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)

Annual Report
2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors:

Mr. Chau On Ta Yuen *(Chairman)*
Mr. Li Ming *(Deputy Chairman & Chief Executive Officer)*
Mr. Zhang Shi Hong
Mr. Wang San Long

Independent non-executive directors:

Mr. Hu Bai He
Ms. Xiang Si Ying
Ms. Xiang Ying

COMPANY SECRETARY

Mr. Ngai Man Wo

AUDITOR

ZHONGLEI (HK) CPA Company Limited
Suites 313-317
3/F., Shui On Centre
6-8 Harbour Road, Wan Chai
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank Co. Ltd.
Bank of Communications Co. Ltd
Chiyu Banking Corporation Ltd.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Units 1702-03, 17/F.
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

HSBC Bank Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM11
Bermuda

BRANCH REGISTRAR IN HONG KONG

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Chairman's Statement

Dear Shareholders,

The Company and its subsidiaries (the "Group") recorded an audited consolidated turnover of approximately HK$1,660.25 million for the year ended 31 December 2011 when compared to turnover of approximately HK$1,305.32 million for the year ended 31 December 2010, an increase of 27.2% and loss attributable to the shareholders of approximately HK$542.56 million for the year ended 31 December 2011 when compared to HK$867.39 million in 2010, a decrease of 37.4%. The decrease in loss was mainly, among others, due to less foreseeable losses recognised during the year.

The year 2011 was still a challenging year for the Group. The group was suffered from the lack of new-orders and the drop of price in vessels. To face this griming situation, the Group negotiated with the ship-owners to ensure the successful delivery of vessels and settled two arbitration proceedings during the year. In addition, the Group will continue to take cost control measures and actively to seek new orders even though of the sentiment for sales of new vessels is deteriorating due to, among others, Euro debt crisis. We hope this will serve us well through the current challenging period.

The Board of Directors does not recommend the payment of dividend for the year ended 31 December 2011.

In conclusion, I would like to thank all shareholders and staff for your continued support and look forward to improving the Group's performance.

CHAU On Ta Yuen
Chairman

30 March 2012

Management Discussion and Analysis

OVERVIEW

The Group is engaged in the production and operation of shipbuilding and securities trading business. For the year ended 31 December 2011, the Group recorded a revenue of HK$1,660.25 million (2010: HK$1,305.32 million), an increase of approximately 27.19% over the year 2010 due to the improvement of production efficiency. The Group's gross loss decreased by 90.14% to HK$41.48 million (2010: HK$420.81million).This was mainly due to absence of amortisation costs on intangible assets and lower foreseeable losses were recognised in the current year. The Group continues to record a gross loss mainly because the shipbuilding market condition was difficult. The Group has negotiated with the ship-owners to ensure the successful delivery of vessels.

The Group recorded HK$16.54 million (2010: HK$22.06 million) of other income for the year ended 31 December 2011. The decrease of other income was mainly due to the absence of an one-off government grants in the current year. The Group recorded a gain of HK$4.71 million (2010: loss of HK$30.12 million) of other gains and losses for the year ended 31 December 2011, it was mainly due to the absence of provision of doubtful debt of HK$39.93 million in the current year. The Group recorded HK$415.37 million impairment loss in non-current assets (2010: HK$402.60 million) for the year ended 31 December 2011. The distribution and selling expenses cost HK$1.58 million (2010: HK$1.56 million) without significant change. The administrative expenses of HK$87.46 (2010: HK$72.32 million) were in line with the increase in revenue. The Group recorded finance costs of HK$170.33 million versus HK$154.68 million for the corresponding year. The increase was mainly due to the increase in guarantee fee incurred in connection with borrowings and shipbuilding contracts, the increase in bank borrowing rates and the additional interest paid for other borrowings. To sum up, the loss for the year ended 31 December 2011 was amounting to approximately HK$542.56 million (2010: HK$867.39 million), it is decreased by 37.45% in comparing with year 2010.

SHIPBUILDING BUSINESS

The shipbuilding industry in China faces severe challenges as the sharp decline in new orders in the year 2011. According to a recent report issued by the China Association of the National Shipbuilding Industry, the total new orders in China fell more than 50% in 2011 amid the uncertainty of global economic market. Obviously, the industry faces overcapacity. With sluggish demand for new vessels, rising costs for labour and material, appreciation of Renminbi and tightening credit policy imposed by the banks, the small and even medium-sized shipyards are bearing the brunt of the downturn.

During the year ended 31 December 2011, the shipbuilding business of the Group generated revenue of approximately HK$1,660.25 million to the Group, representing an increase of approximately 27.19% as compared to approximately HK$1,305.32 million in 2010. The increase in revenue was mainly due to the increase in production efficiency. Even though the Group strengthened its sales team and actively pursued opportunities for new orders, it was still very difficult to secure new orders during 2011 since the new shipbuilding orders remain subdued in the industry.

The shipbuilding business recorded a loss before tax of HK$98.95 million *(before deducting impairment cost on non-current assets and finance costs)* (2010: HK$445.52 million *(before deducting amortisation and impairment cost on non-current assets and finance costs))*.The performance of shipbuilding business was mainly suffered by general delay of delivery of vessels and the results of negotiation with the ship-owners to ensure the successful delivery of vessels.

As at 31 December 2011, the secured order book comprised eighteen vessels, including three chemical carriers (reinstated contracts), thirteen heavy lift vessels and two multi-purposes vessels. During the period from the year end date to the date of this report, the Group delivered three vessels, including two heavy lift vessels and one multi-purposes vessel, to the ship-owners. The remaining vessels are scheduled for delivery up to the second quarter of 2013.

TRADING BUSINESS

For the year ended 31 December 2011, the trading business recorded an insignificant loss of approximately HK$0.26 million (2010: HK$1.19 million). The Group suspended the metal trading business but continued its securities trading business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$511.35 million (31 December 2010: HK$532.21 million) of which HK$360.84 million (31 December 2010: HK$389.60 million) was pledged; short term borrowings of HK$538.12 million (31 December 2010: HK$593.31 million); long term borrowings of HK$68.97 million (31 December 2010: HK$100.36 million); long term convertible notes payable amounted to approximately HK$157.14 million (31 December 2010: HK$427.29million) represented the fair value of principal amount of HK$225.00 million (31 December 2010: HK$507.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.19) at 31 December 2011 (31 December 2010: (14.02)).

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December 2011 is set out in Note 8 to the consolidated financial statements from page 71 to 77.

CHARGES ON GROUP ASSETS

As at 31 December 2011, HK$393.31 million (31 December 2010: HK$420.66 million) of deposits, HK$156.62 million (31 December 2010: HK$180.47 million) of inventories, HK$399.63 million (31 December 2010: HK$279.58 million) of property, plant and equipment, HK$341.03 million (31 December 2010: 344.50) of prepaid lease payment and HK$258.94 million (31 December 2010: 240.43) of value-added tax recoverable, were pledged to banks for other borrowings and banking facilities granted by banks to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2011, 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 during the year under review.

SUBSEQUENT EVENTS

Significant events after the end of the reporting period are set out in Note 44 to the financial statements on page 119.

LITIGATION

During the year ended 31 December 2011, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("Shipyard"), a wholly owned subsidiary of the Company, had various arbitration proceedings in progress with three ship-buyers over the validity of rescission notices sent by them.

(1) *With Intrepid Chem ("Intrepid"):*

Intrepid requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$48 million. In May 2011, Intrepid and Shipyard have reached a settlement agreement 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 settlement agreement, the vessels in arbitration were delivered to Intrepid during the year. The arbitration proceedings with Intrepid were fully settled and formally withdrawn in 2011. As the estimated foreseeable losses have been fully recognised in previous years, there was no material adverse financial impact to the results of the Group in 2011.

(2) *With Sloman Neptun Schiffahrts-Aktiengesellschaft ("Sloman"):*

Sloman requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$73 million. In November 2011, Sloman and Shipyard reached a settlement agreement to reinstate all the contracts in arbitration with revised terms and then informed the arbitration tribunal that the arbitrations were stayed. According to the terms of settlement agreement, the vessels in arbitration will be delivered to Sloman before the end of June 2012. It is likely that the arbitration proceedings with Sloman will be fully settled in the mid of 2012. As the estimated foreseeable losses have been recognised in previous years, the Group considered that there was no material adverse financial impact to the results of the Group in 2011.

(3) *With Algoma Tankers International Inc. ("Algoma"):*

Alogma requested for return of the principal payment for shipbuilding and interest, amounting to approximately US$39 million in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and Algoma were for vessel building and payments to Shipyard for the construction services rendered. The proceeding is currently in the state of exchanging of evidence and the hearing is re-scheduled to be conducted on 3 September 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 Alogma. For the sake of prudence, the Group has classified the potential payments of principal and interest under current liabilities in the financial statements and the directors consider that this accounting treatment 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 1,240 employees as at 31 December 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.

RELATED PARTY TRANSACTIONS

Significant balances with related parties and related party transactions entered into by the Group during the year ended 31 December 2011 are disclosed in Note 41 to the financial statements on page 115.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in Note 38 to the financial statements on page 113.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group has an arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of his rescission notices.

If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts up to the settlement date. As at 31 December 2011, approximately HK$366 million in aggregate was recorded as "Other Payables" in the consolidated statement of financial position.

Other than disclosed above, the directors of the Company are of the opinion that the Group had no other material contingent liabilities as at 31 December 2011.

CAPITAL COMMITTMENTS

At 31 December 2011, the Group had capital expenditure of approximately HK$7.95 million (31 December 2010: HK$24.40 million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements. There was no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

Looking forward to the year 2012, the directors expect that the condition of shipbuilding industry is still challenging. The global economy is unlikely to improve significantly in 2012 but the overcapacity in the shipbuilding industry and shortage of new orders will continue. Certain small and even medium-sized shipyards may halt in production upon completion of their existing orders on hand. It is likely that there will be integration of existing capacities in the industry through mergers and acquisitions among the ship-builders in China. To face this difficult market condition, the Group will continue to strengthen its internal control, enhance efficiency and reduce costs. Despite a lack of new orders in 2011, the Group has continued to pursue orders actively.

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 acquire a company engaged in research and development, manufacturing and sale of electricity meters and provision of equipment and professional solutions for electrical systems.

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

Report on Corporate Governance

The Group has recognised 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. Except for the deviation from Code Provision E.1.2, the Company has complied with the code provisions ("Code Provision") as set out in Appendix 14 ("Code") of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Pursuant to code E.1.2 of the Code Provision, the chairman of the Board should attend the annual general meeting and arrange for the chairman of the audit committee and remuneration committee (collectively the "Committees") or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the Committees could not attend the annual general meeting ("AGM") of the Company held on 23 June 2011 due to other business engagement and personal reason. Mr. Li Ming, being one of the executive Directors and the delegate appointed by the chairman of the Board and the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

The Board of Directors

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management and to evaluate the performance of the Group.

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2011, 13 board meetings were held. The individual attendance of each Director is set out below:

Name	**Number of board meetings attended**
Executive directors:	
Mr. Chau On Ta Yuen *(Chairman)*	13/13
Mr. Li Ming *(Deputy Chairman and CEO)*	13/13
Mr. Zhang Shi Hong	13/13
Mr. Wang San Long	13/13
Independent non-executive directors:	
Mr. Hu Bai He	8/13
Ms. Xiang Si Ying	8/13
Ms. Xiang Ying	9/13
Mr. Zhang Xi Ping *(Resigned on 23 June 2011)*	3/7

When the Board considers any material transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction will be present at such board meeting. At the meeting, the Director who has an interest in the transaction is required to abstain from voting.

Every Director shall ensure that he/she can contribute sufficient time and effort to the corporate affairs of the Company once he/she accepts the appointment.

Chairman and Chief Executive Officer

The Board appointed Mr. Chau On Ta Yuen as the Chairman, who is responsible for the leadership and effective running of the Board to achieve its primary responsibilities. With the support of the Executive Directors, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and that all Directors receive adequate and reliable information on a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affair and make contribution in performing the Board's functions. The position of Chief Executive Officer is vested with executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

Board Composition

The Board comprises four executive directors and three independent non-executive directors as at the date of this report. The independent non-executive directors constitute over one-third of the Board. In addition, one of the independent non-executive directors possesses appropriate accounting qualifications and financial management expertise. The Directors are considered to have a balance of knowledge and experience appropriate for the requirements of the business of the Group. The independent non-executive directors serve the important function of ensuring and monitoring the basis of an effective corporate governance framework. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independent criteria as required by the Listing Rules.

Independence of Independent Non-executive Directors

Pursuant to the requirement of the Rule 3.13 of the Listing Rules, the Board confirmed that the Company has received written confirmation from each of all three independent non-executive directors of their independence and considers them to be independent throughout the year.

Terms of appointment of Non-executive Directors

Each of the Independent Non-executive directors is appointed for an initial term of not more than two years commencing from his/her date of appointment and is renewable successively for a term of two years or one year until termination. He/She is subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Bye-laws.

Model Code for Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2011.

Nomination of Directors and the establishment of Nomination Committee

The nomination of directors should take into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. No meeting was held during the year to discuss appointment of new directors.

The Company set up a Nomination Committee on 28 March 2012 to ensure that there are fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committees comprises the Chairman of the Board and three independent non-executive directors, Mr. Chau On Ta Yuen, Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying. The Chairman of the Nomination Committee is Ms. Xiang Ying. The terms of reference of the Nomination Committee are consistent with the terms set out in the Code.

Remuneration Committee

The Company has set up the Remuneration Committee to ensure that there are formal and transparent procedures for setting up policies on the remuneration of the Directors and senior management. The Remuneration Committee comprises three independent non-executive directors, Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying and one executive director , Mr. Li Ming as at date the of this report. The Chairman of the Remuneration Committee is Ms. Xiang Ying. One meeting was held during the year ended 31 December 2011. Ms. Xiang Ying, Ms. Xiang Si Ying and Mr. Hu Bai He attended the meeting. During the year, the Remuneration Committee had made recommendated to the Board regarding the Company's remuneration policy and review of the remuneration package of all directors of the Company.

The revised terms of reference of the Remuneration Committee were adopted by the Board on 28 March 2012 and were consistent with the terms set out in the Code. No Director was involved in deciding his own remuneration during the year under review.

Audit Committee

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The revised terms of the Audit Committee were adopted by the Board on 28 March 2012 and were consistent with the terms set up in the Code.

The Audit Committee comprises three independent non-executive directors, and the chairman of the Audit Committee, Mr. Hu Bai He, possesses a professional accountancy qualification and has substantial experience in accounting and financial matters.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures.

5 meetings were held during the year ended 31 December 2011. The individual attendance of each member is set out below:

Name of member	Number of committee meetings attended
Mr. Hu Bai He	5/5
Ms. Xiang Si Ying	5/5
Ms. Xiang Ying	5/5
Mr. Zhang Xi Ping *(Resigned on 23 June 2011)*	2/2

The Group's interim report of the six months to 30 June 2011 and the annual report for the year ended 31 December 2011 had been reviewed by the Audit Committee and recommendation was provided to the Board for approval.

Auditor's Remuneration

For the year ended 31 December 2011, the auditor of the Company received approximately HK$1,000,000 for audit services and HK$240,000 for other services.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Control

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

Communication with Shareholders

Shareholders are encouraged to attend shareholders' meetings. The Chairman and / or the Directors are available to answer questions on the Group's businesses at the meetings.

On behalf of the Board

Zhang Shi Hong
Director
30 March 2012

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Notes 43 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 27 of the annual report.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out on page 30 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements from pages 84 to 86.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 32 to the consolidated financial statements on pages 101 and 102.

BORROWINGS

Particulars of the Group's borrowings as at 31 December 2011 are set out in Note 29 to the consolidated financial statements on pages 97 and 98.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2010: Nil).

Under the Companies Act 1981 of Bermuda (as amended), the balances in a company's contributed surplus and share premium accounts are available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus and share premium accounts if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the assets of the company would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 121 of the annual report.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Chau On Ta Yuen – *Chairman*
Mr. Li Ming – *Deputy Chairman and Chief Executive Officer*
Mr. Zhang Shi Hong
Mr. Wang San Long

Independent non-executive directors:
Mr. Hu Bai He
Ms. Xiang Si Ying
Ms. Xiang Ying
Mr. Zhang Xi Ping *(resigned on 23 June 2011)*

In accordance with Clause 87 of the Company's Bye-laws, Mr. Zhang Shi Hong, Mr. Wang San Long and Ms. Xiang Si Ying will retire by rotation and are eligible for re-election at the forthcoming annual general meeting.

All of the remaining directors will continue in office.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors as at the date of this report are set out below:

Executive Directors

Mr. Chau On Ta Yuen, aged 64, was appointed as a Director in September 2007 and is the Chairman of the Group. Mr. Chau graduated from Xiamen University majoring in Chinese Language and literature. He is currently an independent non-executive director of Good Fellow Resources Limited, Come Sure Group (Holdings) Limited and Sumpo Food Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From December 2008 to September 2010, Mr. Chau was an independent non-executive director of Buildmore International Limited, the shares of which are listed on the Main Board of the Stock Exchange. From June 2003 to August 2009, Mr. Chau was an independent non-executive director of Everpride Biopharmaceutical Company Limited (now known as Hao Wen Holdings Limited), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. From March 2000 to November 2006, he was appointed as an executive director and the vice chairman of Everbest Century Holdings Limited (now known as Dynamic Energy Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chau is currently a member of the Chinese People Political Consultative Conference of the People's Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations.

Mr. Li Ming, aged 49, was appointed as a Director in February 2009 and is the Deputy Chairman and Chief Executive Officer of the Group. Mr. Li graduated from Jiangxi Finance Institute (now known as Jiangxi University of Finance & Economics) majoring in planning statistics. Prior to joining the Company, Mr. Li held senior positions in a number of well-known companies in the People's Republic of China and had extensive experience in management and business planning. During the period from 3 September 2002 to 5 October 2007, he was appointed as a non-executive director of Ningbo Yidong Electronic Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Zhang Shi Hong, aged 43, was appointed as a Director in December 2007. Mr. Zhang has over 16 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in the People's Republic of China. Mr. Zhang holds a Master's degree in Economics.

Mr. Wang San Long, aged 61, was appointed as a Director in May 2008. Mr. Wang has more than thirty years experience in the field of ship-building. He is a senior engineer and was graduated from ship-building department of Huazhong Gong Xue Yuan (now known as Huazhong University of Science and Technology). Mr. Wang is a member of Changjiang Committee in China Classification Society. He is also a member of teaching guidance committee of ship engineering department in Jiujiang Vocational and Technical College. Mr.Wang is currently the chairman of one of the subsidiary of the Company, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.

Independent Non-Executive Directors

Mr. Hu Bai He, aged 49, appointed as an independent non-executive Director in May 2008. Mr. Hu was graduated from Jiangxi University of Finance & Economics. He is a senior accountant, certified public accountant, certified public valuer and certified tax agent in the People's Republic of China (the "PRC"). He has extensive experience in finance and accounting field. Mr. Hu is currently the general manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he has had over seven years working experience with Ministry of Finance the PRC.

Ms. Xiang Si Ying, aged 49, was appointed as an independent non-executive Director in May 2008. Ms. Xiang holds an MBA degree from the London Business School. She has extensive experience in all sectors of corporate finance, restructuring and merge and acquisitions practice. Ms. Xiang currently is an executive director of CDH Investments, a leading private equity firm in China. Prior to joining CDH, she had worked for China International Capital Corporation Limited since returning to China in early 2004. Before that Ms. Xiang had long career with International Finance Corporation, the private investment arm of the World Bank Group, in Washington, United States of America.

Ms. Xiang Ying, aged 57, was appointed as an independent non-executive Director in August 2009. Ms. Xiang was graduated and obtained her Bachelor's Degree in Economics from Zhongnan University of Economics and Law. Ms. Xiang is a qualified lawyer and a certified public accountant in the People's Republic of China. She also holds qualifications to act as a senior lecturer in Economic Law. Ms. Xiang has significant experience in the fields of mergers and acquisitions, financial services and risk management. Ms. Xiang is currently an independent director of Anxin Trust & Investment Co. Ltd and Guangdong Sky Dragon Ink Group Co. Ltd, the shares of which are listed on Shanghai Stock Exchange and Shenzhen Stock Exchange respectively.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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:

(i) Interest in ordinary shares of the company

Save as disclosed below, none of the directors or their associates had held any ordinary shares of the Company.

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held
Li Ming	Long position	Beneficial owner	239,022,500	0	6.51%
	Long position	Interest of controlled Corporation	31,775,000 (Note 1)	0	0.87%

Note 1: 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.

(ii) Rights to acquire shares in the company

As at 31 December 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
Chau On Ta Yuen	Company	Personal interest (Note 1)	4,743,000
Zhang Shi Hong	Company	Personal interest (Note 1)	1,581,000
Wang San Long	Company	Personal interest (Note 2)	4,110,600

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 in this report, none of the Directors or their associates 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

Particulars of the Company's share option scheme adopted on 27 May 2002 are set out in Note 37 to the consolidated financial statements from page 110 to 113.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 41 (Related party transactions) to the consolidated financial statements, 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 year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company for re-election at the forthcoming annual general meeting has service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, save as disclosed below, no 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 (the "Register") maintained by the Company pursuant to Section 336 of the SFO. Other than as disclosed below, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 31 December 2011.

Name	Long/ Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held at 31 December 2011
Ng Leung Ho	Long	Beneficial owner	450,000,000	0	12.27%
Di Yun Fei	Long	Beneficial owner	0	409,090,909	11.15%
Yang Li	Long	Beneficial owner	590,535	354,545,454	9.68%

EMOLUMENT POLICY

The emolument policy of the employees of the Company is set up by the executive directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board of Directors, having regarded to their responsibilities to the Company, their qualifications, experiences and past remunerations, the Company's performance and current market situation.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in Note 37 to the consolidated financial statements.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 13% and 43%, respectively, of the Group's total purchase for the year.

The aggregate amount of turnover attributable to the Group's largest customer and five largest customers taken together accounted for 75% and 99%, respectively of the Group's total turnover for the year.

None of the directors, their associates or shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has an interest in any of the Group's largest supplier and customer.

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.

CORPORATE GOVERNANCE

The Group has recognised 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 most of the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Further information on the Company's corporate governance practice is set out in the Report on Corporate Governance from pages 9 to 13.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

At a board meeting of the Company convened on 17 January 2012, ZHONGLEI (HK) CPA Company Limited was appointed as the auditor of the Company in place of Deloitte Touche Tohmatsu who resigned on 29 December 2011. The financial statements had been audited by ZHONGLEI (HK) CPA Company Limited who will retire and, being eligible, offer themselves for re-appointment.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. ZHONGLEI (HK) CPA Company Limited as auditor of the Company.

On behalf of the Board

CHAU On Ta Yuen
Chairman
Hong Kong,
30 March 2012

Independent Auditor's Report

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE MEMBERS OF
CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中海船舶重工集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 120, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the Basis for Disclaimer of Opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(a) Limitation of scope affecting opening balances, results, comparative figures and related disclosures

The former auditor of the Company issued an independent auditor's report dated 31 March 2011 with a "disclaimer of opinion" on the consolidated financial statements of the Group for the year ended 31 December 2010 (the "2010 Auditor's Report") with scope limitation in respect on the disagreement about the impairment of property, plant and equipment and prepaid lease payments and material uncertainties, details of which are set out in 2010 Auditor's Report.

We were not able to obtain sufficient reliable evidence to enable us to assess the scope limitations for the year ended 31 December 2010. Any adjustments found to be necessary to the opening balances as at 1 January 2011 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2011. The comparative figures for the year ended 31 December 2010 shown in these consolidated financial statements may not be comparable with the figures for the current year.

(b) Impairment of property, plant and equipment and prepaid lease payments

As mentioned in the Company's 2010 Auditor's Report, in the absence of determination of recoverable amounts of the property, plant and equipment and prepaid lease payments based on the requirement of Hong Kong Accounting Standard 36 *Impairment of Assets* issued by the Hong Kong Institute of Certified Public Accountants ("HKAS 36"), the former auditor of the Company has qualified the amount of impairment loss to be recognised in respect of property, plant and equipment and the prepaid lease payments for the year ended 31 December 2010.

In current year, the recoverable amounts of the property, plant and equipment and prepaid lease payments were determined with reference to valuation reports issued by independent professional valuers. The determination of recoverable amounts was based on the income approach or market approach which is acceptable by HKAS 36.

However, due to the scope limitation as described in the 2010 Auditor's Report and point (a) above in respect of limitation of scope on the impairment of property, plant and equipment and prepaid lease payments, we were not provided with sufficient evidence to enable us to assess as to whether the impairment loss recognised in respect of the property, plant and equipment and prepaid lease payments for the year ended 31 December 2011 were free from material misstatement, we qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2011 in respect of this scope limitation accordingly.

(c) Material fundamental uncertainties relating to going concern basis

As set out in the consolidated statement of comprehensive income, the Group incurred gross loss and loss for the year attributable to owners of the Company of approximately HK$41,479,000 and HK$542,559,000 respectively, for the year ended 31 December 2011. Besides, as set out in Note 2 to the consolidated financial statements, in addition to a number of operational issues, the Group's current liabilities exceeded its current assets by approximately HK$1,119,265,000 and the Group had net liabilities of approximately HK$401,395,000 as at 31 December 2011.

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

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

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

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to form an opinion on the consolidated financial statements for the year ended 31 December 2011. 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.

ZHONGLEI (HK) CPA Company Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Suites 313-317, 3/F., Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	8	**1,660,254**	1,305,318
Cost of sales		**(1,701,733)**	(1,726,125)
Gross loss		**(41,479)**	(420,807)
Other income	9	**16,538**	22,063
Other gains and losses	10	**4,708**	(30,122)
Change in fair value of investments held for trading		**(1,188)**	750
Impairment loss recognised in respect of intangible assets	19	**—**	(402,603)
Impairment loss recognised in respect of property, plant and equipment	17	**(415,365)**	—
Selling and distribution expenses		**(1,580)**	(1,564)
Administrative expenses		**(87,460)**	(72,315)
Gain on modification of deferred consideration	31	**—**	36,014
Gain on modification and fair value change of convertible notes payable	33	**55,651**	40,988
Loss on extinguishment of convertible notes payable	33	**(7,241)**	—
Finance costs	11	**(170,329)**	(154,680)
Loss before tax	12	**(647,745)**	(982,276)
Income tax credit	13	**105,186**	114,891
Loss for the year attributable to owners of the Company		**(542,559)**	(867,385)
Exchange differences arising on translation		**2,288**	11,414
Total comprehensive expenses for the year attributable to owners of the Company		**(540,271)**	(855,971)
Loss per share			
– Basic and diluted	16	**(HK$0.15)**	(HK$0.59)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	17	**683,525**	1,095,865
Deposit paid for acquisition of property, plant and equipment		**3,136**	3,136
Prepaid lease payments - non-current portion	18	**339,192**	342,732
Intangible assets	19	**—**	—
Pledged deposits for other borrowings	20	**32,472**	31,059
		1,058,325	1,472,792
CURRENT ASSETS			
Inventories	21	**180,369**	348,115
Trade, bills and other receivables	22	**577,482**	428,974
Prepayment for purchase of raw materials	22	**818,869**	737,330
Prepaid lease payments - current portion	18	**1,842**	1,762
Amounts due from customers for contract work	26	**12,880**	—
Tax recoverable		**5,418**	5,150
Investments held for trading	23	**2,750**	3,938
Pledged bank deposits	24	**360,841**	389,603
Bank balances and cash	24	**150,506**	142,608
		2,110,957	2,057,480

Consolidated Statement of Financial Position (Continued)

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CURRENT LIABILITIES			
Trade, bills and other payables	25	**1,459,753**	1,206,468
Amounts due to customers for contract work	26	**957,515**	863,925
Amount due to a related party	27	**31,588**	14,919
Amount due to a director	28	**615**	—
Borrowings - due within one year	29	**538,117**	593,306
Provision for warranty	30	**25,366**	34,097
Deferred consideration	31	**217,268**	—
		3,230,222	2,712,715
NET CURRENT LIABILITIES		**(1,119,265)**	(655,235)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(60,940)**	817,557
CAPITAL AND RESERVES			
Share capital	32	**183,400**	112,762
Reserves		**(584,795)**	(221,117)
		(401,395)	(108,355)
NON-CURRENT LIABILITIES			
Borrowings - due after one year	29	**68,972**	100,360
Deferred consideration	31	—	187,543
Convertible notes payable	33	**157,135**	427,293
Deferred tax liabilities	34	**114,348**	210,716
		340,455	925,912
		(60,940)	817,557

The consolidated financial statements on pages 27 to 120 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

CHAU On Ta Yuen	**ZHANG Shi Hong**
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Statutory reserve HK$'000	Translation reserve HK$'000	Capital reserve HK$'000 (Note c)	Convertible notes reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	45,105	2,840,084	528,327	9,716	84,956	802	141,547	47,694	(3,191,415)	506,816
Loss for the year	—	—	—	—	—	—	—	—	(867,385)	(867,385)
Exchange differences arising on translation	—	—	—	—	11,414	—	—	—	—	11,414
Total comprehensive income (expenses) for the year	—	—	—	—	11,414	—	—	—	(867,385)	(855,971)
Recognition of equity-settled share-based payment	—	—	—	—	—	—	—	894	—	894
Modification of convertible notes	—	—	—	—	—	—	(141,547)	—	161,475	19,928
Share options forfeited during the year	—	—	—	—	—	—	—	(4,895)	4,895	—
Issues of shares upon open offer	67,657	157,867	—	—	—	—	—	—	—	225,524
Share issue expenses	—	(5,546)	—	—	—	—	—	—	—	(5,546)
Transfer (Notes b(i) and b(ii))	—	(2,840,084)	2,840,084	10,674	—	(802)	—	—	(9,872)	—
At 31 December 2010	112,762	152,321	3,368,411	20,390	96,370	—	—	43,693	(3,902,302)	(108,355)
Loss for the year	—	—	—	—	—	—	—	—	(542,559)	(542,559)
Exchange differences arising on translation	—	—	—	—	2,288	—	—	—	—	2,288
Total comprehensive income (expenses) for the year	—	—	—	—	2,288	—	—	—	(542,559)	(540,271)
Issue of shares upon conversion of convertible notes	70,638	176,593	—	—	—	—	—	—	—	247,231
Transfer (Note b(ii))	—	—	—	14,434	—	—	—	—	(14,434)	—
At 31 December 2011	**183,400**	**328,914**	**3,368,411**	**34,824**	**98,658**	**—**	**—**	**43,693**	**(4,459,295)**	**(401,395)**

Notes:

(a) Contributed surplus of the Company comprises:

(i) Pursuant to a group reorganisation in 2001, the then issued share capital of HK$469,869,000 representing 4,698,693,818 shares with a par value of HK$0.10 each were cancelled to the extent of HK$0.09 on each issued share. The cancelled portion of HK$0.09 each amounting to HK$422,882,000 was transferred to contributed surplus.

(ii) Pursuant to a special resolution passed at a special general meeting on 8 July 2005:

(1) Every twenty shares of HK$0.01 each in the then issued, representing 8,860,906,389 shares, and unissued ordinary share capital of the Company was consolidated into one consolidated share of HK$0.20 each (the "2005 Consolidated Share"); and

(2) Every issued 2005 Consolidated Share, representing 443,045,319 shares having a par value of HK$0.20 each, of the Company was reduced in nominal amount by cancelling HK$0.19 of the capital paid up on each issued 2005 Consolidated Share and by reducing the nominal amount of each authorised but unissued 2005 Consolidated Share from HK$0.20 to HK$0.01 each.

The reduced portion of HK$0.19 each for the 443,045,319 2005 Consolidated Shares amounting to HK$84,179,000 was transferred to contributed surplus.

(iii) Pursuant to a special resolution passed at a special general meeting on 3 March 2006:

(1) Every five shares of HK$0.01 each in the then issued, representing 2,658,226,595 shares, and unissued ordinary share capital of the Company was consolidated into one consolidated share of HK$0.05 each (the "2006 Consolidated Share"); and

(2) Every issued 2006 Consolidated Share, representing 531,645,319 shares having a par value of HK$0.05 each, of the Company was reduced in nominal amount by cancelling HK$0.04 of the capital paid up on each issued 2006 Consolidated Share and by reducing the nominal amount of each authorised but unissued 2006 Consolidated Share from HK$0.05 to HK$0.01 each.

The reduced portion of HK$0.04 each for the 531,645,319 2006 Consolidated Shares amounting to approximately HK$21,266,000 was transferred to contributed surplus.

(b) (i) Pursuant to a special resolution passed at a special general meeting held on 16 August 2010, the share premium of the Company was reduced by approximately HK$2,840 million with the same amount transferred to contributed surplus.

(ii) According to the relevant laws in the People's Republic of China (the "PRC"), the wholly foreign-owned enterprises in the PRC are required to transfer 10% of their net profit before taxation, as determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC, to statutory reserve until the statutory reserve balance reaches 50% of their registered capital. The transfer to this statutory reserve must be made before the distribution of dividend to equity owners. Statutory reserve can be used to offset previous years' losses, if any, and is non-distributable other than upon liquidation.

(c) Capital reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and the share premium of Northlink Holdings Limited and Premier Win Investments Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 1998. Both Northlink Holdings Limited and Premier Win Investments Limited were struck off during the year ended 31 December 2010, the amount was transferred to accumulated losses accordingly.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000 (Restated)
OPERATING ACTIVITIES		
Loss before tax	**(647,745)**	(982,276)
Adjustments for:		
Depreciation of property, plant and equipment	**66,888**	60,733
Change in fair value of investments held for trading	**1,188**	(750)
Gain on modification of deferred consideration	**—**	(36,014)
Gain on modification and fair value change of convertible notes payable	**(55,651)**	(40,988)
Loss on extinguishment of convertible notes payable	**7,241**	—
(Gain) loss on disposal of property, plant and equipment	**(200)**	5,630
Interest income	**(8,908)**	(10,031)
Finance costs	**170,329**	154,680
Amortisation of prepaid lease payments	**7,167**	7,077
Amortisation of intangible assets	**—**	53,084
Impairment loss recognised in respect of property, plant and equipment	**415,365**	—
Impairment loss recognised in respect of intangible assets	**—**	402,603
Impairment loss recognised in respect of trade receivables	**—**	39,929
Impairment loss recognised in respect of inventories	**—**	32,521
Impairment loss recognised in respect of prepayment for purchase of raw materials	**—**	23,397
Share-based payment expense	**—**	894
Operating cash flows before movements in working capital	**(44,326)**	(289,511)
Increase in trade, bills and other payables	**309,601**	204,649
Decrease (increase) in inventories	**150,340**	(28,489)
Increase (decrease) in amounts due to customers for contract work	**136,786**	(584,890)
Increase in amount due to a related party	**16,669**	14,919
Increase in amount due to a director	**615**	—
(Increase) decrease in trade, bills and other receivables	**(169,957)**	160,363
(Increase) decrease in prepayment for purchase of raw materials	**(118,406)**	268,765
(Increase) decrease in amounts due from customers for contract work	**(12,880)**	34,687
(Decrease) increase in provision for warranty	**(10,282)**	80
Increase in investments held for trading	**—**	(1,579)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000 (Restated)
Cash from (used in) operations	**258,160**	(221,006)
Tax paid	**(526)**	(408)
Interest received	**8,908**	10,031
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**266,542**	(211,383)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(19,971)**	(52,893)
Decrease (increase) in pledged bank deposits	**28,762**	(2,572)
Proceeds from disposal of property, plant and equipment	**325**	722
Increase in pledged deposits for other borrowings	**(1,413)**	(31,059)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**7,703**	(85,802)
FINANCING ACTIVITIES		
Borrowings raised	**753,116**	755,172
Proceeds from rights issue of shares	**—**	225,524
Repayment of borrowings	**(892,631)**	(711,200)
Interest paid	**(103,107)**	(99,944)
Share issued expenses	**—**	(5,546)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(242,622)**	164,006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**31,623**	(133,179)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(23,725)**	6,199
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**142,608**	269,588
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented by bank balances and cash	**150,506**	142,608

1. GENERAL

China Ocean Shipbuilding Industry Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 43.

The functional currency of the Company and its subsidiaries (hereinafter collectively known as the "Group") 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 OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group.

The Group incurred a loss of approximately HK$542,559,000 for the year ended 31 December 2011 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,119,265,000 and HK$401,395,000 respectively. In addition, the Group has an arbitration proceeding in progress with one vessel owner over the validity of three rescission notices, which, if the arbitration result is unfavourable to the Group, could result in the Group refund of principal payments and interests for the principal payments calculated in accordance with the relevant shipbuilding contract up to the settlement date. At 31 December 2011, the principal payment and the interests accrued up to 31 December 2011 amounting to approximately HK$366,000,000 in aggregate, were recorded as "Other Payables" in the consolidated statement of financial position.

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

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

b) The Group has been actively pursuing new customers so as to enlarge its customer base and new sales orders. At the same time, the Group has improved its production efficiency and tightened cost control so as to reduce unnecessary expenditure. With all these measures, the Group is expecting to improve its performance in the coming years;

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

c) The Group is in negotiation with banks to allow revolving of loans upon their due dates when the same renewal conditions entitling the past renewal are met; and

d) The Group has entered into a settlement deed with the creditor on 30 January 2012 to settle the deferred consideration with the carrying value amounting to approximately HK$217,268,000 as at 31 December 2011 by way of cash, convertible notes and promissory notes issued by the Company, details of which are set out in Note 44 to the consolidated financial statements.

The directors of the Company are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from this consolidated financial statements were authorised to issue.

Accordingly, the consolidated financial statements have been prepared on a going concern basis. However, the eventual outcome is uncertain, should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. The revised standard has no impact on the consolidated financial statement of the Group.

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation gives guidance on the accounting for the extinguishment of financial liabilities with equity instruments. Specifically, under HK(IFRIC)–Int 19, equity instruments issued in order to extinguish financial liabilities are recognised initially at their fair values, with any difference between the carrying amount of the financial liability extinguished and the consideration paid being recognised in profit or loss.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. As set out in Note 33, the Group has entered into transactions of this nature during the year ended 31 December 2011. 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. The application of HK(IFRIC)-Int 19 results in the excess of approximately HK$7,241,000, representing the difference between the fair value of the Company's issued shares and the carrying amount of the extinguished liabilities of HK$239,990,000, being recognised by the Group as a loss on extinguishment of part of CBII (defined in Note 33) in the consolidated statement of comprehensive income for the year ended 31 December 2011.

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

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments (Continued)

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

Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets[1]
	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[2]
Amendments to HKAS 32	Presentation - Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

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

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

— HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

— The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have significant impact on the Group's financial assets and financial liabilities.

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (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, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expense are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service rendered (for shipbuilding, see below "construction contracts" for details) in the normal course of business, net of discounts and sales related taxes.

Revenue from shipbuilding represents income arising on shipbuilding construction contracts for the year.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

— Installations fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;

— Servicing fees are recognised by reference to the proportion of the total cost of providing the service; and

— Revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measure reliably. Interest income from a financial asset is accrued on a time basis, by reference to principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost and are charged to the consolidated statement of comprehensive income over the period of the lease on a straight–line basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Construction contracts

Where the outcome of a construction contract for shipbuilding can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as determined by reference to the standard hours incurred up to the reporting date as a percentage of total estimated standard hours for each contract. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances from customers for shipbuilding contracts not yet commenced construction. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade, bills and other receivables.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group represents financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "change in fair value of investments held for trading" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 23 to the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including pledged deposits for other borrowings, trade, bills and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. With the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Convertible notes issued by the Group

Convertible notes contains liability and equity components

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible notes issued by the Group (Continued)

Convertible notes contains liability and equipment components (Continued)

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Convertible notes contains liability component and conversion option derivative

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities of the Group include trade, bills and other payables, borrowings, amount due to a related party, amount due to a director, deferred consideration and convertible notes payable which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group decognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above) (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised into profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case, the exchange rate prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF") and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair values at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 4 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Construction contracts

The Group recognises contract revenue and profit or loss on each shipbuilding contract according to management's estimation of the outcome of the contract as well as the percentage of completion of shipbuilding works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the shipbuilding contracts as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit or loss recognised. The Group also revisits and revises the estimate of contract profit or loss as the contract progresses based on the information available in the market. Foreseeable losses are provided when identified. During the current year, due to unforeseen circumstances in certain shipbuilding contracts, the Group recognised foreseeable losses of approximately HK$47,380,000 (2010: HK$356,189,000) in respect of certain shipbuilding contracts, details of which are set out in Note 26 to the consolidated financial statements.

Allowance for inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The Group reviews its inventory levels in order to identify slow-moving and obsolete items. When the Group identifies items of inventories which have a net realisable value lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. At 31 December 2011, the carrying amount of inventories amounted to approximately HK$180,369,000 (2010: HK$348,115,000).

If the net realisable value of inventories of the Group become lower than its carrying amount subsequently, an additional allowance may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness, the past collection history of each customer and the customer's operation as a going concern. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At 31 December 2011, the carrying amount of trade receivables was nil (2010:Nil) (net of allowance for doubtful debts of approximately HK$39,929,000 (2010: HK$39,929,000)).

Estimated impairment of property, plant and equipment and prepaid lease payments

The carrying amount of property, plant and equipment and prepaid lease payments are reviewed annually and adjusted for impairment in accordance with HKAS 36 *Impairment of Assets* whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The value-in-use calculation requires the Group to determine the recoverable amount of the assets based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the future cash flows are less than expected, a material impairment loss may arise. During the current year, the Group recognised an impairment loss amounting to approximately HK$415,365,000 (2010: Nil) in respect of property, plant and equipment. Details of the recoverable amount calculation for property, plant and equipment and prepaid lease payments are disclosed in Notes 17 and 18 respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group also monitors the current and expected liquidity requirements regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements. Upon the discovery of any default, the Group would negotiate immediately with the relevant lenders for proper arrangement in order to maintain sufficient working capital. Upon the expectation of any cash insufficiency, the Company would seek new source of funding so as to maintain sufficient working capital.

The capital structure of the Group consists of net debts, which include the cash and cash equivalents, borrowings (Note 29), deferred consideration (Note 31), convertible notes payable (Note 33) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associate with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends, issue of new share and buy-back of share as well as issue of new debt or redemption of existing debt.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2011	2010
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss		
– Held for trading	**2,750**	3,938
Loans and receivables (including bank balances and cash)	**862,077**	751,810
	864,827	755,748
Financial liabilities		
Liabilities measured at amortised cost	**2,172,736**	2,212,365

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include pledged deposits for other borrowings, trade, bills and other receivables, investments held for trading, pledged bank deposits, bank balances and cash, trade, bills and other payables, amount due to a related party, amount due to a director, borrowings, deferred consideration and convertible notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency, interest rates and equity prices. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

(i) Currency risk

The Company and its major operating subsidiary use RMB as its functional currency and are mainly exposed to United States dollars ("USD"), Euro ("EUR") and HKD, arising from foreign currency denominated pledged bank deposits, bank balances, other receivables, trade payables, convertible notes payable and deferred consideration. The Group's other operating subsidiaries (all use HKD as their functional currency) do not have significant foreign currency exposure.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Market risk** (Continued)*

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	Liabilities		Assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**2,465**	438,037	**36,749**	29,884
EUR	**100**	—	**41,578**	28,846
HKD	**378,220**	617,176	**65,099**	33,466

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against USD, EUR and HKD, respectively. A 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translations at the year end for 5% change in foreign currency rates. The sensitivity analysis includes pledged bank deposits and bank balances in USD, EUR and HKD, deferred consideration and convertible notes payables in HKD where the denomination of the receivables or payables is in a currency other than the functional currency of the relevant group entities. A positive number indicates a decrease in loss for the year in total effect where RMB strengthens against USD, EUR and HKD. For weakening of RMB against USD, EUR and HKD would be an equal and opposite impact on the loss.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Market risk** (Continued)*

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	2011	2010
	HK$'000	HK$'000
Loss for the year		
– USD	**(1,714)**	20,408
– EUR	**(2,074)**	(1,442)
– HKD	**15,656**	29,164

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits, variable-rate borrowings and deferred consideration in 2011 (2010: variable-rate bank deposits and deferred consideration), and exposed to fair value interest rate risk in relation to pledged deposits for other borrowings, pledged bank deposits, amount due to a director, fixed-rate borrowings and the liability component of convertible notes payable (2010: pledged deposits for other borrowings, fixed-rate bank balances, pledged bank deposits, pledged deposits for other borrowings, borrowings and the liability component of convertible notes payable).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Market risk** (Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank deposits, variable-rate borrowings and deferred consideration (2010: variable-rate bank deposits and deferred consideration) at the end of the reporting period. The analysis is prepared assuming the amount outstanding at that date was outstanding for the whole year. 5 and 50 basis points (2010: 5 and 50 basis points) increase or decrease for bank deposits, borrowings and deferred consideration in 2011 (2010: bank deposits and deferred consideration) respectively, is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher / lower for borrowings and deferred consideration and all other variables were held constant, the loss for the year would increase / decrease by approximately HK$2,637,000 (2010: increase / decrease by HK$1,000,000).

If interest rate had been 5 basis points (2010: 5 basis points) higher / lower for bank deposits, and all other variables were held constant, the loss for the year would decrease / increase by HK$75,000 (2010: decrease / increase by HK$55,000).

(iii) Price risk on investments held for trading

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in respective stock exchanges. The management manages this exposure by closely monitoring the price risk and maintaining a portfolio of investments with different risks.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk *(Continued)*

(iii) Price risk on investments held for trading (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks of investments held for trading at the end of the reporting period.

If the prices of the respective equity instruments had been 5% higher / lower and all other variables were held constant, loss for the year ended 31 December 2011 would decrease / increase by approximately HK$138,000 (2010: HK$197,000) as a result of the change in fair value of financial assets at fair value through profit or loss.

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on receivables is significantly reduced.

The Group has significant concentration of credit risk on the largest customer as 75.0% (2010: 33.6%) and significant concentration of credit risk by geographical location in Germany, which 99.5% (2010: 92.1%) of revenue is arisen from customers in Germany. The directors of the Company consider that the risks will be mitigated by exploring new markets other than Germany.

In addition, the Group has concentration of credit risks on its other receivables balance as 27.2% (2010: 39.7%) of its trade, bills and other receivables which was due from a stakeholder in sales contracts in aggregate.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Credit risk** (Continued)*

In order to minimise the credit risk in respect of other receivables due from the stakeholder, the Group signed fund transfer agreements with the stakeholder and banks with which the receivables are placed. The agreements specify the receivables placed in bank could only be withdrawn by the Company for shipbuilding purpose. In the event of bankruptcy or the stakeholder's failure to function its role stipulated in the agreements, the banks would retain the receivables for shipbuilding purpose under the arrangement.

The Group has concentration of credit risk on bank deposits and balances as 64.8% (2010: 62.2%) of pledged bank deposits and bank balances and cash which were placed with three banks (2010: three banks).

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. During the year ended 31 December 2010, the Group breached one bank loan covenant with which the Group was required not to leverage over a certain amount of bank borrowing. Accordingly, the loan of HK$ 18,000,000 which matured in March 2012 was presented as current liability in the consolidated statement of financial position at 31 December 2010. The waiver letter was subsequently received in March 2011.

The Group was exposed to liquidity risk at 31 December 2011 as the Group had net current liabilities and net liabilities of approximately HK$1,119,265,000 and HK$401,395,000, respectively. In order to improve the Group's liquidity position, the directors of the Company have been implementing various operating and financing measures, details of which are set out in Note 2 to the consolidated financial statements.

The Group relied on borrowings and convertible notes payable as significant sources of liquidity, details of which are set out in Notes 29 and 33 respectively to the consolidated financial statements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest rate risk tables

The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	On demand or less than 1 month HK$'000	Over 1 month but less than 3 months HK$'000	Over 3 months but less than 1 year HK$'000	Over 1 year but less than 2 years HK$'000	Over 2 years but less than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Non-derivative financial liabilities								
Trade and other payables	–	593,217	38,077	–	–	–	631,294	631,294
Bills payables	–	75,176	73,800	378,771	–	–	527,747	527,747
Amount due to a related party	–	31,588	–	–	–	–	31,588	31,588
Amount due to a director	15.00%	–	–	677	–	–	677	615
Deferred consideration	15.85%	–	220,000	–	–	–	220,000	217,268
Convertible notes payable								
– liability component (Note)	20.36%	–	–	3,375	3,375	226,688	233,438	157,135
Borrowings								
– fixed rates	7.63%	–	44,139	130,134	90,810	31,800	296,883	279,663
– variable rates	7.16%	24,733	70,141	216,333	26,208	–	337,415	327,426
		724,714	446,157	729,290	120,393	258,488	2,279,042	2,172,736

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk *(Continued)*

Liquidity and interest rate risk tables (Continued)

	Weighted average effective interest rate	On demand or less than 1 month HK$'000	Over 1 month but less than 3 months HK$'000	Over 3 months but less than 1 year HK$'000	Over 1 year but less than 2 years HK$'000	Over 2 years but less than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2010 HK$'000
2010								
Non-derivative financial liabilities								
Trade and other payables	—	527,657	47,598	—	—	—	575,255	575,255
Bills payables	—	—	57,218	256,471	—	—	313,689	313,689
Amount due to a related party	—	14,919	—	—	—	—	14,919	14,919
Deferred consideration	15.85%	—	—	—	220,000	—	220,000	187,543
Convertible notes payable								
– liability component (Note)	15.85%	—	—	5,400	510,249	—	515,649	427,293
Borrowings								
– fixed rates	6.08%	185,606	25,575	395,028	34,062	59,608	699,879	693,666
		728,182	130,391	656,899	764,311	59,608	2,339,391	2,212,365

Note: The undiscounted amount represents the coupon interest and redemption amount on maturity on the assumption that there was no conversion prior to maturity.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Liquidity risk** (Continued)*

Liquidity and interest rate risk tables (Continued)

Bank borrowings with repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. At 31 December 2010, the aggregate undiscounted principal amounts of these bank borrowings are amounted to HK$58,824,000. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid within 1 to 3 months after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$59,577,000. At 31 December 2011, there was no principal amount of the Group's bank borrowings with repayment on demand clause.

The amounts included as above for variable interest rate instruments of non-derivative financial liabilities are subject to change if change in variable interest rates differ to those estimates of interest rate determined at the end of the reporting period.

c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and
- the fair value of derivative instruments is calculated using option pricing models for optional derivatives.

7. FINANCIAL INSTRUMENTS (Continued)

c. Fair value (Continued)

Excepted as detailed in the following table, the directors of the Company consider that the carrying amount of the financial liability recorded at amortised cost in the consolidated financial statement approximate their fair values:

	At 31.12.2011		At 31.12.2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liability				
Convertible notes payable				
– liability component	**157,135**	**153,890**	427,293	399,400

The fair value of the financial liability was derived from discounted rate applicable to the financial liability as at end of the reporting period, the input was as follow:

	At 31.12.2011	At 31.12.2010
Convertible notes payable - liability component	**20.36% p.a.**	21.85% p.a.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

7. FINANCIAL INSTRUMENTS (Continued)

c. Fair value (Continued)

	At 31.12.2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at fair value through profit and loss				
Non-derivative financial assets held for trading	**2,750**	**—**	**—**	**2,750**

	At 31.12.2010			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit and loss				
Non-derivative financial assets held for trading	3,938	—	—	3,938

There were no transfers between Level 1, 2 and 3 in the current and prior years.

8. REVENUE AND SEGMENT INFORMATION

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

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

Principal activities are as follows:

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

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

Information regarding the above segments is reported below:

Year ended 31 December 2011

	Shipbuilding	Trading business	Total
	HK$'000	HK$'000	HK$'000
Segment revenue	1,660,254	—	1,660,254
Segment result	(514,315)	(264)	(514,579)
Unallocated other income			4,450
Change in fair value of investments held for trading			(1,188)
Gain on modification and fair value change of convertible notes payable			55,651
Loss on extinguishment of convertible notes payable			(7,241)
Unallocated corporate expenses			(14,509)
Finance costs			(170,329)
Loss before tax			(647,745)

8. REVENUE AND SEGMENT INFORMATION (Continued)

Year ended 31 December 2010

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Segment loss represents the loss before tax from each segment without allocation of certain other income, change in fair value of investments held for trading, gain on modification and fair value change of convertible notes payable, loss on extinguishment of convertible notes payable, gain on modification of deferred consideration, certain corporate expenses, certain share-based payment expenses and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2011 HK$'000	2010 HK$'000
Assets		
Segment assets		
– Shipbuilding	**2,613,510**	2,953,819
– Trading business	**21**	22
Total segment assets	**2,613,531**	2,953,841
Pledged deposits for other borrowings	**32,472**	31,059
Pledged bank deposits and bank balances and cash	**511,347**	532,211
Unallocated corporate assets	**11,932**	13,161
Consolidated total assets	**3,169,282**	3,530,272
Liabilities		
Segment liabilities for shipbuilding	**2,470,380**	2,115,057
Borrowings	**607,089**	693,666
Deferred consideration	**217,268**	187,543
Convertible notes payable	**157,135**	427,293
Deferred tax liabilities	**114,348**	210,716
Unallocated corporate liabilities	**4,457**	4,352
Consolidated total liabilities	**3,570,677**	3,638,627

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than pledged deposits for other borrowings, pledged bank deposits, bank balances and cash, certain corporate property, plant and equipment and tax recoverable; and
- all liabilities are allocated to operating segments other than borrowings, deferred consideration, convertible notes payable, deferred tax liabilities and certain other payables and accruals.

8. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenue from external customers based on location of customers and information about its non-current assets by geographical locations are detailed below:

	Revenue from external customers for the year ended 31 December		Non-current assets at 31 December	
Name of the country	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Germany	**1,651,520**	1,201,772	**—**	—
United States of America	**8,734**	97,973	**—**	—
The PRC	**—**	5,573	**1,057,455**	1,471,427
Others	**—**	—	**870**	1,365
	1,660,254	1,305,318	**1,058,325**	1,472,792

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31 December 2011

Amounts included in the measure of segment result or segment assets:

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	19,965	—	6	19,971
Depreciation of property, plant and equipment	66,387	—	501	66,888
Impairment loss recognised in respect of property, plant and equipment	415,365	—	—	415,365
Amortisation of prepaid lease payments	7,167	—	—	7,167
Gain on disposal of property, plant and equipment	200	—	—	200
Additional provision for warranty	25,366	—	—	25,366
Foreseeable losses recognised in respect of foreseeable delay in vessel delivery and additional estimated costs	47,380	—	—	47,380

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment result:

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Income tax credit	—	—	(105,186)	(105,186)

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Year ended 31 December 2010

Amounts included in the measure of segment result or segment assets:

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	53,429	—	684	54,113
Depreciation of property, plant and equipment	60,175	—	558	60,733
Loss on disposal of property, plant and equipment	5,630	—	—	5,630
Additional provision for warranty	25,474	—	—	25,474
Share-based payment expenses	398	—	496	894
Impairment loss recognised in respect of intangible assets	402,603	—	—	402,603
Impairment loss recognised in respect of trade receivables	39,929	—	—	39,929
Foreseeable losses recognised in respect of foreseeable delay in vessel delivery and additional estimated costs	356,189	—	—	356,189
Write-off of shipbuilding costs for vessels unshaped due to rescission of vessels	105,181	—	—	105,181
Impairment loss recognised in respect of inventories and prepayment due to rescission of vessels	55,918	—	—	55,918
Amortisation of intangible assets	53,084	—	—	53,084
Amortisation of prepaid lease payments	7,077	—	—	7,077

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Year ended 31 December 2010 (Continued)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment result:

	Shipbuilding	Trading business	Unallocated	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Income tax expense (credit)	1,195	—	(116,086)	(114,891)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2011	2010
	HK$'000	HK$'000
Customer A[1]	**1,245,192**	438,482
Customer B[1]	**N/A[2]**	403,962
Customer C[1]	**175,869**	N/A[2]

[1] Revenue from shipbuilding

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.

9. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Interests on bank deposits	**8,908**	10,031
Sales of scrap materials	**7,428**	5,189
Government grants	**172**	6,783
Others	**30**	60
	16,538	22,063

10. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	HK$'000
Gain (loss) on disposal of property, plant and equipment	200	(5,630)
Impairment loss recognised in respect of trade receivables	—	(39,929)
Foreign exchange gain	4,508	15,437
	4,708	(30,122)

11. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (Note 33)	29,490	57,513
Imputed interest expense on deferred consideration (Note 31)	29,725	23,557
Bank borrowings and bill payables	68,151	57,418
Other borrowings	9,956	2,642
Guarantee fee incurred in connection with bank borrowings	29,308	8,563
Arrangement fee incurred in connection with other borrowings	3,342	6,207
Others	357	—
	170,329	155,900
Less: amount capitalised in construction in progress	—	(1,220)
	170,329	154,680

Borrowing costs capitalised during the year ended 31 December 2010 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.34% per annum.

12. LOSS BEFORE TAX

	2011 HK$'000	2010 HK$'000
Loss before tax has been arrived at after charging:		
Directors' emoluments (Note 14)	**4,580**	5,003
Other staff costs:		
Salaries and other benefits	**67,184**	58,885
Share-based payment expenses	**—**	211
Contributions to retirement benefits scheme	**6,586**	5,072
Total staff costs	**78,350**	69,171
Auditor's remuneration		
– Current year (including non-audit service of HK$240,000 (2010: HK$400,000))	**1,240**	1,900
– Under-provision for previous year	**250**	—
	1,490	1,900
Amortisation of intangible assets (included in cost of sales)	**—**	53,084
Depreciation of property, plant and equipment	**66,888**	60,733
Amortisation of prepaid lease payments	**7,167**	7,077
Minimum lease payments under operating leases in respect of rented premises	**1,454**	1,254
Shipbuilding contract costs recognised as expenses	**1,701,733**	1,726,125
Foreseeable 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) (Note 26)	**47,380**	356,189
Write-off of shipbuilding costs for vessels unshaped due to rescission of vessels (included in cost of sales) (Note 26)	**—**	105,181
Impairment loss recognised in respect of inventories and prepayment due to rescission of vessels (included in cost of sales) (Note 26)	**—**	55,918

13. INCOME TAX CREDIT

	2011 HK$'000	2010 HK$'000
Current tax	—	—
Under-provision in prior year:		
PRC Enterprise Income Tax ("EIT")	—	1,195
Deferred tax (Note 34)	(105,186)	(116,086)
	(105,186)	(114,891)

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 from 1 January 2008 onwards.

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

	2011 HK$'000	2010 HK$'000
Loss before tax	(647,745)	(982,276)
Tax at applicable domestic income tax rate of 25% (2010: 25%)	(161,936)	(245,569)
Tax effect of expenses not deductible for tax purpose	57,352	153,054
Tax effect of income not taxable for tax purpose	(602)	(23,571)
Under-provision in prior year	—	1,195
Income tax credit for the year	(105,186)	(114,891)

At the end of the reporting period, the Group had unused tax losses of approximately HK$1,917,000 (2010: HK$1,917,000) available to offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

14. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2011					Year ended 31 December 2010				
	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Share-based payment expenses	Total	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Share-based payment expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:										
Mr. Chau On Ta Yuen	—	1,306	12	—	1,318	—	1,288	12	354	1,654
Mr. Li Ming	—	1,206	12	—	1,218	—	1,188	12	—	1,200
Mr. Zhang Shi Hong	—	965	12	—	977	—	948	12	118	1,078
Mr. Wang San Long	—	787	2	—	789	—	534	6	211	751
Independent non-executive directors:										
Mr. Hu Bai He	80	—	—	—	80	80	—	—	—	80
Ms. Xiang Si Ying	80	—	—	—	80	80	—	—	—	80
Mr. Zhang Xi Ping (Note a)	38	—	—	—	38	80	—	—	—	80
Ms. Xiang Ying	80	—	—	—	80	80	—	—	—	80
	278	4,264	38	—	4,580	320	3,958	42	683	5,003

Note:

(a) Mr. Zhang Xi Ping was resigned on 23 June 2011.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in Note 14 above. The emoluments of the remaining one (2010: one) highest paid individual are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries and other benefits	764	708
Contributions to retirement benefits scheme	12	12
Share-based payment expenses	—	24
	776	744

The emoluments were within the following band:

	Number of employee	
	2011	2010
Nil to HK$1,000,000	1	1

No emoluments were paid by the Group to any of the five highest paid employees or other directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments in both years.

16. 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:

	2011	2010
	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	**(542,559)**	(867,385)

	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,524,785**	1,473,249

The computation of diluted loss per share for the years ended 31 December 2011 and 2010 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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2010	780,025	5,775	26,363	97,082	250,551	1,159,796
Exchange realignment	30,043	176	878	3,660	7,168	41,925
Additions	640	129	431	5,986	46,927	54,113
Transfer	114,216	—	—	3,979	(118,195)	—
Disposals	(7,199)	(690)	(183)	(4)	—	(8,076)
At 31 December 2010	917,725	5,390	27,489	110,703	186,451	1,247,758
Exchange realignment	43,371	236	1,210	5,734	7,471	58,022
Additions	—	6	140	4,737	15,088	19,971
Transfer	37,009	—	1,938	37,464	(76,411)	—
Disposals	(157)	—	—	(6)	—	(163)
At 31 December 2011	997,948	5,632	30,777	158,632	132,599	1,325,588
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	64,845	1,021	5,669	16,954	—	88,489
Exchange realignment	3,273	43	255	824	—	4,395
Depreciation provided for the year	43,563	819	3,761	12,590	—	60,733
Eliminated on disposals	(1,424)	(208)	(91)	(1)	—	(1,724)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2010	110,257	1,675	9,594	30,367	—	151,893
Exchange realignment	5,851	77	451	1,576	—	7,955
Depreciation provided for the year	50,851	345	3,930	11,762	—	66,888
Impairment loss recognised in the year	412,734	—	—	2,631	—	415,365
Eliminated on disposals	(35)	—	—	(3)	—	(38)
At 31 December 2011	**579,658**	**2,097**	**13,975**	**46,333**	**—**	**642,063**
CARRYING VALUES						
At 31 December 2011	**418,290**	**3,535**	**16,802**	**112,299**	**132,599**	**683,525**
At 31 December 2010	807,468	3,715	17,895	80,336	186,451	1,095,865

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 5%
Furniture and fixtures	20%
Motor vehicles	12.5%
Plant and machinery	6.67% - 25%

At 31 December 2011 and 2010, the buildings of the Group are situated on land in the PRC under medium-term land use right.

For the years ended 31 December 2011 and 2010, the directors of the Company, after taking into account the economic condition and industrial development prospect, had considered that the gross operating loss incurred during the years indicated impairment loss for the Group's property, plant and equipment and prepaid lease payments and therefore conducted an impairment review on the carrying amounts of the property, plant and equipment and prepaid lease payments.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

For the year ended 31 December 2010, the directors of the Company performed a review on the recoverable amounts of Group's property, plant and equipment and prepaid lease payments by reference to those assets' value-in-use and determined that the recoverable amounts approximate their carrying amounts and no impairment loss was recognised.

The directors of the Company appointed an independent professional valuer, BMI Appraisals Limited, to perform a valuation on the property, plant and equipment as at 31 December 2011, thus, an impairment loss of approximately HK$415,365,000 has been made according to the excess of the aggregate carrying amounts of the property, plant and equipment as at 31 December 2011 over the recoverable amount based on the valuation report dated 29 March 2012. The value-in-use calculation is based on a post-tax discount rate of 15.14% and cash flow projections prepared from financial forecasts approved by the management of the Group, taking into account of the current economic condition and operation of shipbuilding industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows / outflows which include budgeted sales and gross margin. Such estimation is based on the management's expectations for the market development.

At 31 December 2011, the Group's carrying values for plant and machinery of approximately HK$112,299,000 (2010: HK$80,336,000) and certain buildings with ownership certificates of approximately HK$287,328,000 (2010: HK$199,247,000) have been pledged to a bank and a financial institution in the PRC to secure the Group's borrowings (Note 36).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2011	2010
	HK$'000	HK$'000
Leasehold land held under medium-term lease in the PRC	**341,034**	344,494
Analysed for reporting purposes as:		
Non-current asset	**339,192**	342,732
Current asset	**1,842**	1,762
	341,034	344,494

At 31 December 2011, the Group's prepaid lease payments with carrying value of approximately HK$341,034,000 (2010: HK$344,494,000) have been pledged to various banks to secure the Group's borrowings (Note 36).

18. PREPAID LEASE PAYMENTS (Continued)

Application for land use right certificate of the lake located in 江西省瑞昌市下巢湖 (the "Lake") with aggregate carrying values of approximately HK$173,664,000 (2010: HK$175,426,000) was still in progress and the land use right certificate had not been issued to the Group by the relevant government authorities at 31 December 2011.

The directors of the Company are of the opinion that the Group has acquired the beneficial title to the Lake at the end of the reporting period, and the land use right certificate can be obtained upon the settlement of the purchase consideration.

The directors of the Company appointed an independent professional valuer, BMI Appraisals Limited, to perform a valuation on the prepaid lease payments at 31 December 2011 and no impairment loss was considered necessary as the market value of the prepaid lease payments was amounting to approximately HK$384,990,000 (equivalent to RMB313,000,000) based on the valuation report dated 29 March 2012, which was over the carrying value of prepaid lease payments. The market value is calculated by comparison approach assuming sale with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market. Other key assumptions for the prepaid lease payments valuation relate to (i) the property is sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement; (ii) no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner; and (iii) the proper title certificates of the property have been obtained and the property could be transferred with its residual term of land use rights at no extra land premium or other onerous payment payable to the government.

19. INTANGIBLE ASSETS

	Contracted and uncontracted customer relationships HK$'000
COST	
At 1 January 2010	1,661,801
Exchange realignment	58,652
At 31 December 2010	1,720,453
Exchange realignment	78,281
At 31 December 2011	**1,798,734**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2010	1,221,649
Exchange realignment	43,117
Amortisation charge for the year	53,084
Impairment loss recognised in the year	402,603
At 31 December 2010	1,720,453
Exchange realignment	78,281
At 31 December 2011	**1,798,734**
CARRYING VALUES	
At 31 December 2011 and 31 December 2010	—

19. INTANGIBLE ASSETS (Continued)

Intangible assets represent contracted and uncontracted customer relationships arising from the acquisition of INPAX Group (as defined in Note 33) during the year ended 31 December 2008.

Intangible assets are amortised over its estimated useful life of 10 years on a straight-line basis.

During the year ended 31 December 2010, as some of the previous contracted customers issued rescission notices of vessels and did not renew any new sales order with the Group, the Group recognised an impairment loss of approximately HK$402,603,000 to fully write-down the intangible assets that arose from the acquisition of INPAX Group.

20. PLEDGED DEPOSITS FOR OTHER BORROWINGS

In August 2010, a borrowing of approximately HK$141 million (equivalent to RMB120 million) was granted to the Group by a financial institution in the PRC. Deposit amounting to approximately HK$32.5 million (equivalent to RMB26.4 million) at 31 December 2011 (2010: HK$31.1 million) was pledged to secure this borrowing, which will be released on the maturity date of this borrowing in August 2014. Accordingly, the deposit is classified as non-current.

21. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Raw materials	**180,369**	348,115

During the year ended 31 December 2010, the Group made an impairment loss of approximately HK$32,521,000 in relation to shipbuilding contracts that were expected to be cancelled.

At 31 December 2011, the Group's inventories with carrying value of approximately HK$156,618,000 (2010: HK$180,471,000) have been pledged to various banks to secure the Group's bank borrowings (Note 36).

22. TRADE, BILLS AND OTHER RECEIVABLES / PREPAYMENT FOR PURCHASE OF RAW MATERIALS

	2011	2010
	HK$'000	HK$'000
Trade receivables	39,929	39,929
Less: Allowance for doubtful debts (Note a)	(39,929)	(39,929)
	—	—
Value-added tax recoverable (Note b)	258,935	240,434
Bills receivables	394	—
Deposits placed with a stakeholder (Note c)	157,324	170,113
Deposits placed to a guarantor (Note d)	73,800	—
Other receivables	87,029	18,427
Total trade, bills and other receivables	577,482	428,974
Prepayment for purchase of raw materials	818,869	737,330

Notes:

(a) In March 2011, a sole overseas debtor filed for insolvency. Accordingly, the trade receivables as at 31 December 2010 were fully provided during the year ended 31 December 2010.

(b) At 31 December 2011, the Group's value-added tax recoverable has been pledged to a bank to secure the Group's bank borrowings (Note 36).

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

(d) During the year ended 31 December 2011, guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. Guarantee deposits of approximately HK$73,800,000 (equivalent to RMB60,000,000) and guarantee fees of approximately HK$11,631,000 (equivalent to RMB9,456,000) (Note 25) have been incurred by the Group in current year.

22. TRADE, BILLS AND OTHER RECEIVABLES / PREPAYMENT FOR PURCHASE OF RAW MATERIALS (Continued)

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

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

The directors of the Company consider that the carrying amounts of trade, bills and other receivables, value-added tax recoverable and amount due from a stakeholder / a guarantor approximated to their fair values.

Movement in the allowance for doubtful debts:

	2011	2010
	HK$'000	HK$'000
At 1 January	**39,929**	—
Impairment loss recognised	**—**	39,929
At 31 December	**39,929**	39,929

At the end of the reporting period, the Group's trade receivables were individually determined to be impaired.

Included in other receivables, deposits placed with a stakeholder and prepayment for purchase of raw materials are the following amounts denominated in a currency other than the functional currency of the Group:

	2011	2010
	'000	'000
USD	**22,365**	18,577
EUR	**35,686**	17,932

23. INVESTMENTS HELD FOR TRADING

	2011 HK$'000	2010 HK$'000
Listed securities:		
Equity securities listed in Hong Kong	**2,750**	3,938

The securities are measured at fair value based on quoted market prices from the Stock Exchange.

24. PLEDGED BANK DEPOSITS / BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.01% to 0.50% (2010: from 0.01% to 0.36%) per annum.

The pledged bank deposits carry a fixed interest rate of 2.60% (2010: 2.50%) per annum and were pledged for secured bills payables as required by the relevant banks (Note 25).

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in a currency other than the functional currency of the Group:

	2011 '000	2010 '000
USD	**694**	2,467
EUR	**3,657**	27

25. TRADE, BILLS AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000 (Restated)
Trade payables	**78,904**	63,309
Bills payables	**527,747**	313,689
	606,651	376,998
Advances from customers for shipbuilding contracts not yet commenced construction	**277,287**	293,045
Refund to customers for unshaped vessels written-off (Note 26)	**366,381**	423,172
Interest payable	**2,111**	2,340
Dividend payable to former owners of a subsidiary	**23,425**	22,518
Consideration payable for acquisition of prepaid lease payments	**46,391**	44,372
Accrual of guarantee fee to a guarantor (Note 22)	**11,631**	—
Contribution payables to labour union and education funds	**7,603**	5,633
Accrual of contractor fees	**20,300**	11,426
Other payables and accruals	**97,973**	26,964
	1,459,753	1,206,468

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:

	2011 HK$'000	2010 HK$'000 (Restated)
0 - 30 days	**232,378**	117,782
31 - 60 days	**123,039**	142,116
61 - 90 days	**66,884**	61,801
Over 90 days	**184,350**	55,299
	606,651	376,998

25. TRADE, BILLS AND OTHER PAYABLES (Continued)

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 within the credit timeframe.

Bills payables are secured by pledged bank deposits (Note 24).

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

Included in the trade payables are the following amounts denominated in a currency other than the functional currency of the Group:

	2011	2010
	'000	'000
USD	99	2,277
EUR	6	—

26. AMOUNTS DUE FROM / TO CUSTOMERS FOR CONTRACT WORK

	2011	2010
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	1,681,825	1,735,234
Recognised profits less recognised losses	(151,825)	(145,620)
	1,530,000	1,589,614
Less: progress payments and progress billings	(2,474,635)	(2,453,539)
	(944,635)	(863,925)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	12,880	—
Amounts due to customers for contract work	(957,515)	(863,925)
	(944,635)	(863,925)

26. AMOUNTS DUE FROM / TO CUSTOMERS FOR CONTRACT WORK (Continued)

Year ended 31 December 2011

During the year ended 31 December 2011, the inactive demand for new vessels, rising costs for labour and materials and appreciation of RMB continue to impact the Group's shipbuilding business.

In current year, two arbitration proceedings concerning the four vessels had been settled with the respective customers. At 31 December 2011, the Group has an arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of the rescission notices.

If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$366,381,000 (Note 25) in aggregate, to the relevant vessel owner at 31 December 2011.

Year ended 31 December 2010

During the year ended 31 December 2010, the delay in production schedules impacted the Group's shipbuilding business. As a result, the Group received rescission notices from vessel owners in respect of seven vessels 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 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, which amount to approximately HK$1,076 million in aggregate, to the relevant vessel owners.

In return, the Group would assume control over the rescinded vessels and recognise those as the Group's inventories.

To avoid further rescission for the remaining shipbuilding contracts and to ensure vessels delayed but not received rescission notices would be delivered, the Group negotiated with the vessel owners of those remaining contracts for amendments of certain terms in the shipbuilding contracts, allowing a price reduction incentive and an extension of settlement on the last instalment under the progress payment schedule through yearly repayment commencing from the 18th month subsequent to delivery for those accepted extension of delivery date.

26. AMOUNTS DUE FROM / TO CUSTOMERS FOR CONTRACT WORK (Continued)

Year ended 31 December 2010 (Continued)

Of the seven vessels which the Group received rescission notices, four were finished construction and were basically ready for delivery. The Group recognised foreseeable losses for these four outstanding contracts amounting to approximately HK$119,960,000 for the year, as their total estimated contracts costs, as determined based on the original budgeted costs plus claims, penalties and associated additional costs by reference to those incurred by the six delivered vessels during the year and two vessels delivered subsequent to the year ended 31 December 2010, exceed the total estimated contract revenue. In addition, the Group also recognised a loss of approximately HK$236,229,000 in respect of other shipbuilding contracts in progress due to change in estimate used in the determination of the amount of the contract cost and contract revenue.

For the remaining three vessels for which the Group received rescission notices and another shipbuilding contract in progress, the Group has written-off their costs as they were at an early stage of construction and vessels were unshaped and in the opinion of the directors of the Company, the construction was not expected to further carry on. The costs include i) construction contract costs of approximately HK$105,181,000; and ii) inventories and prepayments relating to those shipbuilding contracts of approximately HK$55,918,000 in aggregate. The advanced payments received and interest accrued in accordance with these relevant shipbuilding contracts amounting to approximately HK$423,172,000 (Note 25) are expected to be refunded by the Group to the relevant vessel owners.

27. AMOUNT DUE TO A RELATED PARTY

The amount is unsecured, interest free and repayable on demand.

28. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest bearing of 15% per annum and will be repayable in August 2012.

29. BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank borrowings	**384,685**	559,754
Other borrowings	**222,404**	133,912
	607,089	693,666
Secured	**236,541**	430,136
Unsecured	**370,548**	263,530
	607,089	693,666

At the end of the reporting period, the above borrowings were repayable as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**538,117**	593,306
More than one year but not more than two years	**38,603**	34,599
More than two years but not more than five years	**30,369**	65,761
	607,089	693,666
Less: Amounts due within one year shown under current liabilities	**(538,117)**	(593,306)
	68,972	100,360

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

	2011 HK$'000	2010 HK$'000
Fixed-rate borrowings:		
Within one year	**210,691**	593,306
More than one year but not more than two years	**38,603**	34,599
More than two years but not more than five years	**30,369**	65,761
	279,663	693,666

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

	2011 HK$'000	2010 HK$'000
Variable-rate borrowings:		
Within one year	**327,426**	—
	327,426	—

29. BORROWINGS (Continued)

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

Effective interest rates:

	2011	2010
Fixed-rate borrowings (bank and other borrowings)	**5.10% to 15%**	4.86% to 8.42%
Variable-rate borrowings (bank borrowings)	**5.35% to 8.53%**	N/A

During the year ended 31 December 2010, the Group obtained a new borrowing of approximately HK$141 million (equivalent to RMB120 million), which will be repayable in 16 quarterly instalments commencing from August 2010. The borrowing carries interest of 5.76% per annum. The proceeds were used to finance the daily operation of the Group and were secured by the bank deposits of approximately HK$31,059,000 (equivalent to RMB26,400,000) at 31 December 2010.

During the year ended 31 December 2010, the Group breached one bank loan covenant of which the Group was required not to leverage over a certain amount of bank borrowing. The Group has not obtained a waiver letter for the breach of the loan covenant at 31 December 2010. Accordingly, the loan of HK$18,000,000 which matured in March 2012 was presented as current liability in the consolidated statement of financial position as at 31 December 2010. The waiver letter was subsequently received in March 2011.

During the year ended 31 December 2011, the Group obtained several new fixed-rate borrowings in aggregated of approximately USD9,956,000 (equivalent to approximately HK$77,547,000), which will be repayable within 100-180 days. The borrowings carry interest of a range from 5.6% to 5.9% per annum.

During the year ended 31 December 2011, the Group obtained loan advances from employees of approximately HK$39,348,000 (equivalent to RMB31,990,000) which bears interest rate of 15% per annum and will be repayable in August 2012. The proceeds were used to finance the daily operation of the Group.

At 31 December 2011, there was no principal amount of the Group's bank borrowings with repayment on demand clause (2010: HK$58,824,000).

30. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2010	33,025
Exchange realignment	1,165
Additional provision for the year	25,474
Reversal of provision	(25,567)
At 31 December 2010	34,097
Exchange realignment	1,551
Additional provision for the year	25,366
Reversal of provision	(35,648)
At 31 December 2011	25,366

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

31. DEFERRED CONSIDERATION

	2011 HK$'000	2010 HK$'000
At 1 January	**187,543**	200,000
Gain on modification	**—**	(36,014)
Imputed interest expense	**29,725**	23,557
At 31 December	**217,268**	187,543

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 INPAX Group (as defined in Note 33) during the year ended 31 December 2008. The imputed interest rate was 16.25% per annum.

On 30 November 2009, the Company entered into an agreement with the creditor, Million King Investments Limited ("Million King"), an independent third party, 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 another 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 "Deferred Consideration Extensions").

The Deferred Consideration Extensions constitute substantial modifications of the terms of the existing liability and hence is accounted for as an extinguishment of the existing liability having a previous carrying amount of HK$200 million and replaced by the incurrence of a new liability having a fair value of approximately HK$163,986,000 at 23 April 2010.

The fair value of the new deferred consideration was calculated based on the present value of the contractually determined stream of future cash flows discounted at 15.85% (determined by reference to the effective interest rate of the liability portion of CBII, see Note 33), being the effective interest rate of the new deferred consideration.

The difference of approximately HK$36 million between the original liability carrying amount and the carrying amount of the new liability on the date of the Deferred Consideration Extensions was credited to the consolidated statement of comprehensive income during the year ended 31 December 2010.

Subsequent to the end of reporting period, pursuant to the Company's announcement dated 30 January 2012, the terms of the deferred consideration has been further amended, details of which are stated in Note 44 to the consolidated financial statements.

32. SHARE CAPITAL

	Number of shares		Amount	
	2011	2010	**2011**	2010
			HK$'000	HK$'000
Ordinary shares of HK$0.05 each				
Authorised:				
At 1 January	**5,000,000,000**	5,000,000,000	**250,000**	250,000
Increase in authorised share capital (Note a)	**15,000,000,000**	—	**750,000**	—
At 31 December	**20,000,000,000**	5,000,000,000	**1,000,000**	250,000
Issued and fully paid:				
At 1 January	**2,255,249,126**	902,099,651	**112,762**	45,105
Open offer on 7 September 2010 (Note b(i))	**—**	451,049,825	**—**	22,552
Bonus issue on 7 September 2010 (Note b(ii))	**—**	902,099,650	**—**	45,105
Issue of shares upon conversion of convertible notes (Note c)	**1,412,745,760**	—	**70,638**	—
At 31 December	**3,667,994,886**	2,255,249,126	**183,400**	112,762

32. SHARE CAPITAL (Continued)

Notes:

(a) 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 ordinary shares to HK$1,000,000,000 divided into 20,000,000,000 ordinary shares by the creation of additional 15,000,000,000 shares. The new shares rank pari passu in all respects with the existing issued shares of the Company.

(b) On 7 September 2010, an open offer, on the basis of:

i) one offer share for every two existing shares held; and

ii) bonus issue on the basis of two bonus shares for every one offer share taken up,

at a subscription price of HK$0.50 per offer share become unconditional and a total of 451,049,825 offer shares were issued, resulting a gross proceed of approximately HK$225.5 million received by the Company. Accordingly, 902,099,650 bonus shares having a par value of HK$0.05 each were also issued.

(c) On 7 February 2011, certain convertible notes holders surrendered of approximately HK$282.55 million of convertible notes for the subscription of 1,412,745,760 new shares.

All the shares issued during the years ended 31 December 2011 and 2010 ranked pari passu with the then existing shares in all respects.

33. CONVERTIBLE NOTES PAYABLE

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 Technology Limited and its wholly owned subsidiary, Jiangxi Jiangzhou Union Shipbuilding Company Limited ("Shipyard") (collectively known as the "INPAX Group"). The convertible notes ("CBI") were issued on 16 April 2008 upon completion of the acquisition.

CBI comprised restricted convertible notes and unrestricted convertible notes.

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

33. CONVERTIBLE NOTES PAYABLE (Continued)

The initial aggregate principal amount of the restricted convertible notes issued is HK$600 million, which is subject to a 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 for the year ended 31 December 2008 of INPAX Group of HK$217 million, the shortfall is determined to be approximately HK$383 million as compared to the guaranteed profit of HK$600 million.

The difference between i) the aggregate principal amount of the CBI of HK$2,617 million, representing the aggregate amount of the principal amount of the unrestricted convertible notes of HK$2,400 million and the adjusted principal amount of the restricted convertible notes issued of HK$217 million, and ii) the fair value of the liability component of the CBI of approximately HK$1.7 billion, representing the conversion option of approximately HK$0.9 billion was credited directly to equity as convertible notes reserve during the year ended 31 December 2008.

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, the date of maturity, at the initial conversion price of HK$0.15 per share, which was adjusted to HK$4.30 following (i) the share placements and the share consolidation in 2009; and (ii) the open offer and the related bonus element in 2010 (Notes 32(b)(i) and 32(b)(ii)).

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, the date of issue of the convertible notes, to 15 April 2011, the date of maturity, at an initial conversion price of HK$0.15 per conversion share, which is subject to anti-dilutive adjustments and was adjusted to HK$4.30 following (i) the share placements and the share consolidation in 2009; and (ii) the open offer and the related bonus element in 2010 (Notes 32 (b)(i) and 32(b)(ii)).

In respect of the restricted convertible notes, no interest will be payable. For the unrestricted convertible notes, 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.

The CBI is not redeemable at the option of the noteholder(s) prior to maturity. The Company shall have the right to redeem any portion of the CBI outstanding at an amount equals to the principal amount of the CBI together with any interest accrued at its sole and absolute discretion at any time prior to the maturity date of the CBI. In the opinion of the directors of the Company, such redemption option has risks and characteristics that are closely related to CBI as the redemption option's exercise price is approximately equal on each exercise date to the amortised cost of the host instrument before separating the equity component. Unless previously converted or redeemed, the Company shall redeem the CBI at par on the maturity date of the CBI.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The CBI is freely transferrable, provided that the noteholder(s) of the CBI must inform and obtain written consent from the Company of each transfer or assignment made by them.

The fair value of the CBI was calculated using the Binominal option pricing model. The inputs used in the model in determining the fair value were as follows:

	Restricted convertible notes 16 April 2008	Unrestricted convertible notes 16 April 2008
Share price	HK$0.149	HK$0.149
Exercise price	HK$0.15	HK$0.15
Contractual life	3 years	3 years
Risk-free rate	1.659%	1.659%
Expected dividend yield	0%	0%
Volatility	49.05%	51.46%

The effective interest rate of the liability portion of CBI was 16.25% per annum.

As at 31 December 2009, the principal amounts of restricted and unrestricted convertible notes outstanding were approximately HK$148 million and HK$360 million, respectively.

On 27 April 2010, the Group announced to have entered into an extension agreement with the CBI holders whereby the parties agreed to extend the maturity date of the outstanding convertible notes from 15 April 2011 to 15 April 2012. Except for the extension of the maturity date of the outstanding CBI, each and every term and condition under CBI shall remain unchanged. The extension became effective upon the approval by the shareholders of the Company at a special general meeting held on 25 June 2010 and obtaining of consents and approvals by the Stock Exchange on 29 June 2010. The maturity date of the convertible notes has therefore been extended to 15 April 2012 (the "CN Extension").

33. CONVERTIBLE NOTES PAYABLE (Continued)

The effect of CN Extension represents the extinguishment of CBI having a carrying amount of HK$440,323,001 by the issue of new convertible notes having the exact terms and conditions other than an extended maturity date of CBI (the "CBII"), which has a fair value of HK$399,334,556 comprising a liability portion of approximately HK$399 million and an insignificant conversion option derivative at the date when the CN Extension became effective. The difference of approximately HK$41 million between CBI and CBII on the date of the CN Extension was credited to the consolidated statement of comprehensive income during the year ended 31 December 2010.

The fair value of the conversion option component of CBII was calculated using the Binominal option pricing model while the fair value of the liability component of CBII was calculated based on the present value of the contractually determined stream of future cash flows discounted at 15.85%, being the effective interest rate of CBII.

At 31 December 2010, the fair value of the conversion option was insignificant.

The valuation of the entire CBII including the conversion option derivative and liability portion was performed by, Greater China Appraisal Limited, an independent professional valuer. The inputs used in the model in determining the fair value were as follows:

	Convertible notes modified on 29 June 2010
Share price	HK$0.42
Exercise price	HK$7.26
Contractual life	1.79 years
Risk-free rate	0.721%
Expected dividend yield	0%
Volatility	56.74%
Borrowing rate	14.16%

33. CONVERTIBLE NOTES PAYABLE (Continued)

On 21 December 2010, the Group entered into subscription agreements with certain holders of CBII to surrender the CBII 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 of CBII notes with principal amount of HK$225,000,000, the Group entered into agreements with the holders that, i) the conversion price is reduced from HK$4.30 per share to HK$0.22 per share; ii) the maturity date is extended from April 2012 to April 2014; and iii) other terms and conditions remain unchanged (the "CN Modification"). The transactions became unconditional upon consents and approvals 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 CBII 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 approximately HK$7,241,000, representing the difference between the fair value of the Company's shares and the carrying amount of the relevant portion of the CBII of HK$239,990,000, have been recognised by the Group as a loss on extinguishment of part of CBII in the consolidated statement of comprehensive income during the year ended 31 December 2011.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The valuation of the remaining CBII including the conversion option derivative and liability portion was performed by, Greater China Appraisal Limited, an independent professional valuer. The inputs used in the model in determining the fair value were as follows:

	Convertible notes modified on 31 January 2011
Share price	**HK$0.175**
Exercise price	**HK$0.22**
Contractual life	**3.21 years**
Risk-free rate	**1.040%**
Expected dividend yield	**0%**
Volatility	**53.26%**

The effect of CN Modification represents the extinguishment of CBII having a carrying amount of HK$193,266,282 with revised terms and conditions as mentioned above (the "CBIII"), which has a fair value of HK$189,004,303 comprising a liability portion of approximately HK$138 million and a conversion option derivative at the date when the CN Modification became effective. The difference of approximately HK$4,262,000 between CBII and CBIII on the date of the CN Modification was credited to the consolidated statement of comprehensive income during the year ended 31 December 2011.

At 31 December 2011, CBIII having a carrying amount of approximately HK$208,524,000 which has a fair value of HK$157,135,000 comprising a liability portion of approximately HK$154 million and an insignificant conversion option. The difference of approximately HK$51,389,000 was credited to the consolidated statement of comprehensive income during the year ended 31 December 2011.

The fair value of the conversion option component of CBIII was calculated using the Binominal option pricing model while the fair value of the liability component of CBIII was calculated based on the present value of the contractually determined stream of future cash flows discounted at 20.36%, being the effective interest rate of CBIII.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The valuation of the entire CBIII including the conversion option derivative and liability portion was performed by Greater China Appraisal Limited, an independent professional valuer. The inputs used in the model in determining the fair value were as follows:

	Convertible notes III
	31 December 2011
Share price	HK$0.102
Exercise price	HK$0.22
Contractual life	2.29 years
Risk-free rate	0.393%
Expected dividend yield	0%
Volatility	38.77%

The movements of the liability component of CBI, CBII, and CBIII were as follows:

	HK$'000
Liability component of CBI at 1 January 2010	416,168
Gain on modification of CBI	(40,988)
Interest charged	57,513
Interest paid	(5,400)
Liability component of CBII at 31 December 2010	427,293
Gain on modification of CBII	(4,262)
Gain on fair value change of CBIII	(51,389)
Loss on extinguishment of CBII	7,241
Conversion of shares	(247,231)
Interest charged	29,490
Interest paid	(4,007)
Liability component of CBIII at 31 December 2011	**157,135**

34. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Convertible notes payable	Withholding tax on undistributed earnings of the PRC subsidiaries	Fair value adjustments on properties and intangible assets	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	19,928	30,762	285,018	335,708
Exchange realignment	—	—	11,022	11,022
Credit to profit and loss (Note 13)	—	—	(116,086)	(116,086)
Reversal on modification of CBI (credit to equity)	(19,928)	—	—	(19,928)
At 31 December 2010	—	30,762	179,954	210,716
Exchange realignment	—	—	8,818	8,818
Credit to profit and loss (Note 13)	—	—	(105,186)	(105,186)
At 31 December 2011	**—**	**30,762**	**83,586**	**114,348**

35. CAPITAL COMMITMENTS

	2011	2010
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**7,947**	24,398

36. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged for the Group's banking facilities, bills payables and borrowings:

	2011 HK$'000	2010 HK$'000
Deposits	**393,313**	420,662
Inventories	**156,618**	180,471
Properties, plant and equipment	**399,627**	279,583
Prepaid lease payments	**341,034**	344,494
Value-added tax recoverable	**258,935**	240,434
	1,549,527	1,465,644

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed 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. In addition, the Company may, from time to time, grant share options to outside third parties for settlement for goods or services provided to the Company.

At 31 December 2011, the number of outstanding share options under the Scheme was 46,449,780 (2010: 46,449,780), representing 1.27% (2010: 2.1%) 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 any point in time 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.

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per person. Options may be exercised at any time during the exercise period. The subscription price of the option shall be determined by the board but in any case shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a trading day; (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a share.

The following table discloses details of the options held by directors, employees and consultants and movements in such holdings during the years ended 31 December 2011 and 2010:

				Number of share options		
Name	**Date of grant**	**Exercisable period**	**Exercise price per share** (Note a)	**Outstanding at 1.1.2010** (Note b)	**Forfeited during the year ended 31 December 2010** (Note c)	**Outstanding at 31.12.2010 and 31.12.2011**
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
	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

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Name	Date of grant	Exercisable Period	Exercise price per share (Note a)	Number of share options: Outstanding at 1.1.2010 (Note b)	Forfeited during the year (Note c)	Outstanding at 31.12.2010 and 31.12.2011
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	2,200,752	(1,264,800)	935,952
		7 May 2009 to 6 May 2018	HK$4.523	1,650,564	(948,600)	701,964
		7 May 2010 to 6 May 2018	HK$4.523	1,650,564	(948,600)	701,964
				5,501,880	(3,162,000)	2,339,880
Consultants (Note d)	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	38,418,300	(4,743,000)	33,675,300
				54,354,780	(7,905,000)	46,449,780

Notes:

a. 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 became effective on 7 September 2010, the exercise prices of shares options were adjusted to HK$5.693 and HK$4.523 accordingly.

b. The number of outstanding share options has been adjusted retrospectively to take into account the effect of the share consolidation, the open offer and the related bonus element.

c. Share options were forfeited due to the resignation of employees or consultants subsequent to the vesting period.

d. The consultants provided consultancy service with regard to the acquisition and operation of INPAX Group.

No share options exercised during the years ended 31 December 2010 and 2011. The estimated fair values of the options granted on 5 March 2008 and 7 May 2008 are approximately HK$18,086,000 and HK$30,502,000 respectively.

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair values were calculated using the Binominal option pricing model. The inputs into the model were as follows:

	5 March 2008	**7 May 2008**
Grant date share price	HK$0.180	HK$0.138
Exercise price	HK$0.180	HK$0.143
Contractual life	10 years	10 years
Expected volatility	43.73%	44.73%
Dividend yield	0%	0%
Risk-free interest rate	2.766%	2.802%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group did not recognised any share-based payment expenses for the year ended 31 December 2011. During the year ended 31 December 2010, the Group recognised total expenses of approximately HK$894,000 in relation to share options granted by the Company in 2008.

38. 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 and 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 is matched by employees.

The Company's subsidiary in the PRC is a member 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 subsidiary's employees, are charged to the consolidated statement of comprehensive income in the period to which they relate and represent the amount of contributions payable by the subsidiary to the scheme. The only obligation of the Group with respect to the retirement benefits scheme operated by the government of PRC is to make the required contributions under the scheme.

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

39. CONTINGENT LIABILITIES

At 31 December 2011, the Group has an arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of the rescission notices.

If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts up to the settlement date. At 31 December 2011, the principal payments and the interests accrued up to 31 December 2011 of approximately HK$366 million in aggregate, were recorded as "Other Payables" in the 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 31 December 2011.

40. 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:

	2011	2010
	HK$'000	HK$'000
Within one year	**894**	1,013
In the second to fifth year inclusive	**200**	464
	1,094	1,477

Operating lease payments represent rental payables by the Group for certain of its office premises. Leases are negotiated and rentals are fixed for an average term of 2 years (2010: 2 years).

41. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions and balances with related parties as follows:

(a) The Group paid fees of approximately HK$15,990,000 (equivalent to RMB13,000,000) (2010: HK$17,241,000) to China Ruilian Holding Corp. （中國瑞聯實業集團有限公司） in respect of shipbuilding services including guarantee issued by RuiLien Group for the Group's entering of certain shipbuilding contracts. The Company's executive director, Mr. Li Ming, has beneficial interests in both the Company and RuiLien Group and has significant influence on RuiLien Group.

The amount due to RuiLien Group of approximately HK$31,588,000 (2010: HK$14,919,000) at the end of the reporting period is included in amount due to a related party. The amount is unsecured, interest free and repayable on demand.

(b) Mr. Wang San Long ("Mr. Wang"), the executive director of the Company, has provided a free counter-guarantee in favor of the guarantor of the Group （江西省信用擔保股份有限公司） to guarantee the Group for all its payment obligations under a loan agreement with a bank for the loan amounting to RMB50,000,000.

Mr. Wang has also provided a free guarantee in favor of the Group to guarantee a loan of RMB120,000,000 granted by a financial institution in the PRC.

At 31 December 2011, Mr. Wang has advanced loan of HK$615,000 (equivalent to RMB500,000) to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable in August 2012.

(c) The remuneration of directors during the years was as follows:

	2011 HK$'000	2010 HK$'000
Fees, salaries, and other benefits	4,542	4,278
Contributions to retirement benefits scheme	38	42
Share-based payment expenses	—	683
	4,580	5,003

The remuneration of directors and key executives is determined by the remuneration committee having regarded to the performance of individual and market trends.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		60	77
Investments in subsidiaries	(a)	1	280,064
		61	280,141
CURRENT ASSETS			
Other receivables		2,335	2,411
Amounts due from subsidiaries	(a)	59,921	197,174
Investments held for trading		2,750	3,938
Bank balances and cash		600	27,119
		65,606	230,642
CURRENT LIABILITIES			
Other payables		3,767	4,302
Deferred consideration		217,268	—
		221,035	4,302
NET CURRENT (LIABILITIES) ASSETS		(155,429)	226,340
NON-CURRENT LIABILITIES			
Deferred consideration		—	187,543
Convertible notes payable		157,135	427,293
		157,135	614,836
NET LIABILITIES		(312,503)	(108,355)
CAPITAL AND RESERVES			
Share capital		183,400	112,762
Reserves	(b)	(495,903)	(221,117)
		(312,503)	(108,355)

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

(a) Investments in subsidiaries / Amounts due from subsidiaries

	2011 HK$'000	2010 HK$'000
Unlisted investment, at cost	**3,067,687**	3,067,687
Amounts due from subsidiaries	**207,995**	200,281
	3,275,682	3,267,968
Less: Provision for impairment	**(3,215,760)**	(2,790,730)
	59,922	477,238

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(b) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	2,840,084	528,327	141,547	47,694	(3,046,126)	511,526
Recognition of equity-settled share-based payment	—	—	—	894	—	894
Modification of convertible notes	—	—	(141,547)	—	161,475	19,928
Shares options forfeited during the year	—	—	—	(4,895)	4,895	—
Issue of shares upon open offer	157,867	—	—	—	—	157,867
Share issue expenses	(5,546)	—	—	—	—	(5,546)
Transfer	(2,840,084)	2,840,084	—	—	—	—
Loss for the year, representing total comprehensive expenses for the year	—	—	—	—	(905,786)	(905,786)
At 31 December 2010	152,321	3,368,411	—	43,693	(3,785,542)	(221,117)
Issue of shares upon conversion of convertible notes	176,593	—	—	—	—	176,593
Loss for the year, representing total comprehensive expenses for the year	—	—	—	—	(451,379)	(451,379)
At 31 December 2011	**328,914**	**3,368,411**	**—**	**43,693**	**(4,236,921)**	**(495,903)**

43. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2011 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company 2011 Directly %	Indirectly %	Principal activities
INPAX Technology Limited	British Virgin Islands*	10,000 ordinary shares of US$1 each	100	—	Investment holding
Merge Limited	Hong Kong	1 ordinary share of HK$1 each	100	—	Trading
China Ocean Shipbuilding Holdings Limited	British Virgin Islands*	1 ordinary share of US$1 each	100	—	Investment holding
Smart Victor Holdings Limited #	British Virgin Islands*	1 ordinary share of US$1 each	100	—	Investment holding
China Ocean Shipbuilding Services Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	Inactive
China Ocean Shipbuilding (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	Inactive
Golden Device Limited #	Hong Kong	1 ordinary share of HK$1 each	—	100	Inactive
Jiangxi Jiangzhou Union Shipbuilding Co., Ltd **	PRC	RMB395,956,890 paid-up registered capital	—	100	Manufacturing metal vessel, vessel ancillary products and reparation of vessels

43. PARTICULARS OF SUBSIDIARIES (Continued)

* The companies are engaged in investment business and have no specific principal place of operation.

** The company is registered in the form of a wholly foreign owned enterprise.

\# The companies are newly incorporated during the year ended 31 December 2011.

None of the subsidiaries had any debt securities at 31 December 2011 and 2010 or at any time during both years.

44. EVENTS AFTER THE REPORTING PERIOD

On 30 January 2012, the Company entered into a settlement deed with Million King (the "Settlement Deed"). Pursuant to the Settlement Deed, the Company's payment obligation of the Deferred Consideration of HK$200,000,000 shall be fully settled and discharged upon issuance of the convertible notes of HK$105 million ("CN") and the promissory notes of HK$95 million ("PN") from the Company to Million King and / or its nominees and settlement of the relevant interests by the Company.

The aggregated principal amount of the CN is HK$105 million, coupon interest at a rate of 3% per annum and will be accrued on a day-to-day basis on the outstanding principal amount of the CN, payable semi-annually in arrears. The holders of the CN may convert the whole or any part of the principal amount of the CN outstanding into ordinary shares of the Company from 28 February 2012 to 28 February 2015, the date of maturity, at the initial conversion price of HK$0.15 per share.

The aggregated principal amount of the PN is HK$95 million, bears interest at the rate of 3% per annum and will be accrued on a day-to-day basis on the outstanding principal amount of the PN, payable semi-annually in arrears. The PN can be transferred on condition that the relevant principal amount and corresponding interest shall be transferred together.

Up to the signing of the Settlement Deed, a sum of HK$17,755,572 is payable by the Company to Million King as interest payment of the Deferred Consideration. With the payment of HK$10 million as settlement of all outstanding interests in respect of the Deferred Consideration, Million King has agreed to forego (i) HK$7,755,572, being the remaining outstanding interest that would otherwise need to be paid in the absence of the Settlement Deed, and (ii) any interest to be incurred from the date of the Settlement Deed to the Completion Date.

The modification of the terms of the Deferred Consideration explained in above represented an extinguishment of Deferred Consideration with principal amount of HK$200,000,000 and a recognition of CN and PN. The excess of the fair value of CN and PN, comprising a liability portion and a conversion option derivates at 28 February 2012, over the carrying amount of the Deferred Consideration would be charged to the consolidated statement of comprehensive income for the year ending 31 December 2012. The Group is still in the process of assessing the fair value of the CN and PN.

45. COMPARATIVE FIGURES

In order to conform with the current year presentation, an item in the consolidated statement of financial position at 31 December 2010 has been reclassified.

Details of the restatement are provided as follows:

	Amount original stated	Reclassification	Amount as restated
	HK$'000	HK$'000	HK$'000
Items on consolidated statement of financial position at 31 December 2010			
Trade, bills and other payables	(1,221,387)	14,919	(1,206,468)
Amount due to a related party	—	(14,919)	(14,919)

The reclassification has no impact on the comparative figures as at 1 January 2010. Accordingly, no consolidated statement of financial position at 1 January 2010 has been presented.

Financial Summary

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(542,559)**	(867,385)	(1,956,362)	(468,996)	(54,626)

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**3,169,282**	3,530,272	4,514,681	5,588,298	392,544
TOTAL LIABILITIES	**(3,570,677)**	(3,638,627)	(4,007,865)	(3,294,889)	(102,936)
NET (LIABILITIES) ASSETS	**(401,395)**	(108,355)	506,816	2,293,409	289,608