

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)



Interim Report
2014

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The functional currency was presented in Renminbi (“RMB”) and the Condensed Consolidated Financial Statements are presented in Hong Kong dollars (“HK\$”)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	83,122	387,530
Cost of sales		(99,741)	(375,259)
Gross (loss) profit		(16,619)	12,271
Other income		3,885	5,435
Other gains and losses		(1,878)	272
Gain on fair value change of convertible notes payable		2,110	–
Loss on modification of convertible notes payable		(26,591)	–
Share-based payments expenses		(42,163)	–
Change in fair value of investments held for trading		314	(458)
Selling and distribution expenses		(701)	(865)
Administrative expenses		(39,009)	(37,676)
Finance costs	4	(102,265)	(81,809)
Loss before tax		(222,917)	(102,830)
Income tax credit	5	670	–
Loss for the period attributable to owners of the Company	6	(222,247)	(102,830)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		13,439	(1,857)
Total comprehensive expenses for the period attributable to owners of the Company		(208,808)	(104,687)
Loss per share – basic	7	HK(4.89) cents	HK(2.80) cents
Loss per share – diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	506,255	551,084
Prepaid lease payments – non-current portion		316,966	322,549
Trade receivables – non-current portion	10	52,740	62,781
		875,961	936,414
CURRENT ASSETS			
Inventories		95,711	84,362
Trade receivables – current portion	10	31,294	21,185
Other receivables	10	223,041	187,453
Prepayment for purchase of raw materials	10	88,861	105,190
Prepaid lease payments – current portion		7,235	7,280
Investments held for trading		1,200	1,341
Pledged bank deposits		113,679	297,120
Bank balances and cash		1,005,660	13,549
		1,566,681	717,480
CURRENT LIABILITIES			
Trade, bills and other payables	11	810,313	841,949
Amounts due to customers for contract work		377,225	392,387
Amounts due to related parties	19	60,238	72,251
Amount due to a director	19	1,981	842
Borrowings – due within one year	12	594,817	610,822
Provision for warranty	13	7,524	7,705
Convertible bonds/notes payable	15	–	219,319
Promissory notes payable	16	85,638	79,842
		1,937,736	2,225,117
NET CURRENT LIABILITIES		(371,055)	(1,507,637)
TOTAL ASSETS LESS CURRENT LIABILITIES		504,906	(571,223)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	14	306,036	198,593
Reserves		(899,017)	(1,235,795)
		(592,981)	(1,037,202)
NON-CURRENT LIABILITIES			
Borrowings – due after one year	12	229,725	292,326
Convertible bonds/notes payable	15	776,520	76,400
Deferred tax liabilities		91,642	97,253
		1,097,887	465,979
		504,906	(571,223)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Statutory reserve HK\$'000	Convertible bonds/notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014 (Audited)	198,593	351,212	3,368,411	83,931	43,693	34,824	22,970	(5,140,836)	(1,037,202)
Loss for the period	-	-	-	-	-	-	-	(222,247)	(222,247)
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	13,439	-	-	-	-	13,439
Total comprehensive expenses for the period	-	-	-	13,439	-	-	-	(222,247)	(208,808)
Issuance of shares upon conversion of convertible notes	80,943	278,148	-	-	-	-	(22,970)	-	336,121
Issuance of shares	26,500	30,110	-	-	-	-	-	-	56,610
Recognition of equity component of convertible bonds payable	-	-	-	-	-	-	218,135	-	218,135
Recognition of equity- settled share-based payments	-	-	-	-	42,163	-	-	-	42,163
At 30 June 2014 (Unaudited)	306,036	659,470	3,368,411	97,370	85,856	34,824	218,135	(5,363,083)	(592,981)
At 1 January 2013 (Audited)	183,400	328,914	3,368,411	94,108	43,693	34,824	26,972	(4,803,396)	(723,074)
Loss for the period	-	-	-	-	-	-	-	(102,830)	(102,830)
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	(1,857)	-	-	-	-	(1,857)
Total comprehensive expenses for the period	-	-	-	(1,857)	-	-	-	(102,830)	(104,687)
At 30 June 2013 (Unaudited)	183,400	328,914	3,368,411	92,251	43,693	34,824	26,972	(4,906,226)	(827,761)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(137,460)	(112,694)
NET CASH FROM INVESTING ACTIVITIES	174,674	83,857
NET CASH FROM FINANCING ACTIVITIES	941,458	28,666
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	978,672	(171)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	13,439	(1,857)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	13,549	39,854
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD represented by bank balances and cash	1,005,660	37,826

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

In preparing the condensed consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), the directors of the Company (the “Directors”) have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a consolidated loss before tax of approximately HK\$222.92 million for the six months ended 30 June 2014 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK\$371.06 million and HK\$592.98 million, respectively. After considering the Group’s internal financial resources, present available facilities granted by banks and other parties, to be negotiated with the creditors to extend payment due date, actively pursuing new customers, imposing cost control measures, negotiating with the local government for providing assistance and issue new shares, the Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32 Amendments to HKAS 36	Offsetting Financial Assets and Financial Liabilities Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*) – Interpretation 21	Leases

* *IFRIC represents the International Financial Reporting Interpretation Committee*

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The application of the above new interpretation and amendments to HKFRSs and HKASs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. 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 People's Republic of China (the "PRC").
- b) Trading business – provision of trading and operated in Hong Kong.

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

Six months ended 30 June 2014

	Shipbuilding HK\$'000 (Unaudited)	Trading business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue	83,122	–	83,122
Segment result	(46,806)	–	(46,806)
Unallocated other income			2,985
Unallocated other gains and losses			(1,747)
Unallocated corporate expenses			(8,754)
Gain on fair value change of convertible notes payable			2,110
Loss on modification of convertible notes payable			(26,591)
Share-based payments expenses			(42,163)
Change in fair value of investments held for trading			314
Finance costs			(102,265)
Loss before tax			(222,917)

3. REVENUE AND SEGMENT INFORMATION (Continued)

Six months ended 30 June 2013

	Shipbuilding HK\$'000 (Unaudited)	Trading business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue	387,530	–	387,530
Segment result	(14,959)	–	(14,959)
Unallocated other income			2,399
Unallocated other gains and losses			272
Unallocated corporate expenses			(8,275)
Change in fair value of investments held for trading			(458)
Finance costs			(81,809)
Loss before tax			(102,830)

4. FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible bonds/notes payable at effective interest rates	29,803	24,624
Promissory notes payable at effective interest rates	7,164	6,395
Borrowings and others (including guarantee fees, overdue interests and bills payables)	65,298	50,790
	102,265	81,809

5. INCOME TAX CREDIT

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Deferred tax	(670)	–

5. INCOME TAX CREDIT (Continued)

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

Under the law of the PRC on Enterprise Income Tax (“EIT”) and Implementation Regulation of the PRC EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Loss for the period has been arrived at after charging (crediting):		
Directors' and chief executives' emoluments:		
Fees, salaries and other benefits	2,398	2,358
Contributions to retirement benefits scheme	44	45
Share-based payments expenses	15,420	–
Other staff costs:		
Salaries and other benefits	20,518	32,309
Contributions to retirement benefits scheme	4,702	6,575
Share-based payments expenses	3,968	–
Total staff costs	47,050	41,287
Auditor's remuneration:		
Audit services	500	500
Non-audit services	210	190
	710	690
Minimum lease payments under operating leases in respect of rented premises	952	960
Depreciation of property, plant and equipment	41,549	41,122
Amortisation of prepaid lease payments	3,679	3,640
Shipbuilding contract costs recognised as expenses	99,741	375,259
Impairment loss recognised in respect of other receivables	–	208
Share-based payments expenses – others	22,775	–
Gain on disposal of property, plant and equipment	(4)	–

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	(222,247)	(102,830)

	Six months ended 30 June	
	2014 '000 (Unaudited)	2013 '000 (Unaudited)
Number of shares Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	4,548,672	3,667,995

For the six months ended 30 June 2014 and 30 June 2013, diluted loss per share was not presented as the assumed exercise of share options and convertible bonds/notes during both periods has an anti-dilutive effect.

8. DIVIDEND

No dividend were paid, declared or proposed during the interim period, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2013: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$123,000 (for the six months ended 30 June 2013: Nil) for cash proceeds of approximately HK\$127,000 (for the six months ended 30 June 2013: Nil), resulting in a gain on disposal of approximately HK\$4,000 (gain on disposal for the six months ended 30 June 2013: Nil).

In addition, during the current interim period, the Group paid approximately HK\$9,266,000 (for the six months ended 30 June 2013: HK\$1,563,000) for acquisition of property, plant and equipment in the PRC.

At 30 June 2014, certain of the Group's buildings with the aggregate carrying amount approximately HK\$449,653,000 (31 December 2013: HK\$511,183,000) were pledged as security for the Group's bank borrowings (Notes 12 and 18).

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade receivables – non-current portion Less: Allowance for doubtful debts	105,478 (52,738)	125,562 (62,781)
Trade receivables – non-current portion, net	52,740	62,781
Trade receivables – current portion Less: Allowance for doubtful debts	62,839 (31,545)	43,164 (21,979)
Trade receivables – current portion, net	31,294	21,185
Total trade receivables, net of allowance for doubtful debts (<i>Note a</i>)	84,034	83,966
Other receivables Less: Allowance for doubtful debts	51,341 (6,596)	49,656 (6,596)
Other receivables, net	44,745	43,060
Value-added tax recoverable (<i>Note b</i>)	136,436	137,031
Deposits placed with a stakeholder (<i>Note c</i>)	2,624	3,950
Deposits placed with agents (<i>Note c</i>)	35,905	–
Deposit paid for acquisition of property, plant and equipment (<i>Note d</i>)	3,331	3,412
Total other receivables, net	223,041	187,453
Prepayment for purchase of raw materials (<i>Note e</i>)	88,861	105,190

10. TRADE RECEIVABLES – NON-CURRENT PORTION AND CURRENT PORTION/OTHER RECEIVABLES/PREPAYMENT FOR PURCHASE OF RAW MATERIALS (Continued)

Notes:

- (a) Trade receivables of approximately HK\$84,034,000 (equivalent to USD10,825,000) as at 30 June 2014 (31 December 2013: approximately HK\$83,966,000 (equivalent to USD10,825,000)) were gross trade receivables of approximately HK\$168,317,000 (equivalent to USD21,650,000) (31 December 2013: approximately of HK\$168,726,000 (equivalent to USD21,650,000)), net of the allowance for doubtful debt of approximately HK\$84,283,000 as at 30 June 2014 (31 December 2013: approximately HK\$84,760,000). 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 (31 December 2013: eight) vessels from the Group, by five instalments in 5.5 years (31 December 2013: five instalments in 5.5 years) and one (31 December 2013: one) vessel acquired from the Group by four instalments in 4.5 years (31 December 2013: four instalments in 4.5 years).
- (b) At 30 June 2014, the Group's value-added tax recoverable of approximately HK\$136,436,000 (equivalent to RMB109,149,000) (31 December 2013: approximately HK\$137,031,000 (equivalent to RMB107,056,000)) has been pledged to a bank to secure the Group's banking facilities.
- (c) Certain vessel buyers have made progress payments for ship construction contracts to two agents and one stakeholder (2013: one 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 agents/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) 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\$3,331,000 (equivalent to RMB2,665,700) (31 December 2013: approximately HK\$3,412,000 (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 30 June 2014. 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 has been taken.
- (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.

10. TRADE RECEIVABLES – NON-CURRENT PORTION AND CURRENT PORTION/OTHER RECEIVABLES/PREPAYMENT FOR PURCHASE OF RAW MATERIALS (Continued)

The following is an analysis of trade receivables by age, net of allowance for doubtful debts, presented based on delivery date, which approximate the revenue recognition date, at the end of the reporting periods:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
More than three months but not more than one year	–	14,931
More than one year	84,034	69,035
	84,034	83,966

The Group did not have trade receivables that were overdue but not impaired at 30 June 2014 and 31 December 2013. 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.

11. TRADE, BILLS AND OTHER PAYABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade payables	120,012	130,162
Bills payables	225,000	301,568
	345,012	431,730
Consideration payable for acquisition of prepaid lease payments	47,145	48,277
Payable to guarantors	35,374	35,903
Contribution payables to labour union and education funds	11,581	11,261
Accrual of contractor fees	19,431	22,797
Accrual of government funds	121,239	84,851
Other payables and accruals	230,531	207,130
	810,313	841,949

11. TRADE, BILLS AND OTHER PAYABLES (Continued)

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
0 – 30 days	58,360	108,919
31 – 60 days	98,750	107,031
61 – 90 days	2,452	8,722
Over 90 days	185,450	207,058
	345,012	431,730

Bills payables are secured by pledged bank deposits.

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

12. BORROWINGS

During the current interim period, the Group obtained new bank borrowings and other borrowings amounting to HK\$142,270,000 and HK\$164,385,000 respectively (31 December 2013: HK\$555,111,000 and HK\$101,096,000 respectively).

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Bank borrowings	388,750	547,431
Other borrowings	435,792	355,717
	824,542	903,148
Secured	184,013	444,153
Unsecured	640,529	458,995
	824,542	903,148

12. BORROWINGS (Continued)

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	594,817	610,822
More than one year but not more than two years	102,825	–
More than two years but not more than five years	126,900	292,326
	824,542	903,148
Less: Amounts due within one year shown under current liabilities	(594,817)	(610,822)
Amounts due after one year shown under non-current liabilities	229,725	292,326

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Fixed-rate borrowings: Within one year	326,749	301,850

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Variable-rate borrowings: Within one year	268,068	308,972
More than one year but not more than two years	102,825	–
More than two years but not more than five years	126,900	292,326
	497,793	601,298

12. BORROWINGS (Continued)

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

	30 June 2014	31 December 2013
Effective interest rates:		
Fixed-rate borrowings (bank and other borrowings)	9.6% to 24%	1.27% to 54.75%
Variable-rate borrowings (bank and other borrowings)	5.54% to 22.4%	5.54% to 24%

At 30 June 2014 and 31 December 2013, there was no principal amount of the Group's bank borrowings with repayment on demand clause.

13. PROVISION FOR WARRANTY

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

14. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
At 1 January 2013 (Audited), 30 June 2013 (Unaudited), 31 December 2013 (Audited), 1 January 2014 (Audited) and 30 June 2014 (Unaudited)		
– Ordinary shares of HK\$0.05 each	20,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2013 (Audited) and 30 June 2013 (Unaudited)		
– Ordinary shares of HK\$0.05 each	3,667,994,886	183,400
Issue of shares upon conversion of convertible notes	103,866,666	5,193
Subscription of shares	200,000,000	10,000
At 31 December 2013 (Audited) and 1 January 2014 (Audited)		
– Ordinary shares of HK\$0.05 each	3,971,861,552	198,593
Issue of shares upon conversion of convertible notes (Note a)	1,618,860,603	80,943
Subscription of shares (Note b)	530,000,000	26,500
At 30 June 2014 (Unaudited)		
– Ordinary shares of HK\$0.05 each	6,120,722,155	306,036

14. SHARE CAPITAL (Continued)

Notes:

- (a) During the six months ended 30 June 2014, all of the convertible notes holders converted of approximately HK\$89.42 million of convertible notes for the subscription of 596,133,333 new shares at a conversion price of HK\$0.15 per conversion share and approximately HK\$225 million of convertible notes for the subscription of 1,022,727,270 new shares at a conversion price of HK\$0.22 per conversion share. Upon the conversions, in aggregate of 1,618,860,603 new shares (for the six months ended 30 June 2013: Nil) had been issued.
- (b) On 6 March 2014, the Company entered into a subscription agreement with certain subscribers, in which the subscribers could subscribe 530,000,000 new ordinary shares at a price of HK\$0.107 per subscription share. Net proceed of approximately HK\$56.61 million were raised and used as daily operation of the Group. The subscription was completed on 20 March 2014.

All new shares issued during the period ended 30 June 2014 and year ended 31 December 2013 ranked pari passu with the existing shares in all respects.

15. CONVERTIBLE BONDS/NOTES PAYABLE

(a) Issuance of convertible notes for INPAX Group Acquisition

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes for the acquisition of the entire interest in INPAX Technology Limited and its wholly-owned subsidiary, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. (collectively known as the "INPAX Group"). Upon completion, a convertible notes ("CBI") were issued on 16 April 2008 as part of the consideration for the acquisition.

CBI comprised restricted convertible notes and unrestricted convertible notes.

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

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.

15. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

(a) Issuance of convertible notes for INPAX Group Acquisition (Continued)

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 ("CBII").

On 21 December 2010, the Group entered into subscription agreements with certain holders of CBII to surrender the CBII 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 was reduced from HK\$4.30 per share to HK\$0.22 per share; (ii) the maturity date is extended from 15 April 2012 to 15 April 2014; and (iii) other terms and conditions remain unchanged ("CBIII"). 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.

On 25 March 2014, the Group entered into the amendment deed with the holders of CBIII, in which (i) the maturity date has been extended from 15 April 2014 to 15 April 2016; (ii) the interest to be accrued on the outstanding principal of the CBIII for the period from 16 April 2014 to 15 April 2016 shall be payable annually (as opposed to semi-annually under the existing terms and conditions of the CBIII). The extension and modification of CBIII ("CBV") has been approved by the shareholders in the extraordinary shareholders' meeting on 13 May 2014.

During May and June 2014, all of the holders of CBV had surrendered the CBV held by them of outstanding principal amount of HK\$225,000,000 in consideration for convert 1,022,727,270 shares of the Company at a conversion price of HK\$0.22 per conversion share.

15. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

(b) Issuance of convertible notes for extinguishment of deferred consideration

On 28 February 2012, the Company's payment obligation of the deferred consideration for the acquisition of INPAX Group in April 2008 of HK\$200,000,000 was settled by issuing convertible notes ("CBIV") and promissory notes ("PN") to Million King Investments Limited ("Million King") and/or its nominees.

The aggregated principal amount of the CBIV is HK\$105 million, with 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 CBIV, payable semi-annually in arrears. The holders of the CBIV may convert the whole or any part of the outstanding principal amount of the CBIV 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.

During the year ended 31 December 2013, certain holders of CBIV to surrender the CBIV notes held by them of principal amount of HK\$15.58 million in consideration for the convert 103,866,666 shares of the Company having a par value of HK\$0.05 each at a conversion price of HK\$0.15 per conversion share. For the remaining portion of CBIV notes with principal amount of HK\$89.42 million, each and every term and condition under CBIV shall remain unchanged.

During the six months ended 30 June 2014, all of the holders of CBIV had surrendered the CBIV held by them of outstanding principal amount of HK\$89.42 million in consideration for the convert 596,133,333 shares of the Company at a conversion price of HK\$0.15 per conversion share.

(c) Issuance of convertible bonds

On 14 May 2014, the Company entered into the placing agreement in respect of the issue of the convertible bonds in the principal amount of not more than HK\$1,000,000,000 ("CBVI"). The interest rate is 7.5% per annum payable annually in arrear in RMB based a fixed exchange rate, the holder(s) of CBVI may convert the whole or part of the principal amount of the CBVI into ordinary shares of the Company from 27 June 2014 to 26 June 2017, the date of maturity, at an initial conversion price of HK\$0.20 per share.

16. PROMISSORY NOTES PAYABLE

On 28 February 2012, part of the deferred consideration was settled by issuing CBIV and PN to Million King and/or its nominees.

At 30 June 2014, the aggregated outstanding principal amount of the PN is HK\$90 million (2013: HK\$90 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, up to the maturity date on 31 December 2014. The PN is transferrable only if the relevant principal amount and corresponding interest would be transferred together.

17. COMMITMENTS

(a) Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	1,901	1,014
In the second to fifth year inclusive	1,455	–
	3,356	1,014

(b) Capital commitments

At 30 June 2014, the Group has capital expenditure of approximately HK\$702,000 (31 December 2013: Nil) contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

18. 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:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Deposits	113,679	297,120
Inventories	21,250	23,040
Property, plant and equipment	449,653	511,183
Prepaid lease payments	324,201	329,829
Value-added tax recoverable	136,436	137,031
	1,045,219	1,298,203

As at 30 June 2014, the Company were pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., for a bank borrowing amounted to approximately HK\$148,750,000 (equivalent to RMB119,000,000) (31 December 2013: approximately HK\$185,148,000 (approximately equivalent to RMB148,118,000)).

19. RELATED PARTY DISCLOSURES

In addition to related party balances detailed in the condensed consolidated financial statements, the Group had the following significant transactions and balances with related parties during the period/year as follows:

- (a) At 30 June 2014, the Group borrowed several loans of approximately HK\$17,348,000 (equivalent to approximately RMB13,878,000) (31 December 2013: approximately HK\$25,815,000 (equivalent to approximately RMB20,168,000)) from Guangchang Zongbang Credit Loan Co.,Ltd. ("Zongbang Credit"). The proceeds were used to finance the daily operation of the Group. The Company's executive director, Mr. Li Ming ("Mr. Li") has beneficial interests in Zongbang Credit. The loans are unsecured, interest-bearing at a rate of 1.85% per month and repayable in October to November 2014. The interests expenses incurred of approximately HK\$2,643,000 (equivalent to approximately RMB2,098,000) for the six months ended 30 June 2014.
- (b) At 30 June 2014, Zha Jiu Peng and Wu Ge, the senior management of the Group, have advanced loan of approximately HK\$336,000 and HK\$2,688,000 (equivalent to RMB268,750 and 2,150,000) (31 December 2013: HK\$324,000 and HK\$2,592,000 (equivalent to RMB253,125 and RMB2,025,000)) respectively to the Group. The loans are unsecured, interest-bearing at 15% per annum and repayable in September 2014. The interests expenses incurred to Zha Jiu Peng and Wu Ge of approximately HK\$24,000 and HK\$189,000 (equivalent to approximately RMB19,000 and RMB150,000) for the six months ended 30 June 2014.

The 30% and 20% of the paid-up capital of Jiujiang Jianglian Shipbuilding Heavy Industry Co., Ltd. ("Jiujiang Jianglian") prior to the acquisition by the Group, is owned by Zha Jiu Peng and Wu Ge respectively.

- (c) At 30 June 2014, the Group borrowed loan of approximately HK\$39,866,000 (approximately equivalent to RMB31,894,000) (31 December 2013: HK\$43,520,000 (equivalent to RMB34,000,000)) from Jiangxi Haoli Fanya Energy Development Co., Ltd. ("Haoli Energy"). The Company's executive director, Mr. Zhang Shi Hong ("Mr. Zhang") is the legal representative of Haoli Energy. The loan is unsecured, interest-bearing at 14.4% per annum and repayable in December 2014. The interests expenses incurred of approximately HK\$3,047,000 (equivalent to approximately RMB2,418,000) for the six months ended 30 June 2014.

19. RELATED PARTY DISCLOSURES (Continued)

- (d) Mr. Wang San Long ("Mr. Wang"), the executive director of the Company, has provided a free counter-guarantee in favor of the Group to guarantee a facility of RMB180,000,000 (31 December 2013: RMB170,000,000) granted by banks in the PRC during the six months ended 30 June 2014.

At 30 June 2014, Mr. Wang has advanced loan of approximately HK\$1,981,000 (approximately equivalent to RMB1,585,000) (31 December 2013: approximately HK\$842,000 (approximately equivalent to RMB658,000)) to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable in September 2014. The interests expenses incurred of approximately HK\$108,000 (equivalent to approximately RMB86,000) for the six months ended 30 June 2014.

The 50% paid-up capital of Jiujiang Jianglian prior to the acquisition by the Group, is owned by Mr. Wang.

- (e) Mr. Li, the executive director of the Company, has provided a free counter-guarantee in favor of the Group to guarantee a facility of RMB60,000,000 (31 December 2013: RMB60,000,000) granted by banks in the PRC during the six months ended 30 June 2014.
- (f) The remuneration of the Directors and chief executives during the period was as follows:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Fees, salaries and other benefits	2,398	2,358
Contributions to retirement benefits scheme	44	45
Share-based payments expenses	15,420	–
	17,862	2,403

The Directors are of the view that terms of the above related party transactions are fair and reasonable, based on normal commercial terms where no charge over the assets of the Group is created in respect of the above transactions. Accordingly, the transactions are exempted from all reporting, announcement and independent shareholders' approval requirement under the Listing Rules.

20. FAIR VALUE MEASUREMENTS OF THE FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements 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).

Financial assets/ financial liabilities	Fair value as at			
	30 June 2014 HK\$'000	31 December 2013 HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities classified as held-for-trading in the condensed consolidated statement of financial position	Asset- Approximately 1,200	Asset- Approximately 1,341	Level 1	Quoted bid prices in an active market
Convertible notes payable classified as liabilities in the condensed consolidated statement of financial position	Liability- Approximately –	Liability- Approximately 219,319	Level 2	Discounted at a rate that reflects the credit risk of various counterparties

There were no transfers between Level 1, 2 and 3 during the period/year ended 30 June 2014 and 31 December 2013.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

21. ACQUISITION OF A SUBSIDIARY

During the six months ended 30 June 2014, the Group acquired 100% paid-up capital in Jiujiang Jianglian. Jiujiang Jianglian is principally engaged in shipbuilding and manufacturing of related metallic components and machines and was acquired with the objective of improving the Group's shipbuilding operation.

	HK\$'000
Consideration payable	430

Assets and liabilities recognised at the date of acquisition:

	HK\$'000
NON-CURRENT ASSET	
Property, plant and equipment	3
CURRENT ASSETS	
Other receivables	55
Bank balances and cash	372
	427
NET CURRENT ASSETS AND NET ASSETS	430

Net cash inflow arising on acquisition:

	HK\$'000
Cash and cash equivalent balances acquired	372

Impact of acquisition on the results of the Group

Included in the loss for the interim period is approximately HK\$744,000 attributable to Jiujiang Jianglian. Revenue for the interim period includes approximately HK\$3,259,000 is attributable to Jiujiang Jianglian.

Had the acquisition of Jiujiang Jianglian been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2014 would have been HK\$83.12 million, and the amount of the loss for the interim period would have been HK\$222.25 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

22. SHARE OPTION SCHEME

Particulars of the Company's share option schemes adopted on 27 May 2002 (the "Scheme 2002") and 27 June 2012 (the "Scheme 2012") are set out in Note 39 to the consolidated financial statements of the Company's 2013 annual report. The purpose of the Scheme 2002 and Scheme 2012 is to recognise and motivate the contribution of the any employee, adviser, consultant, agent, contractor, client and supplier and/or such other person who in the sole discretion of the Board has contributed or may contribute to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

During the current interim period, 366,000,000 share options at the initial exercise price of HK\$0.211 were granted on 7 May 2014 under Scheme 2012. The fair values of the options determined at the date of grant using the binomial option pricing model were approximately HK\$42,163,000.

The following table discloses movement of the options:

	Number of share options
Outstanding as at 1 January 2014 (granted under Scheme 2002)	46,449,780
Granted during the period	366,000,000
Outstanding as at 30 June 2014	412,449,780

The closing price of the Company's shares immediately before 7 May 2014, the date of option grant during the interim period, was HK\$0.2070.

The weighted average exercise price is HK\$0.7146 (31 December 2013: HK\$4.682) per share.

22. SHARE OPTION SCHEME (Continued)

The following table discloses details of the options held by Directors, employees and other persons and movements in such holdings during the six months ended 30 June 2014:

Name	At 1 January 2014	Granted during the period	At 30 June 2014	Date of grant	Exercisable period	Exercise price per share
Directors						
Chau On Ta Yuen	4,743,000	–	4,743,000	05/03/2008	Up to 04/03/2018	HK\$5.693
	–	45,000,000	45,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Zhang Shi Hong	1,581,000	–	1,581,000	05/03/2008	Up to 04/03/2018	HK\$5.693
	–	16,000,000	16,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Wang San Long	4,110,600	–	4,110,600	07/05/2008	Up to 06/05/2018	HK\$4.523
	–	16,000,000	16,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Li Ming	–	40,000,000	40,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Xiang Siying	–	1,000,000	1,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Hu Bai He	–	1,000,000	1,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Xiang Ying	–	1,000,000	1,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Sub-total	10,434,600	120,000,000	130,434,600			
Employees						
(In aggregate)	2,339,880	–	2,339,880	07/05/2008	Up to 06/05/2018	HK\$4.523
	–	50,000,000	50,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Sub-total	2,339,880	50,000,000	52,339,880			
Others						
(In aggregate)	33,675,300	–	33,675,300	07/05/2008	Up to 06/05/2018	HK\$4.523
	–	196,000,000	196,000,000	07/05/2014	07/05/2014 to 06/05/2024	HK\$0.211
Sub-total	33,675,300	196,000,000	229,675,300			
Total	46,449,780	366,000,000	412,449,780			

The vesting period of share options is the period from the date of grant until the commencement of the exercise period.

No share options were exercised, cancelled or lapsed during the six months ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group was engaged in production and operation of shipbuilding. The shipbuilding industry in China was likely to reach its trough at last year. During the reporting period, it was on track of recovery. Even the excess capacity still exists, the orders on hand and the new building prices continued in an upward trend. In addition, a slew of measures to crack down the overcapacity-plagued shipbuilding industry and encourage upgrading mergers imposed by the Chinese authorities will have a positive impact on the market. However, the Group was still suffering from a lack of liquidity during the reporting period and the construction works on the new orders have not yet commenced. The Group has not yet benefited from the improvement in general market conditions during the first half of the year.

The Group's revenues decreased by 78.55%, from HK\$387.53 million to HK\$83.12 million and turned from gross profit of HK\$12.27 million to gross loss of HK\$16.62 million for the six months ended 30 June 2014 in comparing with the same period of last year. The total of other income and other gains of the Group decreased from HK\$5.71 million to HK\$2.01 million. The administrative expenses of the Group maintained at a similar level with 2013, slightly increased from HK\$37.68 million to HK\$39.01 million. The finance costs of the Group increased by 25.01% to HK\$102.27 million from HK\$81.81 million mainly due to the placing fees paid for issuance of one billion convertible bonds in June 2014. During the reporting period, save as the mentioned placing fees, the Group recorded certain one off non-recurring costs including loss on modification of convertible notes payable and share-based payments expenses amounting to HK\$68.75 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK\$222.25 million (2013: loss of HK\$102.83 million) for the six months ended 30 June 2014. The loss for the period under review was increased by approximately 116.13% in comparing with the same period of last year. It was mainly due to the declining in revenue and the mentioned one off non-recurring expenses.

SHIPBUILDING BUSINESS

For the six months ended 30 June 2014, the shipbuilding segment generated revenue of approximately HK\$83.12 million representing a decrease of approximately 78.55% as compared to approximately HK\$387.53 million in the corresponding period last year. The decrease was mainly due to the failure of commencing the construction works on new orders which were in the stage of fine-tuning the final design. Since the shipyard did not run at full capacity and so recorded a gross loss of the shipbuilding section. The shipbuilding segment recorded a loss (before finance costs) of HK\$46.81million (2013: restated to HK\$14.96 million).

As stated in the Company's 2013 annual report, a ship-owner has defaulted payment on settling the outstanding balances and the Group has already made provision for impairment of trade receivables at last year. The Group is currently in advanced negotiation with other ship-owners and banks for taking some measures to recover the receivables.

Since 2013 the PRC authorities have implemented a series of new policies to address the issue of over-capacity of the shipbuilding industry, the shipbuilding industry in PRC is experiencing a substantial consolidation which will lead the industry to a healthy development. One of the major policy implemented was the set-up of the *Regulatory Conditions for Shipbuilding Industry* 《船舶行業規範條件》, implied that the government policy will incline towards those shipbuilding enterprises fulfill the requirements such as encouraging financial institutions to provide more financial support. In June 2014, the Group has passed the review carried by The Office of Scientific Technological Industry of National Deference in Jiangxi Province, and then was recommended to the Ministry of Industry and Information Technology of the PRC for further experts review. The Group has confidence to pass the reviews and subsequently to enter the "white list".

As at 30 June 2014, the secured order book of the Group comprised five heavy lift vessels and four multi-purpose vessels. The newly 10 vessels contracts are expected to become effective in the fourth quarter of 2014.

OTHER BUSINESS

For the six months ended 30 June 2014, the trading business is inactive and the Group did not record material loss.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had bank balances and cash (including pledged bank deposits) of approximately HK\$1,119.34 million (31 December 2013: HK\$310.67 million) of which HK\$113.68 million (31 December 2013: HK\$297.12 million) was pledged; short-term borrowings of HK\$594.82 million (31 December 2013: HK\$610.82 million); long-term borrowings of HK\$229.73 million (31 December 2013: HK\$292.33 million); short-term promissory notes payable amounted to approximately HK\$85.64 million (31 December 2013: HK\$79.84 million); convertible bonds/notes payable amounted to approximately HK\$776.52 million (31 December 2013: HK\$295.72 million) represented the fair value of principal amount of HK\$1,000.00 million (31 December 2013: HK\$314.42 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.85) at 30 June 2014 (31 December 2013: (1.04)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the period under review, 1,022,727,270 shares and 596,133,333 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 price of HK\$0.22 per share and HK\$0.15 per share respectively.

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, namely Qin Weijia, Wang Yongli, Wan Yong and Charmate Development Ltd, 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, representing of a 17.69% discount on the closing price (i.e. HK\$0.13) of the last trading day immediately before the announcement date. The gross proceeds from the subscription were approximately HK\$56.71 million and the net proceeds were approximately HK\$56.61 million. The subscription has been completed on 20 March 2014. As at the date of this report, the Group has fully utilized the net proceeds from the subscriptions for (i) approximately HK\$29.57 million was used to repay debts; and (ii) approximately HK\$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

On 14 May 2014, the Company entered into a placing agreement with Partner Capital Securities Limited, for placement of convertible bonds of the Company in an aggregate principal amount of HK\$1,000,000,000 on a best-efforts basis. The convertible bonds have an initial conversion price of HK\$0.20 per share (subject to adjustment) and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. On 27 June 2014, the issuance of the convertible bonds was completed, HK\$964,000,000 convertible bonds was issued to Kingwin Capital Group Ltd. and HK\$36,000,000 convertible bonds was issued to Partners Equity Investment Fund I, both parties were independent third parties to the Company. As at the date of this report, the Group has partly utilized the net proceeds as follows: (i) approximately HK\$120 million was used to repay debts; (ii) approximately HK\$52 million was used to repay loans from banks; (iii) approximately HK\$10 million was used as direct costs of production; and (iv) approximately HK\$3 million was used as daily operating costs of the Group. The remaining amount of approximately HK\$800 million was deposited with banks and of which approximately HK\$500 million would be used as the formation of a joint venture in Zhouzhan, PRC and approximately HK\$300 million would be used as entering financial services business.

CHARGES ON GROUP ASSETS

As at 30 June 2014, HK\$113.68 million (31 December 2013: HK\$297.12 million) of deposits, HK\$21.25 million (31 December 2013: HK\$23.04 million) of inventories, HK\$449.65 million (31 December 2013: HK\$511.18 million) of property, plant and equipment, HK\$324.20 million (31 December 2013: HK\$329.83 million) of prepaid lease payments and HK\$136.44 million (31 December 2013: HK\$137.03 million) of value-added tax recoverable, were pledged to banks or other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

On 26 December 2013, the Company has agreed to provide a joint and several guarantee to a bank in the PRC and executed a charge over the Company's 100% indirect interests in a subsidiary, namely Jiangxi Jiangzhou Union Shipbuilding Co Ltd (the "Shipyard") in favour of the bank as continuing security to secure the payment obligations by the Shipyard of the debts. For details, please refer to the Company's announcement dated 30 December 2013. By the end of May 2014, the bank agreed to extend the complete of the provision of guarantee and the registration of charge and reduced the guarantee amount from RMB149 million to RMB119 million. On 4 August 2014, the Company has provided a joint and several guarantee to the bank for the principal amount of up to RMB119 million and executed the mentioned charge. At the date of this report, the registration of charge is in the process.

SHARE CAPITAL

Details of movements in share capital of the Company during the interim period are set out in Note 14 to the condensed consolidated financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and Euro. As at 30 June 2014, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review.

EVENTS AFTER THE REPORTING PERIOD

On 30 July 2014, the Company entered into a placing agreement with a placing agent for the placement of 1,200,000,000 ordinary shares of HK\$0.05 each of the Company on a best-efforts basis at the price of HK\$0.23 per share to an independent third party. For details, please refer to the Company's announcement dated 30 July 2014.

On 6 August 2014, the Group entered into a joint venture agreement with two independent third parties for the formation of a joint venture entity to invest in shipbuilding and related ocean engineering business in Zhoushan, the PRC. Pursuant to the joint venture agreement, the initial investment amount in the joint venture entity will be RMB508 million (including RMB400 million to be contributed by the Group and RMB108 million to be contributed by the other parties). For details, please refer to the Company's announcement dated 6 August 2014. The joint venture company has obtained business license on 15 August 2014.

LITIGATION

No member of the Group was engaged in any litigation of material importance.

HUMAN RESOURCES

The Group had around 820 employees as at 30 June 2014. 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

The directors of the Company are of the opinion that the Group has no material contingent liabilities at 30 June 2014.

PROSPECTS

It is expected that the shipbuilding industry will resume its upward development trend after it experienced long-term downturn cycle starting from late 2008. The shipbuilding industry in PRC is experiencing a substantial consolidation which will lead the industry to a healthy status. As the Group has confidence to fulfil the requirements of *Regulatory Conditions for Shipbuilding Industry* 船舶行業規範條件 and is likely to benefit from the general improvements of the market conditions and the Chinese policy in the coming years.

The Group has successfully raised of approximately HK\$985 million on 27 June 2014. In order to enhance the overall performance of the Group, the Group intends to expand its existing business operations. The expansion plan includes the formation of a joint venture in ZhouShan and to enter to the financial services business.

The Group believes that the shipbuilding and the ocean engineering industry in Zhoushan holds potential, given that (a) the PRC government has started to adopt favourable national policies; (b) Zhoushan is situated in a favourable geographical location, being near to the coast and Shanghai; and (c) after Zhoushan has become the first new national strategic district in the PRC as a marine economic zone, various supporting facilities in the integration and upgrading of construction sites in the ocean engineering, shipbuilding and related industries will follow. In addition, the joint venture company can make use of the experience, expertise and connections of the other two joint venture partners to make appropriate investment and establish a platform in Zhoushan for engaging in the shipbuilding and the ocean engineering industry. The Group expects to share the investment income of the joint venture entity in the future and seize the opportunities to develop and expand its business in the shipbuilding and the ocean engineering industry in Zhoushan.

The Group also intends to expand into the business of provision of financial services, such as financial leasing business (especially for shipping related companies) in the PRC. The shipbuilding is a capital intensive industry and the ship owners and enterprises engaging in shipbuilding or coastal transportation thus have a strong demand for financing. Given the Group has established and developed network with ship owners and shipbuilding companies throughout the years, the Group is able to identify the funding needs of those ship owners and shipbuilding enterprises. The financial leasing business would include, among others, financing for the acquisition and sale and leaseback of fixed assets, with target customers. Since the Group is familiar with corporations engaging in shipping, shipbuilding, marine engineering and the supply chain of special vessels and quality ships, the Group targets to provide financial leasing for those corporations at the initial stage. As at the date of this report, the Group has submitted registration materials to the relevant regulatory authorities in respect of the establishment of the business venture in financial leasing in Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, the PRC and expected to obtain the business license in September 2014. The Group expects to apply RMB200 million (approximately HK\$251 million) as capital investment in financial leasing business. Further, the Group had commenced negotiation with an independent third party in respect of a potential acquisition by the Group of a minority stake in a company established in the PRC which principally engages in financial leasing business in Zhejiang Province in the PRC.

The directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

INTEREST IN ORDINARY SHARES AND UNDERLYING SHARES OF THE COMPANY

Save as disclosed below, none of the directors or their associates had held any ordinary shares of the Company or had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations at 30 June 2014.

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of share options held	Approximate percentage of the issued shares held
Li Ming	Long position	Beneficial owner	253,512,500	40,000,000	4.80%
	Long position	Interest of controlled Corporation	31,775,000 <i>(note 1)</i>	-	0.52%
Chau On Ta Yuen	Long position	Beneficial owner	-	49,743,000	0.81%
Wang San Long	Long position	Beneficial owner	-	20,110,600	0.33%
Zhang Shi Hong	Long position	Beneficial owner	-	17,581,000	0.29%
Hu Bai He	Long position	Beneficial owner	-	1,000,000	0.02%
Xiang Siying	Long position	Beneficial owner	-	1,000,000	0.02%
Xiang Ying	Long position	Beneficial owner	-	1,000,000	0.02%

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.

SHARE OPTION SCHEME

Details of movements in share options of the Company during the interim period are set out in Note 22 to the condensed consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 19 (Related party transactions) to the condensed 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 period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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 30 June 2014.

Name	Long/ Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held at 30 June 2014
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Wang Ping	Long	Personal	–	4,820,000,000	78.75%
Kingwin Capital Group Ltd	Long	Corporation	–	4,820,000,000 (Note 1)	78.75%
Li Jun	Long	Personal	393,473,630	–	6.43%

Note 1: The underlying shares are held by Kingwin Capital Group Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Wang Ping.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2014.

CORPORATE GOVERNANCE

The Company has complied the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CHANGE IN INFORMATION OF DIRECTORS

The following information is set out pursuant to the requirements of Rule 13.51B(1) of the Listing Rules.

Mr. Chau On Ta Yuen was appointed as an independent non-executive director of Redco Properties Group Limited in January 2014, a company listed on the Main Board of the 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 period.

PRE-EMPTIVE RIGHTS

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

REMUNERATION COMMITTEE

The remuneration committee of the Company as at the date of this report comprises three independent non-executive directors, Ms. Xiang Ying, Ms. Xiang Siying and Mr. Hu Bai He and one executive director, Mr. Li Ming. The Chairman of the Remuneration Committee is Ms. Xiang Ying.

NOMINATION COMMITTEE

The nomination committee of the Company as at the date of this report comprises three independent non-executive directors, Ms. Xiang Ying, Ms. Xiang Siying and Mr. Hu Bai He and one executive director, Mr. Chau On Ta Yuen. The Chairman of the Nomination Committee is Mr. Chau On Ta Yuen.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Siying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been reviewed by the audit committee of the Company.

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., Dr. Tse Kwing Chuen and Mr. Chen Hong 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, 29 August 2014