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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)

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010 AND RESUMPTION OF TRADING

The board of directors (the "Board") of China Ocean Shipbuilding Industry Group Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with comparative figures as follows:-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	**2010** *HK$'000*	**2009** *HK$'000*
Revenue	5	1,305,318	1,239,532
Cost of sales		(1,726,125)	(1,784,671)
		(420,807)	(545,139)
Other income		22,063	14,190
Other gains and losses	6	(30,122)	(340)
Change in fair value of investments held for trading		750	(12,448)
Impairment loss on goodwill		—	(514,179)
Impairment loss on intangible assets		(402,603)	(940,000)
Distribution and selling expenses		(1,564)	(1,276)
Administrative expenses		(72,315)	(77,674)
Gain on modification of deferred consideration		36,014	—
Gain on modification of convertible notes payable		40,988	—
Finance costs	7	(154,680)	(115,002)
Gain on disposal of subsidiaries		—	126
Loss before tax	8	(982,276)	(2,191,742)
Taxation	9	114,891	235,380
Loss for the year attributable to owners of the Company		(867,385)	(1,956,362)
Exchange difference arising on translation		11,414	—
Total comprehensive loss for the year attributable to owners of the Company		(855,971)	(1,956,362)
			(restated)
Loss per share - basic and diluted	11	(HK$0.59)	(HK$2.12)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	NOTES	**2010** *HK$'000*	**2009** *HK$'000*
Non-current assets			
Property, plant and equipment		1,095,865	1,071,307
Deposit paid for acquisition of property, plant and equipment		3,136	3,029
Prepaid lease payments - non current portion		342,732	337,899
Intangible assets		—	440,152
Pledged deposits for other borrowings		31,059	—
		1,472,792	1,852,387
Current assets			
Inventories		348,115	333,635
Trade and other receivables	12	428,974	615,640
Prepayment for purchase of raw materials		737,330	1,013,021
Prepaid lease payment - current portion		1,762	1,726
Amounts due from customers for contract work		—	34,292
Tax recoverable		5,150	5,752
Investments held for trading		3,938	1,609
Pledged bank deposits		389,603	387,031
Bank balances and cash		142,608	269,588
		2,057,480	2,662,294
Current liabilities			
Trade, bills and other payables	13	1,221,387	986,094
Amounts due to customers for contract work		863,925	1,411,870
Borrowings - due within one year		593,306	511,364
Provision for warranty		34,097	33,025
Deferred consideration		—	200,000
		2,712,715	3,142,353
Net current liabilities		(655,235)	(480,059)
		817,557	1,372,328
Capital and reserves			
Share capital		112,762	45,105
Reserves		(221,117)	461,711
		(108,355)	506,816
Non-current liabilities			
Borrowings - due after one year		100,360	113,636
Deferred consideration		187,543	—
Convertible notes payable		427,293	416,168
Deferred tax liabilities		210,716	335,708
		925,912	865,512
		817,557	1,372,328

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The functional currency of the Company was Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION

The Group has encountered a number of operational and financial issues during the year ended 31 December 2010 which has had an impact on the consolidated financial statements. These issues, together with the actual and potential impacts, are described below.

The Group delivered six vessels during the year and two vessels subsequent to the year ended 31 December 2010. Of these five belong to a new model of vessel with which the Group experienced quality problems in 2009, which resulted in the Group incurring significant repair costs, penalties and defect claims including price reduction in 2010 on certain vessels in production, and was also one of the major reasons the Group experienced significant delay in vessel delivery in 2010 and receipt of seven vessel rescission notices from customers for vessels already in production in accordance with the terms of the contracts with these customers.

As a result, three arbitration proceedings concerning the seven vessels were in progress over the validity of the rescission notices. If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$1,076 million in aggregate, to the vessel owners.

In the opinion of the directors, irrespective of the results of the arbitration, the Group would be able to deliver four of the vessels, either to the original customers upon reaching mutual settlement agreements or to alternative customers that the Group is in the process of sourcing, which had finished construction and the remaining three vessels, which were unshaped and at their preliminary construction stage, were written off, resulting in a loss recognised of HK$161,099,000 in aggregate.

The abovementioned operational matters had a significant impact on the going concern status of the Company, resulting in a net loss of HK$867 million to the Group for the year ended 31 December 2010 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$655 million and the Group turned into net liabilities of HK$108 million. In addition, the following circumstances may affect the Group's financial position:

a) deferred consideration having a principal of HK$200 million is due for payment on 31 January 2012;

b) the Group breached the loan covenants for a bank loan of approximately HK$18 million. The amount was presented as a current liability in the consolidated statement of financial position at 31 December 2010; and

c) the Group has various arbitration proceedings in progress with vessel owners over the validity of seven rescission notices, which, if arbitrated unfavourable to the Company, could result in the Group refunding principal and interest amounting to approximately HK$1,076 million. Although the directors are confident that the Group can achieve a favourable outcome from the arbitration either through re-negotiation of the terms of the original contracts, or by identifying new customers to whom the existing vessels in production can be sold, the outcome of the arbitration cannot be predicted with certainty and accordingly, there could be a significant adverse impact on the Group once the proceedings are completed.

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

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

b) The Group has been actively pursuing new customers so as to enlarge its customer base and new sales orders. At the same time, the Group has tightened cost control so as to reduce unnecessary expenditure.

c) The Group is in negotiation with banks to allow revolving of loans upon their due dates;

d) The Group is in negotiation with the creditor of the deferred consideration to extend the maturity date to July 2013;

e) The Group was in negotiation with the bank to obtain a waiver letter in relation to the breach of covenants for the bank loan of approximately HK$18 million. The waiver letter was subsequently received in March 2011; and

f) On 26 March 2011, the Company entered into a loan facility line with a financial institution upon which the Company could draw a maximum of HK$100 million from 1 April 2011 to 31 March 2012.

The directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from these consolidated financial statements were authorised to issue. Accordingly, the consolidated financial statements have been prepared on a going concern basis. However, the eventual outcome uncertain, should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

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

New and revised Standards and Interpretations applied in the current year

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

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised standards and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 32 — Classification of Right Issues

In the current year, the Group has early adopted amendments to HKAS 32 — *Classification of Right Issues* in advance of its effective date.

The amendments to HKAS 32 address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. A financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency is an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

During the year, the Company performed an open offer of rights issue to its then existing owners at a subscription price of HK$0.5 per offer share. The open offer resulted in issuing a fixed number of the entity's shares for a fixed amount of Hong Kong dollor. As such, the open offer of rights issues denominated in Hong Kong dollar instead of Renminbi was classified as an issue of equity instrument.

The early adoption of amendments to HKAS 32 — Classification of Rights Issues does not have impact to the result of the Group in previous years as the Group did not have any rights issue in prior year.

Amendments to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of HKAS 17 does not affect the classification of the Group's leasehold land.

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2009 and 2010, there are no bank loans that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause. As at 31 December 2010, there was one bank loan that was repayable within one year after the end of the reporting period and contain a repayment on demand clause. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years, except that in the preparation of the Group's liquidity and interest risk tables, this bank loan was included in the "on demand or less than 1 month" time band rather than in the time bands of the scheduled repayments.

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]

HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

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

3 Effective for annual periods beginning on or after 1 January 2012.

4 Effective for annual periods beginning on or after 1 July 2011.

5 Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The application of HKFRS 9 *Financial Instruments* (as issued in November 2010) may not affect the classification and measurement of the Group's financial assets and financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

5. SEGMENT INFORMATION

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

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

Principal activities are as follows:

1) Shipbuilding - provision of shipbuilding services under shipbuilding construction contracts and operated in the PRC.

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

Information regarding the above segments is reported below:

2010

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

2009

	Shipbuilding	**Trading business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	1,239,532	—	1,239,532
Segment result	(2,045,287)	(599)	(2,045,886)
Other income			733
Change in fair value of investment held for trading			(12,448)
Unallocated corporate expenses			(15,359)
Share-based payment expenses			(3,780)
Finance costs			(115,002)
Loss before tax			(2,191,742)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment loss represents the loss from each segment without allocation of other income, change in fair value of investment held for trading, gain on modification of convertible notes, gain on modification of deferred consideration, central administrative costs, certain share-based payment expenses, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

6. OTHER GAINS AND LOSSES

	2010	**2009**
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment	(5,630)	(642)
Impairment loss recognised on trade receivables	(39,929)	—
Foreign exchange gain	15,437	302
	(30,122)	(340)

7. FINANCE COSTS

	2010	**2009**
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	57,513	57,559
Imputed interest expense on deferred consideration	23,557	26,553
Bank borrowings	57,418	39,115
Other borrowings	2,642	2,447
Guarantee fee incurred in connection with bank borrowings	8,563	—
Arrangement fee incurred in connection with other borrowings	6,207	—
	155,900	125,674
Less: amount capitalised in construction in progress	(1,220)	(10,672)
	154,680	115,002

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.34% per annum (2009: the whole capitalised borrowing costs arose from specific borrowing to expenditure on qualifying assets).

8. LOSS BEFORE TAX

	2010	2009
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Directors' emoluments	5,003	8,638
Other staff costs (including share-based payment of HK$211,000 (2009: HK$984,000))	59,096	52,686
Contributions to retirement benefits scheme, excluding directors	5,072	4,484
Total staff costs	69,171	65,808
Auditors' remuneration	1,900	1,268
Amortisation of intangibles assets (included in cost of sales)	53,084	166,450
Depreciation of property, plant and equipment	60,733	52,222
Release of prepaid lease payments	7,077	7,080
Minimum lease payments under operating leases in respect of rented premises	1,254	1,575
Contract costs recognised as expenses	1,754,453	1,784,671
Claims and additional repair cost arising from a delivered vessel's defects (included in shipbuilding contract cost and recognised as cost of sales)	—	40,092
Penalties and associated additional costs from delay in vessel delivery due to prolonged shipbuilding process arising from vessel's defects (included in shipbuilding contract costs and recognised as cost of sales)	—	82,019
Expected losses recognised in respect of foreseeable delay in vessel delivery and additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	342,227	339,718
Write-off of shipbuilding costs for vessels unshaped but received rescission notices (included in cost of sales)	105,181	—
Write-off of inventories and prepayments due to rescission of vessels (included in cost of sales)	55,918	—

9. TAXATION

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	1,195	14,701
Deferred tax	(116,086)	(250,081)
	(114,891)	(235,380)

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

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

10. DIVIDEND

No dividends were paid during the year. The directors do not recommend the payment of a dividend.

11. 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:

	2010	2009
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	(867,385)	(1,956,362)

	2010	2009
	'000	*'000*
		(restated)
Number of shares (Note)		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	1,473,249	921,742

The computation of diluted loss per share for the years ended 31 December 2010 and 2009 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.

Note: The weighted average of ordinary shares for the purpose of calculating basic and diluted loss per share for the year ended 31 December 2009 have been retrospectively adjusted for the bonus element of the open offer of rights shares completed during the year.

12. TRADE AND OTHER RECEIVABLES

	2010 *HK$'000*	2009 *HK$'000*
Trade receivables (Note 1)	—	39,475
Value-added tax recoverable	240,434	195,423
Deposits placed with a stakeholder (Note 2)	170,113	338,382
Others	18,427	42,360
Total trade and other receivables	428,974	615,640
Prepayment for purchase of raw materials	737,330	1,013,021

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 in relevant shipbuilding construction contracts. The progress payments in custody will be paid over to the Group based on the progress of the shipbuilding contract.

Trade receivables for the year ended 31 December 2009 represented the final instalment receivable from ship buyers. Credit period was based on mutual agreements reached between the entity and ship buyers which varies case by case.

The Group did not have trade receivables that were overdue but not impaired as at 31 December 2010 and 31 December 2009.

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

The directors consider that the carrying amounts of trade receivables and amount due from stakeholder approximated their fair values.

13. TRADE, BILLS AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payable	63,522	36,413
Bills payable	313,689	346,023
Advances from customers for shipbuilding contracts not yet commenced construction	293,045	476,084
Refund to customers due to rescission of shipbuilding contracts	423,172	—
Interest payable	2,340	30,095
Dividend payable to former equity holders of a subsidiary	22,518	21,757
Consideration payable for acquisition of property, plant and equipment	44,372	42,859
Other payables and accruals	58,729	32,863
	1,221,387	986,094

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

	2010	2009
	HK$'000	*HK$'000*
0 - 30 days	117,995	79,409
30 - 60 days	142,116	154,705
61 - 90 days	61,801	9,781
Over 90 days	55,299	138,541
	377,211	382,436

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

Bills payable are secured by pledged bank deposits.

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

EXTRACT OF AUDIT OPINION FROM THE INDEPENDENT AUDITORS' REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Basis for Disclaimer of Opinion

As set out in note 2 to the consolidated financial statements, the Group had various outstanding operational and financial matters as at 31 December 2010 and at the date of this report which had significant impact on the Group's financial position as at 31 December 2010 and results of operations for the year then ended and cast significant doubts on the Group's ability to continue as a going concern. These matters include significant delays due to quality problems on vessels delivered that have resulted in significant repair costs, penalties and defect claims. As a result of these delays, the Group has reduced the contract price for certain of the vessels currently in production and has received rescission notices for seven further vessels currently in production.

These matters indicate the existence of the following material uncertainties and represented an indication that property, plant and equipment and prepaid lease payments were impaired:

Material uncertainties

As set out in the consolidated statement of comprehensive income, the Group incurred a gross loss and a loss for the year attributable to owners of the Company of approximately HK$420,807,000 and HK$867,385,000, respectively, for the year ended 31 December 2010. Besides, as set out in note 2 to the consolidated financial statements, in addition to a number of operational issues, the Group's current liabilities exceeded its current assets by approximately HK$655 million and the Group had net liabilities of HK$108 million as at 31 December 2010. In addition, the Group has three arbitration proceedings in progress, as detailed in the next paragraph, which could have a material impact on the Group's ability to continue as a going concern if the result the arbitrations is unfavourable to the Group.

As set out in note 26 to the consolidated financial statements, the Group has engaged legal counsels to defend the Group in respect of three arbitration proceedings concerning the seven vessels for which rescission notices were received. 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 interest for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amounts to approximately HK$1,076 million in aggregate, to the customers. In return, the Group would assume control over the rescinded vessels and recognise those as the Group's inventories. However, there are uncertainties as to the Group's ability to sell these vessels to alternative customers at a price sufficient to cover the cost of such inventories and this may result in further impairment loss.

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

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

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

Disagreement about accounting treatment - Impairment of property, plant and equipment and prepaid lease payment

Included in the consolidated statement of financial position as at 31 December 2010 were property, plant and equipment and prepaid lease payment with carrying amounts of approximately HK$1,095,865,000 and HK$344,494,000, respectively. As set out in note 17 to the consolidated financial statements, the directors of the Company have determined that the recoverable amounts of the property, plant and equipment and prepaid lease payment approximated their carrying amounts and no impairment loss was recognised for the year ended 31 December 2010. However, such determination was not supported by estimation of recoverable amounts of the value-in-use of these assets in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the Hong Kong Institute of Certified Accountants ("HKAS 36"). Accordingly, the Group has not determined the recoverable amounts of these assets in accordance with the requirements HKAS 36, which requires such value-in-use determination to be based on reasonable and supportable assumption and consistent with past actual outcomes.

In the absence of a determination of the recoverable amounts of these assets based on the requirements of HKAS 36, we were unable to assess the amount of impairment loss to be recognised in respect of property, plant and equipment and prepaid lease payment, thereby affecting the loss for the year ended 31 December 2010 and the Group's net liabilities as at that date.

Disclaimer of Opinion

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

Management Discussion and Analysis

Overview

The Group is engaged in the production and operation of shipbuilding and trading business. For the year ended 31 December 2010, the Group recorded a revenue of HK$1,305.32 million (2009: HK$1,239.53 million), a slightly increase of approximately 5.31% over the year 2009. The gross loss *(before deducting the amortisation of intangible assets of HK$53.08 million (2009: HK$166.45 million)*) was 367.73 million (2009: gross loss of HK$378.69 million). The main reasons of the gross loss of the group were the delivery of new model of vessels experienced defects with which the Group incurred repair costs, penalties and defect claims. The rectification works for the defects and the delays caused by certain ship-owners, among other matters, were continuous interrupted the production schedule and shipbuilding process of the Group. In order to ensure the successfully delivery of vessels, the Group has re-negotiated with the ship-owners to extend delivery dates with certain price reduction. The Group recognised the estimated foreseeable losses of approximately HK$342.23 million in respect of the foreseeable delay (2009: HK$339.72 million) for the year ended 31 December 2010.

The Group recorded HK$22.06 million (2009: HK$14.19 million) of other income for the year ended 31 December 2010, the increase of other income mainly represented the government grants of HK$6.8 million (2009: nil) during the year. The Group recorded a loss of HK$30.12 million (2009: HK$0.34 million) of other gains and losses for the year ended 31 December 2010, the increase of loss was mainly due to the provision of doubtful debt of HK$39.93 million (2009: nil). The provision was made on the prudence sake as the Group has obtained certain market information that one of the customers has filed for insolvency in late March 2011. The Group has approached this customer to verify the current situation but still not yet received any official reply. The Group has recorded HK$402.60 million impairment loss in intangible assets (2009: impairment losses in goodwill and intangible assets of HK$1,454.18 million) for the year ended 31 December 2010. The impairment loss reflected the uncertainty on the renewal of orders from the existing customers. Both the distribution and selling expenses of HK$1.56 million (2009: HK$1.28 million) and the administrative expense of HK$72.32 (2009: HK$77.67 million) were in line with the results in 2009. The Group recorded gain on modification of deferred consideration of approximately HK$36.01 million (2009: nil) as the agreed payment date was extended during the year. The Group recorded gain on modification of convertible notes payable of approximately HK$40.99 million (2009: nil) as the maturity date of convertible notes was extended during the year. The Group recorded finance costs of HK$154.68 million versus HK$115.00 million for the corresponding period last year. The increase reflected the fees incurred in connection with borrowings and an increase in bank borrowing interests. To sum up, the loss for the year ended 31 December 2010 was amounting to approximately HK$867.39 million (2009: HK$1,956.36 million), it is decreased by 55.66% in comparing with year 2009.

Shipbuilding business

In 2010, the China's shipbuilding industry showed sign of recovery especially in the container sector but the sector of chemical tanker which was the main products of the Group in 2010 remained challenging.

During the year ended 31 December 2010, the performance of shipbuilding sector of the Group was in line with the performance in 2009. The shipbuilding business generated revenue of approximately HK$1,305.32 million to the Group, which representing an increase of approximately 5.31% as compared to approximately HK$1,239.53 million in 2009. The shipbuilding business recorded a loss before tax of HK$445.52 million *(before deducting amortisation of intangible assets and impairment cost on intangible assets)* (2009: HK$424.66 million *(before deducting amortisation of intangible assets, impairment costs on goodwill and impairment costs on intangible assets)*.The performance of shipbuilding business was still suffered by general delay of delivery of vessels. As at 31 December 2010, the secured order in hand of the Group reached 20 vessels (excluding the vessels in arbitrations) with shipbuilding work arranged to the end of 2012.

Trading business

For the year ended 31 December 2010, the trading business recorded an insignificant loss of approximately HK$1.19 million (2009: HK$0.60 million).

LIQUIDITY AND FINANCIAL RESOURCES

On 15 June 2010, the Company entered into an underwriting agreement with a underwriter in respect of an open offer. The basis of the open offer is one offer share for every two shares held, together with two bonus shares for every one offer share taken up. The subscription price is HK$0.5 per offer share. The intended use of proceeds was for repayment of debts and general working capital. The open offer was completed on 7 September 2010 and the estimated net proceeds of the open offer of approximately HK$220 million. As at 31 December 2010, approximately HK$191 million (in which HK$60 million has been pledged to a bank as security for a facility granted to the Group) has been utilized as intended.

As at 31 December 2010, the Group had cash and bank balances of approximately HK$532.21 million (31 December 2009: HK$656.62 million) in which HK$389.60 million was pledged (31 December 2009: HK$387.03 million); short term borrowings of HK$593.31 million (31 December 2009: HK$511.36 million); long term borrowings of HK$100.36 million (31 December 2009: HK$113.64 million); long term convertible notes payable amounted to approximately HK$427.29 million (31 December 2009: HK$416.17million) represented the fair value of principal amount of HK$507.00 million (31 December 2009: HK$507.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (14.02) at 31 December 2010 (31 December 2009: 2.72).

CHARGES ON GROUP ASSETS

As at 31 December 2010, HK$420.66 million (31 December 2009: HK$387.03 million) of deposits, HK$180.47 million (31 December 2009: HK$53.29 million) of inventories, HK$279.58 million (31 December 2009: HK$79.42 million) of property, plant and equipment, HK$344.50 million (31 December 2009: nil) of prepaid lease payment and HK$240.43 million (31 December 2009: nil) of value-added tax recoverable, were pledged to banks for other borrowings and banking facilities granted by banks to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in RMB, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2010, the Group does not hedge its exposure to foreign exchange risk profile. The Boards will consider appropriate hedging measure in future as may be necessary.

SUBSEQUENT EVENTS

Significant events after end of the reporting period are set out in Note 2 above.

LITIGATION

As at the date of this report, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd ("Shipyard"), a wholly owned subsidiary of the Company, and Intrepid Chem ("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 approximately US$24.23 million at the date of receiving notice, is in arbitration proceedings. The Intrepid is currently negotiating with the Shipyard for reinstating the cancelled contract with revised terms. There is good opportunity for both parties to reach a settlement agreement without having to fight to the end in the arbitration.

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 approximately US$72.85 million at the date of receiving notice are in arbitration proceedings. 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. 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 (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 Sloman, 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 Sloman. 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.

In addition, the Shipyard and Algoma Tankers International Inc. ("Algoma") regarding the validity of the rescission notices sent by Alogma and its request for return of the principal payment for shipbuilding and interest amounting to approximately US$38.55 million at the date of receiving notice, 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. Given that the process of the shipbuilding are in early stage, if the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Alogma.

HUMAN RESOURCES

The Group had around 1,350 employees as at 31 December 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

During the year ended 31 December 2010, the delay in production schedules continues to impact the Group's shipbuilding business. As a result, seven vessels received rescission notices from vessel owners and the Group has engaged legal counsels to defend the Group of three arbitration proceedings concerning the seven vessels over the validity of the rescission notice.

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$773 million in aggregate, to the vessel owners.

CAPITAL COMMITTMENTS

At 31 December 2010, the Group has capital expenditure of approximately HK$24.40 million (31 December 2009: HK$45.91million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements. There is no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

Looking into the year 2011, the directors expect that the condition of shipbuilding industry is uncertain. Imbalanced supply and demand market, it would be very difficult to get new orders with favourable terms. In order to improve the ability of pursuing new customers, the Group is setting up a sale team led by well-experienced professionals. Following the delivery of the chemical tankers and the rescission of shipbuilding contracts of the remaining ones in 2010 and in early of 2011, the main product of the Group will shift to heavy-lift vessels in 2011. The heavy-lift model is expected to contribute gross profit to the Group in the coming year. The Group continues to negotiate with the ship-owners for the vessels in arbitration including but not limit to settling at an adjusted price acceptable to both parties, simultaneously, the Group is also actively pursuing new customers to buy the vessels in arbitration so as to refund the ship-owner.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2010.

CORPORATE GOVERNANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE REVIEW OF ACCOUNTS

The Audit Committee of the Company, which comprises the four independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2010.

PUBLICATION OF ANNUAL REPORT

The Company's 2010 annual report containing the information required by the Listing Rules will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares on the Stock Exchange was suspended with effect from 9:32 a.m. on 31 March 2011 pending the release of price sensitive information (i.e. this announcement). An application has been made by the Company to the Stock Exchange for the resumption of trading in shares with effect from 9:00 a.m. on 1 April 2011.

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 Siying, 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, 31 March 2011