CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中海船舶重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 651)

AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the "Board") of China Ocean Shipbuilding Industry Group Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 together with comparative figures as follows:-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Revenue	5	**1,660,254**	1,305,318
Cost of sales		**(1,701,733)**	(1,726,125)
Gross loss		**(41,479)**	(420,807)
Other income	6	**16,538**	22,063
Other gains and losses	7	**4,708**	(30,122)
Change in fair value of investments held for trading		**(1,188)**	750
Impairment loss recognised in respect of intangible assets		**—**	(402,603)
Impairment loss recognised in respect of property, plant and equipment		**(415,365)**	—
Selling and distribution expenses		**(1,580)**	(1,564)
Administrative expenses		**(87,460)**	(72,315)
Gain on modification of deferred consideration		**—**	36,014
Gain on modification of convertible notes payable		**55,651**	40,988
Loss on extinguishment of convertible notes payable		**(7,241)**	—
Finance costs	8	**(170,329)**	(154,680)
Loss before tax	9	**(647,745)**	(982,276)
Income tax credit	10	**105,186**	114,891
Loss for the year attributable to owners of the Company		**(542,559)**	(867,385)
Exchange differences arising on translation		**2,288**	11,414
Total comprehensive expenses for the year attributable to owners of the Company		**(540,271)**	(855,971)
Loss per share			
- Basic and diluted	12	**(HK$0.15)**	(HK$0.59)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	Notes	**2011**	2010
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**683,525**	1,095,865
Deposit paid for acquisition of property, plant and equipment		**3,136**	3,136
Prepaid lease payments — non-current portion		**339,192**	342,732
Intangible assets		**—**	—
Pledged deposits for other borrowings		**32,472**	31,059
		1,058,325	1,472,792
CURRENT ASSETS			
Inventories		**180,369**	348,115
Trade, bills and other receivables	13	**577,482**	428,974
Prepayment for purchase of raw materials	13	**818,869**	737,330
Prepaid lease payments — current portion		**1,842**	1,762
Amounts due from customers for contract work		**12,880**	—
Tax recoverable		**5,418**	5,150
Investments held for trading		**2,750**	3,938
Pledged bank deposits		**360,841**	389,603
Bank balances and cash		**150,506**	142,608
		2,110,957	2,057,480
CURRENT LIABILITIES			
Trade, bills and other payables	14	**1,459,753**	1,206,468
Amounts due to customers for contract work		**957,515**	863,925
Amount due to a related party		**31,588**	14,919
Amount due to a director		**615**	—
Borrowings — due within one year		**538,117**	593,306
Provision for warranty		**25,366**	34,097
Deferred consideration		**217,268**	—
		3,230,222	2,712,715
NET CURRENT LIABILITIES		**(1,119,265)**	(655,235)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(60,940)**	817,557

	2011	2010
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**183,400**	112,762
Reserves	**(584,795)**	(221,117)
	(401,395)	(108,355)
NON-CURRENT LIABILITIES		
Borrowings — due after one year	**68,972**	100,360
Deferred consideration	**—**	187,543
Convertible notes payable	**157,135**	427,293
Deferred tax liabilities	**114,348**	210,716
	340,455	925,912
	(60,940)	817,557

1. GENERAL

China Ocean Shipbuilding Industry Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The functional currency of the Company and its subsidiaries (collectively known as the "Group") was Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group.

The Group incurred a consolidated loss of approximately HK$542,559,000 for the year ended 31 December 2011 and, as at 31 December 2011 the Group had consolidated net current liabilities and net liabilities of approximately HK$1,119,265,000 and HK$401,395,000 respectively. In addition, the Group has an arbitration proceeding in progress with one vessel owner over the validity of three rescission notices, which, if arbitrated unfavourable to the Group, could result in the Group refund of principal payments and interests for the principal payments calculated in accordance with the relevant shipbuilding contracts up to the settlement date. As at 31 December 2011, the principal payments and the interests accrued up to 31 December 2011 of approximately HK$366,000,000 in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position.

In order to improve the Group's operating and financial position, the directors of the Company have been implementing various operating and financing measures as follows:

a) The Group has engaged legal counsels to defend the Group for the vessel rescission notices;

b) The Group has been actively pursuing new customers so as to enlarge its customer base and new sales orders. At the same time, the Group has improved its production efficiency and tightened cost control so as to reduce unnecessary expenditure. With all these measures, the Group is expecting to improve its performance in the coming years;

c) The Group is in negotiation with banks to allow revolving of loans upon their due dates when the same renewal conditions entitling the past renewal are met; and

d) The Group has entered into a settlement deed with the creditor on 30 January 2012 to settle the deferred consideration with the carrying value amounting to approximately HK$217,268,000 as at 31 December 2011 by way of cash, issue of convertible notes and promissory notes by the Company.

The directors of the Company are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from this consolidated financial statements were authorised to issue.

Accordingly, the consolidated financial statements have been prepared on a going concern basis. However, the eventual outcome is uncertain, should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. The revised standard has no impact on the consolidated financial statement of the Group.

HK(IFRIC)—Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation gives guidance on the accounting for the extinguishment of financial liabilities with equity instruments. Specifically, under HK(IFRIC)—Int 19, equity instruments issued in order to extinguish financial liabilities are recognised initially at their fair values, with any difference between the carrying amount of the financial liability extinguished and the consideration paid being recognised in profit or loss.

HK(IFRIC)—Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. The Group has entered into transactions of this nature during the year ended 31 December 2011. Under HK(IFRIC)—Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. The application of HK(IFRIC)—Int 19 results in the excess of HK$7,241,000, representing the difference between the fair value of the Company's share and the carrying amount of the extinguished liabilities of HK$239,990,000, being recognised by the Group as a loss on extinguishment of part of CBII in the consolidated statement of comprehensive income for the year ended 31 December 2011.

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

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[2]
Amendments to HKAS 32	Presentation — Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 January 2013

[3] Effective for annual periods beginning on or after 1 January 2015

[4] Effective for annual periods beginning on or after 1 January 2012

[5] Effective for annual periods beginning on or after 1 July 2012

[6] Effective for annual periods beginning on or after 1 January 2014

Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

— HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

— The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have significant impact on the Group's financial assets and financial liabilities.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

4. SUMMARY OF 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.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and managed.

The Group's operating and reportable segments under HKFRS 8 Operating Segments are shipbuilding and trading business.

Principal activities are as follows:

1) Shipbuilding — provision of shipbuilding services under shipbuilding construction contracts and operated in the People's Republic of China (the "PRC").

2) Trading business — trading of metal and operated in Hong Kong.

Information regarding the above segment is reported below:

Year ended 31 December 2011	**Shipbuilding**	**Trading business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue	**1,660,254**	**—**	**1,660,254**
Segment result	**(514,315)**	**(264)**	**(514,579)**
Unallocated other income			**4,450**
Change in fair value of investments held for trading			**(1,188)**
Gain on modification of convertible notes payable			**55,651**
Loss on extinguishment of convertible notes payable			**(7,241)**
Unallocated corporate expenses			**(14,509)**
Finance costs			**(170,329)**
Loss before tax			**(647,745)**

Year ended 31 December 2010	Shipbuilding	Trading business	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	1,305,318	—	1,305,318
Segment result	(901,195)	(1,192)	(902,387)
Unallocated other income			15,490
Change in fair value of investments held for trading			750
Gain on modification of convertible notes payable			40,988
Gain on modification of deferred consideration			36,014
Unallocated share-based payment expenses			(496)
Unallocated corporate expenses			(17,955)
Finance costs			(154,680)
Loss before tax			(982,276)

6. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Interests on bank deposits	**8,908**	10,031
Sales of scrap materials	**7,428**	5,189
Government grants	**172**	6,783
Others	**30**	60
	16,538	22,063

7. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	*HK$'000*
Gain (loss) on disposal of property, plant and equipment	**200**	(5,630)
Impairment loss recognised in respect of trade receivables	**—**	(39,929)
Foreign exchange gain	**4,508**	15,437
	4,708	(30,122)

8. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	**29,490**	57,513
Imputed interest expense on deferred consideration	**29,725**	23,557
Interests on bank borrowings and bills payables	**68,151**	57,418
Interests on other borrowings	**25,686**	2,642
Guarantee fee incurred in connection with bank borrowings	**13,578**	8,563
Arrangement fee incurred in connection with other borrowings	**3,342**	6,207
Others	**357**	—
	170,329	155,900
Less: amount capitalised in construction in progress	**—**	(1,220)
	170,329	154,680

Borrowing costs capitalised during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.34% per annum.

9. LOSS BEFORE TAX

	2011	2010
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Directors' emoluments	**4,580**	5,003
Other staff costs	**67,184**	58,885
Share-based payment expenses	**—**	211
Contributions to retirement benefits scheme, excluding directors	**6,586**	5,072
Total staff costs	**78,350**	69,171
Auditor's remuneration		
- Current year (including non-audit service of HK$240,000 (2010: non-audit service of HK$400,000))	**1,240**	1,900
- Under-provision for previous year	**250**	—
	1,490	1,900
Amortisation of intangible assets (included in cost of sales)	**—**	53,084
Depreciation of property, plant and equipment	**66,888**	60,733
Amortisation of prepaid lease payments	**7,167**	7,077
Minimum lease payments under operating leases in respect of rented premises	**1,454**	1,254
Shipbuilding contract costs recognised as expenses	**1,701,733**	1,726,125
Foreseeable losses recognised in respect of foreseeable delay in vessel delivery and additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**47,380**	356,189
Write-off of shipbuilding costs for vessels unshaped due to rescission of vessels (included in cost of sales)	**—**	105,181
Impairment loss recognised in respect of inventories and prepayment due to rescission of vessels (included in cost of sales)	**—**	55,918

10. INCOME TAX CREDIT

	2011	2010
	HK$'000	*HK$'000*
Current tax	**—**	—
Under-provision in prior year:		
PRC Enterprise Income Tax ("EIT")	**—**	1,195
Deferred tax	**(105,186)**	(116,086)
	(105,186)	(114,891)

No provision for Hong Kong Profits Tax has been made since the Group has no assessable profits for both years.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

Income tax for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
Loss before tax	**(647,745)**	(982,276)
Tax at applicable domestic income tax rate of 25% (2010: 25%)	**(161,936)**	(245,569)
Tax effect of expenses not deductible for tax purpose	**57,352**	153,054
Tax effect of income not taxable for tax purpose	**(602)**	(23,571)
Under provision in prior year	**—**	1,195
Income tax credit for the year	**(105,186)**	(114,891)

At the end of the reporting period, the Group had unused tax losses of approximately HK$1,917,000 (2010: HK$1,917,000) available to offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

11. DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

12. LOSS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(542,559)**	(867,385)

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,524,785**	1,473,249

The computation of diluted loss per share for the years ended 31 December 2011 and 2010 does not include the share options and convertible notes as the assumed exercise of these share options and convertible notes has an anti-dilutive effect.

13. TRADE, BILLS AND OTHER RECEIVABLES / PREPAYMENT FOR PURCHASE OF RAW MATERIALS

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**39,929**	39,929
Less: Allowance for doubtful debts (Note a)	**(39,929)**	(39,929)
	—	—
Value-added tax recoverable	**258,935**	240,434
Bills receivables	**394**	—
Deposits placed with a stakeholder (Note b)	**157,324**	170,113
Deposits placed to a guarantor (Note c)	**73,800**	—
Other receivables	**87,029**	18,427
Total trade, bills and other receivables	**577,482**	428,974
Prepayment for purchase of raw materials	**818,869**	737,330

Notes:

(a) In March 2011, an overseas debtor filed for insolvency. Accordingly, the trade receivables were fully provided during the year ended 31 December 2010.

(b) Certain vessel buyers have made progress payment for ship construction contracts to a stakeholder rather than directly to the Group. The Group has the entitlement to these progress payments in accordance with the contracts but they are placed under custody of the stakeholder to ensure these progress payments are used to pay for the costs incurred by the Group relevant to shipbuilding construction contracts. The progress payments in custody will be paid over to the Group based on the progress of the shipbuilding contract.

(c) During the year ended 31 December 2011, guarantees have been given by an independent third party for the banking facilities of the Company. Guarantee deposits of approximately HK$73,800,000 (equivalent to RMB60,000,000) and guarantee fees of approximately HK$11,631,000 (equivalent to approximately RMB9,456,000) have been incurred by the Group.

The Group did not have trade receivables that were overdue but not impaired as at 31 December 2011 and 31 December 2010.

Prepayment for purchase of raw materials represents amount paid for purchase of steel plates and vessel components for shipbuilding but not yet delivered to the Group at the end of the reporting period.

The directors of the Company consider that the carrying amounts of trade, bills and other receivables and amount due from a stakeholder and amount due from a guarantor approximated to their fair values.

Movement in the allowance for doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**39,929**	—
Impairment loss recognised	**—**	39,929
At 31 December	**39,929**	39,929

At the end of the reporting period, the Group's trade receivables were individually determined to be impaired.

14. TRADE, BILLS AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**78,904**	63,309
Bills payables	**527,747**	313,689
	606,651	376,998
Advances from customers for shipbuilding contracts not yet commenced construction	**277,287**	293,045
Refund to customers for unshaped vessels written off	**366,381**	423,172
Interest payable	**2,111**	2,340
Dividend payable to former equity holders of a subsidiary	**23,425**	22,518
Consideration payable for acquisition of land use right	**46,391**	44,372
Accrual of guarantee fee to a guarantor	**11,631**	—
Contribution payables to labour union and education funds	**7,603**	5,633
Accrual of contractor fees	**20,300**	11,426
Other payables and accruals	**97,973**	26,964
	1,459,753	1,206,468

The following is an aged analysis of trade and bills payables based on invoice date or issue date, respectively, at the end of the reporting periods:

	2011	2010
	HK$'000	*HK$'000*
0 — 30 days	**232,378**	117,782
30 — 60 days	**123,039**	142,116
61 — 90 days	**66,884**	61,801
Over 90 days	**184,350**	55,299
	606,651	376,998

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Bills payables are secured by pledged bank deposits.

Non-trade payables are unsecured, non-interest bearing and repayable on demand.

CHANGE IN AUDITORS

The Company appointed ZHONGLEI (HK) CPA Company Limited as its auditor since 17 January 2012 following the resignation of Deloitte Touche Tohmatsu on 29 December 2011.

EXTRACT OF AUDIT OPINION FROM THE INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

"BASIS FOR DISCLAIMER OF OPINION

(a) **Limitation of scope affecting opening balances, results, comparative figures and related disclosures**

The former auditor of the Company issued an independent auditor's report dated 31 March 2011 with a "disclaimer of opinion" on the consolidated financial statements of the Group for the year ended 31 December 2010 (the "2010 Auditor's Report") with scope limitation in respect on the disagreement about the impairment of property, plant and equipment and prepaid lease payments and material uncertainties, details of which are set out in 2010 Auditor's Report.

We were not able to obtain sufficient reliable evidence to enable us to assess the scope limitations for the year ended 31 December 2010. Any adjustments found to be necessary to the opening balances as at 1 January 2011 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2011. The comparative figures for the year ended 31 December 2010 shown in these consolidated financial statements may not be comparable with the figures for the current year.

(b) **Impairment of property, plant and equipment and prepaid lease payments**

As mentioned in the Company's 2010 Auditor's Report, in the absence of determination of recoverable amounts of the property, plant and equipment and prepaid lease payments based on the requirement of Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the Hong Kong Institute of Certified Public Accountants ("HKAS 36"), the former auditor of the Company has qualified the amount of impairment loss to be recognised in respect of property, plant and equipment and the prepaid lease payments for the year ended 31 December 2010.

In current year, the recoverable amounts of the property, plant and equipment and prepaid lease payments were determined with reference to valuation reports issued by independent professional valuers. The determination of recoverable amounts was based on the income approach or market approach which is acceptable by HKAS 36.

However, due to the scope limitation as described in the 2010 Auditor's Report and point (a) above in respect of limitation of scope on the impairment of property, plant and equipment and prepaid lease payments, we were not provided with sufficient evidence to enable us to assess as to whether the impairment loss recognised in respect of the property, plant and equipment and prepaid lease payments for the year ended 31 December 2011 were free from material misstatement, we qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2011 in respect of this scope limitation accordingly.

(c) **Material fundamental uncertainties relating to going concern basis**

As set out in the consolidated statement of comprehensive income, the Group incurred gross loss and loss for the year attributable to owners of the Company of approximately HK$41,479,000 and HK$542,559,000 respectively, for the year ended 31 December 2011. Besides, as set out in Note 2 to the consolidated financial statements, in addition to a number of operational issues, the Group's current liabilities exceeded its current assets by approximately HK$1,119,265,000 and the Group had net liabilities of approximately HK$401,395,000 as at 31 December 2011.

As set out in Note 2 to the consolidated financial statements, the directors of the Company have been implementing various operating and financing measures to improve the Group's operating and financial position. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of those operating and financing measures being implemented by the directors of the Company. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and reclassification of non-current assets that may be necessary if the Group is unable to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

Due to the potential interaction of the above material uncertainties and their possible cumulative effect on the consolidated financial statements, we have not been able to form an opinion on the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to form an opinion on the consolidated financial statements for the year ended 31 December 2011. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

Management Discussion and Analysis

Overview

The Group is engaged in the production and operation of shipbuilding and securities trading business. For the year ended 31 December 2011, the Group recorded a revenue of HK$1,660.25 million (2010: HK$1,305.32 million), an increase of approximately 27.19% over the year 2010 due to the improvement of production efficiency. The Group's gross loss decreased by 90.14% to HK$41.48 million (2010: HK$420.81million).This was mainly due to absence of amortisation costs on intangible assets and lower foreseeable losses were recognised in the current year. The Group continue to record gross loss was mainly because of the shipbuilding market condition was difficult, the Group has negotiated with the ship-owners to ensure the successful delivery of vessels.

The Group recorded HK$16.54 million (2010: HK$22.06 million) of other income for the year ended 31 December 2011, the decrease of other income mainly because of the absence of an one-off government grants in the current year. The Group recorded a gain of HK$4.71 million (2010: loss of HK$30.12 million) of other gains and losses for the year ended 31 December 2011, it was mainly due to the absence of provision of doubtful debt of HK$39.93 million in current year. The Group has recorded HK$415.37 million impairment loss in non-current assets (2010: HK$402.60 million) for the year ended 31 December 2011. The distribution and selling expenses of HK$1.58 million (2010: HK$1.56 million) without significant change. The administrative expenses of HK$87.46 million (2010: HK$72.32 million) was in line with the increasing of revenue. The Group recorded finance costs of HK$170.33 million versus HK$154.68 million for the corresponding year. The increase mainly due to the increase in guarantee fee incurred in connection with borrowings and shipbuilding contracts, an increase in bank borrowing rates and the additional interest paid for other borrowings. To sum up, the loss for the year ended 31 December 2011 was amounting to approximately HK$542.56 million (2010: HK$867.39 million), it is decreased by 37.45% in comparing with year 2010.

Shipbuilding business

The shipbuilding industry in China faces severe challenges as the sharp decline in new orders in the year 2011. According to a recent report issued by the China Association of the National Shipbuilding Industry, the total new orders in China fell more than 50% in 2011 amid the uncertainty of global economic market. Obviously, the industry faces overcapacity. With sluggish demand for new vessels, rising costs for labour and material, appreciation of RMB and tightening credit policy imposed by the banks, the small and even medium-sized shipyards are bearing the brunt of the downturn.

During the year ended 31 December 2011, the shipbuilding business of the Group generated revenue of approximately HK$1,660.25 million to the Group, which representing an increase of approximately 27.19% as compared to approximately HK$1,305.32 million in 2010. The increase of revenue was mainly due to the increase in production efficiency. Even though the Group has strengthened its sales team and actively pursued opportunities for new orders, it is still very difficult to secure new orders during 2011 due to the new shipbuilding orders remain subdued in the industry.

The shipbuilding business recorded a loss before tax of HK$98.95 million *(before deducting impairment cost on non-current assets and finance costs)* (2010: HK$445.52 million *(before deducting amortisation and impairment cost on non-current assets and finance costs)*.The performance of shipbuilding business was mainly suffered by general delay of delivery of vessels and the results of negotiation with the ship-owners to ensure the successful delivery of vessels.

As at 31 December 2011, the secured order book comprised eighteen vessels, including three chemical carriers (reinstated contracts), thirteen heavy lift vessels and two multi-purposes vessels. During the period from the year end date to the date of this report, the Group delivered three vessels, including two heavy lift vessels and one multi-purposes vessel, to the ship-owners. The remaining vessels are scheduled for delivery up to first quarter of 2013.

Trading business

For the year ended 31 December 2011, the trading business recorded an insignificant loss of approximately HK$0.26 million (2010: HK$1.19 million). The Group suspended the metal trading business but continued to its securities trading business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$511.35 million (31 December 2010: HK$532.21 million) in which HK$360.84 million (31 December 2010: HK$389.60 million) was pledged; short term borrowings of HK$538.12 million (31 December 2010: HK$593.31 million); long term borrowings of HK$68.97 million (31 December 2010: HK$100.36 million); long term convertible notes payable amounted to approximately HK$157.14 million (31 December 2010: HK$427.29million) represented the fair value of principal amount of HK$225.00 million (31 December 2010: HK$507.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.19) at 31 December 2011 (31 December 2010: (14.02)).

CHARGES ON GROUP ASSETS

As at 31 December 2011, HK$393.31 million (31 December 2010: HK$420.66 million) of deposits, HK$156.62 million (31 December 2010: HK$180.47 million) of inventories, HK$399.63 million (31 December 2010: HK$279.58 million) of property, plant and equipment, HK$341.03 million (31 December 2010: 344.50 million) of prepaid lease payments and HK$258.94 million (31 December 2010: 240.43 million) of value-added tax recoverable, were pledged to banks for other borrowings and banking facilities granted by banks to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2011, the Group does not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Boards will continue to consider the appropriate hedging measures.

SUBSEQUENT EVENTS

On 30 January 2012, the Company entered into a settlement deed with the creditor to discharge the payment obligation of the deferred consideration of HK$200 million and its related interest upon issuance of convertible notes and promissory notes. For details, please refer to the Company's announcement dated 30 January 2012.

LITIGATION

During 2011, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd ("Shipyard"), a wholly owned subsidiary of the Company, has various arbitration proceedings in progress with three ship-buyers over the validity of rescission notices sent by them.

(1) *With Intrepid Chem ("Intrepid"):*

Intrepid requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$48 million. In May 2011, Intrepid and Shipyard have reached a settlement agreement to reinstate the contracts in arbitration while cancel another contract which is still in a preliminary stage of construction as a whole package and then informed the arbitration tribunal that the arbitrations were stayed. According to the terms of settlement agreement, the vessels in arbitration have been delivered to Intrepid during the year. The arbitration proceedings with Intrepid has fully settled and formally withdrawn in 2011. As the estimated foreseeable losses have been fully recognized in previous years, there is no material adverse financial impact to the results of the Group in 2011.

(2) *With Sloman Neptun Schiffahrts-Aktiengesellschaft ("Sloman"):*

Sloman requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$73 million. In November 2011, Sloman and Shipyard have reached a settlement agreement to reinstate all the contracts in arbitration with revised terms and then informed the arbitration tribunal that the arbitrations were stayed. According to the terms of settlement agreement, the vessels in arbitration will be delivered to Sloman before the end of June 2012. It is likely that the arbitration proceedings with Sloman will be fully settled in the mid of 2012. As the estimated foreseeable losses have been recognized in previous years, the Group considers that there is no material adverse financial impact to the results of the Group in 2011.

(3) *With Algoma Tankers International Inc. ("Algoma"):*

Alogma requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$39 million are in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and Algoma was for vessel building and payments to Shipyard for the construction services rendered. The proceeding is currently in the state of exchanging of evidence and the hearing is re-scheduled to be conducted on 3 September 2012 in England. If the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Alogma. For the sake of prudence, the Group classified the potential payments of principal and interest under current liabilities in the financial statements, the directors consider that there has already reflected the unfavourable outcomes of the arbitration.

Save as disclosed above, no member of the Group was engaged in any litigation or arbitration or claim of material importance.

HUMAN RESOURCES

The Group had around 1,240 employees as at 31 December 2011. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group has an arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of his rescission notices.

If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts up to the settlement date. As at 31 December 2011, the principal payments and the interests accrued up to 31 December 2011 of approximately HK$366 million in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position.

Other than disclosed above, the directors of the Company are of the opinion that the Group has no other material contingent liabilities as at 31 December 2011.

CAPITAL COMMITTMENTS

At 31 December 2011, the Group has capital expenditure of approximately HK$7.95 million (31 December 2010: HK$24.40million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements. There is no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

Looking into the year 2012, the directors expect that the condition of shipbuilding industry is still challenging. The global economy is unlikely to improve significantly in 2012 but the overcapacity in shipbuilding industry and shortage of new orders has continued. Certain small and even medium-sized shipyards may halt in production upon completion of their existing orders on hand. The development of the industry is likely to integrate existing capacities through mergers and acquisitions among the ship-builders in China. To face this difficult market condition, the Group continue to strengthen its internal control, enhance efficiency and reduce costs. Even though lack of new orders in 2011, the Group has continued to pursue orders actively.

In order to enhance the overall performance of the Group, the Group is actively re-evaluate its existing business operations. The Group now is under a negotiation to acquire a company engaged in the research and development, manufacture and sale of electricity meters and the provision of equipment and professional solutions for electrical systems.

The Directors will continue to reinforce the Group's financial position to leave the Group well placed when the recovery begins.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2011.

CORPORATE GOVERNANCE

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance. The Company has complied with most of the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

AUDIT COMMITTEE REVIEW OF ACCOUNTS

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2011.

PUBLICATION OF ANNUAL REPORT

The Company's 2011 annual report which contains the information required by the Listing Rules will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited in due course.

BOARD OF DIRECTORS

The Board of the Company as at the date of report comprise Mr. Chau On Ta Yuen, Mr. Li Ming, Mr. Zhang Shi Hong and Mr. Wang San Long as executive directors, Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 30 March 2012