

b) The Group had:

- Current assets of HK$129.7 million (31 December 2017: HK$604.2 million) and total assets of HK$1,565.9 million (31 December 2017: HK$4,143.3 million);
- Bank and other loans of HK$467.0 million (31 December 2017: HK$487.3 million);
- Convertible preferred shares issued by the Company (the "**Titan preferred shares**") with a liability portion of HK$408.7 million (31 December 2017: HK$394.1 million);
- Convertible bond issued by the Company with liability portion of HK$Nil (31 December 2017: HK$81.9 million); and
- Loans from the ultimate holding company of HK$1,738.5 million (31 December 2017: HK$1,822.5 million).

Charges on Assets

The Group's banking and other facilities, were secured or guaranteed by the Group's property, plant and equipment, prepaid land lease payments, corporate guarantees executed by the subsidiaries of the ultimate holding company; and personal guarantees executed by a related party and a former Director of the Company.

Gearing

The Group's current ratio was 0.07 (31 December 2017: 0.41). The gearing of the Group, calculated as the total bank and other loans and loans from the ultimate holding company to total assets increased to 1.64 (31 December 2017: 0.56).

Contingent Liabilities

The details are disclosed in note 36 to the consolidated financial statement in this report.

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 was 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 did 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 fund proceeds issuance from convertible bond in 2017

Based on the records, the proceeds from the issuance of convertible bond of HK$78,000,000 were used as following: (i) approximately HK$20,300,000 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 振戎重工股份有限公司 (Sinozing Shipyard Stock Limited Company), an associate company of the Company, 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. The Directors are currently reviewing on the usage of the above funding.

Employees and Remuneration Policies

As at 31 December 2018, the Group had 199 employees (31 December 2017: 415), of which 188 employees (31 December 2017: 391) worked in Mainland China, all of which were from OPCO, Titan Quanzhou Shipyard, and Shanghai office and 11 employees (31 December 2017: 20 employees) worked in Hong Kong, 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 2018 (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

(i) Loan Capitalizations

As disclosed in announcement on 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 had 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 had 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.

(ii) Share Consolidation

Pursuant to an ordinary resolution passed 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

As disclosed in the announcement on 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 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 on 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.

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

b) 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 ("**GZE**"). The counsel of TQS has 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.

(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 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, had informed the Company 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 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 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 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 was indebted to Jincai Investment, whereas TQS was 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 announcements 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 involved 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 RMB249,328,173.39.

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

c) Hong Kong Proceedings

There was no Hong Kong proceeding as at 31 December 2018.

* *For identification purpose only*

INDEPENDENT AUDITORS' REPORT

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 ("**the Company**") and its subsidiaries (together the "**Group**") set out on pages 52 to 128, which comprise the consolidated statement of financial position as at 31 December 2018, 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 28 March 2018 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2017 was disclaimed as a result of scope limitation on (i) impairment assessment of property, plant and equipment and prepaid land lease payments; and (ii) going concern. 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 a consequential effect on the Group's assets and liabilities as at 31 December 2018 and its results for the year ended 31 December 2018, 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 2018, property, plant and equipment and prepaid land lease payments of approximately HK$903,512,000 and HK$271,309,000 were belong to the Group's shipbuilding operation located in Quanzhou, the PRC which was operated by the Group's wholly owned subsidiary, 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 based on management estimated fair value less cost of disposal of the items of assets by using depreciated replacement cost approach. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition on the assets appraised in accordance with current construction costs for similar assets, with depreciation allowance or obsolescence arising from physical, functional or economic causes. Based on the assessment of the fair value less cost of disposal, the Directors of the Company were in the opinion that an impairment loss of HK$1,229,513,000 in respect of property, plant and equipment have been provided in the consolidated financial statements for the year ended 31 December 2018 ("**Impairment**").

Nevertheless, we have not been provided with sufficient audit evidences to satisfy ourselves as to the appropriateness of the current construction cost to reproduce or replace the new condition of assets and the allowance for depreciation arising from physical, functional or economic obsolescence. There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to whether the Impairment and the carrying amounts of property, plant and equipment and prepaid land lease payments of approximately HK$903,512,000 and HK$271,309,000 included in the consolidated statement of financial position were free from material misstatements.

3. Scope limitation — Fair value of equity investments classified as FVTOCI

As disclosed in note 18, as at 31 December 2018, the Group had equity investments in two private companies which were classified as equity investments at FVTOCI ("**Investments**"). However, for the purpose of preparing the Group's consolidated financial statements, the Group was unable to obtain any financial information of Investments as of and for the year ended 31 December 2018. As such, the Group was unable to estimate the fair value of the Investments as of 31 December 2018, accordingly, the Group has written off the amounts of approximately HK$189,054,000 in relation to the Investments for the year ended 31 December 2018.

In absence of the latest financial information of the Investments and direct access to the management of Investments, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the appropriateness of written off the Investments. There were no other satisfactory audit procedures that we could perform to determine whether any adjustments to the carrying value of the Investments as at 31 December 2018 were necessary.

4. Scope limitation — Going concern

The Group incurred a net loss of approximately HK$2,370,486,000 for the year ended 31 December 2018 and had net current liabilities of approximately HK$1,844,358,000 as at 31 December 2018.

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.

INDEPENDENT AUDITORS' REPORT

5. Scope limitation — Interest in an associate

As at 31 December 2017, the Group has 40% equity interests in 振戎重工股份有限公司 ("**Associate**"). As represented by the Directors of the Company, the former executive Director and Chairman of the Company, Mr. Zhang Weibing ("**Former ED**") was appointed as the legal representative of the Associate and responsible for the monitoring the Associate on behalf of the Group.

In January 2018, the Group further acquired 20% equity interests in the Associate ("**Acquisition**") for the purpose to obtain control so as to consolidate the financial information of the Associate to the Group's consolidated financial statements. Upon the completion of the Acquisition, the Group has 60% equity interests in the Associate and became the subsidiary of the Group ("**Subsidiary**").

However, subsequent to the completion of the Acquisition, in March 2018, the Former ED has resigned the position of the executive Director and Chairman of the Company. Since then, the Company actively communicate with the management of the Subsidiary and request to obtain the control over the Subsidiary, including but not limited to the assess of statutory documents and records of the Subsidiary. Nevertheless, despite various communications with the management of the Subsidiary, information obtained by the Group was limited. In March 2019, the Group has no alternative but to take legal action to the management of the Subsidiary for the purpose to take over the control of the Subsidiary. The legal action against the Subsidiary is still on going as at the date of this report.

The Directors of the Company are of the opinion that the Group was unable to exercise control over the Subsidiary. Under these circumstances, for the purpose of preparing the consolidated financial statements of the Group for the year ended 31 December 2018, the financial information of the Subsidiary has not been consolidated to the Group. Alternatively, the aggregate investment costs of approximately HK$32,412,000, being the aggregate 60% equity interests in the Subsidiary has been accounted for as "Interest in associates" in the consolidated statement of financial position of the Group. Due to the non-cooperation of the management of the Subsidiary, the Group fully impaired the aggregate investment costs of the Subsidiary and impairment loss of approximately HK$32,412,000 has been recognised in the profit or loss for the year ended 31 December 2018.

In the absence of the books and records of the Subsidiary, there were no alternative audit procedure that we could perform to satisfy ourselves as to whether the Subsidiary should be consolidated to the Group and whether the basis for impairment was appropriate. Any adjustments that might have been found to be necessary in respect of the above would have a significant effect on the net assets of the Group as at 31 December 2018, its net loss for the year then ended and the related disclosures 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 of P05131.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2019

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5(i)	**64,883**	1,024,146
Cost of sales		**(48,180)**	(1,008,673)
Gross profit		**16,703**	15,473
Other income	5(ii)	**13,047**	3,863
Other (loss)/gain	6	**(1,999,258)**	40,590
Share results of associate companies		**(5,407)**	(1,878)
General and administrative expenses		**(183,229)**	(126,252)
Finance costs	7	**(213,623)**	(190,796)
Loss before tax	8	**(2,371,767)**	(259,000)
Income tax credit/(expense)	11	**1,281**	(6,346)
LOSS FOR THE YEAR		**(2,370,486)**	(265,346)
Loss for the year attributable to:			
Owners of the Company		**(2,368,589)**	(263,630)
Non-controlling interests		**(1,897)**	(1,716)
		(2,370,486)	(265,346)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
			(Re-presented)
Basic per share (HK cents)		**(48.14)**	(6.38)
Diluted per share (HK cents)		**(48.14)**	(6.38)

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	**(2,370,486)**	(265,346)
Other comprehensive (expense)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**95,948**	1,448
Items that will not be reclassified to profit or loss:		
Written-off of financial assets at fair value through other comprehensive income	**(189,054)**	—
Other comprehensive (expense) / income for the year, net of tax	**(93,106)**	1,448
Total comprehensive loss for the year	**(2,463,592)**	(263,898)
Total comprehensive loss attributable to:		
Owners of the Company	**(2,461,073)**	(262,182)
Non-controlling interests	**(2,519)**	(1,716)
	(2,463,592)	(263,898)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**935,932**	2,593,434
Prepaid land lease payments	14	**276,716**	337,101
Investment property	15	**214,076**	224,419
Goodwill	16	**—**	138,595
Interest in associated companies	17	**9,517**	55,426
Equity investments at FVTOCI/Available-for-sale financial assets	18	**—**	190,160
Total non-current assets		**1,436,241**	3,539,135
CURRENT ASSETS			
Inventories	19	**24,970**	24,430
Trade receivables	20	**40,370**	309,714
Prepayments, deposits and other receivables	21	**53,054**	177,504
Tax recoverable		**—**	784
Available-for-sale financial assets	18	**—**	8,356
Cash and cash equivalents	22	**11,305**	83,385
Total current assets		**129,699**	604,173
CURRENT LIABILITIES			
Trade payables	23	**172,982**	179,194
Other payables and accruals	24	**449,115**	456,554
Bank and other loans	25	**229,335**	221,991
Interest payable of bank and other loans		**93,799**	77,449
Convertible bonds	26	**—**	81,853
Tax payable		**40**	—
Amounts due to associate companies	27	**—**	46,465
Amount due to the ultimate holding company	28	**620,062**	405,948
Liability portion of convertible preferred shares	29	**408,724**	—
Total current liabilities		**1,974,057**	1,469,454
NET CURRENT LIABILITIES		**(1,844,358)**	(865,281)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(408,117)**	2,673,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest payables of other loans		—	261
Other loans	25	237,627	265,315
Amount due to the ultimate holding company	28	1,477,726	1,640,251
Liability portion of convertible preferred shares	29	—	394,116
Deferred tax liabilities	30	120,319	127,247
Total non-current liabilities		1,835,672	2,427,190
NET (LIABILITIES)/ASSETS		(2,243,789)	246,664
EQUITY			
Attributable to owners of the Company			
Share capital	31	393,645	393,645
Deficits		(2,650,475)	(162,541)
		(2,256,830)	231,104
Non-controlling interests		13,041	15,560
TOTAL (DEFICITS)/EQUITY		(2,243,789)	246,664

The consolidated financial statements were approved and authorised for issue by the board of Directors on 29 March 2019 and signed on its behalf by:

Chen Bingyan	**Zhang Qiandong**
Director	*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 2018

	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$'000	FVTOCI reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 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 and 1 January 2018	393,645	4,834,143	18,261	372	83	175	108,105	–	157,459	(5,281,139)	231,104	15,560	246,664
Adjustment on initial application at HKFRS 9	–	–	–	–	–	–	–	(1,160)	–	(25,701)	(26,861)	–	(26,861)
Adjusted balance at 1 January 2018	393,645	4,834,143	18,261	372	83	175	108,105	(1,160)	157,459	(5,306,840)	204,243	15,560	219,803
Loss for the year	–	–	–	–	–	–	–	–	–	(2,368,589)	(2,368,589)	(1,897)	(2,370,486)
Other comprehensive income/(expenses)	–	–	–	–	–	–	–	1,160	96,570	(190,214)	(92,484)	(622)	(93,106)
Total comprehensive income/(expenses)	–	–	–	–	–	–	–	1,160	96,570	(2,558,803)	(2,461,073)	(2,519)	(2,463,592)
Expire of convertible bond	–	–	–	(372)	–	–	–	–	–	372	–	–	–
Lapse of share option	–	–	–	–	(83)	–	–	–	–	83	–	–	–
At 31 December 2018	393,645	4,834,143	18,261	–	–	175	108,105	–	254,029	(7,865,188)	(2,256,830)	13,041	(2,243,789)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax:	**(2,371,767)**	(259,000)
Adjustments for:		
Depreciation of property, plant and equipment	**83,200**	50,343
Amortisation of prepaid land lease payments	**2,871**	7,012
Interest income	**(1,096)**	(385)
Finance costs	**213,623**	190,796
Transaction cost on issue of convertible bond	**—**	500
Gain arising on change in fair value of investment property	**—**	(40,030)
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)
Impairment of goodwill	**138,595**	—
Impairment of prepaid land lease payments	**48,489**	—
Impairment of property, plant and equipment	**1,512,799**	—
Impairment of interest in an associate	**34,916**	—
Provision for impairment of trade receivables	**236,796**	—
Provision for obsolete inventories	**—**	39,778
Written off of prepayment, deposit and other receivables	**34,916**	—
Operating cash flows before working capital change	**(66,658)**	(44,263)
(Increase)/Decrease in inventories	**(3,230)**	65,358
Decrease in trade receivables	**44,599**	6,688
Decrease/(Increase) in prepayments, deposits and other receivables	**53,425**	(14,260)
Decrease in trade payables	**(7,031)**	(280,848)
(Decrease)/Increase in other payables and accruals	**(57,848)**	89,055
Increase in amounts due to associated companies	**—**	46,465
Cash used in operations	**(36,743)**	(131,805)
Tax paid	**—**	(1,714)
Net cash used in operating activities	**(36,743)**	(133,519)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,096**	385
Purchase of property, plant and equipment	**(1,013)**	(5,308)
Sales proceeds from disposal of property, plant and equipment	**—**	17
Sales proceeds from disposal of available-for-sales financial assets	**8,403**	—
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 generated from/(used in) investing activities	**8,486**	(137,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible bond	**—**	77,500
Proceeds from bank and other loan	**15,429**	—
Repayment of bank and other loan	**(29,265)**	—
Interest paid	**(31,272)**	—
Net cash (used in)/generated from financing activities	**(45,108)**	77,500
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(73,365)**	(193,890)
Cash and cash equivalents at the beginning of the year	**83,385**	257,712
Effect of foreign exchange rate changes, net	**1,285**	19,563
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**11,305**	83,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

The 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 44.

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.

The Group incurred a net loss of approximately HK$2,370,486,000 for the year ended 31 December 2018 and had net current liabilities of approximately HK$1,844,358,000 as at 31 December 2018. 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 majority of current liabilities recorded in one of the PRC subsidiaries which the Group will strive to negotiate the terms of repayment and it may have minimal effects to the Group;

(ii) 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

(iii) 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Trading of commodities; and
- shipbuilding, ship repairing and manufacturing of steel structure.

2.2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts).

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Summary of effects arising from initial application of HKFRS 9

	Carrying amount as at 31 December 2017 HK$'000	Effect of adoption of HKFRS 9 HK$'000	Carrying amount as at 1 January 2018 HK$'000
Trade receivables	309,714	(25,701)	284,013
Deficits	(162,541)	(25,701)	(188,242)
Equity investment at fair value through other comprehensive income	190,160	(1,160)	189,000
FVTOCI reserve	—	1,160	1,160

2.3 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]

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

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the first period beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after a date to be determined.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the Directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale.

HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2.3 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (continued)

HKFRS 16 *Leases* (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$38,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,999,000 and refundable rental deposits received of HK$125,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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.

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

Classification of financial assets

Accounting policy prior to 1 January 2018

All financial assets are initially measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets held for trading and those designated at fair value through profit or loss) (FVTPL) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of held for trading and FVTPL investments are recognised in profit or loss immediately.

Financial assets that are classified as "loans and receivables" or "held-to-maturity investments" are subsequently measured at amortised cost using an effective interest rate, less impairment.

Available-for-sale (AFS) equity investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under "AFS investment revaluation reserve". Amounts previously recognised in "AFS investment revaluation reserve" are reclassified to profit or loss upon impairment or disposal.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are subsequently measured at cost less impairment.

Dividends from AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale debt investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under "AFS investment revaluation reserve" except for (a) interest income measured using the effective interest method and (b) foreign exchange gains or losses determined based on the amortised cost of debt investments are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification of financial assets (continued)

Held-for-trading investments and FVTPL assets are subsequently measured at fair value, with changes in fair value being recognised in profit or loss.

<u>Accounting policy from 1 January 2018</u>

Investments in equity securities (other than investments in subsidiaries, associates and joint ventures)

An investment in equity securities is measured at fair value on initial recognition. An investment in equity securities is subsequently measured at FVTPL unless the investment is designated as at fair value through other comprehensive income (FVTOCI) as at date of initial application of HKFRS 9 based on the specific transitional provisions set out in HKFRS 9. Under HKFRS 9, an investment in equity securities can be designated as at FVTOCI on an instrument-by-instrument basis provided that the investment is neither held-for-trading nor contingent consideration recognised by the Group in a business combination to which HKFRS 3 applies.

For investments in equity securities designated as at FVTOCI (as described above), fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (equity investment) reserve". Such fair value changes will not be reclassified to profit or loss when the investments are derecognised. However, they will be transferred to the Group's retained earnings when the investments are derecognised.

For investments in equity securities that are held-for-trading or not designated as at FVTOCI (as described above), they are subsequently measured at fair value through profit or loss (FVTPL) such that changes in fair value are recognised in profit or loss.

An investment in equity securities is derecognised when the Group sells the investment.

Investments in debt securities

An investment in debt securities is classified as follows depending on the instruments' contractual cash flow characteristics and the Group's business model for managing the investment:

- Amortised cost when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows.

- FVTOCI when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset.

- FVTPL when either (a) the contractual terms of the asset give rise on specified dates to cash flows that are not solely payment of principal and interest on the principal amount outstanding or (b) the financial asset is held within a business whose objective is neither (i) collecting contractual cash flows nor (ii) collecting contractual cash flows and selling the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification of financial assets (continued)

Investments in debt securities (continued)

For investments in debt securities subsequently measured at FVTOCI, fair value changes are recognised in other comprehensive income and accumulated in the "FVTOCI (debt investment) reserve" except for impairment loss (see below) and foreign exchange gains or losses. Interest income is calculated using the effective interest method and is recognised in profit or loss. When an investment in debt securities is derecognised, the fair value changes previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

An investment in debt securities is derecognised when the Group sells the investment or when the contractual rights to the cash flows from the asset expire.

Transaction costs

Transaction costs directly attributable for the acquisition of financial assets (other than those classified or designated as at FVTPL) are included in the initial measurement of the financial assets. For financial assets subsequently measured at amortised cost, such transaction costs are included in the calculation of amortised cost using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets). For investments in equity securities at FVTOCI, such transaction costs are recognised in other comprehensive income as part of change in fair value at the next remeasurement. For investments in debt securities classified as FVTOCI, such transaction costs are amortised to profit or loss using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets).

Impairment on financial assets

<u>Accounting policy prior to 1 January 2018</u>

Prior to 1 January 2018, the Group had adopted "incurred loss model" in assessing and measuring impairment losses on financial assets. Under the "incurred loss model", an impairment loss was recognised when there was objective indicators of impairment which included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technology, market, economic or legal environment that have an adverse effect on the debtor.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment on financial assets (continued)

Accounting policy from 1 January 2018

The Group has applied the expected credit loss model under HKFRS 9 to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents and trade receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;

Expected credit loss (ECL) of a financial asset is measured based on an unbiased and probability-weighted amount. It also reflects the time value of money and reasonable and supportable information that is available to the Group without undue cost or effect at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL is measured on either of the following bases:

- 12-month expected credit loss when, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition; and
- Lifetime expected credit loss when (a) at the reporting date, the credit risk on a financial asset has increased significantly since initial recognition; or (b) at the reporting date, the financial asset has become credit-impaired.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers quantitative and qualitative reasonable and supportable information that is available to the Group without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Specifically, the following information has been taken into account in assessing whether the credit risk on a financial asset has significantly increased since initial recognition:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception.
- Significant changes in terms of existing financial assets if the asset was newly originated or issued at the reporting date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment on financial assets (continued)

- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- An actual or expected significant change in the financial instrument's external credit rating.
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations (e.g. actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates).
- Actual or expected significant change in the operating results of the borrower.
- Significant change in the quality of guarantee provided.
- Contractual cash flows are more than 30s past due.

In making the abovementioned assessment, the Group considers that a default occurs when (a) it is unlikely that the borrower will be able to settle his/her debts in full and (b) the financial asset is more than 90 days past due.

ECL is remeasured at the end of each reporting period to reflect changes in financial asset's credit risk since initial recognition. Changes in ECL are recognised in profit or loss with the corresponding adjustment to the carrying amount of the asset through a loss allowance account, except for investments in debt securities that are subsequently measured at FVTOCI for which the corresponding adjustment is recognised in other comprehensive income and accumulated in "FVTOCI (debt investment) reserve".

For trade receivables and contract assets without significant financing component, ECL is always measured at an amount equal to lifetime expected credit losses.

At the end of each of the reporting period, the Group assesses whether its financial assets have become credit impaired.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables

Accounting policy prior to 1 January 2018

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect the amounts due.

Accounting policy from 1 January 2018

Trade receivables are recognised when the Group has an unconditional right to receive consideration. The Group has an unconditional right to receive consideration when only the passage of time is required before payment of the consideration is due.

For the Group's trade receivables, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular debtors and (b) forward-looking information based on the current and forecast general economic conditions available to the Group without undue cost or effort at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the trade receivables through a loss allowance account.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts.

Contract assets and contract liabilities

Accounting policy from 1 January 2018

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with a customer, either a net contract asset or a net contract liability is presented. Contracts assets and contract liabilities arising from unrelated multiple contracts are not presented on a net basis.

As mentioned in Note 3, the Group has applied HKFRS 15 for the first time for the current year using the cumulative effect transition method. Adjustments were made as at 1 January 2018 to reclassify certain amounts from "trade and other receivables" and "gross amount due from customers" to "contract assets" and certain amounts from 'trade and other payables" and "gross amount due to customers" to "contract liabilities".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets and contract liabilities (continued)

For the Group's contract assets, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular customers available and (b) forward-looking information based on the current and forecast general economic conditions at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the contract assets through a loss allowance account.

The Group directly reduces the gross carrying amount of a contract asset when the Group has no reasonable expectations of recovering a contract asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the Group is unable to recover the costs.

Financial liabilities

Accounting policy prior to 1 January 2018

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Accounting policy from 1 January 2018

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Revenue recognition

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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.

Loss allowance for ECL

The Group's management estimates the loss allowance for trade receivables and loan receivable based on risk of a default and expected loss rate. The assessment of the credit risk involves high degree of estimation and uncertainty as the Group's management estimates the risk of a default and expected loss rate for applying provision matrix on debtors based on the Group's historical information, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivables.

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)

Estimation uncertainty (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.

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 before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, other gains, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. The intersegment sales for the year ended 2018 was approximately HK$Nil (2017: HK$12,258,000).

Year ended 31 December 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	5,053	59,108	722	64,883
Segment results	34	15,947	722	16,703
Adjusted for:				
— interest income	684	5	1,393	2,082
— other income	587	5,661	19,383	25,631
— other loss	—	—	(9,918)	(9,918)
— other expenses	(10,826)	(117,835)	(54,568)	(183,229)
Add: depreciation and amortisation	200	85,818	53	86,071

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018 (continued)

	Trading of commodities HK$'000	Shipbuilding, ship repairing and manufacturing of steel structure HK$'000	Unallocated HK$'000	Consolidated HK$'000
Operating loss before interest, tax, depreciation and amortisation	(9,321)	(10,404)	(42,935)	(62,660)
Provision for impairment of trade receivables	(103,857)	(132,939)	—	(236,796)
Provision for impairment of other receivables	—	—	(34,916)	(34,916)
Provision for impairment of interest in an associate	—	—	(32,412)	(32,412)
Impairment of goodwill	—	(138,595)	—	(138,595)
Impairment of property, plant and equipment	—	(1,512,798)	—	(1,512,798)
Impairment of prepaid land lease payments	—	(48,489)	—	(48,489)
Share results of associated companies	—	—	(5,407)	(5,407)
Loss before interest, tax, depreciation and amortisation	(113,178)	(1,843,225)	(115,670)	(2,072,073)
Depreciation and amortisation	(200)	(85,818)	(53)	(86,071)
Finance costs	(17,639)	(191,678)	(4,306)	(213,623)
Loss before tax	(131,017)	(2,120,721)	(120,029)	(2,371,767)

4. OPERATING SEGMENT INFORMATION (continued)

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	(94,982)	—	(80,582)
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	54,893	2,123	57,364
Operating profit/(loss) before interest, tax, depreciation and amortisation	14,748	(40,089)	(27,600)	(52,941)
Gain on fair value change of investment property	—	—	40,030	40,030
Gain on disposal of interest in subsidiary	—	—	3,948	3,948
Share results of associated companies	—	—	(1,878)	(1,878)
Profit/(loss) before interest, tax, depreciation and amortisation	14,748	(40,089)	14,500	(10,841)
Depreciation and amortisation	(348)	(54,893)	(2,123)	(57,364)
Finance costs	—	(165,827)	(24,968)	(190,795)
Profit/(loss) before tax	14,400	(260,809)	(12,591)	(259,000)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

	Mainland China		Other Asia Pacific countries		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
a) Revenue						
Revenue from external customers	**64,883**	133,496	**—**	890,650	**64,883**	1,024,146
b) Other information						
Segment assets	**1,553,370**	583,042	**12,570**	3,560,266	**1,565,940**	4,143,308
Segment liabilities	**3,135,903**	620,460	**673,826**	3,276,184	**3,809,729**	3,896,644
Capital expenditures	**—**	6,127	**—**	12	**—**	6,139

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:

	2018	2017
	HK$'000	HK$'000
Customer A	**—**	513,697
Customer B	**—**	211,344
Customer C	**37,551**	—

5. REVENUE AND OTHER INCOME

(i) Revenue:

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

	2018 HK$'000	2017 HK$'000
Trading of commodities	5,053	920,071
Shipbuilding, ship repairing and manufacturing of steel structure	59,108	103,066
Others	722	1,009
	64,883	1,024,146

(ii) Other income:

	2018 HK$'000	2017 HK$'000
Rental income	2,696	1,681
Bank interest income	1,096	385
Sundry income	2,625	1,797
Dividend income	6,630	—
	13,047	3,863

6. OTHER (LOSS)/GAIN

	2018 HK$'000	2017 *HK$'000*
Gain on fair value change of investment property	—	40,030
Gain on loan capitalisation	—	30,760
Gain on disposal of interest in subsidiary	—	3,948
Provision for obsolete inventories	—	(39,778)
Provision for impairment of trade receivables	(236,796)	—
Provision for impairment of other receivables	(34,916)	—
Provision for impairment of interest in an associated company	(32,412)	—
Impairment of goodwill	(138,595)	—
Impairment of property, plant and equipment	(1,512,798)	—
Impairment of prepaid land lease payments	(48,489)	—
Gain on disposal of available-for-sale financial assets	—	504
Exchange difference	4,748	5,126
	(1,999,258)	40,590

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank and other loans	**47,361**	27,675
Loans from the ultimate holding company	**149,661**	144,288
Titan preferred shares	**14,608**	14,608
Imputed interest on convertible bond	**1,993**	4,225
	213,623	190,796

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2018 HK$'000	2017 HK$'000
Employee benefits expenses (excluding Directors' remuneration):		
Wages and salaries	**27,573**	14,109
Pension scheme contributions	**376**	1,152
	27,949	15,261
Depreciation	**83,200**	50,343
Amortisation of prepaid land lease payments	**2,871**	7,012
Minimum lease payments under operating leases: leasehold buildings	**5,461**	7,600
Auditors' remuneration	**980**	1,132
(Gain)/loss on disposal of property, plant and equipment	**(2)**	57
Foreign exchange differences, net	**(4,748)**	5,126
Provision for obsolete inventories	**—**	39,778

9. DIRECTORS' EMOLUMENTS

The Directors' emoluments for the years is set of below:

2018	Fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors:				
Mr. Tang Chao Zhang (Resigned on 29 October 2018)	2,775	207	15	2,997
Dr. Zhang Weibing (Resigned on 2 March 2018)	1,947	120	5	2,072
Mr. Hu Hongwei (Resigned on1 February 2018)	720	72	2	794
Dr. Liu Liming	420	—	—	420
Mr. Zhang Qiandong (Appointed on 26 July 2018)	—	—	—	—
Mr. Chen Bingyan (Appointed on 26 July 2018)	—	—	—	—
Non-executive Directors:				
Mr. Li Jiaqi (Appointed on 5 March 2018 and retired on 26 July 2018)	316			316
Mr. Yin Lantian (Appointed on 17 January 2018 and resigned on 6 March 2018)	32			32
Mr. Lai Wing Lun (Appointed on 26 July 2018)	—			—
Mr. Osman Mohammed Arab (Appointed on 26 July 2018)	—			—
Independent non-executive Directors:				
Mr. Lau Fai Lawrence	250			250
Ms. Xiang Siying (Retired on 26 July 2018)	142			142
Dr. Han Jun (Resigned on 1 August 2018)	139			139
Mr. Sun Feng (Appointed on 26 July 2018)	109			109
Mr. Teng Yue (Appointed on 23 October 2018)	48			48
Mr. Cheung Hok Fung Alexander (Appointed on 23 October 2018)	48			48
Total	6,946	399	22	7,367

9. DIRECTORS' EMOLUMENTS (continued)

2017	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 Director:				
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

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2017: Nil).

During the years ended 31 December 2018 and 2017, no emoluments had 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.

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 (2017: three) Directors, details of whose remuneration is disclosed in note 9 above. Details of the remuneration of the remaining two (2017: two) non-Director, highest paid employee who is neither a Director or senior management of the Company are as follows.

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits-in-kind	1,936	1,903
Pension scheme contributions	35	21
	1,971	1,924

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

	Number of employees 2018 HK$'000	 2017 HK$'000
HK$1,500,001 to HK$2,000,000	—	1
HK$1,000,01 to HK$1,500,000	1	—
HK$500,001 to HK$1,000,000	1	1
HK$1 to HK$500,000	—	—
	2	2

During the years ended 31 December 2018 and 2017, 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 CREDIT/(EXPENSE)

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 Group's subsidiaries operated in Hong Kong did not generate any assessable profits in Hong Kong for the year ended 31 December 2018 and 2017.

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 2018 and 2017.

11. INCOME TAX CREDIT/(EXPENSE) (continued)

Mainland China

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

	2018 HK$'000	2017 HK$'000
Current tax:		
Enterprise Income Tax	(40)	—
Deferred taxation	1,321	(6,346)
	1,281	(6,346)

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

	2018 HK$'000	2017 HK$'000
Loss before tax	(2,371,767)	(259,000)
Tax at the statutory tax rates	(578,342)	(62,591)
Temporary difference not recognised	—	19
Unrecognised tax losses	195,610	14
Income not subject to tax	(5,273)	(82,764)
Expenses not deductible for tax	386,724	151,668
Income tax expenses	(1,281)	6,346

12. BASIC AND DILUTED 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:

	2018 HK$'000	2017 HK$'000
Loss		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(2,368,589)**	(263,630)
Effect of diluted potential ordinary shares:		
Dividends on Titan preferred shares (note)	**—**	—
Loss for the purpose of diluted loss per share	**(2,368,589)**	(263,630)

Number of shares	**Number of shares '000 2018**	2017 *(Re-presented)*
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,920,560**	4,131,333
Effective of dilutive potential ordinary shares:		
Titan preferred shares	**—**	—
Weighted average number of ordinary shares for the purpose of diluted loss per share	**4,920,560**	4,131,333

Note: No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2018 and 2017 as Titan preferred shares and convertible bond outstanding had an anti-dilutive effect on the basic loss per share amount presented. There has been no movement in the number of ordinary shares during the year of 2018.

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 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 and 1 January 2018	3,759	865,560	402,828	47,333	2,151,967	3,471,447
Additional	—	—	—	1,013	—	1,013
Disposal	—	—	—	(176)	—	(176)
Exchange realignment	115	(39,998)	(18,611)	(768)	(98,653)	(157,915)
At 31 December 2018	3,874	825,562	384,217	47,402	2,053,314	3,314,369
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 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 and 1 January 2018	3,311	155,299	234,981	40,635	443,787	878,013
Provided for the year	155	38,854	41,916	2,275	—	83,200
Impairment	—	446,218	102,218	934	963,429	1,512,799
Disposal	—	—	—	(176)	—	(176)
Exchange realignment	18	(11,674)	(14,494)	(1,223)	(68,026)	(95,399)
At 31 December 2018	3,484	628,697	364,621	42,445	1,339,190	2,378,437
NET CARRYING AMOUNT						
At 31 December 2018	390	196,865	19,596	4,957	714,124	935,932
At 31 December 2017	448	710,261	167,847	6,698	1,708,180	2,593,434

Note:

At 31 December 2018, the Group's construction in progress, buildings and machinery with net carrying values of HK$714,124,000 (2017: HK$780,417,000), HK$196,865,000 (2017: HK$490,511,000) and HK$19,596,000 (2017: HK$189,778,000), 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

	2018 HK$'000	2017 HK$'000
At 1 January	**337,101**	281,650
Acquisition of subsidiaries	**—**	60,839
Amortisation provided for the year	**(2,871)**	(7,012)
Impairment	**(48,489)**	—
Exchange realignment	**(9,025)**	1,624
At 31 December	**276,716**	337,101

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 2018, the prepaid land lease payments with an aggregate net carrying value of approximately HK$276,716,000 (2017: HK$290,833,000) were pledged to certain bank and other loans and loans from the ultimate holding company granted to the Group.

15. INVESTMENT PROPERTY

	2018 HK$'000	2017 HK$'000
At 1 January	**224,419**	172,034
Gain arising on change in fair value of investment property	**—**	40,030
Exchange realignment	**(10,343)**	12,355
At 31 December	**214,076**	224,419

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 medium-term basis and is situated in Mainland China.

At 31 December 2018, the investment property under the consolidated statement of financial position with an aggregate net carrying value of approximately HK$214,076,000 (2017: HK$224,419,000) were pledged to secure the bank and other loans granted to the Group.

15. INVESTMENT PROPERTY (continued)

The fair value of the investment property is determined at the end of each reporting period based on its market value and by adopting direct comparison method. Direct comparison method assumes the property is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. The fair values of the Group's investment property as at 31 December 2018 have been arrived at on the basis of a valuation carried out on the respective dates by Ravia Global Appraisal Advisory 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 investment property as at 31 December 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.

16. GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January	138,595	—
Acquisition of subsidiaries	—	138,595
Impairment	(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 13% (2017: 12%) per annum. Cash flows beyond the 5-year period are extrapolated with 3% (2017: 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. An impairment loss HK$138,595,000 was recognised for the year ended 31 December 2018 (2017: Nil).

17. INTERESTS IN ASSOCIATED COMPANIES

	2018 HK$'000	2017 HK$'000
At cost:		
Investment in associate companies, net	16,802	57,304
Share of post-acquisition reserves	(7,285)	(1,878)
Unquoted equity shares, net	9,517	55,426

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	60%*	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

17. INTERESTS IN ASSOCIATED COMPANIES (continued)

Summarised financial information in respect of the Group's associated companies for the years ended 31 December 2018 and 2017 is set out below:

2018	振戎重工* HK$'000	Navigacean HK$'000	Century Light HK$'000	雲南雲投 HK$'000	Total HK$'000
Total assets	N/A	991	11,107	7,136	19,234
Liabilities	N/A	(11)	—	(413)	(424)
Net assets	N/A	980	11,107	6,723	18,810
Group's share of associates' net assets	N/A	480	5,755	3,282	9,517
Revenue	—	—	—	—	—
Loss for the year	(5,078)	—	(32)	(4,816)	(9,926)
Group's share of associates' loss for the year	(3,031)	—	(16)	(2,360)	(5,407)

2017	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 companies' 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 companies' losses for the year	(1,868)	(10)	—	—	(1,878)

* In January 2018, the Group further acquired 20% equity interests in 振戎重工. Upon completion of the acquisition, the Group has 60% equity interest in 振戎重工. However, the Company cannot assess the statutory documents and books and record. In the opinion of the directors of the Company, the Group was unable to exercise control over 振戎重工 and the interest in 振戎重工 were fully impaired as at 31 December 2018.

18. EQUITY INVESTMENTS AT FVTOCI/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Non-current asset		
Unlisted equity securities, at fair value (2017: 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 (note c)	—	8,356
	—	198,516

As at 31 December 2017, the above unlisted Investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimate is so significant that the Directors of the Company are of opinion that their fair values cannot be measured reliably.

At 31 December 2018, the Group was unable to obtain any financial information of Pacific Ocean and Asia Pacific Aluminium as of and for the year ended 31 December 2018. As such, the Group was unable to estimate the fair value of such assets as of 31 December 2018. For prudence, the Directors considered that it is reasonable and appropriate to write off the full amounts of such assets.

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.

(c) During the year ended 31 December 2018, the financial products were disposed of and the related proceed had been fully received by the Group.

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**24,970**	24,430

20. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**298,235**	311,329
Accumulated impairment losses	**(257,865)**	(1,615)
	40,370	309,714

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. Provision for impairment of trade receivable of approximately HK$257,865,000 (2017: HK$1,615,000) recognized for the year ended 2018 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. The Group had commenced legal steps in order to recover part of or the whole amounts. The Group was unable to estimate the possible recoverability of those amounts, therefore, provision for impairment of trade receivables had been made based on the prudence view.

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:

	2018 HK$'000	2017 HK$'000
0–90 days	**38,058**	151,323
91–180 days	**306**	—
181–365 days	**1,535**	108,506
Over one year	**471**	49,885
	40,370	309,714

The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2018, trade receivables of approximately HK$40,370,000 (2017: HK$309,714,000) neither past due nor impaired related to a number of diversified customers for whom there has been no recent history of default and are expected to be recovered in full.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Receivable from the liquidator of Titan Group Investment Limited	**—**	17,227
Receivable from Fame Dragon International Investment Limited	**524**	711
Prepayment of expenses	**42,528**	158,245
Deposits	**2,002**	1,321
Other receivables	**8,000**	—
	53,054	177,504

22. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**11,305**	83,385

At 31 December 2018, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$1,801,000 (2017: HK$8,302,000). 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:

	2018 HK$'000	2017 HK$'000
0–90 days	**110,303**	108,810
91–180 days	**1,885**	2,314
181–365 days	**4,225**	30,645
Over one year	**56,569**	37,425
	172,982	179,194

24. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Amounts due to a deconsolidated jointly-controlled entity	**60,495**	63,418
Receipt in advance	**93,057**	174,704
Accrued expenses	**68,750**	65,582
Others	**226,813**	152,850
	449,115	456,554

25. BANK AND OTHER LOANS

	2018 Effective Interest Rate (%)	**2018** HK$'000	2017 Effective Interest Rate (%)	2017 HK$'000
Current				
Bank and other loans (secured)	**4.75-8.5**	**229,335**	5.22–8.12	191,032
Other loans (unsecured)	**—**	**—**	5.00–8.26	30,959
Non-current				
Other loans (secured)	**8.12-8.26**	**237,627**	8.12	217,680
Other loans (unsecured)	**—**	**—**	6.84–8.26	47,635
		466,962		487,306

	2018 HK$'000	2017 HK$'000
Bank and other loans repayables:		
Within one year	**229,335**	221,991
In the second to five years, inclusive	**185,526**	172,023
After five years	**52,101**	93,292
	466,962	487,306

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

i) investment property with an aggregate carrying value of approximately HK$214,076,000 (2017: HK$224,419,000);

ii) buildings with an aggregate net carrying value of approximately HK$196,865,000 (2017: HK$136,688,000);

iii) machinery with an aggregate net carrying value of approximately HK$19,596,000 (2017: HK$148,419,000); and

iv) prepaid land lease payments with an aggregate net carrying value of approximately HK$276,716,000 (2017: HK$56,831,000).

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. The Directors are currently reviewing the source and the usage of such funding.

26. CONVERTIBLE BOND (continued)

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
As at 1 January 2017	—
Issuance of convertible bond	77,628
Add: Imputed interest expense	4,225
As at 31 December 2017 and 1 January 2018	81,853
Reclassified to other payable	(81,853)
As at 31 December 2018	—

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
Conversion 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

	2018 Effective Interest Rate (%)	**2018** HK$'000	2017 Effective Interest Rate (%)	2017 HK$'000
Current				
Loans from the ultimate holding company (secured) (note a)	**8.26**	**260,775**	8.26	182,250
Interest payables of loans from the ultimate holding company	**—**	**356,070**	—	220,325
Amount due to the ultimate holding company (note b)	**—**	**3,217**	—	3,373
Non-current				
Loans from the ultimate holding company (secured) (note a)	**8.26**	**1,477,726**	8.26	1,640,251
		2,097,788		2,046,199

The loans from ultimate holding company are repayable as below:

	2018 HK$'000	2017 HK$'000
Loans repayable:		
Within one year or repayable on demand	**260,775**	182,250
In the second to fifth years, inclusive	**347,700**	364,500
After five years	**1,130,026**	1,275,751
	1,738,501	1,822,501

Notes:

(a) the loans from the ultimate holding company with the amount of approximately HK$260,775,000 (2017: HK$182,250,000) and HK$1,477,726,000 (2017: HK$1,640,251,000) 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$714,124,000 (2017: HK$780,417,000);

ii) prepaid land lease payments with an aggregate net carrying value of HK$271,309,000 (2017: HK$234,002,000);

iii) buildings with an aggregate net carrying value of HK$175,247,000 (2017: HK$353,823,000); and

iv) machinery with an aggregate net carrying value of HK$9,727,000 (2017: HK$41,359,000); 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 2017	379,509
Add: Dividends on Titan preferred shares	14,607
At 31 December 2017 and 1 January 2018	**394,116**
Add: Dividends on Titan preferred shares	**14,608**
At 31 December 2018	**408,724**

In 2007, the Company issued 555,000,000 convertible preferred shares ("**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.

30. DEFERRED TAX LIABILITIES

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

	2018 HK$'000	2017 HK$'000
At 1 January	**127,247**	93,195
Acquisition of subsidiary	**—**	26,157
(Credited)/charged to the consolidated statement of profit or loss	**(1,321)**	6,346
Exchange realignment	**(5,607)**	1,549
At 31 December	**120,319**	127,247

At 31 December 2018, the Group had unused tax losses of HK$961,528,000 (2017: HK$183,041,000), 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

	2018		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 at 31 December 2018 and HK$0.08 each at 31 December 2017 (note a)	10,000,000,000	800,000	10,000,000,000	800,000
Convertible preferred shares of HK$0.08 each at 31 December 2018 and HK$0.08 each at 31 December 2017 (note a) (note 29)	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	4,920,560,060	393,645	30,627,287,770	306,273
Share consolidation (note a)	—	—	(28,902,253,754)	—
Consideration issue (notes b and c)	—	—	2,203,266,631	77,449
Loan capitalization agreement (note d)	—	—	992,259,413	9,923
As at 31 December	4,920,560,060	393,645	4,920,560,060	393,645
Convertible preferred shares of HK$0.08 each at 31 December 2018 and HK$0.08 each at 31 December 2017 (note a) (note 29)	69,375,000	5,550	69,375,000	5,550

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 10 January 2017 and 15 February 2017, the Company entered into the framework agreement and amended framework agreement respectively, to acquire 46% indirect interest in Zhoushan Yatai Shipbuilding Engineering Company 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;

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$0.24 and cash consideration of HK$20,000,000 by the Company to the vendor;

d) 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; and

e) 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.

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**").

The purpose of the Schemes is providing incentives to Directors, employees and other service providers of the Group. The total number of ordinary shares of the Company in respect of options that may be granted is not permitted to exceed 10% of the ordinary shares of the Company in issue at any point in time.

a) 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 years ended 31 December 2018 and 2017:

2018 Name or category of participant	**At 1 January 2018**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**At 31 December 2018**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share options HK$**
Other employees	**67,516**	**—**	**(67,516)**	**—**	**—**	**1 February 2008**	**1 February 2013 to 31 January 2018**	**3.0656**

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.

During the years ended 31 December 2017 and 2018, no share option was granted, exercised or cancelled under the Scheme.

33. SHARE OPTION SCHEME (continued)

a) Share Option Movement (continued)

i) 2002 Share Option Scheme (continued)

At the end of the reporting period, the Company had outstanding share options for the subscription of Nil (2017: 67,516) 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 Nil (2017: 67,516) additional ordinary shares of the Company and additional share capital of HK$Nil (2017: HK$5,401) and share premium of approximately HK$Nil (2017: HK$202,000) (before issue expenses).

ii) New Share Option Scheme

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

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

	2018		2017	
	Weighted average exercise price per share HK$	**Number of shares issuable under options**	Weighted average exercise price per share HK$	Number of shares issuable under options
At 1 January	**3.0656**	**67,516**	0.3832	8,454,240
Adjusted as a result of share consolidation	**—**	**—**	—	(472,616)
Lapsed	**3.0656**	**(67,516)**	0.3832	(7,914,108)
At 31 December	**—**	**—**	3.0656	67,516

34. OPERATING LEASE ARRANGEMENTS

As lessee

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**38**	7,541
In the second to fifth years, inclusive	**—**	8,292
	38	15,833

35. COMMITMENTS

	2018 **HK$'000**	2017 HK$'000
Commitments for shipbuilding and ship repair facilities in Mainland China	**136,687**	143,289

36. CONTINGENT LIABILITIES

The detailed proceedings are set out on page 45 to 47 under Litigation of this report.

37. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements and in the Directors' report under heading of "connected transaction and continuing connected transaction", the Group had the following material transactions with related parties during 2018 and 2017:

a) Transaction with ultimate/immediate holding company

	2018 HK$'000	2017 HK$'000
Loans from the ultimate holding company (note i)		
— Outstanding principal	**(1,738,501)**	(1,822,501)
— Interest for the year	**(149,661)**	(144,288)
Amount due to the ultimate holding company (note ii)	**(359,287)**	(223,698)
Amount due from the immediate holding company (note ii)	**524**	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

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**7,345**	13,126
Post-employment benefits	**22**	44
Total compensation paid to key management personnel	**7,367**	13,170

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	
	2018 HK$'000	2017 HK$'000
Trade receivable	**40,370**	309,714
Financial assets included in deposits and other receivables	**10,526**	19,259
Available-for-sale financial assets	**—**	198,516
Cash and cash equivalents	**11,305**	83,385
	62,201	610,874

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	At amortised cost	
	2018	2017
	HK$'000	HK$'000
Trade payables	**172,982**	179,194
Financial liabilities included in other payables and accruals	**449,115**	456,554
Bank and other loans	**466,962**	487,306
Interest payables of bank and other loans	**93,799**	77,710
Amounts due to associated companies	**—**	46,465
Amount due to the ultimate holding company	**2,097,788**	2,046,199
Convertible bond	**—**	81,853
Convertible preferred shares	**408,724**	394,116
	3,689,370	3,769,397

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
2018		
RMB	**26**	**(1,924)**
RMB	**(26)**	**1,924**
2017		
RMB	26	(698)
RMB	(26)	698

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risks

The Group has no significant concentrations of credit risk. The carrying amounts of trade and other receivables and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2018 and 2017, all bank balances were deposited in reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties. Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that outstanding trade receivables are collected on a timely basis. Trade receivables are subject to the expected credit loss model. The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

The credit quality of the other receivables excluding deposits and prepayments have been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the other receivables excluding deposits and prepayments is assessed to be close to zero and no provision was made as of 31 December 2018 and 31 December 2017.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risks

The Group's treasury department oversees the Group's cash flow positions on a regular basis to ensure the cash flow of the Group is closely monitored.

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

	Weighted average effective interest rate		On demand or within one year		Over one year		Total		Total carrying amount	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	%	%	**%**	%	**%**	%	**%**	%	**%**	%
Trade payables	**—**	—	**172,982**	179,194	**—**	—	**172,982**	179,194	**172,982**	179,194
Other payables and accruals	**—**	—	**449,115**	456,554	**—**	—	**449,115**	456,554	**449,115**	456,554
Bank and other loans	**4.75–8.5**	6.84–8.26	**229,335**	221,991	**237,627**	265,315	**466,962**	487,306	**466,962**	487,306
Loans from the ultimate holding company	**8.26**	8.26	**260,775**	182,250	**1,477,726**	1,640,251	**1,738,501**	1,822,501	**1,738,501**	1,822,501
Amounts due to the ultimate holding company	**—**	—	**3,217**	3,373	**—**	—	**3,217**	3,373	**3,217**	3,373
Amount due to associated companies	**—**	—	**—**	46,465	**—**	—	**—**	46,465	**—**	46,465
Interest payables of bank and other loans	**—**	—	**93,799**	77,449	**—**	261	**93,799**	77,710	**93,799**	77,710
Interest payables of loans from ultimate holding company	**—**	—	**356,070**	220,325	**—**	—	**356,070**	220,325	**356,070**	220,325
Convertible bond	**—**	7.50	**—**	81,853	**—**	—	**—**	81,853	**—**	81,853
Convertible preferred shares	**4.7**	4.70	**408,724**	—	**—**	394,116	**408,724**	394,116	**408,724**	394,116
			1,974,017	1,469,454	**1,715,353**	2,299,943	**3,689,370**	3,769,397	**3,689,370**	3,769,397

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2018 and 2017.

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:

	2018 HK$'000	2017 HK$'000
Other loans	**466,962**	487,306
Convertible bond	**—**	81,853
Loans from the ultimate holding company	**1,738,501**	1,822,501
Total debts	**2,205,463**	2,391,660
Total assets	**1,565,940**	4,143,308
Gearing ratio	**141%**	58%

41. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: HK$Nil).

42. 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 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)

42. BUSINESS COMBINATION (continued)

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

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.

Goodwill arose in the acquisition of Gold Dragon Group because the consideration for the acquisition reflects the future economic benefits expected to be generated from combining the acquiree's operation with the Group's operations.

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.

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

a) Statement of financial position of the Company

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSET		
Interests in associated companies	480	480
CURRENT ASSETS		
Trade receivables	—	14,627
Prepayments, deposits and other receivables	1,185	1,422
Cash and cash equivalents	6,479	7,699
Total current assets	7,664	23,748
CURRENT LIABILITIES		
Amounts due to subsidiaries	28,370	1,738
Other loans	—	14,442
Other payables and accruals	89,034	10,035
Convertible bond	—	77,628
Convertible preferred shares	408,724	—
Total current liabilities	526,128	103,843
NET CURRENT LIABILITIES	(518,464)	(80,095)
TOTAL ASSETS LESS CURRENT LIABILITIES	(517,984)	(79,615)
NON-CURRENT LIABILITIES		
Convertible preferred shares	—	394,116
Total non-current liabilities	—	394,116
NET LIABILITIES	(517,984)	(473,731)
EQUITY		
Share capital	393,645	393,645
Reserves	(911,629)	(867,376)
TOTAL EQUITY	(517,984)	(473,731)

The financial statements were approved and authorised for issue by the board of Directors on 29 March 2019 and signed on its behalf by:

Chen Bingyan
Director

Zhang Qiandong
Director

43. 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 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)
Adjustment on initial application of HKFRS 9	—	—	—	—	**(1,049)**	**(1,049)**
Adjusted balance at 1 January 2018	**4,834,143**	**60,916**	**372**	**83**	**(5,763,939)**	**(868,425)**
Total comprehensive expenses	—	—	—	—	**(43,204)**	**(43,204)**
Expire of convertible bonds	—	—	**(372)**	—	**372**	—
Lapse of share option	—	—	—	**(83)**	**83**	—
At 31 December 2018	**4,834,143**	**60,916**	—	—	**(5,806,688)**	**(911,629)**

44. 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 2018 %	2017 %	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
Titan Investment Holding (HK) Limited	Hong Kong	Ordinary HK$1	100	—	Investment and Trading
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	70	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	100	Investment holding
舟山甬泰船務有限公司 ("**Yongtai**")	Mainland China	HK$1,000,000	100	100	Investment holding
舟山市德恒企業管理有限公司 ("**Deheng**")	Mainland China	RMB20,000,000	(Note)	(Note)	Investment holding
江蘇宏強船舶重工有限公司 ("**OPCO**")	Mainland China	RMB300,000,000	(Note)	(Note)	Shipbuilding and manufacturing of steel structure
江蘇炯強海洋裝備有限公司	Mainland China	RMB50,000,000	100	—	The manufacturing and sales of offshore engineering special equipments and vessel auxiliary equipments
舟山甬隆貿易有限公司	Mainland China	RMB10,000,000	100	—	Trading of oil products mainly

44. 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 ("**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.

44. PRINCIPAL SUBSIDIARIES (continued)

Note: (continued)

Structured Contracts (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 (chairperson), 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:

	2018 HK$'000	2017 HK$'000
Revenue	59,108	102,559
Loss	236,651	87,962
Total assets	123,171	775,881
Total liabilities	(497,619)	(600,235)

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 29 March 2019.

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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**64,883**	1,024,146	760,921	—	—
(Loss)/Profit before tax	**(2,371,767)**	(259,000)	1,895,372	(243,136)	3,778,032
Tax	**1,281**	(6,346)	(5,553)	1,355	1,342
(Loss)/Profit for the year	**(2,370,486)**	(265,346)	1,889,819	(241,781)	3,779,374
Attributable to:					
Owners of the Company	**(2,368,589)**	(263,630)	1,889,840	(241,781)	3,779,374
Non-controlling interest	**(1,897)**	(1,716)	(21)	—	—
	(2,370,486)	(265,346)	1,889,819	(241,781)	3,779,374

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,565,940**	4,143,308	3,168,254	2,997,452	3,203,978
Total liabilities	**(3,809,729)**	(3,896,644)	(3,071,025)	(7,046,510)	(7,036,612)
	(2,243,789)	246,664	97,229	(4,049,058)	(3,832,634)

PARTICULARS OF THE INVESTMENT PROPERTY

For the year ended 31 December 2018

COMPLETED PROPERTY HELD FOR INVESTMENT

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