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CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中 海 船 舶 重 工 集 團 有 限 公 司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 together with comparative figures as follows:–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Revenue	5	**1,870,304**	1,660,254
Cost of sales		**(1,909,483)**	(1,701,733)
Gross loss		**(39,179)**	(41,479)
Other income	6	**12,362**	16,538
Other gains and losses	7	**(1,448)**	4,708
Change in fair value of investments held for trading		**(320)**	(1,188)
Impairment loss recognised in respect of property, plant and equipment		**(90,617)**	(415,365)
Selling and distribution expenses		**(1,651)**	(1,580)
Administrative expenses		**(97,128)**	(83,419)
Gain on settlement of deferred consideration		**52,936**	–
Gain on modification of convertible notes payable		**–**	4,262
(Loss) gain on fair value change of convertible notes payable		**(20,949)**	51,389
Loss on extinguishment of convertible notes payable		**–**	(7,241)
Finance costs	8	**(182,100)**	(174,370)
Loss before tax	9	**(368,094)**	(647,745)
Income tax credit	10	**23,993**	105,186
Loss for the year attributable to owners of the Company		**(344,101)**	(542,559)
Exchange differences arising on translation		**(4,550)**	2,288
Total comprehensive expenses for the year attributable to owners of the Company		**(348,651)**	(540,271)
Loss per share			
– Basic and diluted	12	**(HK$0.09)**	(HK$0.15)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**577,546**	683,525
Deposit paid for acquisition of property, plant and equipment		**–**	3,136
Prepaid lease payments – non-current portion		**333,226**	339,192
Trade receivables – non-current portion	*13*	**134,200**	–
Intangible assets		**–**	–
Pledged deposits for other borrowings		**33,000**	32,472
		1,077,972	1,058,325
CURRENT ASSETS			
Inventories		**122,018**	180,369
Trade receivables – current portion	*13*	**15,750**	–
Bills and other receivables	*13*	**322,780**	577,482
Prepayment for purchase of raw materials	*13*	**324,397**	818,869
Prepaid lease payments – current portion		**1,910**	1,842
Amounts due from customers for contract work		**–**	12,880
Tax recoverable		**5,506**	5,418
Investments held for trading		**2,430**	2,750
Available-for-sale investments		**6,250**	–
Pledged bank deposits		**269,447**	360,841
Bank balances and cash		**39,854**	150,506
		1,110,342	2,110,957
CURRENT LIABILITIES			
Trade, bills and other payables	*14*	**1,160,722**	1,459,753
Amounts due to customers for contract work		**580,961**	957,515
Amounts due to related parties		**53,285**	31,588
Amount due to a director		**812**	615
Borrowings – due within one year		**608,004**	538,117
Provision for warranty		**35,530**	25,366
Deferred consideration		**–**	217,268
		2,439,314	3,230,222
NET CURRENT LIABILITIES		**(1,328,972)**	(1,119,265)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(251,000)**	(60,940)

	2012	2011
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**183,400**	183,400
Reserves	**(906,474)**	(584,795)
	(723,074)	(401,395)
NON-CURRENT LIABILITIES		
Borrowings – due after one year	**31,080**	68,972
Convertible notes payable	**278,632**	157,135
Promissory notes payable	**68,713**	–
Deferred tax liabilities	**93,649**	114,348
	472,074	340,455
	(251,000)	(60,940)

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 (hereinafter collectively known as the “Group”) was Renminbi ("RMB").

The addresses of the registered office and the principal place of business of the Company are Units 1702-1703, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") 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$344,101,000 for the year ended 31 December 2012 and, as 31 December 2012, the Group had net current liabilities and net liabilities of approximately HK$1,328,972,000 and HK$723,074,000 respectively. In addition, the Group has an arbitration proceeding in progress with one vessel owner over the validity of three rescission notices, which, if arbitration 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 contract up to the settlement date. At 31 December 2012, the principal payment and the interests accrued up to 31 December 2012 of approximately HK$372,338,000 (2011: HK$366,381,000) 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;

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;

d) The Group is in negotiation with financial institutions such as financial leasing company to obtain new borrowings;

e) The Group is seeking assistance from local government;

f) The balance due from a shipowner is expected to be recovered; and

g) The Group is in negotiation with its creditors to extend payment due date.

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") AND HONG KONG ACCOUNTING STANDARDS ("HKASs")

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2012
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the new and revised to HKFRSs and HKASs 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.

New and revised HKFRSs and HKASs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC*) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

[2] *Effective for annual periods beginning on or after 1 January 2014.*

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

[4] *Effective for annual periods beginning on or after 1 July 2012.*

[*] *IFRIC represents the International Financial Reporting Interpretation Committee*

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The *Annual Improvements to HKFRSs 2009 – 2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 *Property, Plant and Equipment* and the amendments to HKAS 32 *Financial Instruments: Presentation.*

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective 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.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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 are 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.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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 anticipate that the application of the new standard may affect certain 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 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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 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 of Hong Kong (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. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

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

b) Trading business – provision of trading and operated in Hong Kong

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2012

	Shipbuilding	Trading business	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	**1,870,304**	**–**	**1,870,304**
Segment result	**(200,294)**	**–**	**(200,294)**
Unallocated other income			**1,179**
Unallocated other gain and loss			**(1,448)**
Change in fair value of investments held for trading			**(320)**
Loss on fair value change of convertible notes payable			**(20,949)**
Gain on settlement of deferred consideration			**52,936**
Finance costs			**(182,100)**
Unallocated corporate expenses			**(17,098)**
Loss before tax			**(368,094)**

For the year ended 31 December 2011

	Shipbuilding *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Segment revenue	1,660,254	–	1,660,254
Segment result	(510,273)	(264)	(510,537)
Unallocated other income			(258)
Unallocated other gain and loss			4,708
Change in fair value of investments held for trading			(1,188)
Gain on modification of convertible notes payable			4,262
Gain on fair value change of convertible notes payable			51,389
Loss on extinguishment of convertible notes payable			(7,241)
Finance costs			(174,370)
Unallocated corporate expenses			(14,510)
Loss before tax			(647,745)

6. OTHER INCOME

	2012 ***HK$'000***	2011 *HK$'000*
Interests on bank deposits	**3,986**	8,908
Sales of scrap materials	**3,655**	7,428
Gain on settlement of other receivables	**817**	–
Government grants	**2,865**	172
Others	**1,039**	30
	12,362	16,538

7. OTHER GAINS AND LOSSES

	2012	2011
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**–**	200
Written-off of property, plant and equipment	**(7,001)**	–
Foreign exchange gain	**5,553**	4,508
	(1,448)	4,708

8. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	**41,547**	29,490
Imputed interest expense on deferred consideration	**2,643**	29,725
Imputed interest expense on promissory notes payable	**10,071**	–
Interest on bank borrowings and bill payables	**67,564**	68,151
Interest on other borrowings	**25,337**	9,956
Guarantee fee incurred in connection with bank borrowings	**25,486**	29,308
Overdue interests	**9,442**	4,041
Arrangement fee incurred in connection with other borrowings	**–**	3,342
Others	**10**	357
	182,100	174,370

9. LOSS BEFORE TAX

	2012	2011
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Directors' and chief executives' emoluments	**4,752**	4,580
Other staff costs:		
Salaries and other benefits	**66,905**	66,862
Contributions to retirement benefits scheme	**10,221**	6,586
Total staff costs	**81,878**	78,028
Auditor's remuneration		
– Current year (including non-audit service of HK$180,000 (2011: HK$240,000))	**1,180**	1,240
– Under-provision for previous year	**–**	250
	1,180	1,490
Depreciation of property, plant and equipment	**58,897**	66,888
Amortisation of prepaid lease payments	**7,234**	7,167
Minimum lease payments under operating leases in respect of rented premises	**2,005**	1,454
Shipbuilding contract costs recognised as expenses	**1,909,483**	1,701,733
Foreseeable losses recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**94,142**	47,380
Impairment loss recognised in respect of trade receivables	**794**	–
Impairment loss recognised in respect of other receivables	**1,090**	–

10. INCOME TAX CREDIT

	2012	2011
	HK$'000	*HK$'000*
Current tax	**–**	–
Deferred tax	**(23,993)**	(105,186)
	(23,993)	(105,186)

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

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

	2012	2011
	HK$'000	*HK$'000*
Loss before tax	**(368,094)**	(647,745)
Tax at applicable domestic income tax rate of 25% (2011: 25%)	**(92,024)**	(161,936)
Tax effect of expenses not deductible for tax purpose	**78,770**	67,602
Tax effect of income not taxable for tax purpose	**(14,857)**	(14,528)
Tax effect of tax loss not recognised	**2,718**	2,426
Effect of different tax rates of subsidiaries operating in other jurisdiction	**1,400**	1,250
Income tax credit for the year	**(23,993)**	(105,186)

At the end of the reporting period, the Group had unused tax losses of approximately HK$22,493,000 (2011: HK$11,621,000) 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 2012, nor has any dividend been proposed since the end of the reporting period (2011: 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:

	2012	2011
	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	**(344,101)**	(542,559)

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,667,995**	3,524,785

The computation of diluted loss per share for the years ended 31 December 2012 and 2011 does not include the outstanding share options and convertible notes as the assumed exercise has an anti-dilutive effect.

13. TRADE RECEIVABLES – NON-CURRENT PORTION AND CURRENT PORTION / BILLS AND OTHER RECEIVABLES / PREPAYMENT FOR PURCHASE OF RAW MATERIALS

	2012	2011
	HK$'000	*HK$'000*
Trade receivables – non-current portion	**134,200**	–
Trade receivables – current portion	**16,544**	39,929
Less: Allowance for doubtful debts	**(794)**	(39,929)
Trade receivables – current portion, net	**15,750**	–
Total trade receivables, net of allowance for doubtful debts	**149,950**	–
Value-added tax recoverable *(Note a)*	**148,225**	258,935
Bills receivables	**–**	394
Deposits placed with a stakeholder *(Note b)*	**1,085**	157,324
Deposits placed to a guarantor *(Note c)*	**75,000**	73,800
Deposit paid for acquisition of property, plant and equipment *(Note d)*	**3,332**	–
Other receivables	**95,138**	87,029
Total bills and other receivables	**322,780**	577,482
Prepayment for purchase of raw materials *(Note e)*	**324,397**	818,869

Notes:

(a) At 31 December 2012 and 2011, the Group's value-added tax recoverable has been pledged to a bank to secure the Group's bank borrowings.

(b) Certain vessel buyers have made progress payments 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 shipbuilding contract.

(c) Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. Guarantee deposits were approximately HK$75,000,000 (equivalent to RMB60,000,000) at 31 December 2012 (2011: HK$73,800,000 (equivalent to RMB60,000,000)).

(d) Deposit paid for acquisition of property, plant and equipment was the purchase consideration paid for the property owned by the property developer in September 2008 at approximately HK$3,332,000 (equivalent to RMB2,665,700) which located in the city of Nanchang, which recorded as deposit paid for acquisition of property, plant and equipment separately under non-current asset at 31 December 2011 amounting to approximately HK$3,136,000. The premises permit not yet obtained and the ownership of property have not been transferred to the Group as at 31 December 2012. The directors of the Company are of the opinion that the balances are considered fully recoverable from the property developer and is classified as current asset.

(e) 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 following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on delivery date at the end of the reporting periods:

	2012	2011
	HK$'000	*HK$'000*
Within three months	**23,625**	–
More than three months but not more than one year	**126,325**	–
	149,950	–

At 31 December 2012, trade receivables of approximately HK$149,950,000 represent the deferral final receivable from a ship buyer by five instalments in 5.5 years.

The Group did not have trade receivables that were overdue but not impaired at 31 December 2012 and 31 December 2011.

The directors of the Company consider that the carrying amounts of trade, bills and other receivables approximated to their fair values.

Movement in the allowance for doubtful debts:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**39,929**	39,929
Impairment loss recognised	**794**	–
Amounts written-off as uncollectible	**(39,929)**	–
At 31 December	**794**	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

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**140,535**	78,904
Bills payables	**339,721**	527,747
	480,256	606,651
Advances from customers for shipbuilding contracts not yet commenced construction	**–**	277,287
Refund to customers for unshaped vessels written-off	**372,338**	366,381
Interest payable	**2,111**	2,111
Dividend payable to former owners of a subsidiary	**554**	23,425
Consideration payable for acquisition of prepaid lease payments	**47,145**	46,391
Accrual of guarantee fee to a guarantor *(Note i and ii)*	**12,671**	11,631
Contribution payables to labour union and education funds	**9,439**	7,603
Accrual of contractor fees	**27,642**	20,300
Accrual of government funds	**33,541**	7,380
Other payables and accruals *(Note iii)*	**175,025**	90,593
	1,160,722	1,459,753

Note:

(i) The amount due to an independent third party of approximately HK$11,820,000 (equivalent to RMB9,456,000) at year ended 31 December 2012 (2011: approximately HK$11,631,000 (equivalent to RMB9,456,000)), who provided guarantee in respect of the banking facilities granted to the Group

(ii) The amount due to China Ruilian Holding Corporate ("China Ruilian") of approximately HK$851,000 (equivalent to RMB681,000) at 31 December 2012 was included in other payables in respect of shipbuilding services including guarantee issued by China Ruilian for the Group's entering of certain shipbuilding contracts. The Company's executive director, Mr. Li Ming ("Mr. Li") ceased to have any interests in China Ruilian since July 2012. (2011: amounts due to related parties approximately HK$31,588,000 (equivalent to RMB25,681,000)).

(iii) Material balances included in other payables and accruals are as follow:

(a) The Group has entered into a loan agreement of HK$50,000,000 (equivalent to RMB40,000,000) with an independent third party in July 2012. The amount is unsecured, interest free and had repaid in January 2013. (2011: approximately HK$43,223,000 (equivalent to approximately RMB35,141,000)).

(b) The Group has advances from an independent third party of HK$12,500,000 (equivalent to RMB10,000,000) at 31 December 2012. The amount is unsecured, interest free and repayable on demand. (2011: HK$12,300,000 (equivalent to RMB10,000,000)).

(c) The Group has accrual of land use tax approximately HK$13,960,000 (equivalent to approximately RMB11,170,000) at 31 December 2012. (2011: approximately HK$6,770,000 (equivalent to RMB5,500,000)).

(d) The Group has accrual of salaries approximately HK$13,680,000 (equivalent to approximately RMB10,940,000) at 31 December 2012. (2011: approximately HK$4,820,000 (equivalent to approximately RMB3,920,000)).

(e) The Group has accrual of social security for and on behalf of its employees approximately HK$18,125,000 (equivalent to approximately RMB14,500,000) at 31 December 2012. A settlement agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., and the relevant government authority on 12 March 2013 in respect of the accrued social security, all amounts should repaid before June 2014. (2011: approximately HK$4,420,000 (equivalent to approximately RMB3,590,000)).

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

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**153,932**	232,378
31 – 60 days	**124,039**	123,039
61 – 90 days	**38,168**	66,884
Over 90 days	**164,117**	184,350
	480,256	606,651

Bills payables are secured by pledged bank deposits.

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

15. COMPARATIVE FIGURES

In order to conform with the current year presentation an item in the consolidated statement of comprehensive income at 31 December 2011 has been reclassified:

Details of the restatement are provided as follows:

	Amount original stated	**Reclassification**	**Amount as restated**
	HK$'000	*HK$'000*	*HK$'000*
Administrative expenses	(87,460)	4,041	(83,419)
Finance costs	(170,329)	(4,041)	(174,370)

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

"BASIS FOR DISCLAIMER OF OPINION

1) LIMITATION OF SCOPE ON PRIOR YEAR'S SCOPE LIMITATION AFFECTING COMPARATIVE FIGURES AND RELATED DISCLOSURES

As explained in our report dated 30 March 2012 on the Group's consolidated financial statements for the year ended 31 December 2011, we were not provided with sufficient evidence to enable us to assess as to whether the impairment loss recognised in respect of property, plant and equipment and prepaid lease payments included in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2011 were free from material misstatements. 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.

Any adjustments that might have been found necessary in respect of the above would have had a consequential impact on the Group's results for the year ended 31 December 2011 and the related disclosures made in the consolidated financial statements.

2) LIMITATION OF SCOPE ON THE IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLE

As disclosed in Note 22 to the consolidated financial statements, included in the Group's net trade receivables, net of allowance for doubtful debts, of approximately HK$149,950,000 (equivalent to USD19,000,000) as at 31 December 2012 was due from a ship buyer, an independent third party of the Group, in relation to the final payment for the acquisition of seven vessels from the Group. During the year ended 31 December 2012, the revenue derived from this ship buyer was approximately HK$1,771,718,000. The directors of the Company are of the view that the Group is able to recover the outstanding balance due from that ship buyer, and therefore no impairment had been provided on such balance. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such receivable could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against this receivable as at 31 December 2012.

Any adjustments to the amount of the above trade receivables found to be necessary would affect the Group's net liabilities as at 31 December 2012 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

3) 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$39,179,000 and HK$344,101,000 respectively, for the year ended 31 December 2012. 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$1,328,972,000 and the Group had net liabilities of approximately HK$723,074,000 as at 31 December 2012.

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 and non-current liabilities 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 2012. 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. During the year under review, the weak economic fundamentals, euro zone debt crisis, and reduced availability of shipping loans continued to have adversely impact on the shipbuilding market. The newbuilding prices remained at a low level after significant decline over the past few years. 2012 proved a very challenging year for the shipyards in China.

The Group had terminated the negotiation to acquire a company engaged in the production of electricity meters and abandoned the combined harvest project.

For the year ended 31 December 2012, the Group recorded a revenue of HK$1,870.30 million (2011: HK$1,660.25 million), an increase of approximately 12.65% over the year 2011 due to the improvement of production efficiency. The Group's gross loss slightly decreased from HK$41.48 million to HK$39.18 million. The Group continued to record a gross loss mainly because the shipbuilding prices still remained at a low level.

The Group recorded HK$12.36 million (2011: HK$16.54 million) of other income and a loss of HK$1.45 million (2011: gain of HK$4.71 million) of other gains and losses for the year ended 31 December 2012. The decrease in other income was mainly due to less interest income on bank deposits whereas the loss of other gains and losses was mainly resulting by the loss on written off of fixed assets.

The Group recorded a gain of HK$52.94 million on settlement of deferred consideration because the aggregated fair value of the convertible and promissory notes issued to settle deferred consideration was less than the carrying amount of the deferred consideration at the settlement date. The Group also recorded a loss of HK$20.95 million (2011: gain of HK$55.65 million) on modification and fair value change of convertible notes payable.

The Group recorded HK$90.62 million impairment loss recognised in respect of fixed assets (2011: HK$415.37 million) for the year ended 31 December 2012 after carrying revaluation of the assets by adopting value in use approach. The distribution and selling expenses cost of HK$1.65 million (2011: HK$1.58 million) in line with the increase of revenue. The administrative expenses of HK$97.13 million (2011: HK$83.42 million) were increased by 16.43%. The increase was mainly due to certain one-off expenses such as additional land tax, impairment of other receivables and costs relating to occupational safety.

The finance costs of the Group increased by 4.43 % to HK$182.10 million from HK$174.37 million. The high level of finance costs mainly due to the banks imposed a tighter credit policy on those in the shipbuilding sector by raising collateral requirements and both interest and non-interest rate charges. In addition, the Group also faced with higher costs on obtaining liquidity from other sources such as micro lending companies and suppliers. Besides, the Group also has HK$420 million notes payable which generated significant imputed interest. The Group recorded HK$23.99 million (2011: HK$105.19 million) of tax credit. The decrease was due to less tax credit is arising from reversal of deferred taxation resulting from less impairment costs.

As at year end date, the trade receivables increased to HK$149.95 million (as at 31 December 2011: nil), primarily due to the increase of delivery of vessels during the year and the Group agreed to extend credit terms to a shipowner reflecting the continuing downtrend in the global shipbuilding industry. The Group has considered the long-term relationship with the shipowner and ensuring successfully delivery of vessels before agreeing to extend credit terms. The directors monitored the trade receivables closely.

To conclude, the loss for the year ended 31 December 2012 was amounting to approximately HK$344.10 million (2011: HK$542.56 million), it was decreased by 36.58% in comparing with year 2011.

Shipbuilding business

During 2012, the shipbuilding segment was still performing at low level amid a lack of liquidity and new orders, unfavorable payment terms and pricing pressures imposed by the ship-buyers. During the year ended 31 December 2012, the shipbuilding business of the Group generated revenue of approximately HK$1,870.30 million to the Group, representing an increase of approximately 12.65% as compared to approximately HK$1,660.25 million in 2011. The increase in revenue mainly represented an improvement in production efficiency which offsetting the newbuilding prices declined. The shipbuilding business recorded a loss before tax of HK$109.68 million *(before deducting impairment cost recognised in fixed assets and finance costs)* (2011: HK$94.91 million *(before deducting impairment cost recognized in fixed assets and finance costs)*).The increase of loss was mainly due to the decline in shipbuilding market.

During the year, the Group had delivered eleven vessels including three chemical tankers, two multi-purposes vessels and six heavy lift vessels to ship-owners and also signed a contract of constructing four multi-purposes vessels with an option of additional two. As at 31 December 2012, the secured order book comprised seven heavy lift vessels. During the period from the year end date to the date of this report, the Group delivered two heavy lift vessels to a ship owner and secured one multi-purposes vessel with an option of additional one, in addition, the six multi-purposes vessels would become effective if the ship owner could obtain financial support from its banks. Besides, certain new orders which are currently being close negotiated.

Trading business

For the year ended 31 December 2012, the trading business recorded an insignificant loss (2011: HK$0.26 million). The Group discontinued the metal trading business but continued its trading business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$309.30 million (31 December 2011: HK$511.35 million) of which HK$269.45 million (31 December 2011: HK$360.84 million) was pledged; short term borrowings of HK$608.01 million (31 December 2011: HK$538.12 million); long term borrowings of HK$31.08 million (31 December 2011: HK$68.97 million); long term convertible notes payable amounted to approximately HK$278.63 million (31 December 2011: HK$157.14 million) represented the fair value of principal amount of HK$330.00 million (31 December 2011: HK$225.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (1.49) as at 31 December 2012 (31 December 2011: (2.19)).

CHARGES ON GROUP ASSETS

As at 31 December 2012, HK$302.45 million (31 December 2011: HK$393.31 million) of deposits, HK$50.91 million (31 December 2011: HK$156.62 million) of inventories, HK$563.96 million (31 December 2011: HK$399.63 million) of property, plant and equipment, HK$335.14 million (31 December 2011: 341.03 million) of prepaid lease payment and HK$148.23 million (31 December 2011: HK$258.94 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 and United States Dollars. As at 31 December 2012, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

LITIGATION AND ARBITRATION

Jiangxi Jiangzhou Union Shipbuilding Co. Ltd (the "Shipyard"), a wholly owned subsidiary of the Company, with Sloman Neptun Schiffahrts-Aktiengesellschaft (the "Sloman") had an arbitration process related to the refund of instalments paid including interests, amounting to approximately US$73 million, on contracts to build three chemical tankers. In November 2011, Sloman and Shipyard have reached new agreements to reinstate all the contracts in arbitration with revised terms. According to the terms of agreements, the vessels in arbitration had been delivered to Sloman in June 2012. After that, the arbitration proceeding with Sloman was fully settled. The Group considered that there was no material adverse financial impact to the results of the Group in 2012.

As at the date of this report, Shipyard has an arbitration proceeding in progress with a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices. Algoma sent the rescission notices to the Shipyard on the ground that the Shipyard failed to meet the delivery date in relation to a third-party sister ship. It requested for the refund of instalments paid including interests, amounting to approximately US$40 million, on contracts to build three chemical tankers. The hearing had completed in September 2012 in England. Up to the latest practicable date of preparing this report, the arbitration panel has not yet rendered a decision in this matter but the ruling was expected to be made in 2013.

The outcome of arbitration proceedings is uncertain. If the Shipyard wins the arbitration, the Shipyard may stand to receive a compensation for the loss (including potential gains on the execution of contracts) arising from the cancellation, while if the Shipyard loses the arbitration, the Shipyard may be required to refund of the installments paid for shipbuilding, its related interests and legal fees to Algoma. For the sake of prudence, the Group classified the refund of deposits and its estimated interest under current liabilities in the financial statements. The Group considered that there has already reflected the unfavourable outcomes of the arbitration, if any.

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 1,110 employees as at 31 December 2012. 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

(a) At 31 December 2012, the Group has an arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of the 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. At 31 December 2012, the principal payments and the interests accrued up to 31 December 2012 of approximately HK$372,338,000 (2011:HK$366,381,000) in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position.

(b) At 31 December 2012, the Group has not paid the social security for and on behalf of its employees. They may be subject to the penalty by the relevant authority. The social security accrued up to 31 December 2012 of approximately HK$18,125,000 (equivalent to approximately RMB14,500,000) in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position. (2011: approximately HK$4,420,000 (equivalent to approximately RMB3,590,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd and the relevant government authority on 12 March 2013 in respect of the accrued social security, all amounts should repaid before June 2014. The directors of the Company considered that if the Group could settle the accrued social security before June 2014, no penalty would be imposed by the relevant government authority.

(c) At 31 December 2012, the Group has not paid the housing provident fund contributions for and on behalf of its employees. They may be subject to the penalty by the relevant authority. The housing provident fund contributions accrued up to 31 December 2012 of approximately HK$3,063,000 (equivalent to approximately RMB2,450,000) in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position. (2011: approximately HK$1,260,000 (equivalent to approximately RMB1,020,000)).

The accrual of housing provident fund contributions may be subject to the penalty by the relevant government authority.

Other than disclosed above, the directors of the Company are of the opinion that the Group has no other material contingent liabilities at 31 December 2012.

CAPITAL COMMITMENTS

At 31 December 2012, the Group had capital expenditure of approximately HK$3.82 million (31 December 2011: HK$7.95 million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements. There was no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

AUDITORS

During the year, the Company appointed ZHONGLEI (HK) CPA Company Limited as its auditor on 17 January 2012.

PROSPECTS

The shipbuilding market will continue to suffer from a lack of ordering activities and liquidity. A difficult operating environment is expected to continue in 2013. The Group is expected to witness continued global overcapacity and weakness in the shipbuilding financing market. It is likely that there will be integration of existing capacities in the industry through mergers and acquisitions among the shipbuilders in China. To face this difficult market condition, the Group will continue to strengthen its internal control, enhance efficiency and seeking new orders. The directors expect that a certain amount of new orders will be placed in the coming months but the construction works for new orders would not commence immediately. It seems will have a time gap for the yard to work at its full capacity in mid 2013.

In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations by examining diversification. The Directors will continue to reinforce the Group's financial position so that the Group will be well placed when the recovery begins.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

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 2012.

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 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 2012.

PUBLICATION OF ANNUAL REPORT

The Company's 2012 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 comprises 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 Siying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 28 March 2013