

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: 00651)

Interim
Report
2010

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

		Six months ended 30 June	
	Notes	2010	2009
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	581,978	600,438
Cost of sales		(667,875)	(596,668)
		(85,897)	3,770
Other income		43,098	1,585
Gain on re-measurement of convertible notes	15	40,988	—
Gain on disposal of subsidiaries		—	124
Change in fair value of investments held for trading		642	(7,941)
Impairment loss on intangible assets		(65,000)	—
Distribution and selling expenses		(834)	(462)
Administrative expenses		(34,340)	(35,195)
Finance costs	4	(67,402)	(55,825)
Loss before tax	5	(168,745)	(93,944)
Taxation	6	36,483	(7,525)
Loss for the period attributable to owners of the Company		(132,262)	(101,469)
Other comprehensive income			
Exchange differences arising on translation		—	3,118
Total comprehensive loss for the period		(132,262)	(98,351)
Loss per share - basic and diluted	7	HK(14.66) cents	HK(14.80) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	Notes	30 June 2010 <i>HK\$'000</i> (Unaudited)	31 December 2009 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		1,076,707	1,071,307
Deposit paid for acquisition of property, plant and equipment		3,029	3,029
Prepaid lease payments - non-current portion		334,394	337,899
Intangible asset	8	348,340	440,152
		1,762,470	1,852,387
Current assets			
Inventories		286,667	333,635
Trade and other receivables	9	652,854	615,640
Prepayment for purchase of raw materials		923,828	1,013,021
Prepaid lease payment - current portion		1,702	1,726
Amounts due from customers for contract work		—	34,292
Tax recoverable		1,245	5,752
Investments held for trading		3,189	1,609
Pledged bank deposits		430,919	387,031
Bank balances and cash		209,667	269,588
		2,510,071	2,662,294
Current liabilities			
Trade, bills and other payables	10	1,010,034	986,094
Amounts due to customers for contract work		1,342,120	1,411,870
Bank borrowings - due within one year	11	571,699	511,364
Provision for warranty	12	36,868	33,025
Deferred consideration	13	—	200,000
		2,960,721	3,142,353
Net current liabilities		(450,650)	(480,059)
		1,311,820	1,372,328

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
AT 30 JUNE 2010

	Notes	30 June 2010 <i>HK\$'000</i> (Unaudited)	31 December 2009 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital	14	45,105	45,105
Reserves		330,343	461,711
		<hr/> 375,448 <hr/>	<hr/> 506,816 <hr/>
Non-current liabilities			
Bank borrowings - due after one year	11	68,182	113,636
Convertible notes payable	15	399,335	416,168
Deferred consideration	13	174,136	—
Deferred tax liabilities		294,719	335,708
		<hr/> 936,372 <hr/>	<hr/> 865,512 <hr/>
		<hr/> 1,311,820 <hr/>	<hr/> 1,372,328 <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

	Share capital	Share premium	Contributed surplus	Translation reserve	Capital reserve	Convertible notes reserve	Share- based payment reserve	Statutory reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	45,105	2,840,084	528,327	84,956	802	141,547	47,694	9,716	(3,191,415)	506,816
Loss for the period and total comprehensive loss for the period	—	—	—	—	—	—	—	—	(132,262)	(132,262)
Recognition of equity-settled shared-based payment	—	—	—	—	—	—	894	—	—	894
Re-measurement of convertible notes	—	—	—	—	—	(141,547)	—	—	141,547	—
At 30 June 2010 (unaudited)	<u>45,105</u>	<u>2,840,084</u>	<u>528,327</u>	<u>84,956</u>	<u>802</u>	<u>—</u>	<u>48,588</u>	<u>9,716</u>	<u>(3,182,130)</u>	<u>375,448</u>
At 1 January 2009	33,740	2,666,673	528,327	84,956	802	162,236	42,012	—	(1,225,337)	2,293,409
Exchange difference on translation	—	—	—	3,118	—	—	—	—	—	3,118
Loss on change in fair value of available-for-sale investments	—	—	—	—	—	—	—	—	—	—
Net expense recognised directly in equity	—	—	—	3,118	—	—	—	—	—	3,118
Release on disposal of available-for-sale investments	—	—	—	—	—	—	—	—	—	—
Loss for the period	—	—	—	—	—	—	—	—	(101,469)	(101,469)
Total recognised loss for the period	—	—	—	3,118	—	—	—	—	(101,469)	(98,351)
Release of deferred tax liability upon conversion	—	—	—	—	—	3,218	—	—	—	3,218
Recognition of equity-settled shared-based payment	—	—	—	—	—	—	3,688	—	—	3,688
Placement of shares	3,400	39,645	—	—	—	—	—	—	—	43,045
Conversion of convertible notes payable	465	75,702	—	—	—	(21,616)	—	—	—	54,551
At 30 June 2009 (unaudited)	<u>37,605</u>	<u>2,782,020</u>	<u>528,327</u>	<u>88,074</u>	<u>802</u>	<u>143,838</u>	<u>45,700</u>	<u>—</u>	<u>(1,326,806)</u>	<u>2,299,560</u>

CONSENSUED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	36,949	43,599
NET CASH USED IN INVESTING ACTIVITIES	(81,356)	(364,109)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(15,514)	342,645
NET (DECREASED) INCREASE IN CASH AND CASH EQUIVALENTS	(59,921)	22,135
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	269,588	153,634
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, representing	209,667	175,769
Bank balance and cash	209,667	175,769

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. GENERAL

This unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with Hong Kong Accounting Standard 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The unaudited condensed interim financial information should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2009, which have been prepared in accordance with HKFRSs (as defined below).

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In preparing the condensed consolidated financial statements of the Group, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of approximately HK\$132 million for the six months ended 30 June 2010 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$451 million. After considering the Group’s internal financial resources, present available banking facilities, cash flows to be generated from the operating activities and the estimated net proceeds of the open offer approved by the shareholders of the Company on 16 August 2010, the directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as describe below:

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Derecognition

When an existing financial liability’s terms are modified and such modification results in the discounted present value of the cash flows under the new terms including any fees paid net of any fees received is at least 10 per cent different from the discounted present values of the remaining cash flows of the original financial liability, it is accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability or equity instrument or compound instrument with the difference, being the carrying amount of the financial liability extinguished and the fair value of the financial liability or equity instrument or compound instrument issued, recognizes in profit or loss.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Results of the Group in future periods may be affected by future transactions for which HKFRS 3(Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUES AND SEGMENT INFORMATION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for service rendered in the normal course of business, net of discounts and sales related taxes. Revenue from shipbuilding represents income arising on construction contracts for shipbuilding during the period.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker for resources allocation and performance assessment. The segments are managed separated each of the businesses, which operate in distinct geographical location, provide different types of services which requires different service information to formulate different marketing strategies. The Group's operating and reportable segment are shipbuilding and metal and securities trading.

The segment information for the six months ended 30 June 2010 is as follows:

	Ship building HK\$'000	Metal and securities trading HK\$'000	Total HK\$'000
Gross proceeds	<u>581,978</u>	<u>—</u>	<u>581,978</u>
Segment revenue	<u>581,978</u>	<u>—</u>	<u>581,978</u>
Segment result	<u>(178,384)</u>	<u>(186)</u>	<u>(178,570)</u>
Other income			42,456
Gain on change in fair value of convertible notes			40,988
Unallocated corporate expenses			(5,323)
Share-based payment expenses			(894)
Finance costs			<u>(67,402)</u>
Loss before tax			<u>(168,745)</u>

3. REVENUES AND SEGMENT INFORMATION (Continued)

The segment information for the six months ended 30 June 2009 is as follows:

	Ship building <i>HK\$'000</i>	Metal and securities trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross proceeds	600,438	4,259	604,697
Segment revenue	600,438	—	600,438
Segment result	(28,180)	(8,232)	(36,412)
Other income			1,585
Unallocated corporate expenses			(10,000)
Share-based payment expenses			(2,966)
Finance costs			(46,151)
Loss before tax			(93,944)

4. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	26,855	30,984
Imputed interest expense on deferred consideration	10,151	13,277
Bank borrowings (including bills interest)	30,396	9,674
Others	—	1,890
	67,402	55,825

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Share-based payment expense	894	3,688
Amortisation of intangibles assets (included in cost of sales)	26,810	81,317
Depreciation of property, plant and equipment	32,721	23,859
Impairment of intangible assets	65,000	—
Release of prepaid lease payments	3,529	2,443
and after crediting:		
Gain on disposal of property, plant and equipment	<u>619</u>	<u>4</u>

6. TAXATION

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

In accordance with Article 8 of the Foreign Enterprise Income Tax (“FEIT”) law of the People Republic of China (the “PRC”), foreign investment enterprises (“FIEs”) of production nature are eligible to enjoy two years of exemption and three years of 50% deduction in FEIT starting from the first profit - making year (the “2+3 tax holidays”). The fully exempted financial years of Jiangxi Union Shipbuilding Company Limited were the years ended 31 December 2007 and 2008.

Under the Law of the PRC on Enterprise Income Tax (“EIT Law”) and Implementation Regulations, Jiangxi Union Shipbuilding Company Limited continues to enjoy the preferential tax treatment (12.5% effective tax rate, i.e.50% of the applicable tax rate of 25%) for each of the years from 2009 to 2011 Thereafter, the tax rate will ratchet up to 25% from 2012.

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to equity holders of the Company	<u>(132,262)</u>	<u>(101,469)</u>
	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>902,099,651</u>	<u>685,559,873</u>

No diluted loss per share was presented for the period ended 30 June 2010 and 2009 because the exercise of both share options and convertible notes has an anti-dilutive effect.

8. INTANGIBLE ASSET

Intangible asset represents contracted and uncontracted customer relationships arising from the acquisition of Inpax Group in 2008.

The fair value of the intangible asset as at the date of acquisition was arrived using the multi-period excess earnings method under the income capitalisation approach. Under the income capitalisation approach the value of an asset reflects the future cash flows it generates. The multi-period excess earnings method assumes that the value of the asset equals to the present value of the incremental after tax cash flows attributable to the asset.

The amount will be amortised over its estimated useful life of 10 years on a straight-line basis.

9. TRADE AND OTHER RECEIVABLES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade receivables	39,475	39,475
Value-added tax recoverable	210,395	195,423
Amount receivable from a stakeholder <i>(Note)</i>	389,298	338,382
Others	13,686	42,360
	<hr/>	<hr/>
Total trade and other receivables	652,854	615,640
	<hr/> <hr/>	<hr/> <hr/>

Note: Certain ship buyers have made progress payment for ship construction contracts to a stakeholder rather than directly to the Group. The amounts received by the stakeholder will be paid over to the Group based on the progress of the contract work.

Trade receivables at the end of the reporting period represent the final instalment receivable from ship buyers which are due in November 2010. Credit period was based on mutual agreements reached between the entity and ship buyers. The Group did not have trade receivables passed due but not impaired as at 30 June 2010.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade payable	113,689	36,413
Bills payable	447,727	346,023
Advance from customers for ship construction contract	310,015	476,084
Interest payable	10,670	30,095
Consideration payable for acquisition of prepaid lease payment	42,859	42,859
Others	85,074	54,620
	<u>1,010,034</u>	<u>986,094</u>

The following is an aged analysis of trade payables and bills payables at the end of reporting periods:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
0 - 30 days	24,974	79,409
31 - 60 days	110,401	154,705
61 - 90 days	79,093	9,781
Over 90 days	346,948	138,541
	<u>561,416</u>	<u>382,436</u>

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

Bills payable are secured by pledged bank deposits.

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

11. BORROWINGS

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Bank loans:		
Secured	354,545	227,273
Unsecured	285,336	397,727
	<u>639,881</u>	<u>625,000</u>
Carrying amount repayable:		
Within one year	571,699	511,364
More than two years but not more than five years	68,182	113,636
	<u>639,881</u>	<u>625,000</u>
Less: Amounts due within one year shown under current liabilities	<u>(571,699)</u>	<u>(511,364)</u>
	<u>68,182</u>	<u>113,636</u>

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Fixed-rate borrowings:		
Within one year	525,029	397,728
In more than two years but not more than five years	68,182	113,636
	<u>593,211</u>	<u>511,364</u>

11. BORROWINGS (Continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

Effective interest rate:	
Fixed-rate borrowings	4.86% to 8.42%
Variable-rate borrowing	5.03%

The Group breached a loan covenant for a bank loan, amounted of approximately HK\$113 million arising from insufficient pledged deposits in 2009. The relevant loan was partially settled by the Group on 31 March 2010 and the bank agreed to extend the remaining balance by signing a supplement extension agreement. The outstanding balance of the relevant loan is approximately of HK\$46.7 million at the end of the reporting period.

On 16 April 2010, the Company, its wholly owned subsidiary, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd (the "Shipyard") and 江西省信用擔保股份有限公司 (the "Guarantor") entered into a deed of counter-guarantee, pursuant to which the Company agreed to indemnify and keep the Guarantor indemnified against all liabilities arising from the Guarantor's guarantee to a bank in China for a loan of RMB80 million granted by the bank to Shipyard. The balance of the loan was RMB80 million at the end of the reporting period.

12. PROVISION FOR WARRANTY

The Group provides a one-year warranty on shipbuilding and undertakes to repair or replace items that fail to perform satisfactorily. The provision is based on the historical data of the level of repairs and replacement.

13. DEFERRED CONSIDERATION

The amount as at 31 December 2009 is interest free and repayable to Million King Investments Limited on 31 January 2010 and represents HK\$200,000,000 deferred consideration payable for the acquisition of INPAX Group in 2008. The imputed interest rate is 16.25% per annum.

On 7 January 2010, it was deferred to 31 January 2011 upon the entering of another extension agreement and commences to carry interest at Hong Kong Prime rate. On 23 April 2010, the Group further entered into an agreement with Million King Investments Limited to extend the payment from 31 January 2011 to 31 January 2012.

The imputed interest rate is 15.85% per annum as at period ended 30 June 2010.

14. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.05 each as at 1 January 2010 and 30 June 2010	5,000,000,000	250,000
Issued and fully paid:		
Ordinary shares of HK\$0.05 each as at 1 January 2010 and 30 June 2010	902,099,651	45,105

15. CONVERTIBLE NOTES PAYABLE

The Company issued convertible notes in 2008. The details are as follows:

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Group. The convertible notes ("CNI") were issued on 16 April 2008 upon completion of the acquisition.

CNI comprises restricted convertible notes and unrestricted convertible notes.

The aggregate principal amount of the unrestricted convertible notes issued is HK\$2,400 million.

The aggregate initial principal amount of the restricted convertible notes issued is HK\$600 million, which is subject to downward adjustment for the potential shortfall between the guaranteed profit of HK\$600 million and the audited profit after taxation of INPAX Group for the year ended 31 December 2008. Based on the audited profit after taxation of INPAX Group of HK\$217 million, the shortfall was determined to be approximately HK\$383 million as compared to the guaranteed profit of HK\$600 million.

The difference between the principal amount of the CNI of HK\$2,617 million, representing the aggregate principal amount of the unrestricted convertible notes of HK\$2,400 million and the adjusted principal amount of the unrestricted convertible notes issued of HK\$217 million, and the fair value of the liability component of the CNI of approximately HK\$1.7 billion, represents the conversion option of approximately HK\$0.9 billion, which is credited directly to equity as convertible loan notes reserve.

The holder(s) of the restricted convertible notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into ordinary shares of the Company from 1 April 2009 to 15 April 2011 at the initial conversion price of HK\$0.15 per share, which was adjusted to HK\$7.26 following the shares placement and the share consolidation in 2009.

15. CONVERTIBLE NOTES PAYABLE (Continued)

The holder(s) of the unrestricted convertible notes may convert the whole or any part of the principal amount of the unrestricted convertible notes outstanding into ordinary shares of the Company from 16 April 2008 to 15 April 2011 at an initial conversion price of HK\$0.15 per conversion share, which was adjusted to HK\$7.26 following the shares placement and the share consolidation in 2009.

In respect of the restricted convertible note, no interest will be payable. For the unrestricted convertible note, coupon interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears.

As at 30 June 2010, the unconverted principal amount of restricted and unrestricted convertible notes is HK\$148 million and HK\$360 million, respectively.

On 27 April 2010, the Group announced to have entered into an extension letter with each of the holders of the Group's convertible notes whereby the parties agreed to extend the maturity date of the outstanding convertible notes from 15 April 2011 to 15 April 2012. With the passing of a shareholders' resolution at the special general meeting of the Company held on 25 June 2010 and the obtaining of all consents and approvals by the Stock Exchange on 29 June 2010, the maturity date of the convertible notes has been extended to 15 April 2012 (the "Extended CNI").

Upon the extension of maturity date of the outstanding convertible notes, the difference of approximately HK\$41 million between the carrying amount of CNI and the fair value of Extended CNI was charged to the consolidated statement of comprehensive income.

16. CAPITAL COMMITMENTS

	30 June 2010 HK\$'000 (Unaudited)	31December 2009 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u><u>41,575</u></u>	<u><u>45,910</u></u>

17. PLEDGE OF ASSETS

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Bank deposits	430,919	387,031
Inventories	170,455	53,290
Prepaid lease payments	36,101	—
Property, plant and equipment	145,945	79,416
Value added tax recoverable	210,395	—
	993,815	519,737

Bank deposits, inventories, prepaid lease payments, properties and plant and equipment and value added tax recoverable were pledged to banks for banking facilities granted by banks to the group.

18. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK\$1,000 in maximum of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company’s subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the relevant subsidiaries’ employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

The retirement benefit cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

19. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
In respect of rented premises:		
Within one year	1,216	—
In the second to fifth year inclusive	1,216	—
	<u>2,432</u>	<u>—</u>

20. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2010, the Group had transactions with related parties as follows:

- (1) Guarantee fees payable to a related party

The Group should pay a guarantee fee of approximately HK\$17,045,454 to China Ruilian Holding Corp. ("Ruilian Holding"), in accordance with the guarantee contracts signed between the Shipyard and China Ruilian, in respect of guarantee issued by Ruilian Holding for the Group's entering of certain shipbuilding contracts. The Company's executive director, Mr. Li Ming has beneficial interest in Ruilian Holding. The amount due to Ruilian Holding of approximately HK\$27,272,727 at the end of the reporting period was included in other payable. The amount is unsecured, interest free and repayable on demand.

- (2) Compensation of key management personnel

The remuneration of directors during the period was as follows:

	Six months ended 30 June 2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Short-term benefits	2,077	1,739
Share-based payment expenses	739	3,012
	<u>2,816</u>	<u>4,751</u>

The remuneration of directors is determined by reference to market terms, individual responsibilities and performance.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Overview

During the period under review, the Group is engaged in the production and operation of shipbuilding and trading of securities. For the six months ended 30 June 2010, the Group recorded a revenue of HK\$581.98 million (2009: HK\$600.44 million), representing a slight decrease of 3.07% as compared to the corresponding period of last year. The half-year gross loss was HK\$85.90 million (*including amortisation of intangible assets of HK\$26.81 million*) (2009: gross profit of HK\$3.77 million). The main reasons of the gross loss of the group were due to the exchange difference arising from appreciation in the value of RMB, fluctuations in the price of raw materials costs, penalties and associated additional costs arising from delay in vessels delivery and the estimated foreseeable losses in respect of the foreseeable delay. The amortisation of intangible assets was decreased by approximately HK\$54.51 million from HK\$81.32 million to HK\$26.81 million. The decrease in amortisation was due to the decrease in the carrying amount of intangible assets at the beginning of the reporting period. Other income of the Group for the six months ended 30 June 2010 amounted to approximately HK\$43.10 million (2009: 1.59 million), the other income mainly represented the gain on re-measurement of the deferred consideration due to its extension on repayment due date. The Group also recorded a gain of approximately HK\$40.99 million on re-measurement of convertible notes due to the extension of its maturity date. The Group recorded a gain of 0.64 million on the change in fair value of investments held for trading versus a loss of 7.94 million in the last corresponding period. The Group recorded an impairment loss on intangible assets of HK\$65.00 million, which mainly because of the uncertainty on the renewal of orders from the existing customers. Administrative expenses of the Group for the first half of 2010 remained at a similar level to that for the corresponding period, amounting to HK\$34.34 million (2009: HK\$35.20 million). The finance costs of the Group for the six months ended 30 June 2010 was of approximately HK\$67.40 million, at a 20.73% higher level than that of approximately HK\$55.83 million for the same period in 2009, mainly because of an increase of interest payments as a result of increase in bank borrowings and bills payable. The Group recorded a gain of approximately HK\$36.48 million on taxation versus a loss of HK\$7.53 million in the last corresponding period. The taxation gain mainly represented the release of deferred taxation arising from the extension of convertible notes, the extension of deferred consideration and impairment loss on intangible assets. The Group recorded a loss attributable to shareholders of HK\$132.26 million (2009: loss of HK\$101.47 million) for the six months ended 30 June 2010. The loss for the period under review was increased by approximately 30.4% in comparing with the same period of last year.

B. *Shipbuilding business*

For the six months ended 30 June 2010, the shipbuilding segment generated a revenue of approximately HK\$581.98 million representing a slight decrease of approximately 3.07% as compared to approximately HK\$600.44 million in the corresponding period last year. The shipbuilding segment recorded a loss of HK\$86.57 million (*before deducting impairment loss on intangible assets and amortisation of intangible assets*) (2009: profit of HK\$53.86 million). The increase of loss of shipbuilding segment was mainly due to penalties and associated additional costs arising from delay in vessels delivery and the estimated foreseeable losses in respect of the foreseeable delay. During the period under review, two customers sent rescission notices to the Group requesting for return of the principal payment for shipbuilding and interests. The principal payments for shipbuilding were for vessel building and payments to the Group for the construction services rendered. The disputes between the customers and the Group are in arbitration proceedings. The Company is of the view that no provision for the claims is required at this early stage of the arbitrations.

As at 30 June 2010, the secured order book comprised 29 vessels, including chemical carriers, heavy lift vessels and others. The outstanding order book will sustain shipbuilding operations until mid 2012.

C. *Securities trading business and others*

For the six months ended 30 June 2010, the securities trading business recorded an insignificant loss of HK\$0.18 million.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had cash and bank balances of approximately HK\$640.59 million (31 December 2009: HK\$656.62 million) in which HK\$430.92 million was pledged (31 December 2009: HK\$387.03 million); short term bank loan of HK\$571.70 million (31 December 2009: HK\$511.36 million); long term bank borrowing of HK\$68.18 million (31 December 2009: HK\$113.64 million); long term convertible notes payable amounted to approximately HK\$399.33 million (31 December 2009: HK\$416.17million) represented liabilities component of principal amount of HK\$507.55 million (31 December 2009: HK\$507.55 million). The gearing ratio defined as non-current liabilities and short term loans divided by total shareholders' equity was 4.02 at 30 June 2010 (31 December 2009: 2.72).

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

On 15 June 2010, the Company announced that not less than 451,049,825 offer shares and not more than 503,195,001 offer shares of the Company to be issued at a subscription price of HK\$0.5 each on the basis of one offer share for every two shares held, together with two bonus shares for every one offer share taken up under the open offer of the Company (the “Open Offer”). The estimated net proceeds of the Open Offer will be not less than approximately HK\$220 million and not more than approximately HK\$246.2 million. The net proceeds will be used for the repayment of debts and general working capital of the Group. The Open Offer was approved by the shareholders at a special general meeting held on 16 August 2010. The offer shares and the bonus shares are scheduled to be allotted and issued on 7 September 2010. The Open Offer has not yet been completed at the date of this report.

CHARGES ON GROUP ASSETS

As at 30 June 2010, HK\$430.92 million (31 December 2009: 387.03 million) of bank deposits, HK\$36.10 million (31 December 2009: nil) of prepaid lease payments, HK\$145.95 million (31 December 2009: 79.42 million) of property, plant and equipment, HK\$170.46 million (31 December 2009: 53.29 million) of inventories and HK\$210.40 million (31 December 2009: nil) of value added tax recoverable, were pledged to banks for banking facilities granted by banks to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Hong Kong Dollar, United States Dollars and EURO. As at 30 June 2010, the Group does not hedge its exposure foreign exchange risk profile. The Board will consider appropriate hedging measure in future as may be necessary.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review.

POST BALANCE SHEET EVENTS

As at 30 June 2010, the Group had no significant post balance sheet events.

LITIGATION

During the period under review, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group.

LITIGATION (Continued)

For the sake of transparency and to disclose claims of immaterial importance, as at the date of this report, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd (“Shipyard”), a wholly owned subsidiary of the Company, and Intrepid Chem 1021 Corp (“Intrepid”) regarding the validity of the rescission notice sent by Intrepid and its request for return of the principal payment for shipbuilding and interest, amounting to US\$24,229,634.62, in addition, the Shipyard and Sloman Neptun Schiffahrts-Aktiengesellschaft (“Sloman”) regarding the validity of the rescission notices sent by Sloman and its request for return of the principal payment for shipbuilding and interest, amounting to US\$48,684,484.75 are in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between by Shipyard and, respectively, Intrepid and Sloman (collectively the “Ship Owners”), were for vessel building and payments to Shipyard for the construction services rendered.

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 Ship Owners where (i) Shipyard might incur a loss resulting from the recoverable amount (through the disposal of the vessels to other parties) of the vessels falling short of the principal payments for shipbuilding and interests as claimed by ship Owners, or (ii) Shipyard might record a gain resulting from the recoverable amount (through the disposal of the vessels to other parties) of the vessels exceeding the principal payments for shipbuilding and interests as claimed by ship owners. As the quality of the vessels of the Group is internationally recognised and in compliance with the international standards, the Company considers that the vessels can be resold to other parties without any material discount on the market price and material modification or alteration.

HUMAN RESOURCES

The Group had around 1,320 employees as at 30 June 2010. 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

At 30 June 2010, the Group has no material contingent liabilities.

CAPITAL COMMITMENT

At 30 June 2010, the Group has capital expenditure of approximately HK\$41.58 million (31 December 2009: HK\$45.91 million) contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

PROSPECTS

Looking into the second half of 2010, the directors expected that the conditions of shipbuilding industry remain challenging. The concern about shipbuilding overcapacity still exists. More ship owners are willing to place new orders in comparing to last year but the price is still at a low level.

The Group will continue adjusting its strategy to intensify its effort on the special vessels markets, closely monitoring the negotiations with the ship-owners and take a more flexible approach to prices and delivery of existing orders and actively assists the financing of ship-owners to ensure performance of secured orders. The primary objective and focus of the Group is on the execution of the existing order book to ensure successful deliveries of the vessels.

The directors will carry out the securities trading business cautiously while the metal trading business was suspended and is likely to be discontinued because the performance of this sector was poor during the past years.

The Directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interest in ordinary shares or underlying shares of the company

At 30 June 2010, the directors of the Company had interests in ordinary shares or underlying shares (excluding share options) in the Company granted as follows:

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held
Li Ming (<i>note 1</i>)	Long position	Beneficial owner	64,695,000	—	7.17%
	Long position	Interest of controlled Corporation	12,710,000 (<i>note 2</i>)	—	1.41%
	Long position	Beneficial owner and Interest of controlled Corporation	—	116,107,500 (<i>note 3</i>)	12.87%

Note 1 Mr. Li Ming is an executive director of the Company.

Note 2 These shares are held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Li Ming.

Note 3 These are the interests in 116,107,500 offer shares and bonus shares derived from Mr. Li's undertaking to apply for the entire number of offer shares in the assured allotments in which Mr. Li and Lead Dragon Limited are beneficially interested.

OTHER INFORMATION (Continued)

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

At 30 June 2010, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

Name of Director	Company / name of associated corporation	Nature of interest	Number of ordinary shares
Chau On Ta Yuen	Company	Personal interest (Note 1)	3,000,000
Zhang Shi Hong	Company	Personal interest (Note 1)	1,000,000
Wang San Long	Company	Personal interest (Note 2)	2,600,000

Notes:

1. Such number of Shares represents the underlying shares of the options granted on 5 March 2008 under the share option scheme of the Company adopted on 27 May 2002 ("2002 Scheme").
2. Such number of Shares represents the underlying shares of the options granted on 7 May 2008 under the 2002 Scheme.

Save as disclosed above, none of the Directors or their associates had held any ordinary shares of the Company or had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 27 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

SHARE OPTION SCHEME (Continued)

At 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 34,380,000, representing 3.81% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the refreshment of the 10% limit of the Share Option Scheme, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The following share options were outstanding as at 1 January 2010 and 30 June 2010:-

Name or Category of Participant	As at 1 January 2010 and 30 June 2010	Exercise Price	Date of Grant	Exercise Period
Directors :				
Chau On Ta Yuen	1,200,000	9.00	05-03-08	05-03-08 to 04-03-18
	900,000	9.00	05-03-08	05-03-09 to 04-03-18
	900,000	9.00	05-03-08	05-03-10 to 04-03-18
Zhang Shi Hong	400,000	9.00	05-03-08	05-03-08 to 04-03-18
	300,000	9.00	05-03-08	05-03-09 to 04-03-18
	300,000	9.00	05-03-08	05-03-10 to 04-03-18
Wang San Long	1,040,000	7.15	07-05-08	07-05-08 to 06-05-18
	780,000	7.15	07-05-08	07-05-09 to 06-05-18
	780,000	7.15	07-05-08	07-05-10 to 06-05-18
Sub-total	6,600,000			
Employees :				
	1,392,000	7.15	07-05-08	07-05-08 to 06-05-18
	1,044,000	7.15	07-05-08	07-05-09 to 06-05-18
	1,044,000	7.15	07-05-08	07-05-10 to 06-05-18
Sub-total	3,480,000			
Other participants:	24,300,000	7.15	07-05-08	07-05-08 to 06-05-18
Total :	<u>34,380,000</u>			

No share option was granted, exercised, cancelled or lapsed during the six months ended 30 June 2010.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the guarantee contracts disclosed in note 20 (Related party transaction) to the accounts, no contract of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2010, so far as is known to any Director or chief executive (if any) of the Company, no other persons, (not being a Director or chief executive of the Company), had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Long position in underlying Shares of the Company

Name of Shareholders	Capacity in holding interest	Long/ short Position	Numbers of underlying Shares held	Approximate % of securities in the Company's enlarged issued share capital
Kingston Securities Limited (<i>Note 1</i>)	Beneficial interest	Long	1,393,477,503	55.38%
Galaxy Sky Investments Limited (<i>Note 2</i>)	Interest of controlled corporation	Long	1,393,477,503	55.38%
Eagle Mission Limited (<i>Note 3</i>)	Interest of controlled corporation	Long	1,393,477,503	55.38%
Active Dynamic Limited (<i>Note 4</i>)	Interest of controlled corporation	Long	1,393,477,503	55.38%
Chu Yuet Wah (<i>Note 5</i>)	Interest of controlled corporation	Long	1,393,477,503	55.38%

Notes:

- 1,393,477,503 Shares represent the maximum number of Shares underwritten by Kingston Securities Limited under the Open Offer plus the Bonus Shares derived therefrom as detailed in the Prospectus. The approximate percentage of securities in the Company's issued share capital is calculated based on the number of Shares as enlarged by the maximum number of new Shares to be allotted and issued under the Open Offer (with Bonus Issue) (i.e. 2,515,975,005 Shares).

SUBSTANTIAL SHAREHOLDERS (Continued)

Long position in underlying Shares of the Company (Continued)

2. Kingston Securities Limited is wholly owned by Galaxy Sky Investments Limited, a company incorporated in the British Virgin Islands. Accordingly, Galaxy Sky Investments Limited is deemed to be interested in the 1,393,477,503 underlying Shares of the Company. The approximate percentage of securities in the Company's issued share capital is calculated based on the number of Shares as enlarged by the maximum number of new Shares to be allotted and issued under the Open Offer (with Bonus Issue) (i.e. 2,515,975,005 Shares).
3. Galaxy Sky Investments Limited is wholly owned by Eagle Mission Limited, a company incorporated in the British Virgin Islands. Accordingly, Eagle Mission Limited is deemed to be interested in the 1,393,477,503 underlying Shares of the Company. The approximate percentage of securities in the Company's issued share capital is calculated based on the number of Shares as enlarged by the maximum number of new Shares to be allotted and issued under the Open Offer (with Bonus Issue) (i.e. 2,515,975,005 Shares).
4. Eagle Mission Limited is beneficially owned as to 80% by Active Dynamic Limited, a company incorporated in the British Virgin Islands. Accordingly, Active Dynamic Limited is deemed to be interested in the 1,393,477,503 underlying Shares of the Company. The approximate percentage of securities in the Company's issued share capital is calculated based on the number of Shares as enlarged by the maximum number of new Shares to be allotted and issued under the Open Offer (with Bonus Issue) (i.e. 2,515,975,005 Shares).
5. Active Dynamic Limited is wholly owned by Mrs. Chu Yuet Wah. Accordingly, Mrs. Chu Yuet Wah is deemed to be interested in the 1,393,477,503 underlying Shares of the Company. The approximate percentage of securities in the Company's issued share capital is calculated based on the number of Shares as enlarged by the maximum number of new Shares to be allotted and issued under the Open Offer (with Bonus Issue) (i.e. 2,515,975,005 Shares).

Save as disclosed above, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 30 June 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2010.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Si Ying, Mr. Zhang Xi Ping and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2010 interim report will be dispatched to shareholders of the Company and available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company on or before 31 August 2010.

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, Mr. Zhang Xi Ping and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 27 August 2010