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

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of China Ocean Shipbuilding Industry Group Limited (the "Company") announced the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**833,004**	620,551
Cost of sales		**(802,851)**	(652,883)
Gross profit (loss)		**30,153**	(32,332)
Other income		**9,281**	44,822
Other gains and losses		**7,966**	–
Gain on settlement of deferred consideration		**52,936**	–
Gain on modification of convertible notes payable		**–**	4,262
Loss on extinguishment of convertible notes payable		**–**	(7,241)
Change in fair value of investments held for trading		**(1,339)**	596
Impairment loss recognised in respect of property, plant and equipment		**–**	(50,000)
Selling and distribution expenses		**(792)**	(721)
Administrative expenses		**(43,362)**	(60,349)
Finance costs	4	**(89,661)**	(68,265)
Loss before tax	5	**(34,818)**	(169,228)
Income tax credit	6	**1**	11,082
Loss for the period attributable to owners of the Company		**(34,817)**	(158,146)
Exchange differences arising on translation		**678**	(3,687)
Total comprehensive expenses for the period attributable to owners of the Company		**(34,139)**	(161,833)
Loss per share – basic and diluted	7	**HK(0.95) cents**	HK(4.68) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**669,170**	683,525
Deposit paid for acquisition of property, plant and equipment		**3,420**	3,136
Prepaid lease payments – non-current portion		**337,555**	339,192
Trade receivables – non-current portion	8	**70,678**	–
Pledged deposits for other borrowings		**32,208**	32,472
		1,113,031	1,058,325
Current assets			
Inventories		**104,255**	180,369
Trade, bills and other receivables	8	**454,573**	577,482
Prepayment for purchase of raw materials	8	**590,065**	818,869
Prepaid lease payments – current portion		**1,864**	1,842
Amounts due from customers for contract work		**–**	12,880
Tax recoverable		**5,374**	5,418
Investments held for trading		**1,412**	2,750
Pledged bank deposits		**225,790**	360,841
Bank balances and cash		**138,988**	150,506
		1,522,321	2,110,957
Current liabilities			
Trade, bills and other payables	9	**1,044,510**	1,459,753
Amounts due to customers for contract work		**1,003,082**	957,515
Amount due to a related party		**221**	31,588
Amount due to a director		**756**	615
Borrowings – due within one year		**483,228**	538,117
Provision for warranty		**43,981**	25,366
Deferred consideration		**–**	217,268
		2,575,778	3,230,222
Net current liabilities		**(1,053,457)**	(1,119,265)
Total assets less current liabilities		**59,574**	(60,940)

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Capital and reserves		
Share capital	**183,400**	183,400
Reserves	**(618,934)**	(584,795)
	(435,534)	(401,395)
Non-current liabilities		
Borrowings – due after one year	**49,596**	68,972
Convertible notes payable	**265,086**	157,135
Promissory notes payable	**67,726**	–
Deferred tax liabilities	**112,700**	114,348
	495,108	340,455
	59,574	(60,940)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as 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 (the "Stock Exchange"). The unaudited condensed interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2011, which have been prepared in accordance with 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 loss before tax of approximately HK$34.82 million for the six months ended 30 June 2012 and, as of that date, the Group's had net current liabilities and net liabilities of approximately HK$1,053.46 million and HK$435.53 million respectively. After considering the Group's internal financial resources, present available facilities granted by banks and other parties, engagement of legal counsels to defend the arbitration, actively pursuing new customers, imposing cost control measures and negotiating with the local government for providing assistance, 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 unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs and Hong Kong Accounting Standards ("HKAS"s) issued by the HKICPA:

Amendment to HKFRS 1	First-time Adoption of Hong Kong Financial Report in Standards- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendment to HKFRS 7	Financial Instruments: Disclosures – Transfer of Financial Assets
Amendment to HKFRS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to HKRFSs and HKASs in the current interim 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 and revised HKASs, HKFRSs, amendments and interpretation ("INT") that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
	Mandatory effective date of HKFRS 9 and transition disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
HK(IFRIC*) – INT 20	Stripping costs in the production phase of a surface mine[1]

* *IFRIC represents the International Financial Reporting Interpretations Committee*

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

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

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

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

Save as disclosed in the annual report of the Company for the year ended 31 December 2011, the directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

3. REVENUE 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 both periods.

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 trading business.

The segment information for the six months ended 30 June 2012 is as follows:

	Shipbuilding	Trading business	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	**833,004**	**–**	**833,004**
Segment result	**7,423**	**(334)**	**7,089**
Unallocated other income			**4,561**
Change in fair value of investments held for trading			**(1,339)**
Gain on settlement of deferred consideration			**52,936**
Unallocated corporate expenses			**(8,404)**
Finance costs			**(89,661)**
Loss before tax			**(34,818)**

The segment information for the six months ended 30 June 2011 is as follows:

	Shipbuilding *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Segment revenue	620,551	–	620,551
Segment result	(135,827)	(27)	(135,854)
Unallocated 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)

4. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	**18,731**	16,211
Promissory notes payable at effective interest rates	**3,852**	–
Imputed interest expense on deferred consideration	**2,643**	14,194
Borrowings and others (including guarantee fee, arrangement fees and bills payables)	**64,435**	37,860
	89,661	68,265

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**36,824**	33,964
Amortisation of prepaid lease payments	**3,617**	3,697
Loss (gain) on disposal of property, plant and equipment	**589**	(200)
Shipbuilding contract costs recognised as expenses	**802,851**	652,883

6. INCOME TAX CREDIT

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's Republic of China (the "PRC") on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

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

No deferred tax 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 owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**(34,817)**	(158,146)

	Six months ended 30 June	
	2012	2011
	’000	*’000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,667,995**	3,379,202

The computation of diluted loss per share for the periods ended 30 June 2012 and 2011 does not include the share options and convertible notes as the assumed exercise of these share options and convertible notes has an anti-dilutive effect.

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

	30 June	31 December
	2012	2011
	HK$’000	*HK$’000*
	(Unaudited)	(Audited)
Total trade receivables	**118,460**	39,929
Trade receivables – non-current portion	**(70,678)**	–
Trade receivables	**47,782**	39,929
Less: Allowance for doubtful debts *(Note a)*	**(39,929)**	(39,929)
	7,853	–
Value-added tax recoverable	**202,251**	258,935
Bills receivables	**122**	394
Deposits placed with a stakeholder *(Note b)*	**83,379**	157,324
Deposits placed to a guarantor *(Note c)*	**73,200**	73,800
Other receivables	**87,768**	87,029
Total trade, bills and other receivables	**454,573**	577,482
Trade receivables		
– non-current portion	**70,678**	–
– current portion	**7,853**	–
	78,531	–
Prepayment for purchase of raw materials	**590,065**	818,869

Note:

a. In March 2011, a sole overseas debtor filed for insolvency. Accordingly, it was fully provided.

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

c. Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. Guarantee deposits were approximately HK$73,200,000 (equivalent to RMB60,000,000) and HK$73,800,000 (equivalent to RMB60,000,000) at 30 June 2012 and 31 December 2011 respectively.

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

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one month	**–**	–
More than one month but not more than three months	**15,706**	–
More than three months	**62,825**	–
	78,531	–

During the period ended 30 June 2012, trade receivables represent the deferral final receivable from ship buyers in five instalments. The average credit period was 1 – 1.5 years for each instalment.

At 31 December 2011, the average credit period was based on mutual agreements reached between the entity and ship buyers which vary case by case.

The Group did not have trade receivables that were overdue but not impaired at 30 June 2012 and 31 December 2011.

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

9. TRADE, BILLS AND OTHER PAYABLES

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Trade payables	**83,787**	78,904
Bills payables	**348,737**	527,747
	432,524	606,651
Advances from customers for shipbuilding contracts not yet commenced construction	**28,945**	277,287
Refund to customers for unshaped vessels written-off	**363,402**	366,381
Interest payable	**2,111**	2,111
Dividend payable to former owner of a subsidiary	**124**	23,425
Consideration payable for acquisition of prepaid lease payments	**46,014**	46,391
Accrual of guarantee fee to a guarantor	**–**	11,631
Contribution payables to labour union and education funds	**8,309**	7,603
Accrual of contractor fees	**36,663**	20,300
Other payables and accruals	**126,418**	97,973
	1,044,510	1,459,753

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
0 – 30 days	**48,139**	232,378
30 – 60 days	**181,139**	123,039
61 – 90 days	**3,522**	66,884
Over 90 days	**199,724**	184,350
	432,524	606,651

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

Bills payable are secured by pledged bank deposits.

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

MANAGEMENT DISCUSSION AND ANALYSIS

A. Overview

The Group is engaged in the production and operation of shipbuilding and trading of securities. During the period under review, the weak global economic situation and in particular the general uncertainty resulting from the unresolved sovereign debt crisis in the euro-zone that are impacting shipbuilding market. The prices of ships dropped. However, the improvement in production efficiency of the Group mainly led to a 34.2% increase in the Group's revenues, from HK$620.55 million to HK$833.00 million, and turned from a gross loss of HK$32.33 million to a gross profit of HK$30.15 million in comparing with the same period of last year. The other income and gain of the Group decreased from HK$44.82 million to HK$17.25 million, mainly due to the absence of grants of HK$26.79 million from government. The Group recorded a gain of HK$52.94 million on settlement of deferred consideration because the aggregated fair value of the convertible and promissory notes issued to settle deferred consideration was less than the carrying amount of the deferred consideration at the settlement date. The administrative expenses of the Group were decreased from HK$60.35 million to HK$43.36 million, primarily due to the absence of an additional land use tax paid. The finance costs of the Group increased by 31.3% to HK$89.66 million from HK$68.27 million. The increase was mainly due to the Group faced with higher costs on obtaining funds from banks and other parties, resulting from most banks imposed tightening credit policy on shipbuilding sector. Some banks even tightened contractual conditions, such as increase in collateral requirements, required additional guarantees and non-interest rate charges. The Group recorded an insignificant amount (2011: HK$11.08 million) of tax credit because no tax credit is arising from reversal of deferred taxation.

In conclusion, the Group recorded a loss attributable to shareholders of HK$34.82 million (2011: loss of HK$158.15 million) for the six months ended 30 June 2012. The loss for the period under review was decreased by approximately 78.0% in comparing with the same period of last year. It was mainly due to the improvement in profit margins, the gain on settlement of deferred consideration and the absence of impairment loss recognised on property, plant and equipment.

B. Shipbuilding business

In the first half of 2012, shipbuilding industry in China continued to face difficulties as the placement of new orders for vessels declined about 50%, as compared to the same period of last year. Shipyards are engaged in fierce competition to win new orders in the markets. As a result, they struggled with less favorable payment terms and pricing pressures imposed by the ship-buyers. The private-owned enterprises also faced difficulties in securing loans from banks as most banks were tightening their credit policy. Overcapacity and tight credit created risk of closure of business in Chinese shipbuilding market. Certain small and medium sized shipyards have halted production and/or initiated the process for restructuring.

Despite tough market conditions, the shipbuilding sector of the Group still achieved 34.2% growth in revenues and recorded a slight profit before finance costs. This was mainly due to the Group's efforts on improving production efficiency and imposing costs control measures. After the Group strengthened its operating efficiency and re-negotiated the terms with ship-buyers, the problem of delay in delivery of vessels had solved in 2012.

For the six months ended 30 June 2012, the shipbuilding segment generated revenue of approximately HK$833.00 million representing an increase of approximately of 34.2% as compared to approximately HK$620.55 million in the corresponding period last year. The increase in revenue was mainly due to the improvement in production efficiency. During the reporting period, the vessels were delivered to ship-buyers in accordance with the delivery schedule. It caused an insignificant foreseeable losses recognised in the current period. In line with the absence of material foreseeable losses, the Group turned from a gross loss of HK$32.33 million to a gross profit of HK$30.15 million. The shipbuilding segment recorded a profit of HK$7.42 million (2011: loss of HK$135.83 million).

As at 30 June 2012, the secured order book comprised ten heavy lift vessels which are scheduled for delivery up to the mid of 2013. In addition, certain new orders which are currently being negotiated and is likely to be concluded in the near future.

C. Trading business

For the six months ended 30 June 2012, the trading business recorded a loss of approximately HK$334,000 (2011: 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 2012 (2011: Nil).

SHARE CAPITAL

There was no movement in share capital during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$396.99 million (31 December 2011: HK$543.82 million) in which HK$225.79 million (31 December 2011: HK$360.84 million) was pledged; short-term borrowings of HK$483.23 million (31 December 2011: HK$538.12 million); long-term borrowings of HK$49.60 million (31 December 2011: HK$68.97 million); long-term promissory notes payable amounted to approximately HK$67.73 million (31 December 2011: Nil); long-term convertible notes payable amounted to approximately HK$265.09 million (31 December 2011: HK$157.14 million) represented the fair value of principal amount of HK$330.00 million (31 December 2011: HK$225.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.25) at 30 June 2012 (31 December 2011: (2.19)).

CHARGES ON GROUP ASSETS

As at 30 June 2012, HK$258.00 million (31 December 2011: HK$393.31 million) of deposits, HK$49.69 million (31 December 2011: HK$156.62 million) of inventories, HK$421.01 million (31 December 2011: HK$399.63 million) of property, plant and equipment, HK$339.42 million (31 December 2011: 341.03 million) of prepaid lease payments and HK$202.25 million (31 December 2011: 258.94 million) of value-added tax recoverable, were pledged to banks or other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and Euro. As at 30 June 2012, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

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 2012, the Group had no significant post balance sheet events.

LITIGATION AND ARBITRATION

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

As at the date of this report, Shipyard has an arbitration proceeding in progress with a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices. Algoma sent the rescission notices to the Shipyard on the ground that the Shipyard failed to meet the delivery date in relation to a third-party sister ship. It requested for the refund of instalments paid including interests, amounting to approximately US$39 million, on contracts to build three chemical tankers. The hearing is scheduled to be heard in September 2012 in England. As at the date of this report, the Shipyard and its legal counsels have well-prepared to handle the arbitration matters. If the Shipyard wins the arbitration, the Shipyard may stand to make a significant amount of compensation, while if the Shipyard loses the arbitration, the Shipyard may be required to refund of the installments paid for shipbuilding, its related interests and legal fees to Algoma. For the sake of prudence, the Group classified the refund of deposits and its interest under current liabilities in the financial statements. The Group considered that there has already reflected the unfavourable outcomes of the arbitration, if any.

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

HUMAN RESOURCES

The Group had around 1,200 employees as at 30 June 2012. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group has an arbitration proceeding in progress with a ship-buyer in respect of three vessels over his validity of the rescission notices.

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 up to the settlement date. The principal payments and the interests accrued up to 30 June 2012 of approximately HK$363 million (31 December 2011: HK$366 million) in aggregate, were recorded as "Other Payables" in the condensed consolidated statement of financial position.

Other than disclosed above, the directors of the Company are of the opinion that the Group has no other material contingent liabilities at 30 June 2012.

CAPITAL COMMITMENTS

At 30 June 2012, the Group has capital expenditure of approximately HK$4.16 million (31 December 2011: HK$7.95 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 2012, the directors expect that the conditions of shipbuilding industry remain very challenging. Chinese shipbuilding sector is deteriorating, new ship orders and ship price are still keep at a low level. To face this difficult situation, the Group continues to strengthen its internal control, enhance efficiency, reduce costs and most importantly, struggle to secure new orders.

In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations. The Group is now under a negotiation to engage in a project for manufacturing combine harvester. On the other hand, a negotiation to acquire a company engaged in research and development, manufacturing and sale of electricity meters and provision of equipment and professional solutions for electrical systems was suspended as the performance of the target company does not meet the expectation of the Group.

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.

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 2012.

CORPORATE GOVERNANCE

The Company has complied 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 report comprise 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 2012 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2012 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 in due course.

BOARD OF DIRECTORS

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

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 29 August 2012