Titan

Titan Petrochemicals Group Limited

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

ANNUAL REPORT 2019

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EXECUTIVE DIRECTOR'S STATEMENT

On behalf of the board (the "**Board**") of Directors (the "**Directors**") of Titan Petrochemicals Group Limited (the "**Company**"), I hereby present the Annual Report for the year ended 31 December 2019.

The Company together with its subsidiaries (the "**Group**") recorded a consolidated profit attributable to owners of the Company of HK$1,647,286,000 for the year ended 31 December 2019. The foregoing profit was mainly attributable to the one-off income from deconsolidating Titan Quanzhou Shipyard Co., Ltd ("**TQS**") due to its liquidation.

2019 was a year for the transformation and upgrading of the Company. The liquidation of TQS has not only greatly relieved the Group's debt burden, but also allowed the Board to focus on maintaining and expanding the existing businesses.

In 2019, the management of the Company was committed to maintaining the stable operation of the existing businesses of 江蘇宏強船舶重工有限公司 ("**OPCO**") and 江蘇炯強海洋裝備有限公司 ("**Jiangsu Jiongqiang**") mainly from three aspects, i.e. reducing operational costs, improving production efficiency and maintaining customer resources, which have achieved great results. Meanwhile, the Company also actively promoted the comprehensive development and utilization of a parcel of land in Quanzhou, Fujian Province, the People's Republic of China (the "**PRC**"). The building construction permit (建築工程施工許可證) for the above land was granted by the local government in June 2019. Accordingly, the Group has already started construction in Quanzhou, Fujian Province, the PRC.

The Company will continue to seek breakthroughs in the above industries in 2020 which is full of opportunities. One bulk carrier and two stainless steel vessels were successfully launched at the end of 2019 and the beginning of 2020 and will be delivered in the first half of 2020. In March 2020, Jiangsu Jiongqiang entered into a strategic cooperation partner agreement (the "**Strategic Cooperation Agreement**") with 中交二航局結構工程有限公司 ("**CSSEC**"), an indirect subsidiary of China Communications Construction Company Ltd. The successful launch of the above ships and the execution of the Strategic Cooperation Agreement helped to establish a good reputation for the Group in the market and ensure sufficient and orderly follow-up orders while the construction on the Quanzhou land is well under way. The project of investment properties business is expected to provide sufficient revenue to solve the on-going issue of the Group in the future.

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

Zhang Qiandong
Executive Director

Hong Kong, 8 May 2020

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Qiandong
Mr. Chen Bingyan (Ceased as Co-chairman on 31 May 2019 and removed as executive Director on 27 June 2019)
Dr. Liu Liming (Retired on 31 May 2019)

Non-executive Directors

Mr. Lai Wing Lun (Chairman) (Re-elected as Chairman on 31 May 2019)
Mr. Osman Mohammed Arab
Ms. Meng Ke Xin (Appointed on 31 May 2019)

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Sun Feng
Mr. Cheung Hok Fung Alexander
Mr. Teng Yue (Removed on 27 June 2019)

AUDIT COMMITTEE

Mr. Cheung Hok Fung Alexander (Chairman)
Mr. Lau Fai Lawrence
Mr. Sun Feng
Mr. Lai Wing Lun

REMUNERATION COMMITTEE

Mr. Sun Feng (Chairman)
Mr. Lau Fai Lawrence
Mr. Lai Wing Lun

NOMINATION COMMITTEE

Mr. Sun Feng (Chairman)
Mr. Lau Fai Lawrence
Mr. Lai Wing Lun

COMPANY SECRETARY

Mr. Wong Chi Shing

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 802, 8/F., OfficePlus@Wan Chai
303 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Bank of China Limited

AUDITORS

Asian Alliance (HK) CPA Limited

SOLICITORS

Michael Li & Co.
Shanghai Qixin Law Firm

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, 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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000 (restated)	HK$'000	HK$'000	HK$'000
Revenue	**254,724**	64,883	1,024,146	760,921	—
Gross profit	**26,642**	16,703	15,473	1,455	—
Profit/(Loss) for the year					
Attributable to:					
— Owners of the Company	**1,647,286**	(2,349,273)	(263,630)	1,889,840	(241,781)
— Non-controlling interests	**(399)**	(1,897)	(1,716)	(21)	—
	1,646,887	(2,351,170)	(265,346)	1,889,819	(241,781)

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash and cash equivalents	**3,456**	11,305	83,385	257,712	9,989
Current assets	**93,401**	129,699	604,173	600,982	245,762
Total assets	**331,664**	1,565,940	4,143,308	3,168,254	2,997,452
Current liabilities	**1,144,074**	1,974,057	1,469,454	527,169	4,600,276
Total liabilities	**1,183,985**	3,791,188	3,896,644	3,071,025	7,046,510
Total (deficiency)/equity	**(852,321)**	(2,225,248)	246,664	97,229	(4,049,058)
(Deficiency)/equity attributable to owners of the Company	**(852,323)**	(2,238,289)	231,104	97,247	(4,049,058)

DIRECTORS' BIOGRAPHIES

Mr. Zhang Qiandong ("Mr. Zhang"), 28 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 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"), 41 years old, was appointed as a non-executive Director of the Company on 26 July 2018, and re-elected as Chairman of the Company on 31 May 2019. 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"), 49 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.

Ms. Meng Ke Xin ("Ms. Meng"), 34 years old, was appointed as a Non-Executive Director on 31 May 2019. Ms. Meng graduated from the graduate school of Chinese Academy of Social Sciences, with a master degree in law. Ms. Meng is mainly focus on securities, fund and finance businesses. She is currently the senior investment manager of Beijing Zhongrong Winda Asset Management Co. Ltd.* (北京中融穩達資產管理有限公司), a professional fund manager for private equity and venture investment funds.

Mr. Lau Fai Lawrence ("Mr. Lau"), 48 years old, was appointed as an independent non-executive Director on 13 March 2014. Mr. Lau is currently a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the 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) (stock code: 2009) since August 2008, an executive director of Future World Financial Holdings Limited (stock code: 0572) since January 2014. Mr. Lau was also a non-executive director of Alltronics Holdings Limited (stock code: 0833) from March 2017 to December 2018 and an independent non-executive director of Winto Group (Holdings) Limited (stock code: 8238) from April 2019 to November 2019. Besides, Mr. Lau has been an independent non-executive director of Artini Holdings Limited (stock code: 0789) since April 2008, HKBridge Financial Holdings Limited (stock code: 2323) since March 2016, and Tenwow International Holdings Limited (in provisional liquidation) (stock code: 1219) since November 2018. Mr. Lau has also been the independent non-executive director of Sinopharm Tech Holdings Limited (stock code: 8156 and listed on GEM of The Stock Exchange of Hong Kong Limited) since January 2020 and China Energine International (Holdings) Limited (stock code: 1185) since March 2020, all the above companies are listed on The Stock Exchange of Hong Kong Limited.

* *For identification purpose only*

DIRECTORS' BIOGRAPHIES

Mr. Sun Feng ("Mr. Sun"), 66 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 from 1996 to 2002, and a party committee secretary and the chairman of 中安集團. Besides, Mr. Sun had been an executive director and the chairman of Future Bright Mining Holdings Limited, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited, for the period from June 2016 to October 2016.

Mr. Cheung Hok Fung Alexander ("Mr. Cheung"), 55 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 Listing Rules on 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.

Mr. Chen Bingyan ("**Mr. Chen**") and Mr. Lai Wing Lun ("**Mr. Lai**") had been appointed as Co-chairmen of the Board of the Company with effect from 21 November 2018. On 31 May 2019, the Board resolved that the Board should be changed from a Co-chairmen system to a single chairman system. Mr. Lai had been re-elected as the Chairman of the Board and Mr. Chen had ceased to be Co-chairman of the Board but remained as an executive Director of the Company with effect from 31 May 2019. Mr. Chen was removed on 27 June 2019.

The Company has no chief executive as at the date of this report and will arrange for the appointment of chief executive of the Company in due course in order to fill the vacancy arising from the resignation of Mr. Tang Chao Zhang ("**Mr. Tang**") on 29 October 2018.

In accordance to the code provision A.6.7 of the CG Code, independent non-executive Directors ("**INEDs**") and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Cheung Hok Fung Alexander, the independent non-executive Director, was unable to attend the special general meeting of the Company on 27 June 2019 as he had other engagements.

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

In accordance to the code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors.

The Company has no appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company in force as at the date of this report. The Company will arrange for appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company as soon as practicable.

CORPORATE GOVERNANCE REPORT

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. Zhang Qiandong
Mr. Chen Bingyan (Ceased as Co-chairman on 31 May 2019 and removed as executive Director on 27 June 2019)
Dr. Liu Liming (Retired on 31 May 2019)

Non-executive Directors

Mr. Lai Wing Lun (Chairman) (Re-elected as Chairman on 31 May 2019)
Mr. Osman Mohammed Arab
Ms. Meng Ke Xin (Appointed on 31 May 2019)

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Sun Feng
Mr. Cheung Hok Fung Alexander
Mr. Teng Yue (Removed on 27 June 2019)

As at the date of this report, the Board was comprised of seven Directors, including one executive Director, three non-executive Directors and three 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.

CORPORATE GOVERNANCE REPORT

Chairman and the Chief Executive

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.

Mr. Chen and Mr. Lai had been appointed as Co-chairmen of the Board of the Company with effect from 21 November 2018. On 31 May 2019, the Board resolved that the Board should be changed from a Co-chairmen system to a single chairman system. Mr. Lai, had been re-elected as the Chairman of the Board and Mr. Chen ceased to be Co-chairman of the Board but remained as an executive Director of the Company with effect from 31 May 2019. Mr. Chen was removed on 27 June 2019.

The Company has no chief executive since the resignation of Mr. Tang as the executive Director and chief executive of the Company on 29 October 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 of the Company 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 of the Company (the "**Audit Committee**"), the remuneration committee of the Company (the "**Remuneration Committee**") and the nomination committee of the Company (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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

ATTENDANCES OF BOARD MEETINGS

During the year under review, 7 full Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting, 2 Nomination Committee meetings, 1 special general meeting, and 1 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**	**Annual General Meetings**
Executive Directors						
Mr. Zhang Qiandong	7/7	N/A	N/A	N/A	1/1	1/1
Mr. Chen Bingyan (Note 1)	4/4	N/A	N/A	N/A	0/1	1/1
Dr. Liu Liming (Note 2)	4/4	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Mr. Lai Wing Lun (Chairman) (Note 3)	7/7	2/2	1/1	2/2	1/1	1/1
Mr. Osman Mohammed Arab	7/7	N/A	N/A	N/A	1/1	1/1
Ms. Meng Ke Xin (Note 4)	2/3	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Directors						
Mr. Lau Fai Lawrence	7/7	2/2	1/1	2/2	1/1	1/1
Mr. Sun Feng	7/7	2/2	1/1	2/2	1/1	1/1
Mr. Cheung Hok Fung Alexander	6/7	N/A	N/A	N/A	0/1	1/1
Mr. Teng Yue (Note 5)	3/4	N/A	N/A	N/A	1/1	0/1
Total No. of meetings	7	2	1	2	1	1

Notes:

1. Mr. Chen Bingyan ceased as the Co-chairman on 31 May 2019 and removed as executive Director on 27 June 2019.

2. Dr. Liu Liming had retired on 31 May 2019

3. Mr. Lai Wing Lun had been re-elected as the Chairman on 31 May 2019.

4. Ms. Meng Ke Xin had been appointed as a non-executive Director on 31 May 2019.

5. Mr. Teng Yue had been removed as an independent non-executive Director on 27 June 2019.

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:

- At the annual general meeting of the Company held on 31 May 2019 (the "**AGM**"), the proposed resolution relating to the re-election of Dr. Liu Liming as an executive Director was not passed at the AGM. Accordingly, Dr. Liu Liming had retired as an executive Director with effect from the conclusion of the AGM.

- Ms. Meng Ke Xin had been appointed as the non-executive Director with effect from the conclusion of the AGM.

- Mr. Chen Bingyan had been removed as the executive Director and Mr. Teng Yue had been removed as the independent non-executive Director with effect from the conclusion of the special general meeting of the Company held on 27 June 2019.

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 Chairman will 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 the 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) Identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

CORPORATE GOVERNANCE REPORT

(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, 2 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 three INEDs, namely Mr. Cheung, Mr. Lau and Mr. Sun and one non-executive Director, namely Mr. Lai. The Audit Committee is chaired by Mr. Cheung who is a barrister practising in Hong Kong, a certified public accountant in Hong Kong and a chartered accountant in Australia and New Zealand.

Mr. Cheung had been appointed as a member and the chairman of the Audit Committee with effect from 18 March 2020. Mr. Lau ceased to act as the chairman of the Audit Committee but remains as a member of the Audit Committee with effect from 18 March 2020.

CORPORATE GOVERNANCE REPORT

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, 2 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 2019; (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 independent professional firm; and (vii) evaluated the effectiveness of internal audit function. The Audit Committee also made recommendation to the Board on the proposed appointment of the new auditor upon the resignation of the previous auditor. 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.

CORPORATE GOVERNANCE REPORT

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. Sun.

Mr. Sun had been appointed as the chairman of the Remuneration Committee with effect from 18 March 2020. Mr. Lau ceased to act as the chairman of the Remuneration Committee but remains as a member of the Remuneration Committee with effect from 18 March 2020.

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, 1 Remuneration Committee meeting was held and the individual attendance had been disclosed earlier in this report. The Remuneration Committee 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 110 to 112 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.

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, Asian Alliance (HK) CPA Limited ("**Asian Alliance**"), with respect to their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditors' Report on pages 43 to 47 of this report.

AUDITOR'S REMUNERATION

Elite Partners CPA Limited had resigned as auditors on 21 November 2019 and Asian Alliance had been appointed as the independent auditors of the Group with effect from 5 December 2019 for the year under review.

The remuneration paid/payable to Asian Alliance is set out below:

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

INTERNAL CONTROL AND RISK MANAGEMENT

The Group had outsourced the internal audit work (the "**IA function**") to A and K APPRAISAL. The IA function is independent of the Group's daily operations and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

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 Section 74 of the Companies Act 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 3 of this Annual Report.

CONSTITUTIONAL DOCUMENTS

The amendments to the Bye-Laws had been approved by the Shareholders by way of a special resolution at the AGM held on 31 May 2019 and had become effective on the same day. Details of the amendments to the Bye-Laws had been set out in the circular and notice of the AGM dated 30 April 2019. The new Bye-Laws had been published on 24 July 2019 and the full text of the new Bye-laws is available on the websites of the Company (http://www.petrotitan.com) and the HKEx (http://www.hkexnews.hk) respectively.

SHARE OPTION SCHEME

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

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

Subject to the terms and conditions of the 2011 Share Option Scheme, the Board may, at its discretion, grant share options to any eligible person to subscribe for the shares in the Company within the validity period of the scheme.

As at 31 December 2019, no share options remain outstanding under the 2002 Share Option Scheme and 2011 Share Option Scheme respectively. No share option was granted, exercised, cancelled or lapsed during the period.

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 2019.

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 53 to the consolidated financial statements.

The business review of the Group for the year ended 31 December 2019, as well as further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages 33 to 42 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 2019 are set out in the consolidated financial statements on pages 48 to 152.

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

INVESTMENT PROPERTIES

Details of movement of the investment properties of the Group during the year are set out in note 24 to the consolidated financial statements.

Particulars of the investment properties of the Group as at 31 December 2019 are set out in page 154 of the Annual Report.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to operating results for the year ended 31 December 2019 is set out in note 9 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 52 to 54 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 36, 39, 41 and 51 to the consolidated financial statements, respectively.

REPORT OF THE DIRECTORS

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 ended 31 December 2019 and thereafter up to the date of this 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 2019, 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 74% and 21% respectively of the total revenue of the Group for the year ended 31 December 2019. Purchase attributable to the top five largest suppliers in aggregate and the single largest supplier of the Group accounted for approximately 53% and 18% respectively of the total purchase of the Group for the year ended 31 December 2019.

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 2019 are set out in note 34 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. Zhang Qiandong
Mr. Chen Bingyan (Ceased as Co-chairman on 31 May 2019 and removed as executive Director on 27 June 2019)
Dr. Liu Liming (Retired on 31 May 2019)

Non-executive Directors

Mr. Lai Wing Lun (Chairman)
(Re-elected as Chairman on 31 May 2019)
Mr. Osman Mohammed Arab
Ms. Meng Ke Xin (Appointed on 31 May 2019)

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Sun Feng
Mr. Cheung Hok Fung Alexander
Mr. Teng Yue (Removed on 27 June 2019)

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 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, Mr. Zhang Qiandong, Mr. Lai Wing Lun and Mr. Osman Mohammed Arab 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 16 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 48 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 2019. The Company has no appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company in force as at the date of this report. The Company will arrange for appropriate Directors' and officers' liability coverage for the Directors and officers of the Company as soon as practicable.

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.

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 2019, 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 controlled corporations	—	879,891,665	879,891,665	17.88%
	Beneficial owner	10,785,000	—	10,785,000	0.22%

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 10,785,000 ordinary shares of the Company, representing in aggregate approximately 18.10% of the total number of issued shares of the Company.

Save as disclosed above, as at 31 December 2019, 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 51 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 2019, 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)	Corporate Interest	2,362,556,185	69,375,000	48.01%/1.10%
Sino Team(Note 2)	Corporate Interest	791,666,667	—	16.09%
Mr. Zhang(Note 2)	Beneficial Interest	10,785,000	—	0.22%
	Corporate Interest	879,891,665	—	17.88%
Mr. Arab(Note 3)	Corporate Interest	2,378,940,978	—	48.35%
Mr. Wong Kwok Keung ("**Mr. Wong**")(Note 3)	Corporate Interest	2,378,940,978	—	48.35%

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 which became redeemable in accordance with the terms thereof on 15 July 2019 are currently held by an affiliated company of GZE.

2 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 10,785,000 ordinary shares of the Company, representing in aggregate approximately 18.10% of the total number of issued shares of the Company.

3 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.

* *For identification purpose only*

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2019, 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.

REPORT OF THE DIRECTORS

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 7 to 21 of this report.

CHARITABLE DONATIONS

No charitable donation was made by the Company during the year (2018: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as the Company's code of conduct regarding directors' securities 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 2019.

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 2019 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.

REPORT OF THE DIRECTORS

INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

As disclosed in sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the independent auditors' report contained on pages 43 to 47 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 2019 as a result of certain matters.

The Board's Response to the Disclaimer Opinion

(1) Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

The qualified opinion on consolidated statement of profit and loss for the year ended 31 December 2018 would have carryforward effect for the year ended 31 December 2019 as a result of the comparability of the 2019 figures and the corresponding 2018 figures. Such qualified opinion on the 2018 Financial Statements would not have carryforward effect for the year ending 31 December 2020.

The Management has discussed with the Auditors and confirmed that since the Auditors expressed a disclaimer of opinion on the 2019 figures of the Group, this will have carryforward impact on the Company's annual results for the year ending 31 December 2020 as the 2019 figures will form the basis for the corresponding opening balances and comparative figures presented in the consolidated financial statements for the year ending 31 December 2020.

(2) Limitation of scope on gain on deconsolidation of TQS

As the deconsolidation of TQS was completed during the year ended 31 December 2019, as discussed with the Auditors, the Management is of the view that the limitation of scope is a one-off incident, which will only affect the comparative figures but not the opening balance on the consolidated financial statements for the year ending 31 December 2020.

(3) Limitation of scope on gain on disposal of equity investments classified as FVTOCI and loss on disposal of a subsidiary

As the disposal of equity investments classified as FVTOCI and disposal of a subsidiary was completed during the year ended 31 December 2019, as discussed with the Auditors, the Management is of the view that the limitation of scope is a one-off incident, which will only affect the comparative figures but not the opening balance on the consolidated financial statements for the year ending 31 December 2020.

(4) Limitation of scope on share of loss of associates and gain on disposal of subsidiaries

As the disposal of subsidiaries, together with the relevant associates, was completed during the year ended 31 December 2019, as discussed with the Auditors, the Management is of the view that the limitation of scope is a one-off incident, which will only affect the comparative figures but not the opening balance on the consolidated financial statements for the year ending 31 December 2020.

REPORT OF THE DIRECTORS

(5) Limitation for scope on other payables under legal proceedings

It is expected that the results of legal proceedings will be concluded in the year of 2020. With the legal proceedings results becoming available, it is expected that the picture will become clearer. For prudence sake, the Company has included the principal and interest payment of the convertible bonds in question in the other payables of the Group as at 31 December 2019. Any adjustment to the principal and interest payment of the convertible bonds included in the other payables would be of positive effect on the Group's profit for the year then ended and related disclosures to the consolidated financial statements.

(6) Multiple fundamental uncertainties relating to going concern

The Group incurred net profit attributable to owners of the Company of approximately HK$1,647,286,000 for the year ended 31 December 2019 while the net current liabilities of approximately HK$1,050,673,000 and the Group had net liabilities of approximately HK$852,321,000 as at 31 December 2019.

The Company will be proactive to consider the feasibility of fund raising Exercise(s) such as issue of new shares in order to enhance the working capital and equity of the Group in the year of 2020. As disclosed in the announcements of the Company dated 13 March 2020 and 23 March 2020, the Company has completed issue of convertible bonds in the aggregate principal amount of HK$8,000,000 in the year of 2020. The Company will continue to look for fund raising exercise(s) opportunities.

Besides, the Company has been carrying out an internal forensic accounting review ("**Review**") about the convertible bonds. From the Review, it has been identified that some commodity trading transactions of the Group might have been related to the subscription money for the convertible bonds, involving most possibly round robin fund flows. Please refer to the announcement of the Company dated 28 April 2020 for further details.

As disclosed in 2019 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 Group will strive to negotiate the terms of repayment with creditors of majority of current liabilities recorded in the Company and the PRC subsidiaries;

(ii) The Directors will implement measures aiming of improving the working capital and cash flows of the Group including closely monitoring the general and administrative expenses; and

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

AUDITORS

The financial statements for the year ended 31 December 2019 had been audited by Asian Alliance (HK) CPA Limited ("**Asian Alliance**"). A resolution will be submitted in the forthcoming annual general meeting of the Company to re-appoint Asian Alliance as the auditors of the Company.

On behalf of the Board

Zhang Qiandong
Executive Director

Hong Kong
8 May 2020

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 2019 ("**the Year**"), the consolidated revenue of the Group was approximately HK$254,724,000 while the audited consolidated revenue of the Group was approximately HK$64,883,000 for the year ended 31 December 2018.

During the Year, the Group's trading of commodities recorded revenue of approximately HK$123,719,000 (2018: HK$5,053,000). Revenue of approximately HK$131,005,000 was generated from shipbuilding, ship repairing and manufacturing of steel structure during the Year (2018: HK$59,108,000).

During the Year, the Group recorded other income of approximately HK$17,921,000 while the other income was around HK$13,047,000 for the year of 2018. The other income for the Year was mainly due to approximately HK$8,096,000 of income from sales of scrap from the third party.

During the Year, the Group's administrative expenses decreased from approximately HK$139,413,000 for the year of 2018 to approximately HK$66,148,000 for the Year, including mainly the depreciation and amortisation in shipyard factories, staff remuneration and related expenses, the legal and professional fees and also rental expenses.

Finance cost for the Year was approximately HK$203,378,000 (2018: HK$213,623,000), representing mainly the interest from bank and other loans of approximately HK$50,113,000 (2018: HK$47,361,000) and loan interest from ultimate holding company approximately to HK$119,133,000 (2018: HK$149,661,000).

During the Year, the Group recorded profit attributable to the owners of the Company of approximately HK$1,647,286,000, compared to the loss approximately HK$2,349,273,000 attributable to the owners of the Company for the year of 2018. The reason for the profit of the Year was mainly due to (i) the gain on disposal of subsidiaries of approximately HK$129,054,000; and (ii) the gain on deconsolidation of a subsidiary of approximately HK$1,766,417,000.

The basic profit per share was approximately HK33.48 cents for the Year and the basic loss per share was approximately HK47.74 cents for the year of 2018.

As at 31 December 2019, the cash and cash equivalents of the Group amounted to approximately HK$3,456,000, representing a decrease of approximately HK$7,849,000 as compared with the cash and cash equivalents of approximately HK$11,305,000 as at 31 December 2018. The decrease was mainly resulted from the operating of the shipyard and the increase in legal and professional fees during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2019, the Group's net liabilities amounted to approximately HK$852.2 million, compared to net liabilities of HK$2,225.2 million as at 31 December 2018.

The Group financed its operations mainly through the loans from the banks and other independent third parties in Hong Kong and Mainland China. As at 31 December 2019,

a) The Group had:

- Cash and bank balances of HK$3,456,000 (31 December 2018: HK$11.3 million). The balances were comprised of:

  — an equivalent of HK$168,000 (31 December 2018: HK$7.4 million) denominated in US dollars ("**USD**");

  — an equivalent of HK$1,000 (31 December 2018: HK$Nil) denominated in Singapore dollars ("**SGD**");

  — an equivalent of HK$3,204,000 (31 December 2018: HK$1.8 million) denominated in Renminbi ("**RMB**"); and

  — HK$83,000 (31 December 2018: HK$2.1 million) in HKD.

- Bank and other loans of HK$284.4 million (31 December 2018: HK$552.2 million). The Group's bank and other loans having maturities within one year amounted to HK$284.4 million (31 December 2018: HK$314.5 million); and

- Loans from the ultimate holding company of HK$Nil million (31 December 2018: HK$2,097.8 million), of which HK$Nil million (31 December 2018: HK$1,477.7 million) having maturities over one year.

b) The Group had:

- Current assets of HK$93.4 million (31 December 2018: HK$129.7 million) and total assets of HK$331.7 million (31 December 2018: HK$1,565.9 million);

- Bank and other loans of HK$284.4 million (31 December 2018: HK$552.2 million);

- The Titan preferred shares issued by the Company with a liability portion of HK$423.3 million (31 December 2018: HK$408.7 million); and

- Loans from the ultimate holding company of HK$Nil million (31 December 2018: HK$2,097.8 million).

Gearing

The Group's current ratio was 0.08 (31 December 2018: 0.07). The gearing of the Group, calculated as the total bank and other loans and loans from the ultimate holding company to total assets decreased to 0.86 (31 December 2018: 1.46).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Revenue of the Group for the year was approximately HK$254,724,000, which was mainly attributable to the income from the shipbuilding, ship-repairing and manufacturing of steel structure and also the trading of commodities business. For the year of 2018, most of the revenue of the Group was also from the shipbuilding, ship-repairing and manufacturing of steel structure.

The Group recorded a profit attributable to owners of the Company of approximately HK$1,647,286,000 for the year, as compared to the loss attributable to owners of the Company of approximately HK$2,349,273,000 for the year of 2018. The profit attributable to owners of the Company during the year was mainly due to (1) an exceptional gain on deconsolidation of a subsidiary of approximately HK$1,766,417,000 for the year; and (2) an exceptional gain on disposal of subsidiaries of approximately HK$129,054,000.

Trading of Commodities

The Group had set up a wholly-owned subsidiary with principal activity of petrochemical and other related products oil trading in October 2018.

During the Year of 2019, 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$123,719,000 which the revenue recorded from the trading of commodities was approximately HK$5,053,000 during the year of 2018.

The management from time to time reviews the global market trend of bulk commodities business and will deploy internal resources whenever this sector of business is fruitful to the Group. The Group would continue to look for new trading business in the year 2020.

Shipbuilding, Ship-Repairing and Manufacturing of Steel Structure

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

In the fourth quarter of 2017, the Group acquired 江蘇宏強船舶重工有限公司 ("**OPCO**") which is operating a large shipyard in Qidong City, Jiangsu Province. The city is only 68 Kilometers away from Shanghai Pudong. Qidong 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.

MANAGEMENT DISCUSSION AND ANALYSIS

In order to transform and upgrade business rapidly, to meet the needs of the domestic market, to create a professional brand of steel structure manufacturing and expand such business field, the Group will fully utilize the existing advantages on the resources and geographical location of Jiangsu Hongqiang. In the second half year of 2018, the Group established an indirect wholly-owned subsidiary, 江蘇炯強海洋裝備有限公司 ("**Jiangsu Jiongqiang**"), Jiangsu Jiongqiang is principally engaged in the manufacturing of steel structure of large bridge. While OPCO will continue focusing on the business brand and specialize in the development and production of various types of carrier and vessels.

In the beginning of year 2019, OPCO successfully built and sold one bulk carrier with carrying capacity of over 40,000 Dead Weight Tonnage ("**DWT**"), the selling price of which was USD 22 million. A bulk carrier with carrying capacity of around 60,000 DWT was launched in December 2019 and two stainless steel ships were launched in January 2020.

At present, OPCO and Jiangsu Jiongqiang are well managed. As at the date of this report, its effective contracts are as follow: (1) processing imported material for two bulk carriers with carrying capacity of around 60,000 DWT; (2) processing imported material for four stainless steel ships; (3) seven projects on steel structure business; and (4) other business including quay rental service. In the foreseeable future, the management expected that the effective contracts would be as follows: (1) the processing of imported material for a bulk carrier; and (2) three projects on steel structure business. It is expected that OPCO and Jiangsu Jiongqiang could run business smoothly with the current contracts for at least two years.

Quanzhou land

The Group obtained the construction planning permit in April 2019 and construction commencement permit in June 2019 from the government of the PRC which allowed the Group to kick off the construction in Quanzhou in Fujian Province, in PRC. The Group looked for and screened the contractors through the bidding process; process of the construction was commenced orderly and smoothly during the year. As expected in the interim report of 2019 of the Group, the property investment business will operate successfully in the future, which hopefully will strengthen the Group's cash flows and working capital and the Group would closely monitor and review this new sector of the business from time to time.

Outlook

In 2020, the Company will continue to seek breakthroughs in the above industries. In December 2019 and the beginning of 2020, one bulk carrier and two stainless steel chemical vessels were launched and will be delivered in the first half of 2020. Moreover, the Company will also actively make use of its extensive experience and deploy resources in the commodity trade industry. In 2019, the Group had recorded revenue of its trading business with over RMB100 million. Based on good business relationship and corporation with customers, the Group will try to negotiate with customers about trading contract with larger volume, in order to expand the trading business. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

OPCO and Jiangsu Jiongqiang currently has contracts for processing imported material for two bulk carriers, four stainless steel chemical vessels and six steel structure manufacturing projects with contract sum of approximately RMB180 million. The Group expects that the revenue from shipbuilding and manufacturing of steel structure would be over RMB40 million and RMB60 million respectively in 2020. In Mar 2020, Jiangsu Jiongqiang entered into a strategic cooperation partner agreement (the "**Strategic Cooperation Agreement**") with 中交二航局結構工程有限公司 ("**CSSEC**"). According to the Strategic Cooperation Agreement, the two parties will jointly develop the steel structure market in the middle and lower reaches of the Yangtze River. Jiangsu Jiongqiang will be very competitive in having suitable steel structure projects in the middle and lower reaches of the Yangtze River. The Group will put more resources on manufacturing of steel structure in order to have more business on manufacturing of steel structure and increase the revenue significantly.

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. The gross floor area is 75,000 square meters. According to the plan, one block of office tower, two block of hostel and one block of commercial building would be developed. The building construction plan has been prepared and the process of the construction is being commenced after communicating with the related parties.

At the end of March 2020, contract with amount of RMB21 million was signed. The project of investment properties business is expected to provide sufficient revenue to solve the on-going issue of the Group in the following years.

The Group will continue to adopt a diversified business strategy to cope with the risks of the domestic economy downturn in China, and allocate resources flexibly to seize any possible investment opportunities.

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.

Litigations and Contingent Liabilities

The detailed proceedings are disclosed on pages 38 to 41 under Litigation and Contingent Liabilities of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Employees and Remuneration Policies

As at 31 December 2019, the Group had 134 employees (31 December 2018: 199), of which 131 employees (31 December 2018: 188) worked in Mainland China, all of which were from OPCO, Jiangsu and Fujian offices and 3 employees (31 December 2018: 11 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 2019 (2018: Nil).

Material Acquisitions, Disposals and Significant Investment

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

Litigation and Contingent Liabilities

a) British Virgin Islands ("**BVI**") and other Proceedings

(i) 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. Further details in respect of the above are included in the Company's announcement dated 20 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The appeal is subsequently withdrawn and dismissed as of 8 July 2019.

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.

On 15 December 2019, the Company has disposed of the entire issued share capital of TOSIL to an independent third party of the Company and its connected person. Upon completion of the disposal, the Company has ceased to hold any interests in TOSIL.

(ii) The Group had received a statutory demand notice (the "**Statutory Demand**") dated 15 July 2019 from the legal adviser acting for Sino Charm International Limited ("**Sino Charm**") pursuant to section 162(a) of the Bermuda Companies Act 1981 (as amended) pursuant to which Sino Charm requires the Company to pay the amount of HK$96,571,078.77, being the principal amount of the convertible bonds issued by the Company to Sino Charm together with interest accrued thereon, within 21 days from the date of service of the Statutory Demand. Pursuant to the Statutory Demand, Sino Charm shall be entitled to apply to the Supreme Court of Bermuda for winding-up if the Company fails to pay the said sum.

It came to the Company's attention that a winding up petition (the "**Petition**") dated 20 September 2019 may have been filed by Sino Charm as petitioner against the Company with the Supreme Court of Bermuda (the "**Court**") for an order that the Company be wound up by the Court. It was subsequently clarified by Sino Charm side that the Petition has not yet been returned by the Court Registry for formal service.

After the publication of the announcement of the Company dated 25 September 2019, the Company received from the legal adviser acting for Sino Charm a copy of the Petition which was returned and dated by the Court Registry on 26 September 2019, the Petition is scheduled to be heard by the Court for 9:30 a.m. (Bermuda time) on 25 October 2019. The Company has engaged its Bermuda legal adviser to vigorously defend against the Petition.

The Petition was heard before the Court on 25 October 2019, 14 November 2019, 13 December 2019 and 21 February 2020. The Court ordered that, among others, the hearing of the Petition be adjourned to be fixed for a date after 17 April 2020 in consultation of the parties' availability with a time estimate of one day before the Honourable Chief Justice.

The Company has been seeking legal advice on the matter and there has not been material adverse impact on the Company's daily operations as a result of the Petition.

MANAGEMENT DISCUSSION AND ANALYSIS

For details, please refer to the announcements of the Company dated 17 July 2019, 25 September 2019, 4 October 2019, 28 October 2019, 18 November 2019, 16 December 2019 and 6 March 2020.

After reviewing the available information and consulting relevant legal advice, the management is contesting the Petition on the basis that there is (at the very least) a bona fide dispute as to whether the Company is liable under the HK$78 million convertible bonds and the Company has questions as to the source of funding for the subscription of the HK$78 million convertible bonds.

The Company has sought legal advice and commenced legal action to, amongst other things, obtain a declaration that the said convertible bonds are void as well as to seek damages against the prior management and certain relevant parties. Subject to further investigation and legal advice, the Company may commence further actions against relevant parties.

For the avoidance of doubt, nothing herein shall constitute the waiver of any privilege whatsoever.

For details, please refer to the announcement of the Company dated 28 April 2020.

b) PRC Proceedings

(i) 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 the Company, GZE, entered into a shareholding entrustment agreement, pursuant to which Nansha Storage should hold, as a nominee shareholder, the abovementioned 70% equity interest for and on behalf of Shishi Yitai. The Company was informed that the Freeze of Shares was resulted from the legal proceedings of GZE and Nansha Storage in China. The total asset of Southern China Petrochemical Exchange Centre represents less than 5% of the total asset of the Group and its business is not the principal business of the Group.

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

* *For identification purpose only*

(ii) It has come to the Company's attention that a winding up application (the "**Application**") dated 21 November 2019 has been filed by 惠安縣惠東供水有限責任公司 (Hui'an County Huidong Water Supply Company Limited*) against TQS with the People's Court of Hui'an County, Fujian Province of the PRC (惠安縣人民法院). TQS is an indirect wholly-owned subsidiary of the Company. The relevant amount claimed under the Application is approximately RMB386,783.7.

The Company has been informed that the Hui'an Court has made a decision (the "**Decision**") dated 9 December 2019 to accept the Application for the winding up of TQS. The Hui'an Court has on 10 December 2019 ordered to set up 清算組 (Liquidation Group) in relation to the winding up of TQS.

For details, please refer to the announcements of the Company dated 27 November 2019 and 16 December 2019.

TQS has been deconsolidated from the Group as a result of the winding up of TQS. The Southern China Petrochemical Exchange Centre ceased to be a subsidiary of the Company since December 2019.

c) Hong Kong Proceedings

In 2019, the Company commenced proceedings against some prior management of Company in the Court of First Instance in Hong Kong under the case number HCA1930/2019. For more details, please refer to the announcement of the Company dated 28 April 2020.

Save for legal actions taken against the prior management and certain relevant parties, there was no Hong Kong proceeding as at 31 December 2019.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: HK$Nil).

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

(i) On 18 February 2020, the Company entered into the conditional Placing Agreement with Sino Capital Securities Limited ("**Sino Capital**"), pursuant to which Sino Capital has agreed to act as placing agent of the Company, on a best effort basis, for the purpose of arranging Placees for the two-year 5% coupon unlisted convertible bonds (the "**Convertible Bonds**") in principal amount of up to HK$10,000,000 to be issued by the Company in accordance with the terms of the Placing.

Completion of the Placing has taken place on 13 March 2020 and the Convertible Bonds in the principal amount of HK$4,000,000 have been issued to Mr. Yung Chi Man as the Placee in accordance with the terms and conditions of the Placing Agreement.

For details, please refer to the announcements of the Company dated 18 February 2020, 10 March 2020 and 13 March 2020.

(ii) On 18 February 2020, the Company entered into the conditional Placing Agreement with Merdeka Securities Limited ("**Merdeka**"), pursuant to which Merdeka has agreed to act as placing agent of the Company, on a best effort basis, for the purpose of arranging Placees for the Convertible Bonds in principal amount of up to HK$10,000,000 to be issued by the Company in accordance with the terms of the Placing.

Completion of the Placing has taken place on 23 March 2020 and the Convertible Bonds in the principal amount of HK$4,000,000 have been issued to Prime Wealth Capital Limited as the Placee in accordance with the terms and conditions of the Placing Agreement.

For details, please refer to the announcements of the Company dated 18 February 2020, 18 March 2020 and 23 March 2020.

(iii) After the outbreak of COVID-19 in January 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. In adherence to the guidelines of the China Government and to protect our employees from infection, the Group has temporarily suspended the manufacturing operations of the Group since Chinese New Year holidays. In early March 2020, the Group gradually resumed its manufacturing operations and implemented precautionary as well as control measures in all projects to fight against this disease and safeguard its employees and business operations. Depending on the future development of the outbreak, the Board expects that the production capacity of the factory will resume its full scale and normal operation upon the lifting of relevant epidemic prevention measures. The Group will pay close attention to the development of this disease and evaluate its impact on the financial position and operating results of the Group.

INDEPENDENT AUDITOR'S REPORT

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

TO THE MEMBERS OF TITAN PETROCHEMICALS GROUP LIMITED
泰山石化集團有限公司
(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 (collectively referred to as the "**Group**") set out on pages 48 to 152, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. 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. Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed a disclaimer opinion on those consolidated financial statements on 29 March 2019 due to the scope limitations including (i) impairment assessment of property, plant and equipment and prepaid lease payments; (ii) fair value of equity investments classified as fair value through other comprehensive income ("**FVTOCI**"); and (iii) interest in an associate.

Any adjustments found to be necessary to the opening balances as at 1 January 2019 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2019. The comparative figures for the year ended 31 December 2018 shown in these consolidated financial statements may not comparable with the figures for the current year.

INDEPENDENT AUDITOR'S REPORT

2. Limitation of scope on gain on deconsolidation of 泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co., Ltd*) ("**TQS**")

As stated in Note 49 to the consolidated financial statements, on 9 December 2019 the Company has been informed by the 惠安縣人民法院 (People's Court of Hui'an County, Fujian Province of the People's Republic of China*) (the "**Court**") that the Court has made a decision to accept the application for the winding up of TQS. On 10 December 2019, the Court has ordered to set up 清算組 (Liquidation Group*) in relation to the winding up of TQS ("**Deconsolidation Date**"). Consequently, the Group had deconsolidated TQS as the directors of the Company (the "**Directors**") considered that the Group's control over TQS had been lost at the Deconsolidation Date. The Group recognised a gain on deconsolidation of TQS of approximately HK$1,766,417,000 during the year ended 31 December 2019.

The books and records of TQS were kept and maintained by the Liquidation Group of TQS, which were not made available to the Group's management subsequent to the Deconsolidation Date. Under the circumstances as explained above, we were not able to carry out procedures which we considered necessary on the books and records of TQS, to satisfy ourselves as to the existence, ownership, completeness, accuracy, valuation and classification of its total assets of approximately HK$1,137,808,000 and total liabilities of approximately HK$3,579,879,000 and the cumulative exchange reserve of approximately HK$308,205,000 as at the Deconsolidation Date and of its loss of approximately HK$160,960,000 for the period from 1 January 2019 to the Deconsolidation Date. Consequently, we were unable to satisfy ourselves as to whether the gain on deconsolidation of approximately HK$1,766,417,000 arising thereon was fairly stated.

Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated statement of profit or loss in respect of TQS, with a corresponding effect on the gain on deconsolidation of a subsidiary, and the related disclosure thereof in the consolidated financial statements.

3. Limitation of scope on gain on disposal of equity investments at FVTOCI and loss on disposal of a subsidiary

As stated in Note 27 to the consolidated financial statements, the Group's equity investments in two private companies which were classified as equity investments at FVTOCI have been disposed of to an independent third party or through disposal of a subsidiary to an independent third party as stated in Note 50, respectively. However, during the course of our audit, we have not been provided with sufficient appropriate audit evidence on these two investments at the respective disposal date, and accordingly we were unable to perform any audit procedure we consider as necessary to obtain reasonable assurance to ascertain the fair value of the equity investments at FVTOCI as at the respective date of disposal. Consequently, we were unable to satisfy ourselves as to whether the gain on disposal of equity investments at FVTOCI and the loss on disposal of relevant subsidiary of HK$10,000 and approximately HK$3,368,000, respectively arising thereon were fairly stated.

Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated statement of profit or loss in respect of the equity investments at FVTOCI, with a corresponding effect on the gain on disposal of equity investments at FVTOCI and the loss on disposal of relevant subsidiary, and the related disclosure thereof in the consolidated financial statements.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

4. Limitation of scope on share of loss of associates and gain on disposal of subsidiaries

As stated in Note 26 to the consolidated financial statements, the Group has equity accounted for its interests in associates. As at 31 December 2019, the aggregated carrying amounts of the interests in associates was approximately HK$480,000, and the Group's share of loss of the associates for the year ended 31 December 2019 was approximately HK$471,000. In addition, certain associates were disposed of through the disposal of subsidiaries to independent third parties as stated in Note 50. The gain on disposal of subsidiaries were approximately HK$129,054,000 for the year ended 31 December 2019. However, during the course of our audit, we have not been provided with sufficient appropriate audit evidence by the management of the Company that we considered necessary in order to enable us to satisfy ourselves the carrying amount of the interests in the disposed associates as at the date of the disposal which is included in the calculations of the gain on disposal of relevant subsidiaries and as to whether the Group's share of result of the associates and gain on disposal of relevant subsidiaries during the year ended 31 December 2019 are fairly stated. There were no other satisfactory audit procedures that we could adopt to obtain sufficient appropriate audit evidence in this regard.

Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated statement of profit or loss in respect of the interests in associates, with a corresponding effect on the loss on disposal of relevant subsidiary, and the related disclosure thereof in the consolidated financial statements.

5. Limitation of scope on other payables under legal proceedings

As stated in Notes 33 and 36 to the consolidated financial statements, the convertible bonds issued by the Company to Sino Charm International Limited ("**Sino Charm**") on 28 April 2017 (the "**Convertible Bonds**") which was matured on 28 April 2018 and the alleged indebtedness under the subscription agreement entered with Sino Charm (the "**Subscription Agreement**") was then reclassified as other payables. During the year ended 31 December 2019, the Group recognised an interest on other payable of approximately HK$18,978,000 and as at 31 December 2019, included in other payables and accruals, the amount of approximately HK$78,000,000 and approximately HK$25,196,000 representing the principal and interest payables, respectively under the Subscription Agreement.

According to the announcement dated 28 April 2020, the Company has been carrying out an internal forensic accounting review ("**Review**") about the alleged indebtedness under the Subscription Agreement. From the Review, the Directors are of the opinion that the Subscription Agreement is null and void, or has been rescinded or is liable to be set aside and the Company does not owe Sino Charm any of the alleged indebtedness. Details of the findings on the Review has been stated in Note 36 to the consolidation financial statements.

INDEPENDENT AUDITOR'S REPORT

Due to the ongoing legal proceedings concerning the Convertible Bonds, we were unable to satisfy ourselves as to whether the interest on other payable recognised during the year ended 31 December 2019 of approximately HK$18,978,000 arising thereon, and the carrying amount of the principal and interest payable under the Subscription Agreement included in the other payables of the Group as at 31 December 2019 were fairly stated. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidated statement of profit or loss in respect of the interest on other payables, the carrying amount of the principal and interest payable in related to the Convertible Bonds and the related disclosure thereof in the consolidated financial statements.

6. Multiple fundamental uncertainties relating to going concern

As described in Note 2 to the consolidated financial statements, although the Group reported a net profit attributable to the owners of the Company of approximately HK$1,647,286,000 for the year ended 31 December 2019, it mainly arose from one-off gain on deconsolidation of a subsidiary and gain on disposal of subsidiaries, net of approximately HK$1,766,417,000 and HK$129,054,000, respectively. In addition, the Group's current liabilities exceeded its current assets by approximately HK$1,050,673,000 and the Group had net liabilities of approximately HK$852,321,000 as at 31 December 2019. As at the same date, the Group's total current bank and other loans and interest payable of bank and other loans amounted to approximately HK$284,381,000 and approximately HK$7,189,000, respectively, while its cash and cash equivalents amounted to approximately HK$3,456,000 only.

These conditions, together with other matters as described in Note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have been undertaking a number of measures to improve the Group's liquidity and financial position as described in Note 2 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, we were unable to ascertain whether the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the going concern assumption be inappropriate, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities respectively, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the Group's future cash flows raises significant doubt about the Group's ability to continue as a going concern. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as and when they fall due and we consider that this material uncertainty relating to going concern basis.

We consider the cumulative effect of the above matters on the consolidated financial statements is so extreme that we have disclaimed our opinion.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed disclaimer opinion on those statements on 29 March 2019.

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company 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 Section 90 of the Bermuda Companies Act 1981 and Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made solely to you, as a body, in accordance with the terms of our engagement and for no other purpose. 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 Group 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.

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Lam Chik Tong
Practising Certificate Number: P05612

8/F., Catic Plaza
8 Causeway Road
Causeway Bay
Hong Kong

8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
Revenue	8	254,724	64,883
Cost of sales		(228,082)	(48,180)
Gross profit		26,642	16,703
Other income	10	17,921	13,047
Other gains and losses	11	(26,434)	(1,771,362)
Impairment losses under expected credit loss model, net of reversal	13	(3,235)	(271,712)
Gain on deconsolidation of a subsidiary	49	1,766,417	—
Gain on disposal of subsidiaries, net	50	129,054	—
Share results of associates		(471)	(5,407)
General and administrative expenses		(66,148)	(139,413)
Finance costs	12	(203,378)	(213,623)
Profit (loss) before tax		1,640,368	(2,371,767)
Income tax credit	14	6,519	20,597
Profit (loss) for the year	15	1,646,887	(2,351,170)
Profit (loss) for the year attributable to:			
— Owners of the Company		1,647,286	(2,349,273)
— Non-controlling interests		(399)	(1,897)
		1,646,887	(2,351,170)
			(restated)
EARNINGS (LOSS) PER SHARE	19		
— Basic		HK33.48 cents	(HK47.74 cents)
— Diluted		HK33.30 cents	(HK47.74 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000 (restated)
Profit (loss) for the year	1,646,887	(2,351,170)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	42,954	95,173
Release of exchange reserve upon disposal of subsidiaries	3,869	—
Release of exchange reserve upon deconsolidation of a subsidiary	(308,205)	—
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 for the year, net of income tax	(261,382)	(93,881)
Total comprehensive income (expense) for the year	1,385,505	(2,445,051)
Total comprehensive income (expense) attributable to:		
Owners of the Company	1,386,141	(2,442,532)
Non-controlling interests	(636)	(2,519)
	1,385,505	(2,445,051)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	20	**25,220**	935,932
Right-of-use assets	21	**4,728**	—
Prepaid lease payments	23	**—**	276,716
Investment properties	24	**207,835**	214,076
Interests in associates	26	**480**	9,517
Equity investments at fair value through other comprehensive income ("**FVTOCI**")	27	**—**	—
		238,263	1,436,241
CURRENT ASSETS			
Inventories	28	**13,448**	24,970
Trade receivables	29	**27,673**	40,370
Prepayments, deposits and other receivables	30	**48,824**	53,054
Bank balances and cash	31	**3,456**	11,305
		93,401	129,699
CURRENT LIABILITIES			
Trade payables	32	**89,987**	172,982
Other payables and accruals	33	**333,097**	363,906
Bank and other loans	34	**284,381**	314,544
Interest payable of bank and other loans		**7,189**	93,799
Lease liabilities	35	**138**	—
Loans from a related party	37	**5,950**	—
Amount due to the ultimate holding company	38	**—**	620,062
Liability portion of convertible preferred shares	39	**423,332**	408,724
Tax payable		**—**	40
		1,144,074	1,974,057
NET CURRENT LIABILITIES		**(1,050,673)**	(1,844,358)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(812,410)**	(408,117)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (restated)
NON-CURRENT LIABILITIES			
Other loans	34	—	237,627
Lease liabilities	35	333	—
Amount due to the ultimate holding company	38	—	1,477,726
Deferred tax liabilities	40	39,578	101,778
		39,911	1,817,131
NET LIABILITIES		(852,321)	(2,225,248)
CAPITAL AND RESERVES			
Share capital	41	393,645	393,645
Reserves		(1,245,968)	(2,631,934)
Equity attributable to owners of the Company		(852,323)	(2,238,289)
Non-controlling interests		2	13,041
TOTAL DEFICITS		(852,321)	(2,225,248)

The consolidated financial statements on pages 48 to 152 were approved and authorised for issue by the Board of Directors on 8 May 2020 and are signed on its behalf by:

Lai Wing Lun	**Zhang Qiandong**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Total equity attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Convertible bond reserve HK$'000 (Note c)	Share option reserve HK$'000 (Note d)	People's Republic of China (the "**PRC**") statutory reserve HK$'000 (Note e)	Asset revaluation reserve HK$'000 (Note f)	FVTOCI reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
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 (restated)	–	–	–	–	–	–	–	–	–	(2,349,273)	(2,349,273)	(1,897)	(2,351,170)
Other comprehensive expense for the year, net of income tax													
Items that may be reclassified subsequently to profit or loss:													
Exchange differences arising on translation of foreign operations (restated)	–	–	–	–	–	–	–	–	95,795	–	95,795	(622)	95,173
Items that will not be reclassified to profit or loss:													
Written-off of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	1,160	–	(190,214)	(189,054)	–	(189,054)
Other comprehensive income (expense) (restated)	–	–	–	–	–	–	–	1,160	95,795	(190,214)	(93,259)	(622)	(93,881)
Total comprehensive income (expense) (restated)	–	–	–	–	–	–	–	1,160	95,795	(2,539,487)	(2,442,532)	(2,519)	(2,445,051)
Lapse of convertible bond	–	–	–	(372)	–	–	–	–	–	372	–	–	–
Lapse of share option	–	–	–	–	(83)	–	–	–	–	83	–	–	–
At 31 December 2018 (restated)	393,645	4,834,143	18,261	–	–	175	108,105	–	253,254	(7,845,872)	(2,238,289)	13,041	(2,225,248)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Total equity attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	PRC statutory reserve HK$'000 (Note e)	Asset revaluation reserve HK$'000 (Note f)	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019 (restated)	393,645	4,834,143	18,261	175	108,105	253,254	(7,845,872)	(2,238,289)	13,041	(2,225,248)
Profit (loss) for the year	–	–	–	–	–	–	1,647,286	1,647,286	(399)	1,646,887
Other comprehensive income (expense) for the year, net of income tax										
Items that may be reclassified subsequently to profit or loss:										
Exchange differences arising on translation of foreign operations	–	–	–	–	–	43,191	–	43,191	(237)	42,954
Release of exchange reserve upon disposal of subsidiaries	–	–	–	–	–	3,869	–	3,869	–	3,869
Release of exchange reserve upon deconsolidate of a subsidiary	–	–	–	–	–	(308,205)	–	(308,205)	–	(308,205)
Other comprehensive expense	–	–	–	–	–	(261,145)	–	(261,145)	(237)	(261,382)
Total comprehensive (expense) income	–	–	–	–	–	(261,145)	1,647,286	1,386,141	(636)	1,385,505
Disposal of subsidiaries	–	–	–	(175)	–	–	–	(175)	(12,403)	(12,578)
At 31 December 2019	393,645	4,834,143	18,261	–	108,105	(7,891)	(6,198,586)	(852,323)	2	(852,321)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Notes:

a) 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.

b) 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 therefore.

c) 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.

d) 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.

e) PRC statutory reserve

According to the relevant laws in the PRC, the companies established in the PRC are required to transfer 10% of their net profit after taxation, as determined under the relevant accounting principles and financial regulations, to statutory reserve balance reaches 50% of their registered capital. The transfer to this statutory reserve must be made before the distribution of dividend to equity owners. Statutory reserve can be used to offset previous years' losses, if any, and is non-distributable other than upon liquidation. The companies established in PRC are also required to maintain a staff welfare and incentive bonus fund, while the amount and allocation basis are decided by the enterprise.

f) 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 lease payments upon reclassification to investment properties.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	1,640,368	(2,371,767)
Adjustments for:		
Depreciation of property, plant and equipment	36,902	83,200
Depreciation of right-of-use assets	4,904	—
Amortisation of prepaid lease payments	—	2,871
Bank interest income	(1,287)	(1,096)
Dividend income	—	(6,630)
Finance costs	203,378	213,623
Gain on deconsolidation of a subsidiary	(1,766,417)	—
Gain on disposal of subsidiaries, net	(129,054)	—
Gain on early termination of a lease	(367)	—
Gain on disposal of equity investments at FVTOCI	(10)	—
Loss on fair value change of investment properties	26,077	—
Loss on disposal of property, plant and equipment	595	—
Share results of associates	471	5,407
Impairment of goodwill	—	138,595
Impairment of prepaid lease payments	—	48,489
Impairment of property, plant and equipment	—	1,512,799
Impairment of interest in an associate	—	32,412
Impairment losses under expected credit loss model, net of reversal	3,235	271,712
Operating cash flows before working capital change	18,795	(70,385)
Decrease (increase) in inventories	11,057	(3,230)
Decrease in trade receivables	8,914	44,599
(Increase) decrease in deposits and other receivables	(9,194)	88,341
Decrease in trade payables	(78,645)	(7,031)
Increase (decrease) in other payables and accruals	56,799	(101,656)
Cash from (used in) operations	7,726	(49,362)
Tax paid	—	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	7,726	(49,362)
INVESTING ACTIVITIES		
Interest received	1,287	1,096
Dividend received	—	6,630
Addition for investment property	(23,447)	—
Purchase of property, plant and equipment	(865)	(1,013)
Cash outflow from disposal of subsidiaries, net	(112)	—
Cash outflow from deconsolidation of a subsidiary	(90)	—
Sales proceeds from disposal of property, plant and equipment	568	—
Sales proceeds from disposal of equity investments at FVTOCI	10	—
Sales proceeds from disposal of available-for-sales financial assets	—	8,403
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(22,649)	15,116

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Proceeds from bank and other loan	96,250	17,445
Repayment of bank and other loan	(55,048)	(29,265)
Repayment of lease liabilities	(3,323)	—
Loans from a related party	5,950	—
Interest paid	(23,134)	(31,272)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	20,695	(43,092)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,772	(77,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	11,305	83,385
Effect of foreign exchange rate changes	(13,621)	5,258
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	3,456	11,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Titan Petrochemicals Group Limited (the "**Company**") is a limited liability company incorporated in Bermuda on 24 April 1998 as an exempted company under the Bermuda Companies Act 1981 (the "**Act**"). The registered address of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Room 802, 8/F., OfficePlus@Wan Chai, 303 Hennessy Road, Wanchai, Hong Kong.

The principal activity of the company is investment holding and the principal activities of its subsidiaries (together with Company collectively referred to as "**Group**") are set out in Note 54 to the consolidated financial statements. The principal activities of the Group is trading of commodities, shipbuilding, ship repairing and manufacturing of steel structure.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

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 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd*) ("**GZE**") (in liquidation), a company established in the People's Republic of China (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 GZE, which wholly owns Fame Dragon through its wholly owned subsidiary, Guangdong Zhenrong (Hongkong) Company Limited ("**GZE HK**"). On 13 March 2018, the Company received an order 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 announcements of the Company dated 5 May 2017 and 13 March 2018 respectively.

On 27 September 2017, GZE and its wholly-owned subsidiary GZE HK were ordered to be wound 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.

* *For identification purpose only*

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Although the Group reported a net profit attributable to owners of the Company of approximately HK$1,647,286,000 for the year ended 31 December 2019, the Group had net current liabilities of approximately HK$1,050,673,000 and net liabilities of approximately HK$852,321,000 as at 31 December 2019. 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 of the Company (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 Group will strive to negotiate the terms of repayment with creditors of majority of current liabilities recorded in the Company and the PRC subsidiaries;

(ii) The Directors will implement measures aiming of improving the working capital and cash flows of the Group including closely monitoring the general and administrative expenses; 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.

3. 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 16	Leases
HK (IFRIC)-Interpretation ("**Int**") 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standards ("**HKAS**") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKAS 40	Annual Improvements to HKFRSs 2015–2017 Cycle

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

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

3.1 HKFRS 16 *Leases* (continued)

As a lessee

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	38
Less: Recognition exemption — low value leases	(38)
Lease liabilities as at 1 January 2019	—

As at 1 January 2019, the amount of leases not yet commenced to which the lessee is committed is approximately of HK$18,420,000.

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

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

3.1 HKFRS 16 *Leases* (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** HK$'000
Reclassified from prepaid lease payments	(a)	276,716

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the non-current portion of prepaid lease payments amounting to approximately of HK$276,716,000 was reclassified to right-of-use assets.

The transition to HKFRS 16 has no impact on the accumulated losses at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2019 HK$'000	**Adjustments** HK$'000	**Carrying amounts under HKFRS 16 at 1 January 2019** HK$'000
Non-current assets			
Right-of-use assets	—	276,716	276,716
Prepaid lease payments	276,716	(276,716)	—

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

3.1 HKFRS 16 *Leases* (continued)

As a lessor (continued)

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and should be adjusted to reflect the discounting effect at transition. Based on the assessment by the management of the Company, the amount of the adjustment is insignificant and therefore no adjustment to refundable rental deposits received has been made.

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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

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

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "**New Framework**") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* (since 1 January 2019) or HKAS 17 *Leases* (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item 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 in line with the Group's accounting policies.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of certain offices in PRC that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as lessee (prior to 1 January 2019)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as a lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as other income.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Employee benefits

Retirement benefit costs and termination benefits

Payments to the Mandatory Provident Fund Scheme (the "**MPF Scheme**") and state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (continued)

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant nonmarket vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before tax" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment and right-of-use assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or the group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations applies*.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated losses.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, deposits and other receivables, amount due from related companies and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets (continued)

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and deposit and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; or
- External credit ratings where available.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and accruals, bank and other loans, interest payable of bank and other loans, lease liabilities, loans from a related party, amount due to the ultimate holding company and liability portion of convertible preferred shares are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

The component parts of the convertible bond are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern and liquidity

As explained in Note 2 to the consolidated financial statements, the financial position of the Group indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the management, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The management considers that the Group has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies (continued)

Principal versus agent consideration (principal)

The Group engages in trading of pinus radiate, ethylene glycol and light cycle oil. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory risk, latitude in establishing prices and selecting suppliers. When the Group satisfies the performance obligation, the Group recognises trading revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

During the year ended 31 December 2019, the Group recognised revenue relating to trading of pinus radiate, ethylene glycol and light cycle oil amounted to approximately of HK$11,632,000, HK$101,176,000 and HK$10,911,000, respectively.

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 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Deferred tax asset

No deferred tax asset has been recognised on the tax losses of approximately HK$254,328,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

* *For identification purpose only*

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 7(b).

Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, in view of impairment indicators, the Group performed impairment assessment on property, plant and equipment of approximately HK$25,220,000 and right-of-use assets of approximately HK$4,728,000 (2018: approximately HK$935,932,000 and Nil) respectively. It did not result in any impairment during the year (2018: approximately HK$1,512,799,000 and Nil) in respect of property, plant and equipment and right-of-use assets have been recognised respectively. Details of the impairment of property, plant and equipment right-of-use assets are disclosed in Note 22.

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.

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6. CAPITAL RISK 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 2019 and 2018.

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:

	2019 HK$'000	2018 HK$'000
Bank and other loans	**284,381**	552,171
Loans from a related party	**5,950**	—
Loans from the ultimate holding company	**—**	1,738,501
Total debts	**290,331**	2,290,672
Total assets	**331,664**	1,565,940
Gearing ratio	**88%**	146%

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Loan and receivables (including bank balances and cash):		
— Trade receivable	**27,673**	40,370
— Deposits and other receivables	**15,966**	10,526
— Bank balances and cash	**3,456**	11,305
	47,095	62,201

7. FINANCIAL INSTRUMENTS (continued)

(a) Categories of financial instruments (continued)

	2019 HK$'000	2018 HK$'000
Financial liabilities		
At amortised cost:		
— Trade payables	89,987	172,982
— Other payables and accruals	333,097	359,351
— Bank and other loans	284,381	552,171
— Interest payables of bank and other loans	7,189	93,799
— Lease liabilities	471	—
— Loans from a related party	5,950	—
— Amount due to the ultimate holding company	—	2,097,788
— Liability portion of convertible preferred shares	423,332	408,724
	1,144,407	3,684,815

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, bank balances and cash, trade payables, other payables and accruals, bank and other loans, interest payables of bank and other loans, lease liabilities, loans from a related party, amount due to the ultimate holding company and liability portion of convertible preferred shares. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risks

The Group is exposed to fair value interest rate risk in relation to bank and other loans, lease liabilities and liability portion of convertible preferred shares (see Notes 34, 35 and 39 to the consolidated financial statements for details).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank and other loans (see Notes 31 and 34 to the consolidated financial statements for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and PRC Renminbi ("**RMB**") Loan Benchmark Rate arising from the Group's RMB denominated borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risks (continued)

Interest expense on financial liabilities not measured at FVTPL:

	2019 HK$'000	2018 HK$'000
Financial liabilities at amortised cost	**203,378**	213,623

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2018: 50 basis points) increase or decrease in variable-rate bank borrowings is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would increase/decrease by approximately HK$272,000 (2018: post-tax loss HK$278,000).

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposure are primarily attributable to trade receivables, deposits and other receivables and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

The Group performed impairment assessment for financial assets and other items under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment are summarised as below:

Trade receivables

Credit sales are made to selected customers with good credit history. 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. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables (continued)

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2018: 100%) of the total trade receivables as at 31 December 2019.

As at 31 December 2019, the Group has concentration of credit risk as 26.23% and 82.69% (2018: 43.75% and 47.40%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix. The trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Impairment of approximately HK$3,031,000 (2018: approximately HK$236,796,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Deposits and other receivables

For deposits and other receivables, the Directors make periodic individual assessment on the recoverability of deposits and other receivable based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

Impairment of approximately HK$204,000 (2018: approximately HK$34,916,000) is recognised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written-off

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Note	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000
Financial assets at amortised costs						
Bank balances	31	AA+	N/A	12m ECL	**3,453**	11,293
Deposits and other receivables	30	N/A	(Note 1)	12m ECL	**16,170**	45,442
Trade receivables	29	N/A	(Note 2)	Lifetime ECL (Provision matrix)	**191,251**	298,235

Notes:

1) The credit quality of the financial assets is considered to be low risk when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be doubtful.

2) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because those customers have common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix.

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For the year ended 31 December 2019

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As at 31 December 2019

	Current (not past due)	**1–30 days past due**	**31–90 days past due**	**91 days to 365 days past due**	**Over 365 days past due**	**Total**
Average loss rate	**7.9%**	**7.9%**	**7.9%**	**7.9%**	**100%**	
Gross carrying amount (HK$'000)	**16,600**	**11,680**	**326**	**1,441**	**161,204**	**191,251**
Expected credit losses (HK$'000)	**1,311**	**923**	**26**	**114**	**161,204**	**163,578**

As at 31 December 2018

	Current (not past due)	1–30 days past due	31–90 days past due	91 days to 365 days past due	Over 365 days past due	Total
Average loss rate	7.1%	7.1%	7.1%	7.1%	99.8%	
Gross carrying amount (HK$'000)	20,188	20,991	33	1,757	255,266	298,235
Expected credit losses (HK$'000)	1,442	1,500	2	126	254,795	257,865

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2019, the Group provided approximately of HK$163,578,000 (2018: approximately HK$257,865,000) impairment allowance for trade receivables, based on the provision matrix.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables shows the movement in lifetime ECL that has been recognised for trade receivables under simplified approach:

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018	3,151	24,165	27,316
Changes due to financial instruments recognised as at 1 January 2018:			
— Impairment recognised	—	236,836	236,836
— Impairment reversed	(3,151)	—	(3,151)
New financial assets originated or purchased	1,462	1,649	3,111
Exchange realignment	—	(6,247)	(6,247)
As at 31 December 2018	1,462	256,403	257,865
Changes due to financial instruments recognised as at 1 January 2019:			
— Transfer to credit impaired	(272)	272	—
— Impairment recognised	—	3,536	3,536
— Impairment reversed	(1,190)	(1,689)	(2,879)
— Write-off	—	(96,073)	(96,073)
New financial assets originated or purchased	1,311	1,063	2,374
Exchange realignment	—	(1,245)	(1,245)
As at 31 December 2019	**1,311**	**162,267**	**163,578**

Changes in the loss allowance for trade receivables are mainly due to:

	2019 Decrease in lifetime ECL Credit-impaired HK$'000	2018 Increase in lifetime ECL Credit-impaired HK$'000
Trade debtors defaulted over one year	**—**	236,836
No realistic prospect of recovery	**96,073**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables shows the movement in lifetime ECL that has been recognised for deposit and other receivables:

	Lifetime ECL (credit-impaired) HK$'000
As at 1 January 2018	—
Changes due to financial instruments recognised as at 1 January 2018:	
— Impairment recognised	34,916
As at 31 December 2018	34,916
Changes due to financial instruments recognised as at 1 January 2019:	
— Impairment recognised	204
— Write-off	(34,916)
As at 31 December 2019	**204**

Changes in the loss allowance for other receivables are mainly due to:

	2019 Decrease in lifetime ECL Credit-impaired HK$'000	2018 Increase in lifetime ECL Credit-impaired HK$'000
Certain debtors defaulted	**—**	34,916
No realistic prospect of recovery	**(34,916)**	—

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 Group is exposed to liquidity risk as the Group had net current liabilities of approximately HK$1,050,673,000 (2018: approximately HK$1,844,358,000). The liquidity of the Group primarily depends on the future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details of which are set out in Note 2 to the consolidated financial statements.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risks (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amounts HK$'000
2019							
Trade payables	—	89,987	—	—	—	89,987	89,987
Other payables and accruals	—	229,901	—	—	—	229,901	229,901
Convertible bond (Included in other payables)	12.5	103,196	—	—	—	103,196	103,196
Bank and other loans	5.22-8.00	284,561	—	—	—	284,561	284,381
Interest payables of bank and other loans	—	7,189	—	—	—	7,189	7,189
Lease liabilities	7.00	165	155	221	—	541	471
Loans from a related party	—	5,950	—	—	—	5,950	5,950
Liability portion of convertible preferred shares	4.70	423,332	—	—	—	423,332	423,332
		1,144,281	155	221	—	1,144,657	1,144,407
2018							
Trade payables	—	172,982	—	—	—	172,982	172,982
Other payables and accruals	—	275,133	—	—	—	275,133	275,133
Convertible bond (Included in other payables)	7.5-12.5	84,218	—	—	—	84,218	84,218
Bank and other loans	4.75-8.50	351,723	56,713	146,722	100,994	656,152	552,171
Interest payables of bank and other loans	—	93,799	—	—	—	93,799	93,799
Loans from the ultimate holding company	8.26	390,203	204,624	569,773	1,722,557	2,887,157	1,738,501
Amounts due to the ultimate holding company	—	3,217	—	—	—	3,217	3,217
Interest payables of loans from ultimate holding company	—	356,070	—	—	—	356,070	356,070
Liability portion of convertible preferred shares	4.70	408,724	—	—	—	408,724	408,724
		2,136,069	261,337	716,495	1,823,551	4,937,452	3,684,815

(c) Fair value measurements of financial instruments

The Directors considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values.

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8. REVENUE

(i) Disaggregated revenue information from contracts with customers

For the year ended 31 December 2019

	Trading of commodities HK$'000	Shipbuilding, ship repairing and manufacturing of steel structure HK$'000	Total HK$'000
Type of goods or services			
Shipbuilding	—	73,361	73,361
Manufacturing of steel structure	—	57,644	57,644
Pinus radiate	11,632	—	11,632
Ethylene glycol	101,176	—	101,176
Light cycle oil	10,911	—	10,911
	123,719	131,005	254,724
Geographical markets			
The PRC	123,719	131,005	254,724
Timing of revenue recognition			
A point in time	123,719	—	123,719
Over time	—	131,005	131,005
Total	123,719	131,005	254,724

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Segment revenue HK$'000
Trading of commodities	123,719
Shipbuilding, ship repairing and manufacturing of steel structure	131,005
Revenue from contracts with customers and total revenue	254,724

8. REVENUE (continued)

(i) Disaggregated revenue information from contracts with customers (continued)

For the year ended 31 December 2018

	Trading of commodities HK$'000	Shipbuilding, ship repairing and manufacturing of steel structure HK$'000	Total HK$'000
Type of goods or services			
Shipbuilding	—	39,196	39,196
Manufacturing of steel structure	—	19,912	19,912
Light cycle oil	5,053	—	5,053
	5,053	59,108	64,161
Geographical markets			
The PRC	5,053	59,108	64,161
Timing of revenue recognition			
A point in time	5,053	—	5,053
Over time	—	59,108	59,108
Total	5,053	59,108	64,161

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Segment revenue HK$'000
Trading of commodities	5,053
Shipbuilding, ship repairing and manufacturing of steel structure	59,108
Revenue from contracts with customers	64,161
Others	722
Total revenue	64,883

8. REVENUE (continued)

(ii) Performance obligations for contracts with customers

Trading of commodities

For trading of commodities, revenue is recognised when control of the goods has transferred, being at the point the goods are delivered to the customer. The normal credit term is 1 to 30 days upon delivery.

Shipbuilding, ship repairing and manufacturing of steel structure

The Group provides shipbuilding, ship repairing and manufacturing of steel structure services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these construction services based on the stage of completion of the contract using input method.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfer the contact assets to trade receivables when the progress is approved by the customers.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from one to two years from the date of the practical completion of the construction. The relevant amount of contract asset is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the construction services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	Ship building HK$'000	**Manufacturing of steel structure** HK$'000	**Total** HK$'000
Within one year	8,775	32,381	41,156
More than one year but not more than two years	—	1,162	1,162
	8,775	33,543	42,318

8. REVENUE (continued)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Ship building HK$'000
Within one year	32,708
More than one year but not more than two years	4,460
	37,168

9. OPERATING SEGMENT

Information reported to the board of directors of the Company (the "**Board**"), being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segment under HKFRS 8 Operating Segments is as follows:

— Trading of commodities
— Shipbuilding, ship repairing and manufacturing of steel structure

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9. OPERATING SEGMENT (continued)

For the year ended 31 December 2019

	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	123,719	131,005	—	254,724
Segment results	11	26,631	—	26,642
Adjusted for:				
— interest income	1,281	5	1	1,287
— other income	6	16,593	35	16,634
— other loss	—	—	(26,434)	(26,434)
— other expenses	(9,003)	(46,526)	(10,619)	(66,148)
Add: depreciation	224	36,165	5,417	41,806
Operating (loss) profit before interest, tax, depreciation	(7,481)	32,868	(31,600)	(6,213)
Impairment loss on trade receivables	(1,518)	(1,513)	—	(3,031)
Impairment loss on other receivables	—	—	(204)	(204)
Gain on deconsolidation of a subsidiary	—	—	1,766,417	1,766,417
Gain on disposal of subsidiaries, net	—	—	129,054	129,054
Share results of associates	—	—	(471)	(471)
Loss before interest, tax, depreciation	(8,999)	31,355	1,863,196	1,885,552
Depreciation	(224)	(36,165)	(5,417)	(41,806)
Finance costs	(14,607)	(29,036)	(159,735)	(203,378)
(Loss) profit before tax	(23,830)	(33,846)	1,698,044	1,640,368

9. OPERATING SEGMENT (continued)

For the 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	407	1,096
— other income	587	4,115	7,249	11,951
— other loss	—	—	(39,067)	(39,067)
— other expenses	(10,826)	(117,835)	(10,752)	(139,413)
Add: depreciation and amortisation	200	85,818	53	86,071
Operating loss before interest, tax, depreciation and amortisation	(9,321)	(11,950)	(41,388)	(62,659)
Impairment loss on trade receivables	(103,857)	(132,939)	—	(236,796)
Impairment loss on other receivables	—	—	(34,916)	(34,916)
Impairment loss on interest in associates	—	—	(32,412)	(32,412)
Impairment loss on goodwill	—	(138,595)	—	(138,595)
Impairment loss on property, plant and equipment	—	(1,512,799)	—	(1,512,799)
Impairment loss on prepaid lease payments	—	(48,489)	—	(48,489)
Share results of associates	—	—	(5,407)	(5,407)
Loss before interest, tax, depreciation and amortisation	(113,178)	(1,844,772)	(114,123)	(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)	(2,122,268)	(118,482)	(2,371,767)

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For the year ended 31 December 2019

9. OPERATING SEGMENT (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4 to the consolidated financial statements. Segment results represent the profit (loss) from each segment without allocation of impairment loss on other receivables, impairment loss on interest in associates, gain on deconsolidation of a subsidiary, gain on disposal of subsidiaries, net, share results of associates, certain other operating income and loss, central administration costs and directors' emoluments. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information

The Group's operations are located in the PRC and other Asia Pacific countries.

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
The PRC	**254,724**	64,883	**237,641**	1,426,618
Other Asia Pacific countries	**—**	—	**622**	9,623
	254,724	64,883	**238,263**	1,436,241

Information about major customers

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

	2019 HK$'000	2018 HK$'000
Customer A[1]	**—**	37,551
Customer B[1]	**30,538**	—
Customer C[1]	**40,767**	—
Customer D[2]	**54,141**	—
Customer E[2]	**37,686**	—
Customer F[2]	**25,310**	—

1 Revenue from trading of commodities
2 Revenue from shipbuilding, ship repairing and manufacturing steel structure

10. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Lease	8,431	—
Rental income	—	2,696
Bank interest income	1,287	1,096
Scrap income	8,096	—
Dividend income	—	6,630
Government subsidy (Note)	—	2,180
Sundry income	107	445
	17,921	13,047

Note: As at 31 December 2018, there were no unfulfilled conditions or other contingencies attaching to the subsidies that had been recognised by the Group.

11. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Loss on fair value change of investment properties	(26,077)	—
Impairment loss on interest in associates	—	(32,412)
Impairment loss on goodwill	—	(138,595)
Impairment loss on property, plant and equipment	—	(1,512,799)
Impairment loss on prepaid lease payments	—	(48,489)
Gain on early termination of a lease	367	—
Loss on disposal of property, plant and equipment	(595)	—
Gain on disposal of equity investments at FVTOCI	10	—
Exchange difference	(139)	(39,067)
	(26,434)	(1,771,362)

12. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on:		
Bank and other loans	50,113	47,361
Loans from the ultimate holding company	119,133	149,661
Titan preferred shares (Note 39)	14,608	14,608
Lease liabilities	546	—
Interest on other payables	18,978	—
Imputed interest on convertible bond	—	1,993
	203,378	213,623

13. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 HK$'000	2018 HK$'000
Impairment losses recognised on:		
— Trade receivables	**3,031**	236,796
— Other receivables	**204**	34,916
	3,235	271,712

Details of impairment assessment are set in Note 7(b).

14. INCOME TAX CREDIT

	2019 HK$'000	2018 HK$'000 (restated)
Current tax:		
The PRC Enterprise Income Tax	**—**	(40)
Deferred taxation		
Current year	**6,519**	20,637
	6,519	20,597

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for taxation in Hong Kong has been made as the group entities did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2019 and 2018.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the years ended 31 December 2019 and 2018.

14. INCOME TAX CREDIT (continued)

The income tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

	2019 HK$'000	2018 HK$'000 (restated)
Loss before tax	1,640,368	(2,371,767)
Tax at applicable tax rate	403,431	(578,342)
Tax effect of income not taxable for tax purposes	(474,874)	(5,273)
Tax effect to expenses not deductible for tax purposes	57,749	367,408
Tax effect of unused tax losses not recognised	7,175	195,610
Income tax credit for the year	(6,519)	(20,597)

15. PROFIT (LOSS) FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Employee benefits expenses (excluding Directors' remuneration):		
Wages and salaries	19,838	27,573
Pension scheme contributions	372	376
	20,210	27,949
Depreciation of property, plant and equipment	36,902	83,200
Depreciation of right-of-use assets	4,904	—
Amortisation of prepaid lease payments	—	2,871
Minimum lease payments under operating leases	—	5,461
Auditors' remuneration	1,000	980

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the years, disclosed pursuant to the applicable GEM Listing Rules and CO, is as follows:

	Fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
For the year ended 31 December 2019				
Executive Directors:				
Dr. Liu Liming (retired on 31 May 2019)	175	—	—	175
Mr. Zhang Qiandong (Appointed on 26 July 2018)	—	—	—	—
Mr. Chen Bingyan (Appointed on 26 July 2018 and removed on 27 June 2019)	—	—	—	—
Non-executive Directors:				
Mr. Lai Wing Lun (Appointed on 26 July 2018)	—	—	—	—
Mr. Osman Mohammed Arab (Appointed on 26 July 2018)	—	—	—	—
Ms. Meng Ke Xin (Appointed on 31 May 2019)	—	—	—	—
Independent non-executive Directors:				
Mr. Lau Fai Lawrence	250	—	—	250
Mr. Sun Feng (Appointed on 26 July 2018)	250	—	—	250
Mr. Teng Yue (Appointed on 23 October 2018 and removed on 27 June 2019)	122	—	—	122
Mr. Cheung Hok Fung Alexander (Appointed on 23 October 2018)	250	—	—	250
Total	1,047	—	—	1,047

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

	Fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
For the year ended 31 December 2018				
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 on 1 February 2018)	720	72	2	794
Dr. Liu Liming (retired on 31 May 2019)	420	—	—	420
Mr. Zhang Qiandong (Appointed on 26 July 2018)	—	—	—	—
Mr. Chen Bingyan (Appointed on 26 July 2018 and removed on 27 June 2019)	—	—	—	—
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 and removed on 27 June 2019)	48	—	—	48
Mr. Cheung Hok Fung Alexander (Appointed on 23 October 2018)	48	—	—	48
Total	6,946	399	22	7,367

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For the year ended 31 December 2019

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Notes:

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company and its subsidiaries, if applicable.

The independent non-executive directors' emoluments shown above were for their services as Directors.

There were no arrangement under which a director or the chief executive waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

17. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included no director (2018: three directors), details of whose remuneration are disclosed in Note 16 above. Details of the remuneration for the year of the remaining five (2018: two) highest paid employee who are neither a Director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits-in-kind	3,040	1,936
Retirement benefits scheme contributions	50	35
	3,090	1,971

The number of the highest paid employees who are not Directors whose remuneration fell within the following band is as follows:

	Number of employees	
	2019 HK$'000	2018 HK$'000
HK$1 to HK$500,000	4	—
HK$500,001 to HK$1,000,000	—	1
HK$1,000,001 to HK$1,500,000	1	1
	5	2

18. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

19. EARNINGS (LOSS) PER SHARE

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

	2019 HK$'000	2018 HK$'000 (restated)
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earnings (loss) per share	1,647,286	(2,349,273)
Effect of dilutive potential ordinary shares: Dividends on Titan preferred shares (note)	14,608	—
Profit (loss) for the year attributable to owners of the Company for the purpose of diluted earnings (loss) per share	1,661,894	(2,349,273)

Number of shares	2019 '000	2018 '000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	4,920,560	4,920,560
Effect of dilutive potential ordinary shares: Titan preferred shares (note)	69,375	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	4,989,935	4,920,560

Note: The computation of diluted loss per share for the year ended 31 December 2018 does not assume the conversion of the Company's outstanding convertible preferred shares since their assumed exercise would result in a decrease in loss per share.

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20. 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 2018	3,759	865,560	402,828	47,333	2,151,967	3,471,447
Additions	—	—	—	1,013	—	1,013
Disposal	—	—	—	(176)	—	(176)
Exchange realignment	115	(39,998)	(18,611)	(768)	(98,653)	(157,915)
At 31 December 2018 and 1 January 2019	3,874	825,562	384,217	47,402	2,053,314	3,314,369
Additions	137	—	73	655	—	865
Disposal	(3,276)	—	(3,048)	(5,749)	—	(12,073)
Disposal of subsidiaries	(597)	—	—	(6,198)	—	(6,795)
Deconsolidation of a subsidiary	—	(582,925)	(242,939)	(27,559)	(2,053,314)	(2,906,737)
Exchange realignment	(1)	(4,517)	(2,989)	(163)	—	(7,670)
At 31 December 2019	**137**	**238,120**	**135,314**	**8,388**	**—**	**381,959**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 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
Eliminated on disposals	—	—	—	(176)	—	(176)
Exchange realignment	18	(11,674)	(14,494)	(1,223)	(68,026)	(95,399)
At 31 December 2018 and 1 January 2019	3,484	628,697	364,621	42,445	1,339,190	2,378,437
Provided for the year	95	30,516	5,465	826	—	36,902
Eliminated on disposals	(3,276)	—	(1,903)	(5,731)	—	(10,910)
Disposal of subsidiaries	(269)	—	—	(3,431)	—	(3,700)
Deconsolidation of a subsidiary	—	(435,790)	(234,773)	(27,559)	(1,339,190)	(2,037,312)
Exchange realignment	—	(4,115)	(2,451)	(112)	—	(6,678)
At 31 December 2019	**34**	**219,308**	**130,959**	**6,438**	**—**	**356,739**
NET CARRYING AMOUNTS						
At 31 December 2019	**103**	**18,812**	**4,355**	**1,950**	**—**	**25,220**
At 31 December 2018	390	196,865	19,596	4,957	714,124	935,932

Note: At 31 December 2019, the Group's construction in progress, buildings and machinery with net carrying values of approximately Nil (2018: HK$714,124,000), HK$18,812,000 (2018: HK$196,865,000) and HK$4,355,000 (2018: HK$19,596,000), respectively, were pledged to certain bank and other loans (2018: bank and other loans and loans from the ultimate holding company) granted to the Group.

20. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment except for construction in progress, are depreciated on a straight-line basis over their estimated useful life as follows:

Buildings	20 to 45 years
Machinery	5 to 20 years
Leasehold improvements	over the shorter of the lease terms or 6 years
Furniture, equipment and motor vehicles	3 to 10 years

21. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	Leased properties HK$'000	Total HK$'000
At 1 January 2019	276,716	—	276,716
Additions	—	19,219	19,219
Depreciation charge	(1,740)	(3,164)	(4,904)
Early termination	—	(15,604)	(15,604)
Deconsolidation of a subsidiary	(268,293)	—	(268,293)
Exchange realignment	(2,400)	(6)	(2,406)
At 31 December 2019	4,283	445	4,728

Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	38
Total cash outflow for leases	3,323
Additions to right-of-use assets	19,219

For both years, the Group leases certain offices for its operations. Lease contracts are entered into for fixed term of 1 year to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

At 31 December 2019, the leasehold lands with an aggregate net carrying value of approximately HK$4,283,000 were pledged to certain bank and other borrowings and loans from the ultimate holding company granted to the Group.

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22. IMPAIRMENT ASSESSMENT OF PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

At 31 December 2019, shipbuilding, ship repairing and manufacturing of steel structure continued to underperform, the management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment and right-of-use assets with carrying amounts of approximately HK$25,220,000 and approximately HK$4,728,000 respectively.

The Group estimates the recoverable amount of the cash-generating-unit ("**CGU**") of operation and to which the asset belongs when it is not possible to estimate the recoverable amount individually.

The recoverable amount of CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate is 16.5% as at 31 December 2019 (2018: 13%), respectively, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using 3% (2018: 3%) growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the CGUs' past performance and management expectations for the market development.

As at 31 December 2019, based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is higher than the carrying amount. Accordingly, no impairment loss has been recognised against the carrying amount of property, plant and equipment and right-of-use assets.

As at 31 December 2018, based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of approximately HK$283,285,000 has been recognised against the carrying amount of property, plant and equipment.

CGU of 泉州船舶工業有限公司 (Titan Quanzhou Shipyard Co., Ltd*) ("**TQS**") ("**TQS CGU**")

As at 31 December 2018, the recoverable amount of TQS CGU has been determined based on depreciated replacement cost method. That calculation uses the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

As at 31 December 2018, based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal and zero. Based on the depreciated replacement cost calculation and the allocation, an impairment of approximately HK$1,229,514,000 has been recognised against the carrying amount of property, plant and equipment.

23. PREPAID LEASE PAYMENTS

	2018 HK$'000
At 1 January	337,101
Amortisation provided for the year	(2,871)
Impairment	(48,489)
Exchange realignment	(9,025)
At 31 December	276,716

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

As at 31 December 2018, based on the result of the assessment, management of the Group determined that the recoverable amount of the prepaid lease payment is lower than the carrying amount. Based on the depreciated replacement cost calculation, an impairment of approximately HK$48,489,000 has been recognised against the carrying amount of prepaid lease payments.

At 31 December 2018, the prepaid lease payments with an aggregate net carrying value of approximately HK$276,716,000 were pledged to certain bank and other borrowings and loans from the ultimate holding company granted to the Group.

24. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
At 1 January	**214,076**	224,419
Addition	**23,447**	—
Loss on change in fair value of investment properties	**(26,077)**	—
Exchange realignment	**(3,611)**	(10,343)
At 31 December	**207,835**	214,076

The Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by Prudential Surveyors (Hong Kong) Limited (2018: Ravia Global Appraisal Advisory Limited), an independent qualified professional valuer not connected to the Group.

In determining the fair value of the relevant properties, the Group engages an independent qualified professional valuer to perform the valuation. The Directors work closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the property, the highest and best use of the property is their current use.

The following table gives information about how the fair values of the investment properties as at 31 December 2019 and 2018 are determined (in particular, the valuation techniques and inputs used):

	Fair value hierarchy	Fair value as at 31 December 2019	Valuation technique and key inputs
Investment properties located in PRC	Level 2	Approximately RMB185,982,000 (Equivalent to approximately HK$207,835,000) (2018: approximately RMB188,000,000 (Equivalent to approximately HK$214,076,000)	Direct comparison approach — 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

There was no transfer into or out of Level 3 during the year.

At 31 December 2019, the investment properties under the consolidated statement of financial position with an aggregate net carrying value of approximately HK$207,835,000 (2018: approximately HK$214,076,000) were pledged to secure the bank and other loans granted to the Group.

25. GOODWILL

	2018 HK$'000
At 1 January	138,595
Impairment	(138,595)
At 31 December	—

It represented the goodwill arised from the acquisition of Gold Dragon Enterprise Development Limited ("**Gold Dragon**") and its subsidiaries and was allocated to shipbuilding, ship repairing and manufacturing of steel structure CGU ("**Gold Dragon CGU**").

As at 31 December 2018, with reference to a valuation carried out by an independent professional valuer, the recoverable amount of the Gold Dragon 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 a pre-tax discount rate of 13% per annum. Cash flows beyond the 5-year period are extrapolated with 3% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations of the market development. An impairment loss of approximately HK$138,595,000 was recognised for the year ended 31 December 2018.

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26. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of investment in associates	480	16,802
Share of post-acquisition loss and other comprehensive income	—	(7,285)
Unquoted equity shares, net	480	9,517

The particulars of the associates are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 2019	Proportion of ownership interest held by the Group 2018	Proportion of voting rights held by the Group 2019	Proportion of voting rights held by the Group 2018	Principal activities
振戎重工股份有限公司 ("**振戎重工**")	PRC	PRC	—	60%*	—	60%*	Marine engineering equipment fitting, technical development and consultancy services of shipping
振戎重工(泉州)有限公司	PRC	PRC	—	60%	—	60%	PRC Marine engineering equipment fitting, technical development and consultancy services of shipping
Navigacean Heavy Industries Limited ("**Navigacean**")	Hong Kong	Hong Kong	49%	49%	49%	49%	Inactive
Power On Heavy Lift 1073 Limited	Marshall	Marshall	49%	49%	49%	49%	Investment holding
Century Light Communications Company Limited ("**Century Light**")	Hong Kong	Hong Kong	—	49%	—	49%	Provision of media services
雲南雲投振戎能源有限公司 ("**雲南雲投**")	PRC	PRC	—	49%	—	49%	Petrochemical development and consultancy services to enterprises

26. INTERESTS IN ASSOCIATES (continued)

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All the associates are accounted for using the equity method in these consolidated financial statements.

2019	振戎重工 and its subsidiary HK$'000	Navigacean and its subsidiary HK$'000	Century Light HK$'000	雲南雲投 HK$'000	Total HK$'000
Current assets	—	991	—	—	991
Non-current assets	—	—	—	—	—
Current liabilities	—	(11)	—	—	(11)
Non-current liabilities	—	—	—	—	—
Revenue	N/A	—	N/A	N/A	—
Loss for the year	N/A	—	N/A	N/A	—
OCI for the year	N/A	—	N/A	N/A	—
Total comprehensive income for the year	N/A	—	N/A	N/A	—
Dividends received form the associate during the year	N/A	—	N/A	N/A	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

2019	振戎重工 and its subsidiary HK$'000	Navigacean and its subsidiary HK$'000	Century Light HK$'000	雲南雲投 HK$'000	Total HK$'000
Net assets	—	980	—	—	980
Proportion of the Group's ownership interest	—	49%	—	—	
The Group's share of net assets	—	480	—	—	480

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26. INTERESTS IN ASSOCIATES (continued)

2018	振戎重工 and its subsidiary HK$'000	Navigacean and its subsidiary HK$'000	Century Light HK$'000	雲南雲投 HK$'000	Total HK$'000
Current assets	N/A	991	9,997	6,957	17,945
Non-current assets	N/A	—	1,110	179	1,289
Current liabilities	N/A	(11)	—	(413)	(424)
Non-current liabilities	N/A	—	—	—	—
Revenue	—	—	—	—	—
Loss for the year	(5,078)	—	(32)	(4,816)	(9,926)
OCI for the year	—	—	—	—	—
Total comprehensive expense for the year	(5,078)	—	(32)	(4,816)	(9,926)
Dividends received form the associate during the year	—	—	—	—	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

26. INTERESTS IN ASSOCIATES (continued)

2018	振戎重工 and its subsidiary HK$'000	Navigacean and its subsidiary HK$'000	Century Light HK$'000	雲南雲投 HK$'000	Total HK$'000
Net assets	N/A	980	11,107	6,723	18,810
Proportion of the Group's ownership interest	60%	49%	49%	49%	
Exchange realignment	N/A	—	313	(12)	
The Group's share of net assets	N/A	480	5,755	3,282	9,517

* 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.

During the year ended 31 December 2019, 振戎重工 and its subsidiary was disposed of through the disposal of New Gold Union International Limited and Titan Oil Storage Investment Limited, direct wholly owned subsidiaries of the Company, as detailed in Note 50(b)&(c), respectively to the consolidated financial statements.

During the year ended 31 December 2019, Century Light was disposed of through the disposal of Brilliance Glory Limited, an indirect wholly owned subsidiary of the Company, as detailed in Note 50(a) to the consolidated financial statements.

During the year ended 31 December 2019, 雲南雲投 was disposed of through the disposal of Surplus Full Limited, an indirect wholly owned subsidiary of the Company, as detailed in Note 50(d) to the consolidated financial statements.

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27. EQUITY INVESTMENTS AT FVTOCI

	2019 HK$'000	2018 HK$'000
Non-current asset		
Unlisted equity securities, at fair value		
— Pacific Ocean Marine Limited ("**Pacific Ocean**") (note a)	—	—
— Hong Kong Asia Pacific Aluminium Co., Limited ("**Asia Pacific Aluminium**") (note b)	—	—
	—	—

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.

(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.

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.

During the year ended 31 December 2019, Pacific Ocean was disposed of through the disposal of Surplus Full Limited, an indirect wholly owned subsidiary of the Company, as detailed in Note 50(d) to the consolidated financial statements.

During the year ended 31 December 2019, the Group disposed of Asia Pacific Aluminium at a consideration of HK$10,000 to an independent third party.

28. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials and consumables	**13,448**	20,062
Finished goods	**—**	4,908
	13,448	24,970

29. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Contracts with customers	**191,251**	298,235
Less: Allowance for credit losses	**(163,578)**	(257,865)
	27,673	40,370

As at 1 January 2018, trade receivables from contracts with customers amounted to approximately HK$309,714,000.

Certain customers are granted credit period from 30 days to 120 days. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date, which approximates the respective revenue recognition dates:

	2019 HK$'000	2018 HK$'000
0–90 days	**26,046**	38,058
91–180 days	**943**	306
181–365 days	**684**	1,535
Over one year	**—**	471
	27,673	40,370

At 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$12,384,000 (2018: approximately HK$21,624,000) which are past due as at the reporting date. Out of the past due balances, approximately HK$1,327,000 (2018: approximately HK$2,102,000) has been past due 90 days or more are still considered as recoverable based on historical experience and forward-looking estimates. The Group does not hold any collateral over these balances.

Detail of impairment assessment of trade receivables for the year ended 31 December 2019 and 2018 are set out in Note 7(b).

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	**32,858**	42,528
Deposits	**447**	2,002
Other receivables	**15,519**	8,524
	48,824	53,054

Detail of impairment assessment of deposits and other receivables for the year ended 31 December 2019 and 2018 are set out in Note 7(b).

31. BANK BALANCES AND CASH

Bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2018: from 0.01% to 0.35%) per annum.

Included in the bank balances and cash are the following amounts which are subject to foreign exchange control regulations and not freely transferable:

	2019 HK$'000	2018 HK$'000
Amounts denominated in RMB	**3,204**	1,801

32. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date:

	2019 HK$'000	2018 HK$'000
0–90 days	**28,695**	110,303
91–180 days	**354**	1,885
181–365 days	**1,371**	4,225
Over one year	**59,567**	56,569
	89,987	172,982

33. OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Contract liabilities (Note a)	—	4,555
Accrued expenses	49,929	68,751
Others payables (Note b)	283,168	290,600
	333,097	363,906

Notes:

(a) Details of contract liabilities as at 31 December 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Current		
Trading of commodities	—	4,555

As at 1 January 2018, contract liabilities of shipbuilding amounted to approximately HK$14,437,000.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current liabilities based on the Group's earliest obligation to transfer goods or services to the customers.

The following table shows how much of the revenue recognised in the current year relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Trading HK$'000	Shipbuilding HK$'000
For the year ended 31 December 2019		
Revenue recognised that was included in the contract liability balance at the beginning of the year	4,555	—
	HK$'000	HK$'000
For the year ended 31 December 2018		
Revenue recognised that was included in the contract liability balance at the beginning of the year	—	14,437

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

— Shipbuilding/Trading of commodities

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

(b) Other payables

Included in other payables of approximately HK$78,000,000 and approximately HK$25,196,000 (2018: approximately HK$78,000,000 and approximately HK$6,218,000) represent the principal and interest payment of the convertible bond matured on 28 April 2018 as detailed in Note 36 to the consolidated financial statements.

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34. BANK AND OTHER LOANS

	2019		2018	
	Effective interest rate (%)	**HK$'000**	Effective interest rate (%)	HK$'000
Current				
Bank and other loans (secured)	**5.22-8.00**	**284,381**	4.75-8.5	314,544
Non-current				
Other loans (secured)	**—**	**—**	8.12-8.26	237,627
		284,381		552,171

The Group's variable-rate bank and other loans carried interest at rate of the PRC RMB Loan Benchmark Rate plus 2.56% per annum.

	2019 HK$'000	2018 HK$'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	**284,381**	314,544
Within a period of more than one year but not exceeding two years	**—**	39,657
Within a period of more than two years but not exceeding five years	**—**	108,978
Within a period of more than five years	**—**	88,992
	284,381	552,171
Less: amounts due within one year shown under current liabilities	**(284,381)**	(314,544)
Amounts shown under non-current liabilities	**—**	237,627

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's bank and other loans are secured by

i) investment properties with an aggregate carrying value of approximately HK$207,835,000 (2018: approximately HK$214,076,000);

ii) buildings with an aggregate net carrying value of approximately HK$18,812,000 (2018: approximately HK$196,865,000);

iii) machinery with an aggregate net carrying value of approximately HK$4,355,000 (2018: approximately HK$19,596,000);

iv) right-of-use assets with an aggregate net carrying value of approximately HK$4,283,000 (2018: Nil); and

v) prepaid lease payments with an aggregate net carrying value of approximately Nil (2018: approximately HK$276,716,000).

All the borrowings are denominated in RMB as at 31 December 2019 and 2018.

35. LEASE LIABILITIES

Lease liabilities payable:	**2019 HK$'000**
Within one year	**138**
Within a period of more than one year but not exceeding two years	**136**
Within a period of more than two years but not exceeding five years	**197**
	471
Less: Amount due for settlement with 12 months shown under current liabilities	**(138)**
Amount due for settlement after 12 months shown under non-current liabilities	**333**

36. 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 with coupon rate of 7.5% per annum. 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. During the year ended 31 December 2019, the Company has been carrying out an internal forensic accounting review ("**Review**") about the convertible bonds. From the Review, it has been identified that some commodity trading transactions of the Group might have been related to the subscription money for the convertible bonds, involving most possibly round robin fund flows. Please refer to the announcement of the Company dated 28 April 2020 for further details.

In accordance with HKFRS 13 Fair Value Measurement, 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. The effective interest rate of liability component is 7.5% per annum.

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36. CONVERTIBLE BOND (continued)

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 2018	81,853
Reclassified to other payables	(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.

The convertible bond is matured on 28 April 2018, the principal amount of HK$78,000,000 and the outstanding interest payment of approximately HK$3,853,000 of the convertible bond is reclassified to other payables on the same date.

37. LOANS FROM A RELATED COMPANY

The loans from a related company is unsecured, interest-free and repayable within one year.

38. AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

	2018	
	Effective interest rate (%)	HK$'000
Current		
Loans from the ultimate holding company (secured) (note a)	8.26	260,775
Interest payables of loans from the ultimate holding company	—	356,070
Amount due to the ultimate holding company (note b)	—	3,217
Non-current		
Loans from the ultimate holding company (secured) (note a)	8.26	1,477,726
		2,097,788

The loans from ultimate holding company are repayable as below:

	2018 HK$'000
Loans repayable:	
Within one year or repayable on demand	260,775
In the second to five years, inclusive	347,700
After five years	1,130,026
	1,738,501

Notes:

(a) As at 31 December 2018, the loans from the ultimate holding company with the amount of approximately HK$260,775,000 and HK$1,477,726,000 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 approximately HK$714,124,000;

ii) prepaid lease payments with an aggregate net carrying value of approximately HK$271,309,000;

iii) buildings with an aggregate net carrying value of approximately HK$175,247,000); and

iv) machinery with an aggregate net carrying value of approximately HK$9,727,000.

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

39. CONVERTIBLE PREFERRED SHARES

	Liability portion HK$'000
Titan preferred shares	
At 1 January 2018	394,116
Add: Dividends on Titan preferred shares	14,608
At 31 December 2018 and 1 January 2019	408,724
Add: Dividends on Titan preferred shares	14,608
At 31 December 2019	423,332

In 2007, the Company issued 555,000,000 convertible preferred shares (the "**Titan Preferred Shares**") at the stated value of HK$0.56 per share. The fair value of the liability portion of the Titan Preferred Shares was estimated at the issuance date. Upon effective of the share consolidation on 5 September 2017, the Company's every eight issued and unissued existing share of HK$0.01 each be consolidated into one consolidated share of HK$0.08 each. The adjusted number of convertible preferred shares after the share consolidation was 69,375,000 at the date of the report.

The Titan Preferred Shares are convertible into ordinary shares at the first anniversary after the date of issue of the Titan Preferred Shares until the day prior to the redemption date. The number of ordinary shares to be converted is determined by dividing the notional value by the conversion price at the time in effect.

(i) a Preferred Shareholder may deliver a notice in writing at least 30 business days before the redemption date to the Company at its specified office together with certificate(s) for the Titan Preferred Shares to be redeemed requiring the Company to redeem all but not part only of the outstanding Titan Preferred Shares then registered in its name at the redemption amount per Preferred Share equal to the notional value; or

(ii) the Company may deliver a notice in writing at least 30 business days before the redemption date to the Preferred Shareholder at its last known address on the register of members notifying that all but not part only per Titan Preferred Share equal to the notional value of the outstanding Titan Preferred Shares then registered in its name shall be redeemed at the redemption price of per Titan Preferred Share equal to 175% of the notional value.

The holders of the Titan Preferred Shares shall be entitled in priority to any distribution in respect of any other class of shares to a fixed cumulative preferential dividend at the rate of 4.70% per annum on the notional value of each Titan Preferred Share held.

The Titan Preferred Shares shall not carry any voting rights. The Titan Preferred Shares shall rank senior to all existing and future classes of ordinary shares and Titan Preferred Shares, and shall be subordinated and junior to all indebtedness.

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

39. CONVERTIBLE PREFERRED SHARES (continued)

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

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

As disclosed in the Company's announcements dated 28 May 2015, 7 August 2015, 5 November 2015 and on 28 May 2015, 30 July 2015, 16 October 2015, 5 May 2016 and 29 April 2016, the Company and DBIL entered into supplemental agreements, pursuant to which the parties agreed to extend the long stop date for the satisfaction of the conditions under the Listco Preferred Shares Modification Deed to 31 July 2015, 31 August 2015, 30 April 2016 and 31 August 2016 respectively.

The Listco Preferred Shares Modification Deed became effective on 24 June 2016.

The convertible preferred shares became redeemable in accordance with the terms thereof on 15 July 2019.

40. DEFERRED TAXATION

Details of the deferred tax liabilities recognised and movement thereon during the current and prior years:

	Fair value adjustment HK$'000 (restated)
At 1 January 2018	(127,247)
Credit to profit or loss	20,637
Exchange realignment	4,832
At 31 December 2018 and 1 January 2019	(101,778)
Credit to profit or loss	6,519
Deconsolidation of a subsidiary	54,901
Exchange realignment	780
At 31 December 2019	**(39,578)**

The Group has unused tax losses of approximately HK$254,328,000 (2018: approximately HK$961,528,000) for offsetting against future taxable profit. No deferred tax assets has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

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41. SHARE CAPITAL

	2019		2018	
	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	**10,000,000,000**	**800,000**	10,000,000,000	800,000
Convertible preferred shares of HK$0.08 each (note b)	**69,375,000**	**5,550**	69,375,000	5,550
Issued and fully paid:				
Ordinary shares of HK$0.08 each	**4,920,560,060**	**393,645**	4,920,560,060	393,645
Convertible preferred shares of HK$0.08 each	**69,375,000**	**5,550**	69,375,000	5,550

Notes:

a) All ordinary share rank pari passu in all respects.

b) The convertible preferred shares became redeemable in accordance with the terms thereof on 15 July 2019.

42. RETIREMENT BENEFITS PLANS

Defined contribution plans

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs capped at HK$1,500 (2018: HK$1,500) per month to MPF scheme, in which the contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The subsidiaries in the PRC are required to contribute a certain percentage of the payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

For the years ended 31 December 2019 and 2018, the amounts of contributions recognised by the Group are approximately HK$372,000 and HK$398,000, respectively.

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Convertible bond interest payable (included in other payables)	Bank and other loans	Interest payables of bank and other loans	Lease liabilities	Loans from a related party	Amount due to the ultimate holding company	Liability portion of convertible preferred shares	Total
		(Note 34)		(Note 35)	(Note 37)	(Note 38)	(Note 39)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	4,225	574,519	77,710	–	–	2,046,199	394,116	3,096,769
Changes from cash flows:								
New borrowings	–	17,445	–	–	–	–	–	17,445
Repayment	–	(29,265)	–	–	–	–	–	(29,265)
Interest paid	–	–	(31,272)	–	–	–	–	(31,272)
Non-cash changes:								
Interest expense (Note 12)	1,993	–	47,361	–	–	149,661	14,608	213,623
Exchange realignment	–	(10,528)	–	–	–	(98,072)	–	(108,600)
At 31 December 2018	6,218	552,171	93,799	–	–	2,097,788	408,724	3,158,700
Changes from cash flows:								
New borrowings	–	96,250	–	–	5,950	–	–	102,200
Repayment	–	(55,048)	–	(3,323)	–	–	–	(58,371)
Interest paid	–	–	(23,134)	–	–	–	–	(23,134)
Non-cash changes:								
New leases entered	–	–	–	19,046	–	–	–	19,046
Early termination of a leases	–	–	–	(15,798)	–	–	–	(15,798)
Interest expense (Note 12)	18,978	–	50,113	546	–	119,133	14,608	203,378
Deconsolidation of a subsidiary	–	(247,697)	(97,814)	–	–	(2,176,347)	–	(2,521,858)
Disposal of subsidiaries	–	(49,036)	(13,969)	–	–	195	–	(62,810)
Exchange realignment	–	(12,259)	(1,806)	–	–	(40,769)	–	(54,834)
At 31 December 2019	25,196	284,381	7,189	471	5,950	–	423,332	746,519

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44. OPERATING LEASE

The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	38

The Group leases certain of office premises under operating lease arrangements. Leases for are negotiated for terms of 1 year.

45. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Commitments for shipbuilding and ship repair facilities in PRC	**—**	136,687
Commitments for construction of investment properties in PRC	**233,962**	—
	233,962	136,687

46. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged for the Group's bank and other loans and loans from the ultimate holding company:

	Notes	**2019 HK$'000**	2018 HK$'000
Property, plant and equipment	20	**23,167**	930,585
Right-of-use assets	21	**4,283**	—
Prepaid lease payments	23	**—**	276,716
Investment properties	24	**207,835**	214,076
		235,285	1,421,377

47. LITIGATIONS AND CONTINGENT LIABILITIES

The detailed proceedings are set out on pages 38 to 41 under Litigation of this report.

48. MATERIAL RELATED PARTY TRANSACTIONS

Other than as disclosed in Notes 12, 37 and 38 to the consolidated financial statements, the Group did not have material transactions with related parties during the years.

Compensation of key management personnel

The key management of the Group comprises all the Directors, details of their remuneration are disclosed in Note 16 to the consolidated financial statements. The remuneration of the Directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

49. DECONSOLIDATION OF A SUBSIDIARY

On 21 November 2019, TQS was put into winding up application by a creditor in 惠安縣人民法院 (People's Court of Hui'an County, Fujian Province of the PRC*) (the "**Court**").

On 9 December 2019, the Company was informed that the Court has made a decision (the "**Decision**") to accept the application for the winding up of TQS. On 10 December 2019, the Court has ordered to set up 清算組 (Liquidation Group*) in relation to the winding up of TQS.

Accordingly, the Group had deconsolidated these subsidiaries as the Directors considered that the Group's control over TQS had been lost. The net liabilities of TQS at the date of deconsolidation were as follows:

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	869,425
Right-of-use assets	268,293
Bank balances and cash	90
Other payables and accruals	(19,261)
Bank and other loans	(247,697)
Interest payable of bank and other loans	(97,814)
Amounts due to group companies	(983,859)
Amounts due to ultimate holding company	(2,176,347)
Deferred tax liabilities	(54,901)
Net liabilities deconsolidated	(2,442,071)
Gain on deconsolidation of TQS:	
Net liabilities deconsolidated	2,442,071
Amounts due from TQS	(983,859)
Cumulative exchange difference in respect of the net liabilities of TQS reclassified from equity to profit or loss on deconsolidation of TQS	308,205
Gain on deconsolidation of TQS	1,766,417
Net cash outflow arising on deconsolidation:	
Bank balances and cash of TQS	(90)

* *For identification purpose only*

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For the year ended 31 December 2019

50. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Brilliance Glory Limited and its subsidiary (collectively referred to as "**Brilliance Glory Group**")

On 15 December 2019, the Group disposed of its 100% equity interests of Brilliance Glory Group, at a consideration of approximately HK$10,000 to an independent third party. The net liabilities of Brilliance Glory Group at the date of disposal were as follows:

	HK$'000
Consideration received:	
Cash received	10

Analysis of assets and liabilities over which control was lost:	HK$'000
Interests in an associate	5,284
Prepayments, deposits and other receivables	5,690
Bank balances and cash	15
Other payables and accruals	(2,980)
Amounts due to group companies	(15,859)
Net liabilities disposed of	(7,850)
Loss on disposal of Brilliance Glory Group:	
Consideration	10
Net liabilities disposed of	7,850
Amounts due from Brilliance Glory Group	(15,859)
Cumulative exchange difference in respect of the net liabilities of Brilliance Glory Group reclassified from equity to profit or loss on loss of control of Brilliance Glory Group	78
Loss on disposal	(7,921)
Net cash outflow arising on disposal of Brilliance Glory Group:	
Cash received	10
Less: Bank balances and cash disposed of	(15)
	(5)

50. DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of New Gold Union International Limited and its subsidiary (collectively referred to as "**New Gold Union Group**")

On 15 December 2019, the Group disposed of its 100% equity interests of New Gold Union Group, at a consideration of approximately HK$10,000 to an independent third party. The net liabilities of New Gold Union Group at the date of disposal were as follows:

	HK$'000
Consideration received:	
Cash received	10

Analysis of assets and liabilities over which control was lost:	HK$'000
Interests in associates	—
Property, plant and equipment	3,095
Prepayments, deposits and other receivables	6,681
Bank balances and cash	118
Amounts due from ultimate holding company	195
Trade payables	(1,129)
Other payables and accruals	(77,569)
Bank and other loans	(49,036)
Interest payable of bank and other loans	(13,969)
Amounts due to group companies	(8,666)
Net liabilities disposed of	(140,280)
Gain on disposal of New Gold Union Group:	
Consideration	10
Net liabilities disposed of	140,280
Amounts due from New Gold Union Group	(8,666)
PRC statutory reserve	175
Non-controlling interests	12,403
Cumulative exchange difference in respect of the net liabilities of New Gold Union Group reclassified from equity to profit or loss on loss of control of New Gold Union Group	(3,857)
Gain on disposal	140,345
Net cash outflow arising on disposal of New Gold Union Group:	
Cash received	10
Less: Bank balances and cash disposed of	(118)
	(108)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

50. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of Titan Oil Storage Investment Limited and its subsidiaries (collectively referred to as "**TOSIL Group**")

On 15 December 2019, the Group disposed of its 100% equity interests of TOSIL Group, at a consideration of approximately HK$10,000 to an independent third party. The net liabilities of TOSIL Group at the date of disposal were as follows:

	HK$'000
Consideration received:	
Cash received	10

Analysis of assets and liabilities over which control was lost:	HK$'000
Interests in associates	—
Bank balances and cash	13
Other payables and accruals	(1)
Amounts due to group companies	(771,590)
Net liabilities disposed of	(771,578)
Loss on disposal of TOSIL Group:	
Consideration	10
Net liabilities disposed of	771,578
Amounts due from TOSIL Group	(771,590)
Loss on disposal	(2)
Net cash outflow arising on disposal of TOSIL Group:	
Cash received	10
Less: Bank balances and cash disposed of	(13)
	(3)

50. DISPOSAL OF SUBSIDIARIES (continued)

(d) Disposal of Surplus Full Limited and its subsidiary (collectively referred to as "**Surplus Full Group**")

On 6 December 2019, the Group disposed of its 100% equity interests of Surplus Full Group, at a consideration of approximately HK$10,000 to an independent third party. The net liabilities of Surplus Full Group at the date of disposal were as follows:

	HK$'000
Consideration received:	
Cash received	10
Analysis of assets and liabilities over which control was lost:	HK$'000
Interests in an associate	3,282
Equity investments at FVTOCI	—
Bank balances and cash	6
Amounts due to group companies	(54,811)
Net liabilities disposed of	(51,523)
Gain on disposal of Surplus Full Group:	
Consideration	10
Net asset disposed of	51,523
Amounts due from Surplus Full Group	(54,811)
Cumulative exchange difference in respect of the net assets of Surplus Full Group reclassified from equity to profit or loss on loss of control of Surplus Full Group	(90)
Loss on disposal	(3,368)
Net cash outflow arising on disposal of Surplus Full Group:	
Cash received	10
Less: Bank balances and cash disposed of	(6)
	4

51. 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.

51. SHARE OPTION SCHEME (continued)

a) Summary of the Schemes (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

51. SHARE OPTION SCHEME (continued)

b) Share Option Movement

i) 2002 Share Option Scheme

The following table discloses movement of the Company's share options under the 2002 Share Option Scheme during the year ended 31 December 2018:

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
Other employees	67,516	—	(67,516)	—	—	1 February 2008	1 February 2013 to 31 January 2018	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 2019 and 2018, no share option was granted, exercised or cancelled under the Schemes.

ii) New Share Option Scheme

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

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

	2018 Weighted average exercise price per share HK$	2018 Number of shares issuable under options
At 1 January	3.0656	67,516
Lapsed	3.0656	(67,516)
At 31 December	—	—

52. PRIOR YEAR ADJUSTMENT

During the course of preparation of the consolidated financial statements of the Group for the financial year ended 31 December 2019, a subsidiary of the Company discovered an error in calculating deferred tax liabilities. The error resulted in an understatement of income tax credit recognised for the year ended 31 December 2018 and corresponding overstatement of deferred tax liabilities as at 31 December 2018.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

Impact on the consolidated statement of financial position

At 31 December 2018

	31 December 2018 (As previous reported) HK$'000	Adjustments HK$'000	31 December 2018 (As restated) HK$'000
Non-current liabilities			
Deferred tax liabilities	120,319	(18,541)	101,778
Capital and Reserves			
Reserves	(2,650,475)	18,541	(2,631,934)

Impact on the consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2018

	2018 (As previous reported) HK$'000	Adjustments HK$'000	2018 (As restated) HK$'000
Income tax credit	1,281	19,316	20,597
Loss for the year	(2,370,486)	19,316	(2,351,170)
Exchange differences arising on translation of foreign operations	95,948	(775)	95,173
Other comprehensive expense for the year, net of income tax	(93,106)	(775)	(93,881)
Total comprehensive expense for the year	(2,463,592)	18,541	(2,445,051)

Basic and diluted loss per share for the prior year have also been restated. The amount of the correction for basic and diluted loss per share was decreased by HK0.4 cent and HK0.4 cent per share respectively.

The correction of error does not affected the consolidated statement of financial position as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

53. COMPARATIVE FIGURES

During the year ended 31 December 2019, for enhancing the relevance of the presentation of the consolidated financial statements, reclassifications have been made to certain comparative figures presented in the consolidated financial statements in respect of the prior year to achieve comparability with the current year's presentation. As a result, the following line items regarding comparative figures have been amended and adjusted, together with the related notes to conform to the current year's presentations:

	Note	Previous reported HK$'000	As restated HK$'000
Consolidated Statement of Profit or Loss			
Other gains and losses	(a)	**(1,999,258)**	(1,771,362)
Impairment losses under expected credit loss model, net of reversal	(a)	—	(271,712)
General and administrative expenses	(a)	**(183,229)**	(139,413)
Consolidated Statement of Financial Position			
Other payables and accruals	(b)	**449,115**	363,906
Bank and other loans	(b)	**466,962**	552,171

Note:

(a) "Provision for impairment of trade receivables" and "Provision for impairment of other receivables" were reclassified from "Other gains and losses" to "Impairment losses under expected credit loss model, net of reversal" and "Exchange difference" was reclassified form "General and administrative expenses" to "Other gains and losses".

(b) Certain other payables were reclassified from "Other payables and accruals" to "Bank and other loans".

54. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
			2019 %		2018 %		2019 %		2018 %		
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	
Titan Investment Holding (HK) Limited	Hong Kong	Ordinary HK$1	100	–	100	–	100	–	100	–	Investment and trading
Titan Resources Management Limited	BVI/Hong Kong	Ordinary US$1	–	100	–	100	–	100	–	100	Provision of consultancy services
Ascend Success Investments Limited	Hong Kong	Ordinary HK$1	–	100	–	100	–	100	–	100	Provision of financing services
Petro Titan (H.K.) Limited	Hong Kong	HK$3,000,000	–	100	–	100	–	100	–	100	Supply of oil products
Best Ace Investments Limited	Hong Kong	Ordinary HK$1	–	100	–	100	–	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	PRC	RMB28,000,000	–	–	–	100	–	–	–	100	Investment holding
Guangzhou Huanan Petrochemical Trading Centre Company Limited	PRC	RMB60,000,000	–	–	–	70	–	–	–	70	Provision of commercial services
Shengsi Haixin Petrochemical Company Limited	PRC	RMB50,000,000	–	–	–	100	–	–	–	100	Supply of oil products
Titan Quanzhou Shipyard Company Limited	PRC	RMB1,040,879,823	–	–	–	100	–	–	–	100	Shipbuilding and ship repairing
Guangzhou Titan Petrochemicals Company Limited	PRC	RMB50,000,000	–	–	–	100	–	–	–	100	Supply of oil products
Gold Dragon Enterprise Development Limited	BVI	Ordinary US$1	–	100	–	100	–	100	–	100	Investment holding
舟山甬泰船務有限公司 ("**Yongtai**")	PRC	HK$1,000,000	–	100	–	100	–	100	–	100	Investment holding
舟山市德恒企業管理有限公司 ("**Deheng**")#	PRC	RMB20,000,000		(Note)		(Note)		(Note)		(Note)	
江蘇宏強船舶重工有限公司 ("**OPCO**")	PRC	RMB300,000,000		(Note)		(Note)		(Note)		(Note)	
江蘇炯強海洋裝備有限公司	PRC	RMB50,000,000	–	100	–	100	–	100	–	100	Manufacturing and sales of offshore engineering special equipments and vessel auxiliary equipments
舟山甬隆貿易有限公司	PRC	RMB10,000,000	–	100	–	100	–	100	–	100	Trading of oil products

wholly foreign owned enterprise established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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For the year ended 31 December 2019

54. PRINCIPAL SUBSIDIARIES (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries incorporate in the BVI, PRC and Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2019	2018
Investment holding	BVI	**7**	10
	Hong Kong	**3**	1
	PRC	**1**	1
Inactive	BVI	**1**	5
	Hong Kong	**6**	7
	PRC	**2**	4
	Singapore	**–**	1
		20	29

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the years.

Note:

Structured Contracts

Particulars and main business of Deheng and OPCO

OPCO is a limited liability company established under the laws of the PRC, a wholly owned subsidiary of Deheng, and is principally engaged in 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.

54. PRINCIPAL SUBSIDIARIES (continued)

Note: (continued)

Structured Contracts (continued)

Major terms of the structured contracts (continued)

Irrecoverable option agreement (continued)

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.

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.

On 2 December 2019, Deheng transferred all the equity interest of OCPO to Yongtai.

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

	2019 **HK$'000**	2018 HK$'000
Revenue	**51,707**	59,108
Loss	**21,891**	236,651
Total assets	**26,196**	123,171
Total liabilities	**(16,034)**	(497,619)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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55. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

a) Statement of financial position of the Company

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSET		
Interests in associates	**480**	480
CURRENT ASSETS		
Prepayments, deposits and other receivables	**792**	1,185
Bank balances and cash	**17**	6,479
	809	7,664
CURRENT LIABILITIES		
Amounts due to subsidiaries	**—**	28,370
Other payables and accruals	**108,802**	89,034
Loans from a related party	**5,950**	—
Liability portion of convertible preferred shares	**423,332**	408,724
	538,084	526,128
NET CURRENT LIABILITIES	**(537,275)**	(518,464)
NET LIABILITIES	**(536,795)**	(517,984)
EQUITY		
Share capital	**393,645**	393,645
Reserves	**(930,440)**	(911,629)
TOTAL EQUITY	**(536,795)**	(517,984)

The financial statements were approved and authorised for issue by the Board of Directors on 8 May 2020 and signed on its behalf by:

Lai Wing Lun *Director*	**Zhang Qiandong** *Director*

55. 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 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)
Total comprehensive expenses	—	—	—	—	(18,811)	(18,811)
At 31 December 2019	**4,834,143**	**60,916**	**—**	**—**	**(5,825,499)**	**(930,440)**

56. SUBSEQUENT EVENTS

(i) On 18 February 2020, the Company entered into the conditional placing agreement with Sino Capital Securities Limited ("**Sino Capital**"), pursuant to which Sino Capital has agreed to act as placing agent of the Company, on a best effort basis, for the purpose of arranging placees for the two-year 5% coupon unlisted convertible bonds in principal amount of up to HK$10,000,000 to be issued by the Company in accordance with the terms of the placing.

Completion of the placing has taken place on 13 March 2020 and the convertible bonds in the principal amount of HK$4,000,000 have been issued to Mr. Yung Chi Man as the placee in accordance with the terms and conditions of the placing agreement.

For details, please refer to the announcements of the Company dated 18 February 2020, 10 March 2020 and 13 March 2020.

(ii) On 18 February 2020, the Company entered into the conditional placing agreement with Merdeka Securities Limited ("**Merdeka**"), pursuant to which Merdeka has agreed to act as placing agent of the Company, on a best effort basis, for the purpose of arranging placees for the convertible bonds in principal amount of up to HK$10,000,000 to be issued by the Company in accordance with the terms of the placing.

Completion of the placing has taken place on 23 March 2020 and the convertible bonds in the principal amount of HK$4,000,000 have been issued to Prime Wealth Capital Limited as the placee in accordance with the terms and conditions of the placing agreement.

For details, please refer to the announcements of the Company dated 18 February 2020, 18 March 2020 and 23 March 2020.

56. SUBSEQUENT EVENTS (continued)

(iii) After the outbreak of COVID-19 in January 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. In adherence to the guidelines of the China Government and to protect our employees from infection, the Group has temporarily suspended the manufacturing operations of the Group since Chinese New Year holidays. In early March 2020, the Group gradually resumed its manufacturing operations and implemented precautionary as well as control measures in all projects to fight against this disease and safeguard its employees and business operations. Depending on the future development of the outbreak, the Board expects that the production capacity of the factory will resume its full scale and normal operation upon the lifting of relevant epidemic prevention measures. The Group will pay close attention to the development of this disease and evaluate its impact on the financial position and operating results of the Group.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000 (restated)	HK$'000	HK$'000	HK$'000
Revenue	**254,724**	64,883	1,024,146	760,921	—
Profit/(Loss) before tax	**1,640,368**	(2,371,767)	(259,000)	1,895,372	(243,136)
Tax	**6,519**	20,597	(6,346)	(5,553)	1,355
Profit/(Loss) for the year	**1,646,887**	(2,351,170)	(265,346)	1,889,819	(241,781)
Attributable to:					
Owners of the Company	**1,647,286**	(2,349,273)	(263,630)	1,889,840	(241,781)
Non-controlling interest	**(399)**	(1,897)	(1,716)	(21)	—
	1,646,887	(2,351,170)	(265,346)	1,889,819	(241,781)

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000 (restated)	HK$'000	HK$'000	HK$'000
Total assets	**331,664**	1,565,940	4,143,308	3,168,254	2,997,452
Total liabilities	**(1,183,985)**	(3,791,188)	(3,896,644)	(3,071,025)	(7,046,510)
	(852,321)	(2,225,248)	246,664	97,229	(4,049,058)

PARTICULARS OF THE INVESTMENT PROPERTIES

For the year ended 31 December 2019

PROPERTIES 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