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

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2013

The board of directors (the "Board") of China Ocean Shipbuilding Industry Group Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 together with comparative figures as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	5	**491,144**	1,870,304
Cost of sales		**(482,797)**	(1,909,483)
Gross profit (loss)		**8,347**	(39,179)
Other income	6	**11,922**	12,362
Other gains and losses	7	**(1,268)**	(1,448)
Change in fair value of investments held for trading		**(1,089)**	(320)
Impairment loss recognised in respect of property, plant and equipment		**–**	(90,617)
Selling and distribution expenses		**(1,752)**	(1,651)
Administrative expenses		**(179,993)**	(97,128)
Gain on settlement of deferred consideration		**–**	52,936
Loss on fair value change of convertible notes payable		**(1,114)**	(20,949)
Finance costs	8	**(173,832)**	(182,100)
Loss before tax		**(338,779)**	(368,094)
Income tax credit	9	**1,339**	23,993
Loss for the year attributable to owners of the Company	10	**(337,440)**	(344,101)
Other comprehensive expense:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(10,177)**	(4,550)
Total comprehensive expenses for the year attributable to owners of the Company		**(347,617)**	(348,651)
Loss per share			
– Basic and diluted	12	**(HK$0.09)**	(HK$0.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**551,084**	577,546
Prepaid lease payments – non-current portion		**322,549**	333,226
Intangible assets		**–**	–
Pledged deposits for other borrowings		**–**	33,000
Trade receivables – non-current portion	13	**62,781**	134,200
		936,414	1,077,972
CURRENT ASSETS			
Inventories		**84,362**	122,018
Trade receivables – current portion	13	**21,185**	15,750
Other receivables	13	**187,453**	328,286
Prepayment for purchase of raw materials	13	**105,190**	324,397
Prepaid lease payments – current portion		**7,280**	1,910
Investments held for trading		**1,341**	2,430
Available-for-sale investments		**–**	6,250
Pledged bank deposits		**297,120**	269,447
Bank balances and cash		**13,549**	39,854
		717,480	1,110,342
CURRENT LIABILITIES			
Trade, bills and other payables	14	**841,949**	1,160,722
Amounts due to customers for contract work		**392,387**	580,961
Amounts due to related parties		**72,251**	53,285
Amount due to a director		**842**	812
Borrowings – due within one year		**610,822**	608,004
Provision for warranty		**7,705**	35,530
Convertible notes payable		**219,319**	–
Promissory notes payable		**79,842**	–
Deferred consideration		**–**	–
		2,225,117	2,439,314
NET CURRENT LIABILITIES		**(1,507,637)**	(1,328,972)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(571,223)**	(251,000)

	2013	2012
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**198,593**	183,400
Reserves	**(1,235,795)**	(906,474)
	(1,037,202)	(723,074)
NON-CURRENT LIABILITIES		
Borrowings – due after one year	**292,326**	31,080
Convertible notes payable	**76,400**	278,632
Promissory notes payable	**–**	68,713
Deferred tax liabilities	**97,253**	93,649
	465,979	472,074
	(571,223)	(251,000)

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 Units 1702-1703, China Merchants Tower, Shun Tak Centre, 168 – 200 Connaught Road, Central, Hong Kong.

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 dollars ("HK$") 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 (the "Directors") have given consideration to the future liquidity of the Group.

The Group incurred a consolidated loss of approximately HK$337,440,000 for the year ended 31 December 2013 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,507,637,000 and HK$1,037,202,000 respectively. In addition, the Group has borrowings with the principal amount of approximately HK$6,976,000 (equivalent to RMB5,450,000) which are overdue during the year ended 31 December 2013, whereas it have became repayable on demand. After our deliberated considerations on the financial position of the Group, the capability for repaying such overdue liabilities depends on Group's improvement of operation and financing activities.

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

a) 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;
b) 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;
c) The Group is in negotiation with financial institutions such as financial leasing company to obtain new borrowings;
d) The Group is seeking assistance from local government;
e) The outstanding balance (after provision for impairment) due from a ship buyer is expected to be recovered;
f) The Group is in negotiation with its creditors to extend payment due date;
g) Subsequent to the year ended date, the Company entered amendment deed with the convertible note holders to extend the due date of repayment from April 2014 to April 2016; and
h) Subsequent to the year ended date, the Company has raised HK$56.61 million by issuing 530,000,000 shares to four subscribers.

The Directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from 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") AND HONG KONG ACCOUNTING STANDARDS ("HKASs")

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 Amendment	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)* – Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine

* *IFRIC represents the International Financial Reporting Interpretation Committee*

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosure, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". 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. Furthermore, 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the new and revised HKFRSs and HKASs 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.

New and revised HKFRSs and HKASs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transaction Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC*) – Int 21	Levies[1]

[1] *Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted*

[2] *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted*

[3] *Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalised*

[4] *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in the fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on 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 at the end of the each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the board of Directors, 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. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

a) Shipbuilding – provision of shipbuilding services under shipbuilding construction contracts and operated in the PRC.

b) Trading business –provision of trading and operated in Hong Kong.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2013

	Shipbuilding *HK$'000*	**Trading business** *HK$'000*	**Total** *HK$'000*
Segment revenue	**491,144**	**–**	**491,144**
Segment result	**(151,660)**	**–**	**(151,660)**
Unallocated other income			**5,580**
Unallocated other gains and losses			**(1,176)**
Change in fair value of investments held for trading			**(1,089)**
Loss on fair value change of convertible notes payable			**(1,114)**
Finance costs			**(173,832)**
Unallocated corporate expenses			**(15,488)**
Loss before tax			**(338,779)**

For the year ended 31 December 2012

	Shipbuilding	Trading business	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	1,870,304	–	1,870,304
Segment result	(200,294)	–	(200,294)
Unallocated other income			1,179
Unallocated other gains and losses			(1,448)
Change in fair value of investments held for trading			(320)
Loss on fair value change of convertible notes payable			(20,949)
Gain on settlement of deferred consideration			52,936
Finance costs			(182,100)
Unallocated corporate expenses			(17,098)
Loss before tax			(368,094)

6. OTHER INCOME

	2013	2012
	HK$'000	*HK$'000*
Interests on bank deposits	**5,580**	3,986
Sales of scrap materials	**2,967**	3,655
Government grants	**–**	2,865
Others	**3,375**	1,856
	11,922	12,362

7. OTHER GAINS AND LOSSES

	2013	2012
	HK$'000	*HK$'000*
Written-off of inventory	**(89)**	–
Written-off of property, plant and equipment	**(3)**	(7,001)
Foreign exchange (loss) gain	**(1,176)**	5,553
	(1,268)	(1,448)

8. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	**35,596**	41,547
Imputed interest expense on deferred consideration	**–**	2,643
Promissory notes payable at effective interest rates	**13,817**	10,071
Interest on bank borrowings and bill payables	**36,490**	67,564
Interest on other borrowings	**48,014**	25,337
Guarantee fee and fund management fee incurred in connection with borrowings	**35,502**	25,486
Overdue interests	**3,863**	9,442
Others	**550**	10
	173,832	182,100

9. INCOME TAX CREDIT

	2013	2012
	HK$'000	*HK$'000*
Current tax	**–**	–
Deferred tax	**(1,339)**	(23,993)
	(1,339)	(23,993)

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 Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

10. LOSS FOR THE YEAR

	2013	2012
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' and chief executives' emoluments	**5,289**	4,752
Other staff costs:		
Salaries and other benefits	**67,745**	66,905
Contributions to retirement benefits scheme	**11,596**	10,221
Total staff costs	**84,630**	81,878
Auditor's remuneration		
– Current year (including non-audit service of HK$190,000 (2012: HK$180,000))	**1,190**	1,180
Depreciation of property, plant and equipment	**60,015**	58,897
Amortisation of prepaid lease payments	**7,280**	7,234
Minimum lease payments under operating leases in respect of office premises	**2,089**	2,005
Shipbuilding contract costs recognised as cost of sales	**482,797**	1,909,483
Foreseeable losses recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**30,711**	94,142
Impairment loss recognised in respect of trade receivables	**83,966**	794
Impairment loss recognised in respect of other receivables	**5,506**	1,090

11. DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012:Nil).

12. 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:

	2013	2012
	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	**(337,440)**	(344,101)

	2013	2012
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,803,600**	3,667,995

The computation of diluted loss per share for the years ended 31 December 2013 and 2012 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

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

	2013	2012
	HK$'000	*HK$'000*
Trade receivables – non-current portion	**125,562**	134,200
Less: Allowance for doubtful debts	**(62,781)**	–
Trade receivables – non-current portion, net	**62,781**	134,200
Trade receivables – current portion	**43,164**	16,544
Less: Allowance for doubtful debts	**(21,979)**	(794)
Trade receivables – current portion, net	**21,185**	15,750
Total trade receivables, net of allowance for doubtful debts *(Note a)*	**83,966**	149,950
Other receivables	**49,656**	101,734
Less: Allowance for doubtful debts	**(6,596)**	(1,090)
Other receivables, net	**43,060**	100,644
Value-added tax recoverable *(Note b)*	**137,031**	148,225
Deposits placed with a stakeholder	**3,950**	1,085
Deposits placed to a guarantor *(Note c)*	**–**	75,000
Deposit paid for acquisition of property, plant and equipment *(Note d)*	**3,412**	3,332
Total other receivables, net	**187,453**	328,286
Prepayment for purchase of raw materials *(Note e)*	**105,190**	324,397

Notes:

(a) Trade receivables of approximately HK$83,966,000 as at 31 December 2013 (2012: approximately HK$149,950,000 (equivalent to USD19,000,000))were gross trade receivables of approximately HK$168,726,000 (equivalent to USD21,650,000), net of impairment loss of approximately HK$83,966,000 recognised during the year ended 31 December 2013 (31 December 2012: approximately HK$794,000). It represents the deferral final receivables from a ship buyer, an independent third party of the Group, in relation to the final payment for the acquisition of eight (2012: seven) vessels from the Group, by five instalments in 5.5 years (2012: five instalments in 5.5 years) and one (2012: nil) vessel acquired from the Group by four instalments in 4.5 years (2012: nil).

(b) At 31 December 2013, the Group's value-added tax recoverable of approximately HK$137,031,000 (equivalent to RMB107,056,000) (2012: approximately HK$148,225,000 (equivalent to RMB118,580,000)) has been pledged to a bank to secure the Group's banking facilities.

(c) Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. During the year ended 31 December 2012, guarantee deposits of HK$75,000,000 (equivalent to RMB60,000,000) had been paid by the Group and the guarantee deposits have been refunded to the Group during the year ended 31 December 2013.

(d) Deposit paid for acquisition of property, plant and equipment was the purchase consideration paid for a property owned by a property developer in September 2008 at approximately HK$3,412,000 (equivalent to RMB2,665,700) (2012: approximately HK$3,332,000 (equivalent to RMB2,665,700)) which located in Nanchang. The premises permit has not yet been obtained and the ownership of property has not been transferred to the Group as at 31 December 2013. Under this circumstance, the Directors intent to terminate the acquisition agreement and the management is in negotiation with the property developer to refund the deposit paid. The Directors are of the opinion that the balances could be fully recoverable from the property developer within one year and legal action would otherwise be proposed.

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

	2013	2012
	HK$'000	*HK$'000*
Within three months	**–**	23,625
More than three months but not more than one year	**14,931**	126,325
More than one year	**69,035**	–
	83,966	149,950

The Group did not have trade receivables that were overdue but not impaired at 31 December 2013 and 2012. The Group did not hold any collateral over these balances.

The Directors consider that the carrying amounts of trade and other receivables approximated to their fair values.

Movement in the allowance for doubtful debts for trade receivables:

	2013	2012
	HK$'000	*HK$'000*
At 1 January	**794**	39,929
Impairment loss recognised	**83,966**	794
Amounts written-off as uncollectible	**–**	(39,929)
At 31 December	**84,760**	794

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

14. TRADE, BILLS AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**130,162**	140,535
Bills payables	**301,568**	339,721
	431,730	480,256
Refund to customers for unshaped vessels written-off *(Note i)*	**–**	372,338
Consideration payable for acquisition of prepaid lease payments	**48,277**	47,145
Payable to guarantors *(Note ii and iii)*	**35,903**	12,671
Contribution payables to labour union and education funds	**11,261**	9,439
Accrual of contractor fees	**22,797**	27,642
Accrual of government funds	**84,851**	33,541
Other payables and accruals *(Note iv)*	**207,130**	177,690
	841,949	1,160,722

Notes:

(i) The Group has one arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012.

During the year ended 31 December 2013, judgment of the arbitration has been finalised, the Group had fully settled the principal payments and the corresponding interests for the shipbuilding contracts of the vessels in arbitration (2012: approximately HK$372,338,000) in aggregate, to the relevant vessel owner.

(ii) The amount of accrual of guarantee fees for providing guarantee in respect of the banking facilities granted to the Group and funds from an independent third party of approximately HK$27,343,000 (equivalent to RMB21,362,000) in aggregate, at 31 December 2013 (2012: approximately HK$11,820,000 (equivalent to RMB9,456,000)).

(iii) The amount due to China Ruilian Holding Corporate ("China Ruilian") of approximately HK$8,560,000 (equivalent to RMB6,687,000) at 31 December 2013 was related to guarantee issued by China Ruilian for the Group's entering of certain shipbuilding contracts (2012: approximately HK$851,000 (equivalent to RMB681,000)).

(iv) Material balances included in other payables and accruals are as follow:

(a) The Group has accrued the land use tax of approximately HK$21,551,000 (equivalent to RMB16,837,000) at 31 December 2013 (2012: approximately HK$13,960,000 (equivalent to RMB11,170,000)).

(b) The Group has an accrued salaries of approximately HK$63,717,000 (equivalent to RMB49,779,000) at 31 December 2013 (2012: approximately HK$13,680,000 (equivalent to RMB10,940,000)).

(c) The Group has accrued the social security fund for and on behalf of its employees of approximately HK$31,091,000 (equivalent to RMB24,290,000) at 31 December 2013 (2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)). Pursuant to a repayment agreement signed between Jiangxi Jiangzhou Union Shipbuilding Co. Ltd., a wholly owned subsidiary of the Company, and the relevant government authority on 3 March 2014, the amounts of accrued social security fund should be repaid before December 2015.

(d) At 31 December 2013, the Group has a provision of legal costs for the arbitration which settled during the year 2013 of approximately HK$20,000,000 (2012: HK$Nil).

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:

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**108,919**	153,932
31 – 60 days	**107,031**	124,039
61 – 90 days	**8,722**	38,168
Over 90 days	**207,058**	164,117
	431,730	480,256

Bills payables are secured by pledged bank deposits.

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

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group consolidated financial statements for the year ended 31 December 2013 which has included a disclaimer of opinion:

"BASIS FOR DISCLAIMER OF OPINION

(a) Impairment of trade receivables

Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

As explained in our report dated 28 March 2013 on the Group's consolidated financial statements for the year ended 31 December 2012, we were not provided with sufficient evidence to enable us to assess as to the trade receivables could be recovered in full or to determine the amount of impairment, if any. We qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2012 in respect of this scope limitation accordingly.

Any adjustments found to be necessary to the opening balances as at 1 January 2013 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2013. The comparative figures for the year ended 31 December 2012 shown in these consolidated financial statements may not be comparable with the figures for the current year.

Limitation of scope on impairment assessment of trade receivables

Included in the Group's trade receivables of approximately HK$83,966,000 as at 31 December 2013 were gross trade receivables of approximately HK$167,932,000 (equivalent to USD21,650,000), net of impairment loss of approximately HK$83,966,000 recognised during the year ended 31 December 2013. This trade receivable is due from a shipbuyer in relation to the deferral final payments of several vessel contracts as stated in Note 22 to the consolidated financial statements. The Directors are of the view that the Group is able to recover the net outstanding balances, and therefore no further impairment should be provided. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such receivables could be recovered in full or to determine the amount of impairment, if any. There were no other alternative audit procedures that we could carry out to verify the valuation of this receivables as at 31 December 2013. Accordingly, we were unable to satisfy ourselves as to whether the impairment loss recognised during the year and the balance of the trade receivables as at 31 December 2013 were fairly stated, which would have consequential effect on net current liabilities and net liabilities of the Group as at 31 December 2013 and their loss for the year then ended.

Any adjustment to the amount of the above trade receivables found to be necessary would affect the Group's net liabilities as at 31 December 2013 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

(b) Material fundamental uncertainties relating to going concern basis

As set out in the consolidated statement of profit or loss and other comprehensive income, the Group incurred loss for the year attributable to owners of the Company of approximately HK$337,440,000 for the year ended 31 December 2013. 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$1,507,637,000 and the Group had net liabilities of approximately HK$1,037,202,000 as at 31 December 2013. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As set out in Note 2 to the consolidated financial statements, the Directors 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. 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.

However, we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as and when they fall due, and we consider that due to the potential interaction of the above material uncertainties and their possible cumulative effect on the consolidated financial statements is extreme, we have disclaimed our opinion.

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 obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements for the year ended 31 December 2013. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is engaged in the production and operation of shipbuilding and securities trading business. During the year under review, the shipbuilding market in China was still suffered from a long term downturn since the financial crises occurred in 2008. The industry continued to face the over capacity and the low level new building price. Many shipyards, especially the private shipyards, were struggling with plummeting orders and soaring debts. The conditions of the industry were very challenging but it seems to reach its trough. The new orders were increasing and the new building prices were slightly increased since late 2013. In addition, starting from the third quarters of 2013, Chinese authorities have introduced a slew of measures to crack down on overcapacity-plagued shipbuilding industries, encourage upgrading and mergers. The latest development indicates the shipbuilding industry may be set for a turnaround.

For the year ended 31 December 2013, the Group recorded a revenue of HK$491.14 million (2012: HK$1,870.30 million), a decrease of approximately 73.74% in compare to the year 2012. The decrease is mainly due to the production capacity of the shipyard cannot be fully utilized as a result of the downturn of shipbuilding market. The Group's gross margin was turned from a loss of HK$39.18 million in 2012 to a slight profit of HK$8.35 million in 2013. The turnaround was mainly contributed by the less foreseeable losses were recognized during 2013.

The Group recorded HK$11.92 million (2012: HK$12.36 million) of other income, HK$1.27 million (2012: HK$1.45 million) of other gains and losses and HK$1.75 million (2012: HK$1.65 million) of selling and distribution expenses for the year ended 31 December 2013. These items did not show significant change in comparing with last year.

The administrative expenses of HK$179.99 million (2012: HK$97.13 million). The significant increase was primarily due to the recognition of impairment of trade receivables amounting to HK$83.97 million during 2013.

The finance costs of the Group decreased by 4.54% to HK$173.83 million from HK$182.10 million. The total finance costs remained at a high level, even though there was a slight decrease during the year, mainly due to the Group was still at a high level of borrowing and need to obtain liquidity from the "high rate" sources of credit.

The other material items to affect the loss of for the year were absence of impairment loss recognized in respect of property, plant and equipment (2012: HK$90.62 million), the decrease of loss on fair value change of convertible notes payable from HK$20.95 million to HK$1.11 million and the absence of gain on settlement of deferred consideration (2012: HK$52.94 million). The contributions to the bottom line due to absence of impairment loss recognised in respect of property, plant and equipment and decrease in loss on fair value change of convertible notes payable were partially offset by the absence of gain on settlement of deferred consideration.

To conclude, the loss for the year ended 31 December 2013 was amounting to approximately HK$337.44 million (2012: HK$344.10 million), it was decreased by 1.94% in comparing with year 2012.

Shipbuilding business

During 2013, the shipbuilding segment was still performing at low level due to a lack of liquidity and new orders. During the year ended 31 December 2013, the shipbuilding business of the Group generated revenue of approximately HK$491.14 million to the Group, representing a decrease of approximately 73.74% as compared to approximately HK$1,870.30 million in 2012. The decrease in revenue mainly due to the works on new orders has not yet commenced because the ship-owner obtained financial supports from its bank was later than expected. During the year 2013, the adverse effect of the shipyard did not run in its full capacity which offsetting by less foreseeable loss recognized during the year. Consequently, the Group recorded a slight gross profit of HK$8.35million for the year ended 31 December 2013 (2012: gross loss of HK$39.18 million).

The Group agreed to extend credit terms to a shipowner in light of considering the long-term relationship with the shipowner and ensuring successfully delivery of vessels in 2012. At 31 December 2013, the gross amount due from this shipowner increased to approximately HK$167.94 million in which approximately HK$125.56 million is long term debt (at 31 December 2012: approximately HK$150.74 million included approximately HK$134.20 million long term debt). During the year ended 31 December 2013, the Group has received approximately HK$9.30 million from the shipowner for the partial settlement of the deferral final payments. In view of the payment history of the shipowner and in order to improve the Group's short term liquidity, the shipyard was under negotiation with certain parties such as other shipowner and bank to settle the outstanding balances in cash immediately by them. The Group is likely need to provide a discount to the parties. Accordingly, for the sake of prudence, the Group has made HK$83.97 million provision for impairment of trade receivable.

The shipbuilding business recorded a loss before tax of HK$151.66 million (before finance costs) (2012: HK$109.68 million (before deducting impairment cost recognized in property, plant and equipment and finance costs).The increase of loss was mainly due to the one off provision for doubtful debt.

During the year 2013, the Group had delivered two heavy lift vessels to ship-owners. As at 31 December 2013, the secured order book comprised five heavy lift vessels. In January 2014, the contract for constructing four multi-purposes vessels was effective and the works for construction is scheduled to be started in mid 2014. In addition, the contract for constructing two multi-purposes vessels would likely to become effective in the coming month. Besides, certain new orders including eight multi-purpose vessels are currently being closely negotiating.

Trading business

The trading business recorded insignificant losses in both 2013 and 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$310.67 million (31 December 2012: HK$309.30 million) of which HK$297.12 million (31 December 2012: HK$269.45 million) was pledged; short term borrowings of HK$610.82 million (31 December 2012: HK$608.01 million); long term borrowings of HK$292.33 million (31 December 2012: HK$31.08 million); convertible notes payable amounted to approximately HK$295.72 million (31 December 2012: HK$278.63 million) represented the principal amount of HK$314.42 million (31 December 2012: HK$330.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (1.04) as at 31 December 2013 (31 December 2012: (1.49)).

USE OF PROCEEDS FROM ISSUE OF SHARES

During the year, 103,866,666 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes at a conversion of HK$0.15 per share.

On 23 July 2013, the Company entered into the subscription agreements with two subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 200,000,000 subscription shares at a price of HK$0.102 per subscription share. The gross proceeds from the subscription were approximately HK$20.40 million and the net proceeds were approximately HK$20.35 million. The subscription has been completed on 31 July 2013. The Group has fully utilized the net proceeds from the subscriptions as general working capital of the Group during the year 2013.

CHARGES ON GROUP ASSETS

As at 31 December 2013, HK$297.12 million (31 December 2012: HK$302.45 million) of deposits, HK$23.04 million (31 December 2012: HK$50.91 million) of inventories, HK$511.18 million (31 December 2012: HK$522.77 million) of property, plant and equipment, HK$329.83 million (31 December 2012: 335.14 million) of prepaid lease payments and HK$137.03 million (31 December 2012: HK$148.23 million) 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 and United States Dollars. As at 31 December 2013, 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.

LITIGATION AND ARBITRATION

On 1 May 2013, the UK Arbitration Tribunal granted the arbitral awards on the arbitration proceeding between a wholly owned subsidiary of the Company, Jiangxi JiangZhou Union Shipbuilding Ltd. (the "Shipyard") and a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices sent by Algoma. Pursuant to the awards Shipyard was liable to pay Algoma the refund of the installments, its related interest and legal costs. On 23 May 2013, Shipyard submitted an application to the UK court for permission to appeal on a question of law arising out of the awards but the court refused in early November 2013. In enforcing the awards, Algoma served notices for payments in late November 2013. On 27 December 2013, Shipyard has settled the installment and its related interests amounting to US$38,941,731 (approximately HK$302.19 million). For details of the results of arbitration, please refer to the Company's announcement dated 2 May 2013, 8 November 2013 and 30 December 2013.

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

HUMAN RESOURCES

The Group had around 830 employees as at 31 December 2013. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

(a) The Group has an arbitration proceeding in progress with a vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012. During the year ended 31 December 2013, the Group had fully settled the principal payments for the shipbuilding contracts of the vessels in arbitration and the corresponding interests in aggregate, to the relevant vessel owner. Accordingly, there was no material contingent liability in connection to the arbitration at 31 December 2013 (31 December 2012: approximately HK$372,338,000 which were recorded as "Trade, bills and other payables" as disclosed in Note 26 to the consolidated financial statements for the year ended 31 December 2012).

(b) At 31 December 2013, the Group has not paid the social security fund for and on behalf of its employees and exposure the Group to the risk of being imposed the penalty by the relevant government authority. At 31 December 2013, the social security fund accrued up to 31 December 2013 of approximately HK$31,091,000 (equivalent to RMB24,290,000) in aggregate, were recorded as "Trade, bills and other payables" as disclosed in Note 26 to the consolidated financial statements. (31 December 2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. and the relevant government authority on 3 March 2014 in respect of the accrued social security fund, all amounts should repaid before December 2015. The Directors considered that if the Group could settle the accrued social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(c) At 31 December 2013, the Group has not paid the housing provident fund contributions for and on behalf of its employees and exposure the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2013 of approximately HK$5,491,000 (equivalent to RMB4,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position. (31 December 2012: approximately HK$3,063,000 (equivalent to RMB2,450,000)).

The delay in settlement of housing provident fund contributions may expose the Group to the risk of being imposed the penalty by the relevant government authority.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2013 and 2012.

CAPITAL COMMITMENTS

At 31 December 2013, there was no (31 December 2012: HK$3.82 million) capital expenditure 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.

EVENTS AFTER THE REPORTING PERIOD

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 530,000,000 subscription shares at a price of HK$0.107 per subscription share. The gross proceeds from the subscription were approximately HK$56.71 million and the net proceeds were approximately HK$56.61 million. The Company intends to apply the net proceeds from the subscriptions as repayment of debts and general working capital of the Group. The subscription has been completed on 20 March 2014.

On 25 March 2014, the Company and the noteholders entered into the amendment deed pursuant to which the parties agreed to amend the terms and conditions of the convertible notes, inclusive of i) the extension of the maturity date from 15 April 2014 to 15 April 2016; ii) the interest to be accrued on the outstanding principal of the convertible notes shall be payable annually (as opposed to semi-annually under the existing terms and conditions of the convertible notes). As at 31 December 2013, the convertible notes in the principal amount of HK$225,000,000 remain outstanding.

DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

PROSPECTS

Since late 2013, there has sign of recovery on overall shipbuilding market due to the higher charter rate, recovery of global economic, new policies to cut in overcapacity and urge restructuring and upgrades. It gave the shipbuilding industry a good start in a new year, sustainability remains to be proven. Looking into 2014, the general view on the shipbuilding market is cautiously optimistic.

The Group expected to be operated in a difficult environment in 2014, at least in the first half of the year, due to lack of liquidity and the works on new orders are likely to be commenced in mid 2014. To face this difficult market condition, the Group will continue to strengthen its internal control, enhance efficiency and seeking new orders. The directors expect that a certain amount of new orders will be placed and become effective in the coming months. In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations by examining diversification. The Directors will continue to reinforce the Group's financial position so that the Group will be well placed when the recovery begins.

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 2013.

CORPORATE GOVERNANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE REVIEW OF ACCOUNTS

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2013.

PUBLICATION OF ANNUAL REPORT

The Company's 2013 annual report which contains the information required by the Listing Rules will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited in due course.

BOARD OF DIRECTORS

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

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 28 March 2014