

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)



2011 INTERIM
REPORT

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

		Six months ended 30 June	
	Notes	2011	2010
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	620,551	581,978
Cost of sales		(652,883)	(667,875)
		(32,332)	(85,897)
Other income		44,822	43,098
Gain on modification of convertible notes payable	14	4,262	40,988
Loss on extinguishment of convertible notes payable	14	(7,241)	—
Change in fair value of investments held for trading		596	642
Impairment loss on intangible assets		—	(65,000)
Impairment loss on property, plant and machinery		(50,000)	—
Distribution and selling expenses		(721)	(834)
Administrative expenses		(60,349)	(34,340)
Finance costs	4	(68,265)	(67,402)
Loss before tax	5	(169,228)	(168,745)
Taxation	6	11,082	36,483
Loss for the period attributable to owners of the Company		(158,146)	(132,262)
Exchange differences arising on translation		(3,687)	—
Total comprehensive loss for the period		(161,833)	(132,262)
			(restated)
Loss per share - basic and diluted	7	HK(4.68) cents	HK(12.24) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2011

	Notes	30 June 2011 <i>HK\$'000</i> (Unaudited)	31 December 2010 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		1,076,743	1,095,865
Deposit paid for acquisition of property, plant and equipment		3,212	3,136
Prepaid lease payments - non-current portion		341,089	342,732
Pledged deposits for other borrowings		31,807	31,059
		1,452,851	1,472,792
Current assets			
Inventories		324,205	348,115
Trade and other receivables	8	466,958	428,974
Prepayment for purchase of raw materials		764,079	737,330
Prepaid lease payment - current portion		1,805	1,762
Tax recoverable		5,274	5,150
Investments held for trading		4,534	3,938
Pledged bank deposits		446,046	389,603
Bank balances and cash		314,707	142,608
		2,327,608	2,057,480
Current liabilities			
Trade, bills and other payables	9	1,403,402	1,221,387
Amounts due to customers for contract work		1,208,689	863,925
Borrowings - due within one year	10	469,017	593,306
Provision for warranty	11	33,994	34,097
Deferred consideration	12	201,737	—
		3,316,839	2,712,715
Net current liabilities		(989,231)	(655,235)
		463,620	817,557

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
AT 30 JUNE 2011

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Capital and reserves			
Share capital	13	183,400	112,762
Reserves		(206,357)	(221,117)
		<u>(22,957)</u>	<u>(108,355)</u>
Non-current liabilities			
Borrowings - due after one year	10	85,337	100,360
Convertible notes payable	14	196,937	427,293
Deferred consideration	12	—	187,543
Deferred tax liabilities		204,303	210,716
		<u>486,577</u>	<u>925,912</u>
		<u>463,620</u>	<u>817,557</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	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 2011	112,762	152,321	3,368,411	96,370	—	—	43,693	20,390	(3,902,302)	(108,355)
Exchange differences on translation	—	—	—	(3,687)	—	—	—	—	—	(3,687)
Loss for the period	—	—	—	—	—	—	—	—	(158,146)	(158,146)
Total comprehensive loss for the period	—	—	—	(3,687)	—	—	—	—	(158,146)	(161,833)
Surrender of convertible notes for the subscription of new shares	70,638	176,593	—	—	—	—	—	—	—	247,231
At 30 June 2011 (unaudited)	<u>183,400</u>	<u>328,914</u>	<u>3,368,411</u>	<u>92,683</u>	<u>—</u>	<u>—</u>	<u>43,693</u>	<u>20,390</u>	<u>(4,060,448)</u>	<u>(22,957)</u>
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 share-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>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	451,075	36,949
NET CASH USED IN INVESTING ACTIVITIES	(94,856)	(81,356)
NET CASH USED IN FINANCING ACTIVITIES	(193,004)	(15,514)
NET INCREASE (DECREASED) IN CASH AND CASH EQUIVALENTS	163,215	(59,921)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	8,884	—
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	142,608	269,588
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, representing by bank balances and cash	314,707	209,667

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. BASIS OF PREPARATION

The 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 2010, which have been prepared in accordance with 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\$158 million for the six months ended 30 June 2011 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$989 million. After considering the Group’s internal financial resources, present available facilities granted by banks and other financial institutions, high probability to extend the maturity date of the deferred consideration and cash flows to be generated from the operating activities, 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.

2. PRINCIPAL ACCOUNTING POLICIES

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 2010. In addition, the Group has adopted the HK (IFRIC) - Int 19 Extinguishing Financial Liabilities with Equity Instruments during the current period. HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. The Group has entered into transactions of this nature during the period under review. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In the current period, the Group has applied the following new and revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The application of the above new and revised standards and interpretations in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

HKAS 1 (amendment)	Presentation of financial statements ³
HKAS 12 (amendment)	Deferred tax: recovery of underlying assets ²
HKAS 19 (2011)	Employee benefits ⁴
HKAS 27 (2011)	Separate financial statement ⁴
HKAS 28 (2011)	Investments in associates and joint ventures ⁴
HKFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters ¹
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated financial statements ⁴
HKFRS 11	Joint arrangements ⁴
HKFRS 12	Disclosures of interests in other entities ⁴
HKFRS 13	Fair value measurement ⁴

Notes:

- ¹ Effective for financial periods beginning on or after 1 July 2011
- ² Effective for financial periods beginning on or after 1 January 2012
- ³ Effective for financial periods beginning on or after 1 July 2012
- ⁴ Effective for financial periods beginning on or after 1 January 2013

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 2011 is as follows:

	Ship building HK\$'000	Trading business & others HK\$'000	Total HK\$'000
Segment revenue	620,551	—	620,551
Segment result	(135,827)	(27)	(135,854)
Other income			44,822
Loss on change in fair value of convertible notes			(2,979)
Unallocated corporate expenses			(6,952)
Finance costs			(68,265)
Loss before tax			(169,228)

3. REVENUES AND SEGMENT INFORMATION (Continued)

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

	Ship building <i>HK\$'000</i>	Trading business & others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	581,978	—	581,978
Segment result	(178,384)	(186)	(178,570)
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			(67,402)
Loss before tax			(168,745)

4. FINANCE COSTS

	Six months ended 30 June	
	2011 <i>HK\$'000</i> (Unaudited)	2010 <i>HK\$'000</i> (Unaudited)
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	16,211	26,855
Imputed interest expense on deferred consideration	14,194	10,151
Borrowings and others (including guarantee fee and bills interest)	37,860	30,396
	<u>68,265</u>	<u>67,402</u>

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Amortisation of intangibles assets (included in cost of sales)	—	26,810
Depreciation of property, plant and equipment	33,964	32,721
Impairment of intangible assets	—	65,000
Impairment of property, plant and equipment	50,000	—
Share-based payment expense	—	894
Release of prepaid lease payments	3,697	3,529
and after crediting:		
Gain on disposal of property, plant and equipment	—	619
	<u> </u>	<u> </u>

6. TAXATION

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

Under the Law of the People Republic of China (the “PRC”) on Enterprise Income Tax (“EIT”) and Implementation Regulations of the EIT law, the tax rate of the PRC subsidiaries is 25% effective 1 January 2008 onwards. Jiangxi Union Shipbuilding Company Limited enjoys 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 step up to 25% from 2012.

Tax credit for the period represented the reversal of deferred tax liabilities.

No deferred taxation asset has been recognised due to unpredictability of future profits streams.

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	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to equity holders of the Company	<u><u>(158,146)</u></u>	<u><u>(132,262)</u></u>
	Six months ended 30 June	
	2011	2010
	'000	'000
	(Unaudited)	(Unaudited)
		(restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u><u>3,379,202</u></u>	<u><u>1,080,625</u></u>

No diluted loss per share was presented for the period ended 30 June 2011 and 2010 because the exercise of both share options and convertible notes has an anti-dilutive effect.

Note: The weighted average of ordinary shares for the purposes of calculating basic and diluted loss per share for the six months ended 30 June 2010 have been retrospectively adjusted for the bonus element of the open offer of rights shares completed in September 2010.

8. TRADE AND OTHER RECEIVABLES

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Trade receivables	40,891	39,929
Less: Allowance for doubtful debts (<i>Note 1</i>)	(40,891)	(39,929)
	<hr/>	<hr/>
Value-added tax recoverable	—	—
Deposits placed with a stakeholder (<i>Note 2</i>)	236,559	240,434
Others	204,218	170,113
	<hr/>	<hr/>
Others	26,181	18,427
	<hr/>	<hr/>
Total trade and other receivables	466,958	428,974
	<hr/> <hr/>	<hr/> <hr/>

Note 1: In March 2011, an overseas debtor filed for insolvency. Accordingly, the trade receivable was fully provided.

Note 2: Certain vessel buyers have made progress payment for ship construction contracts to a stakeholder rather than directly to the Group. The Group has the entitlement to these progress payments in accordance with the contracts but they are placed under custody of the stakeholder to ensure these progress payments are used to pay for the costs incurred by the Group relevant to shipbuilding construction contracts. The progress payments in custody will be paid over to the Group based on the progress of the shipbuilding contract.

The Group did not have trade receivables that were overdue but not impaired as at 30 June 2011 and 31 December 2010.

9. TRADE, BILLS AND OTHER PAYABLES

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Trade payable	153,722	63,522
Bills payable	480,723	313,689
Advance from customers for ship construction contracts	174,824	293,045
Provision for refunds to customers	441,246	423,172
Interest payable	2,340	2,340
Dividend payable to former equity holders of a subsidiary	23,060	22,518
Consideration payable for acquisition of prepaid lease payment	45,441	44,372
Others	82,046	58,729
	1,403,402	1,221,387

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

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
0 - 30 days	198,618	117,995
31 - 60 days	202,834	142,116
61 - 90 days	114,464	61,801
Over 90 days	118,529	55,299
	634,445	377,211

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 and property, plant and equipment.

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

10. BORROWINGS

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Bank loans	433,735	559,754
Other borrowings	120,619	133,912
	<u>554,354</u>	<u>693,666</u>
Secured	349,535	430,136
Unsecured	204,819	263,530
	<u>554,354</u>	<u>693,666</u>
Carrying amount repayable:		
Within one year	469,017	593,306
More than one year but not more than two years	36,549	34,599
More than two years but not more than five years	48,788	65,761
	<u>554,354</u>	<u>693,666</u>
Less: Amounts due within one year shown under current liabilities	<u>(469,017)</u>	<u>(593,306)</u>
	<u>85,337</u>	<u>100,360</u>

10. BORROWINGS (Continued)

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

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Fixed-rate borrowings:		
Within one year	469,017	593,306
In more than one year but not more than two years	36,549	34,599
In more than two years but not more than five years	48,788	65,761
	<u>554,354</u>	<u>693,666</u>

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	5.84% to 8.42%
Variable-rate borrowing	N/A

In 2010, the Group breached one bank loan covenant with which the Group was required not to leverage over a certain amount of bank borrowing. The Group has obtained a waiver letter for the breach of the loan covenant in March 2011.

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 loan was fully settled during the reporting period. During the reporting period, the Shipyard, the Guarantor and Mr. Wang San Long (the "Mr. Wang"), a director of the Company, entered into a deed of counter-guarantee, pursuant to which Mr. Wang 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 RMB50 million granted by the bank to Shipyard. The balance of the loan was RMB 50 million at the end of reporting period.

11. 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.

12. DEFERRED CONSIDERATION

The amount was interest free and originally repayable on 31 December 2009 and represented HK\$200,000,000 deferred consideration payable for the acquisition of a subsidiary in 2008. On 30 November 2009, the Company entered into an agreement with the creditor, Million King Investment Limited ("Million King"), to defer its payment to 31 January 2010. On 7 January 2010, Million King further agreed to defer the repayment date to 31 January 2011 and charged interest at Hong Kong prime rate upon the entering of extension agreement. On 23 April 2010, the Group entered into another agreement with Million King to further extend the payment from 31 January 2011 to 31 January 2012. The imputed interest rate was 15.85% per annum at 30 June 2011.

13. SHARE CAPITAL

The following is a summary of the authorised share capital and the issued share capital of the Company.

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Authorised:		
20,000,000,000 (2010: 5,000,000,000) ordinary shares of HK\$0.05 each (<i>Note 1</i>)	1,000,000	250,000
	'000	'000
Issued and fully paid:		
3,667,994,886 (2010: 2,255,249,126) ordinary shares of HK\$0.05 each (<i>Note 2</i>)	183,400	112,762

Note 1: Pursuant to an ordinary resolution at the annual general meeting held on 23 June 2011, the authorised share capital of the Company was increased from HK\$250,000,000 divided into 5,000,000,000 shares to HK\$1,000,000,000 divided into 20,000,000,000 shares by the creation of additional 15,000,000,000 shares.

Note 2: During the period under review, certain convertible note holders surrendered approximately HK\$282.55 million of convertible notes for the subscription of 1,412,745,760 new shares.

14. 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\$4.30 following the shares placement in 2009, the share consolidation in 2009 and the open offer and the related bonus element become effective in 2010.

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\$4.30 following the shares placement in 2009, the share consolidation in 2009 and the open offer and the related bonus element become effective in 2010.

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.

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” or “CNII”).

14. CONVERTIBLE NOTES PAYABLE (Continued)

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 with extended maturity date of 15 April 2012 was charged to the consolidated statement of comprehensive income.

On 21 December 2010, the Group entered into subscription agreements with certain holders of CNII to surrender the CNII notes held by them of principal amount of approximately HK\$282,549,000 in consideration for the subscription of 1,412,745,760 shares of the Company having a par value of HK\$0.05 each at a subscription price of HK\$0.2 per subscription share. For the remaining portion with principal amount of HK\$225,000,000, the Company entered into a deed with the note holders that i) the conversion price is reduced from HK\$4.3 per share to HK\$0.22 per share; and ii) the maturity date is extended from April 2012 to April 2014. Other terms and conditions remain unchanged. The transaction became unconditional upon consents and approval obtained from the Stock Exchange on 31 January 2011 and shareholders at a special general meeting held on 28 January 2011.

The fair value of the Company's shares issued to settle CNII with principal amount of approximately HK\$282,549,000 through the share subscription was approximately HK\$247,231,000 based on the closing price of the Company's shares on 31 January 2011 of HK\$0.175 each. The excess of HK\$7,241,000, representing the difference between the fair value of the Company shares and the carrying amount of HK\$239,990,000, would be recognised by the Group as a loss of extinguishment of part of CNII in the consolidated statement of comprehensive income for the period ended 30 June 2011.

The modification of the terms of the remaining portion of CNII explained in above represents an extinguishment of CNII with principal amount of HK\$225,000,000 and recognition of new convertible notes ("CNIII"). The excess of the fair value of CBIII at 31 January 2011, over the carrying amount of the remaining CBII has been charged to the consolidated statement of comprehensive income during the reporting period.

15. COMMITMENTS

(a) 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 in respect of rented premises which fall due as follows:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Within one year	970	1,013
In the second to fifth year inclusive	—	464
	970	1,477

(b) CAPITAL COMMITMENTS

At 30 June 2011, the Group has capital expenditure of approximately HK\$18.73 million (31 December 2010: HK\$24.40 million) contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

16. PLEDGE OF ASSETS

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Deposits	477,853	420,662
Inventories	153,550	180,471
Prepaid lease payments	342,894	344,495
Property, plant and equipment	277,350	279,583
Value added tax recoverable	236,559	240,434
	1,488,206	1,465,645

Deposits, inventories, prepaid lease payments, properties and plant and equipment and value added tax recoverable were pledged to banks and other financial institutions for borrowings and facilities granted by them to the group. The pledge on the bank deposits will be released upon the settlement of relevant bills payable.

17. 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.

18. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2011, the Group had transactions with related parties as follows:

- (1) Guarantee fees payable to a related party

The Group did not pay guarantee fee (2010: HK\$17.05 million) to China Ruilian Holding Corp. (“Ruilian Holding”) during the reporting period. 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\$15.06 million (2010: HK\$14.71 million) 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	
	2011	2010
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Short-term benefits	2,448	2,077
Share-based payment expenses	—	739
	<u>2,448</u>	<u>2,816</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 2011, the Group recorded a revenue of HK\$620.55 million (2010: HK\$581.98 million), representing an increase of 6.63% as compared to the corresponding period of last year. The Group's gross loss decreased by 62.36% to HK\$32.33 million (2010: gross loss of HK\$85.90 million). This was mainly due to absence of amortisation costs on intangible assets and lower foreseeable losses were recognised in the current period. During the period under review, the Group received an one-off grants of HK\$26.19 million from government and recorded exchange gain of HK\$6.82 million on the translation of monetary items for the entities recorded transactions other than the Group's functional currency. These gains were setoff against a gain of HK\$36.01 million on re-measurement of deferred consideration in corresponding period of last year. As a result, the Group's other income slightly increased by 3.99% to HK\$44.82 million (2010: HK\$43.10 million) as higher interest income received. The administrative expenses of the Group were increased from HK\$34.34 million to HK\$60.35 million. This was primarily due to the Group has paid HK\$26.19 million additional land use tax to government during the period under review. The finance costs of the Group for the six months ended 30 June 2011 was of approximately HK\$68.27 million, remained at a similar level with that of approximately HK\$67.40 million for the same period in 2010. The Group recorded a gain of approximately HK\$11.08 million (2010: HK\$36.48 million) on taxation. This was primarily due to lower tax credit arising from reversal of deferred taxation.

The Group recorded a loss attributable to shareholders of HK\$158.15 million (2010: loss of HK\$132.26 million) for the six months ended 30 June 2011. The loss for the period under review was increased by approximately 19.58% in comparing with the same period of last year.

B. *Shipbuilding business*

In the first half of 2011, the concerns were growing for the volatility and uncertainty about prospects for global economy. As the shipbuilding market has highly correlated with the world economy, the recovery of shipbuilding business was slowing down. Coupled with the over supplies of new vessels, the appreciation in the value of Renminbi and the increase in labour costs, the operating environment remains challenging. In the first half of this year, the Group has strengthened its production by replacing old staff and improving the control measures. In addition, the Group also re-negotiated the terms with ship-buyers. These measures are likely to improve the general delay in delivery of vessels.

For the six months ended 30 June 2011, the shipbuilding segment generated revenue of approximately HK\$620.55 million representing an increase of approximately of 6.63% as compared to approximately HK\$581.98 million in the corresponding period last year. The shipbuilding segment recorded a loss of HK\$135.83 million (2010: loss of HK\$178.38 million). This was mainly due to absence of amortisation costs. The Group still recorded a gross loss was mainly due to the exchange difference arising from appreciation in the value of Renminbi, certain terms of contracts were revised to secure the successful delivery of vessels and lower shipbuilding prices.

As at 30 June 2011, the secured order book comprised 19 vessels, including 3 chemical carriers (including reinstated contracts), 14 heavy lift vessels and 2 multi-purposes vessels. These vessels are scheduled for delivery up to first quarter of 2013.

C. *Securities trading business and others*

For the six months ended 30 June 2011, the securities trading business recorded an insignificant loss of approximately HK\$27,000.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had cash and bank balances of approximately HK\$760.75 million (31 December 2010: HK\$532.21 million) in which HK\$446.05 million was pledged (31 December 2010: HK\$389.60 million); short term borrowings of HK\$469.02 million (31 December 2010: HK\$593.31 million); long term borrowing of HK\$85.34 million (31 December 2010: HK\$100.36 million); long term convertible notes payable amounted to approximately HK\$196.94 million (31 December 2010: HK\$427.29 million) represented liability and equity component of principal amount of HK\$225.00 million (31 December 2010: HK\$507.00million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was 56.66 at 30 June 2011 (31 December 2010: (14.02)).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar, United States Dollars and Euro. As at 30 June 2011, the Group does not hedge its exposure foreign exchange risk profile as the Group could not find a tool suitable to manage this exposure. The Board will continue to consider the appropriate hedging measures.

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 2011, the Group had no significant post balance sheet events.

LITIGATION AND ARBITRATION

As at the date of this report, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd (“Shipyard”), a wholly owned subsidiary of the Company, has various arbitration proceedings in progress with three ship-buyers over the validity of rescission notices sent by them. The ship-buyers sent the rescission notices to the Shipyard on the ground that the Shipyard failed to meet the contracted delivery date.

(1) *Intrepid Chem (“Intrepid”)*:

Intrepid requested for return of the principal payment for shipbuilding and interest, amounting to approximately US\$48 million. During the period under review, Intrepid and shipyard have reached settlement agreements to reinstate the contracts in arbitration while cancelled another contract which was still in a preliminary stage of construction as a whole package and then informed the arbitration tribunal that the arbitrations were stayed. According to the terms of agreement, a vessel in arbitration has been delivered to Intrepid and the arbitration with Intrepid has fully settled in August 2011. As the estimated foreseeable losses have been fully recognized in previous years, the directors consider that there is no material financial impact to the results of the Group.

(2) *Sloman Neptun Schiffahrts-Aktiengesellschaft (“Sloman”)*:

Sloman requested for return of the principal payment for shipbuilding and interest, amounting to approximately US\$73 million. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and, Sloman was for vessel building and payments to Shipyard for the construction services rendered. The proceeding is currently in the stage of exchanging of witness statements and the hearing is scheduled to be conducted on 12 December 2011 in England. If the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Sloman. 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 Sloman. As the quality of the vessels of the Group is internationally recognised and in compliance with the international standards, the directors consider that the vessels can be resold to other parties without any material discount on the market price and material modification or alteration.

(3) *Algoma Tankers International Inc. (“Algoma”)*:

Algoma requested for return of the principal payment for shipbuilding and interest, amounting to approximately US\$39 million are in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and Algoma was for vessel building and payments to Shipyard for the construction services rendered. The proceeding is currently in the stage of exchanging of evidence and the hearing is scheduled to be conducted on 19 July 2012 in England. If the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Algoma.

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 1,330 employees as at 30 June 2011. It has been the Group’s policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group’s salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group has various arbitration proceedings in progress with three ship-buyers over the validity of rescission notices sent by them.

If the result of the arbitrations 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, which amount to approximately HK\$588 million (excluding the reinstated contracts) (31 December 2010: HK\$773 million) in aggregate, to the ship-buyers.

PROSPECTS

Looking into the second half of 2011, the directors expect that the conditions of shipbuilding industry remain challenging. The concern about shipbuilding overcapacity remains exist. To face this difficult situation, the Group strengthens its internal control, enhance efficiency and reduce costs. The Group also strengthens its sale team and actively pursues opportunities for new orders. As the western countries' economy have still not recovered and the sovereign debt crises may lead them into recession, the Group has been actively seeking domestic shipbuilding orders instead of solely depends on international market. Over past years development, the Group's infrastructure facilities and the skill of labour have been improved. In light of these advantages, the Group considers that there has a comparative advantage in competing new contracts.

The directors will carry out the securities trading business cautiously and 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 2011, 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 2011, the directors of the Company had interests in ordinary shares in the Company granted as follows:

Name	Long/Short position	Capacity	Number of ordinary shares held	Approximate percentage of the issued shares held
Li Ming (<i>note 1</i>)	Long position	Beneficial owner	209,912,500	5.72%
	Long position	Interest of controlled Corporation	31,775,000 (<i>note 2</i>)	0.87%
	Long position	Beneficial owner and Interest of controlled Corporation	—	6.59%

OTHER INFORMATION (Continued)

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

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.

At 30 June 2011, 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	Exercise price
Chau On Ta Yuen	Company	Personal interest (<i>Note 1</i>)	4,743,000	HK\$5.693
Zhang Shi Hong	Company	Personal interest (<i>Note 1</i>)	1,581,000	HK\$5.693
Wang San Long	Company	Personal interest (<i>Note 2</i>)	4,110,600	HK\$4.523

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.

At 30 June 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 46,449,780, representing 1.27% 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 2011 and 30 June 2011:

Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Number of share options		
				Outstanding at 1.1.2011	Movement during the period (Note 2)	Outstanding at 30.06.2011
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK\$5.693	2,529,600	—	2,529,600
		5 March 2009 to 4 March 2018	HK\$5.693	1,897,200	—	1,897,200
		5 March 2010 to 4 March 2018	HK\$5.693	1,897,200	—	1,897,200
				6,324,000	—	6,324,000

SHARE OPTION SCHEME (Continued)

Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Number of share options		
				Outstanding at 1.1.2011	Movement during the period (Note 2)	Outstanding at 30.06.2011
	7 May 2008	7 May 2008 to 6 May 2018	HK\$4.523	1,644,240	—	1,644,240
		7 May 2009 to 6 May 2018	HK\$4.523	1,233,180	—	1,233,180
		7 May 2010 to 6 May 2018	HK\$4.523	1,233,180	—	1,233,180
				4,110,600	—	4,110,600
				10,434,600	—	10,434,600
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK\$4.523	935,952	—	935,952
		7 May 2009 to 6 May 2018	HK\$4.523	701,964	—	701,964
		7 May 2010 to 6 May 2018	HK\$4.523	701,964	—	701,964
				2,339,880	—	2,339,880
Other participants	7 May 2008	7 May 2008 to 6 May 2018	HK\$4.523	33,675,300	—	33,675,300
				46,449,780	—	46,449,780
				46,449,780	—	46,449,780

Notes:

- The initial exercise prices of the shares options granted on 5 March 2008 and 7 May 2008 are HK\$0.18 and HK\$0.143 respectively. Upon the share consolidation became effective on 25 June 2009 and the open offer and the related bonus element become effective on 7 September 2010, the exercise prices of shares options were adjusted to HK\$5.693 and HK\$4.523 accordingly.
- No share option was granted, exercised, cancelled or lapsed during the six months ended 30 June 2011.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the guarantee contracts disclosed in note 18 (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 2011, 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.

Name	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares
Ng Leung Ho	450,000,000	0	12.26%
Di Yun Fei	0	409,090,909	11.15%
Yang Li	150,590,535	204,545,454	9.68%

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 2011.

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 period.

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 this report comprises Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Company as at the date of this report comprises three independent non-executive directors, Ms. Xiang Xing, Ms. Xiang Si Ying and Mr. Hu Bai He. Ms. Xiang Xing has been appointed as the Chairman of Remuneration Committee on 15 August 2011.

BOARD OF DIRECTORS

The Board of the Company as at the date of this 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 Si Ying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 30 August 2011