# Wonson International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 651)

08

# interim report

## CONTENTS

Deloitte.
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**TO THE BOARD OF DIRECTORS OF WONSON INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in Bermuda with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 4 to 30, which comprises the condensed consolidated balance sheet of Wonson International Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
29 September 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | | Six months ended 30 June | |
|---|---|---|---|
| | *NOTES* | **2008** | 2007 |
| | | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | 3 | **428,991** | 3,905 |
| Cost of sales | | **(392,302)** | (3,396) |
| | | **36,689** | 509 |
| Other income | | **45,610** | 1,269 |
| Fair value changes on investments held for trading | | **(14,351)** | 28,566 |
| Fair value changes on disposal of available-for-sale investments | | **(1,025)** | — |
| Distribution and selling expenses | | **(202)** | — |
| Administrative expenses | | **(57,924)** | (6,732) |
| Impairment loss on goodwill | 21 | **(22,221)** | — |
| Finance costs | 4 | **(81,201)** | (1,411) |
| (Loss) profit before taxation | | **(94,625)** | 22,201 |
| Taxation | 5 | **(5,527)** | — |
| (Loss) profit for the period | 6 | **(100,152)** | 22,201 |
| (Loss) earnings per share – basic | 7 | **(HK0.57 cent)** | HK0.32 cent |
| Earnings per share – diluted | 7 | **N/A** | HK0.26 cent |

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

| | *NOTES* | **30 June 2008** **_HK$'000_** **(Unaudited)** | 31 December 2007 *HK$'000* (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | **842,881** | 1,133 |
| Prepaid lease payment | 10 | **348,683** | — |
| Goodwill | 21 | **910,428** | — |
| Intangible asset | 11 | **1,630,622** | — |
| Available-for-sale investments | | **—** | 18,912 |
| Conversion option embedded in convertible note | | **—** | 2,631 |
| | | **3,732,614** | 22,676 |
| Current assets | | | |
| Inventories | 12 | **392,816** | 378 |
| Prepayment for purchase of raw materials | | **754,642** | — |
| Other receivables | | **208,888** | 4,979 |
| Amounts due from customers for contract work | | **208** | — |
| Loan receivables | 13 | **—** | 48,364 |
| Prepaid lease payment | 10 | **850** | — |
| Investments held for trading | | **90,004** | 231,351 |
| Pledged bank deposits | | **262,058** | 3,000 |
| Bank balances and cash | | **205,672** | 81,796 |
| | | **1,915,138** | 369,868 |

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Con't)*
AT 30 JUNE 2008

| | *NOTES* | **30 June 2008** *HK$'000* **(Unaudited)** | 31 December 2007 *HK$'000* (Audited) |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | | **250,270** | 4,952 |
| Bills payable | 14 | **255,874** | — |
| Amounts due to customers for contract work | | **960,702** | — |
| Margin loan payables | | **82,364** | 51,759 |
| Bank borrowings | 15 | **56,818** | — |
| Provision for warranty | 16 | **8,911** | — |
| Convertible notes payable | 18 | **36,487** | — |
| | | **1,651,426** | 56,711 |
| Net current assets | | **263,712** | 313,157 |
| | | **3,996,326** | 335,833 |
| Capital and reserves | | | |
| Share capital | 17 | **17,786** | 17,198 |
| Reserves | | **973,428** | 272,410 |
| | | **991,214** | 289,608 |
| Non-current liabilities | | | |
| Convertible notes payable | 18 | **1,844,573** | 46,225 |
| Deferred tax liabilities | 19 | **773,095** | — |
| Bank borrowings | 15 | **227,273** | — |
| Other long term payable | 20 | **160,171** | — |
| | | **3,005,112** | 46,225 |
| | | **3,996,326** | 335,833 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Contributed surplus | Capital reserve | Convertible loan notes reserve | Shared-based payment reserve | Investment revaluation reserve | Translation reserve | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2007 (audited) | 5,316 | 312,933 | 528,327 | 802 | – | – | – | – | (701,715) | 145,663 |
| Profit for the period and total recognised income for the period | – | – | – | – | – | – | – | – | 22,201 | 22,201 |
| Issue of shares | 6,000 | 90,000 | – | – | – | – | – | – | – | 96,000 |
| Transaction costs attributable to issue of shares | – | (2,000) | – | – | – | – | – | – | – | (2,000) |
| Recognition of equity components of convertible notes | – | – | – | – | 10,362 | – | – | – | – | 10,362 |
| At 30 June 2007 (unaudited) | 11,316 | 400,933 | 528,327 | 802 | 10,362 | – | – | – | (679,514) | 272,226 |
| Gain on change in fair value of available-for-sale investments recognised directly in equity | – | – | – | – | – | – | 261 | – | – | 261 |
| Loss for the period | – | – | – | – | – | – | – | – | (76,827) | (76,827) |
| Total recognised income and expense for the period | – | – | – | – | – | – | 261 | – | (76,827) | (76,566) |
| Conversion of convertible notes payable | 5,882 | 94,974 | – | – | (6,908) | – | – | – | – | 93,948 |
| At 31 December 2007 (audited) | 17,198 | 495,907 | 528,327 | 802 | 3,454 | – | 261 | – | (756,341) | 289,608 |
| Loss on change in fair value of available for-sale investments recognised directly in equity | – | – | – | – | – | – | (1,286) | – | – | (1,286) |
| Exchange differences on translation directly recognised in equity | – | – | – | – | – | – | – | 62,520 | – | 62,520 |
| Net (expense) income recognised directly in equity | – | – | – | – | – | – | (1,286) | 62,520 | – | 61,234 |
| Released on disposal of available-for-sale investment | – | – | – | – | – | – | 1,025 | – | – | 1,025 |
| Loss for the period | – | – | – | – | – | – | – | – | (100,152) | (100,152) |
| Total recognised expense and income for the period | – | – | – | – | – | – | (261) | 62,520 | (100,152) | (37,893) |
| Conversion of convertible notes payable | 588 | 9,671 | – | – | (705) | – | – | – | – | 9,554 |
| Recognition of equity component of convertible notes | – | – | – | – | 925,081 | – | – | – | – | 925,081 |
| Deferred tax liability arising on recognition of equity component of convertible notes | – | – | – | – | (231,270) | – | – | – | – | (231,270) |
| Recognition of equity-settled shared-based payment | – | – | – | – | – | 36,134 | – | – | – | 36,134 |
| **At 30 June 2008 (unaudited)** | **17,786** | **505,578** | **528,327** | **802** | **696,560** | **36,134** | **–** | **62,520** | **(856,493)** | **991,214** |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | NOTE | Six months ended 30 June 2008 HK$'000 (Unaudited) | 2007 HK$'000 (Unaudited) |
|---|---|---|---|
| Net cash from (used in) operating activities | | | |
| Increase in bills payable | | **233,668** | — |
| Increase in amounts due to customers for contract work | | **149,968** | — |
| Increase (decrease) in trade and other payables | | **48,832** | (2,654) |
| Other investing cash flows | | **(39,355)** | (31,559) |
| | | **393,113** | (34,213) |
| Net cash used in investing activities: | | | |
| Increase in pledged bank deposit | | **(243,510)** | (300) |
| Purchase of property, plant and equipment | | **(24,634)** | — |
| Repayment of loan receivables | | **49,219** | 14,666 |
| Acquisition of a subsidiary | 21 | **13,731** | — |
| Proceeds from disposal of available-for-sale investments | | **20,257** | — |
| Increase in loan receivables | | **—** | (51,560) |
| Increase in amounts due from brokers | | **—** | (31,934) |
| Other investing cash flows | | **—** | 321 |
| | | **(184,937)** | (68,807) |
| Net cash (used in) from financing activities: | | | |
| Repayment of bank borrowings | | **(98,625)** | — |
| New bank borrowings raised | | **16,314** | — |
| Net proceeds from issue of convertible loan notes | | **—** | 147,000 |
| Net proceeds from issue of shares | | **—** | 94,000 |
| Other financing activities | | **(1,989)** | — |
| | | **(84,300)** | 241,000 |
| Net increase in cash and cash equivalents | | **123,876** | 137,980 |
| Cash and cash equivalents at the beginning of the period | | **74,439** | 10,200 |
| Effect of foreign exchange rate changes | | **7,357** | — |
| Cash and cash equivalents at the end of the period | | **205,672** | 148,180 |
| Analysis of the balance of cash and cash equivalents | | | |
| Bank balances and cash | | **205,672** | 148,180 |

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The functional currency of the Company was originally Hong Kong dollars. On 16 April 2008, the Company acquired INPAX Technology Limited and its subsidiary 江西江州聯合造船有限責任公司 (「江州聯合船廠」) (collectively the "INPAX Group"), both of which have Renminbi ("RMB") as their functional currency. The directors are of the opinion that after the acquisition of INPAX Group, the primary economic environment in which the Company operates is the People's Republic of China (the "PRC"), taking into consideration that the Company's principal activity is holding of investments in subsidiaries. The directors have therefore determined that the functional currency of the Company is changed to RMB from 16 April 2008, being the date when INPAX Group was acquired.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. In addition, as a result of the acquisition of business as detailed above, the Group has applied the following significant accounting policies during the current interim period.

**Business combinations**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under Hong Kong Financial Reporting Standard ("HKFRS") 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Business combination agreements with adjustments to the cost of combination based on contingent events are included in the cost of combination at the acquisition date if the adjustment is probable and can be measured reliably.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Con't)*

### Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the condensed consolidated balance sheet.

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

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

### Revenue recognition

Revenue represents income arising on construction contracts for the period.

### Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

### Construction contracts *(Con't)*

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

### Prepaid lease payments

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

### Construction in progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Con't)*

### Intangible assets

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

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

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### Share-based payment transactions

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

*Share options granted to consultants*

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses immediately, unless the goods or services qualify for recognition as assets.

In the current interim period, the Group has applied, for the first time, the following interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2008.

| | |
|---|---|
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of these new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Con't)*

**Accounting standards not yet effective**

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[3] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[4] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

**Business segments**

For management purposes, the Group was originally organised into two operating divisions – metals trading and investments in securities before the acquisition of INPAX Group. A further operating division in ship building is added during the period after the acquisition. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

| | **Six months ended 30 June 2008** | | | |
|---|---|---|---|---|
| | **Ship building** *HK$'000* | **Metals trading** *HK$'000* | **Investments in securities** *HK$'000* | **Total** *HK$'000* |
| Gross proceeds | **428,219** | **772** | **381,682** | **810,673** |
| Revenue | **428,219** | **772** | **—** | **428,991** |
| Segment result | **71,350** | **(44)** | **(15,376)** | **55,930** |
| Interest income | | | | **2,946** |
| Unallocated corporate expenses | | | | **(13,945)** |
| Share-based payment expenses | | | | **(36,134)** |
| Finance costs | | | | **(81,201)** |
| Impairment of goodwill | | | | **(22,221)** |
| Loss before taxation | | | | **(94,625)** |
| Taxation | | | | **(5,527)** |
| Loss for the period | | | | **(100,152)** |

3. **SEGMENT INFORMATION** *(Con't)*

**Business segments** *(Con't)*

| | Six months ended 30 June 2007 | | |
|---|---|---|---|
| | Metals trading | Investments in securities | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Gross proceeds | 3,905 | 99,205 | 103,110 |
| Revenue | 3,905 | — | 3,905 |
| Segment result | 387 | 28,566 | 28,953 |
| Interest income | | | 990 |
| Unallocated corporate expenses | | | (6,331) |
| Finance costs | | | (1,411) |
| Profit for the period | | | 22,201 |

4. **FINANCE COSTS**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on borrowings wholly repayable within five years: | | |
| Bank borrowings | **(2,348)** | — |
| Bills payable | **(6,824)** | — |
| Convertible loan notes | **(62,299)** | (1,280) |
| Imputed interest expense on other long term payable | **(5,533)** | — |
| Margin loan payables | **(4,197)** | (131) |
| | **(81,201)** | (1,411) |

The finance cost capitalised in construction in progress amounted to HK$3,314,000 (2007: Nil), comprising interest on bank borrowings borrowed specifically for qualifying assets.

## 5. TAXATION

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

In accordance with Article 8 of the Foreign Enterprise Income Tax ("FEIT') law of the People's Republic of China (the "PRC"), foreign investment enterprises ("FIEs") of production nature are eligible to enjoy two years of exemption and three years of 50% deduction in FEIT starting from the first profit–making year (the "2+3 tax holidays"). The first fully exempted financial year of 江州聯合船廠was the year ended 31 December 2007 and 江州聯合船廠 still enjoys full exemption for the current period.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

Under the New Law and Implementation Regulations, 江州聯合船廠 continues to enjoy the preferential tax treatment (12.5% effective tax rate, i.e. 50% of the applicable tax rate of 25%) for each of the years from 2009 to 2011. Thereafter, the tax rate will ratchet up to 25% from 2012.

According to the New Law, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. A deferred tax of approximately HK$5,527,000 has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

## 6. (LOSS) PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| (Loss) profit for the period has been arrived at after charging: | | |
| Amortisation of intangible assets (included in cost of sales) | **33,882** | — |
| Depreciation of property, plant and equipment | **15,154** | 78 |
| Release of prepaid lease payments of leasehold land | **2,147** | — |
| Share-based payments (included in administrative expenses) | **36,134** | — |
| and after crediting: | | |
| Dividend income from investments held for trading | **2,385** | — |
| Gain on disposal of property, plant and equipment | **—** | 280 |
| Interest income on loan and other receivables | **855** | 383 |
| Interest on bank deposits | **2,091** | 607 |
| Exchange gain | **40,109** | — |

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| | ***(Unaudited)*** | *(Unaudited)* |
| **Earnings** | | |
| (Loss) profit for the period attributable to equity holders of the Company | **(100,152)** | 22,201 |
| Effect of dilutive potential ordinary shares: Interest on convertible loan notes (net of tax) | | 1,280 |
| Earnings for the purposes of diluted earnings per share | | 23,481 |

## 7. EARNINGS PER SHARE *(Con't)*

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **17,612,510** | 6,857,890 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible loan notes | | 2,096,197 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | | 8,954,087 |

No diluted earning per share was presented for the period ended 30 June 2008 because the exercise of both share options and convertible notes has an anti-dilutive effect.

## 8. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, property, plant and equipment with an aggregate fair value of approximately HK$796,647,000 was acquired as a result of the acquisition of INPAX Group.

## 10. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Leasehold land held under medium-term lease in the PRC | **349,533** | — |
| Analysed for reporting purposes as: | | |
| Non-current asset | **348,683** | — |
| Current asset | **850** | — |
| | **349,533** | — |

## 11. INTANGIBLE ASSET

Intangible asset represents contracted and uncontracted customer relationships arising from the acquisition of INPAX Group during the period.

The amount will be amortised over its estimated useful life of 10 years on a straight-line basis. The amortisation for the period amounts to approximately HK$33,882,000.

## 12. INVENTORIES

| | **30 June 2008** *HK$'000* | 31 December 2007 *HK$'000* |
|---|---|---|
| Raw materials | **392,816** | — |
| Finished goods | **—** | 378 |
| | **392,816** | 378 |

## 13. LOAN RECEIVABLES

At 31 December 2007, loan receivables were unsecured, interest bearing at Hong Kong Prime Rate plus 1% per annum and repayable on demand. The loan receivables are fully repaid during the period.

## 14. BILLS PAYABLE

The bills payable are interest bearing at 2.67% per annum and age within six months. The bills payable are secured by bank deposits.

## 15. BANK BORROWINGS

During the period, the Group incurred additional bank loans amounting to HK$366,402,000 through acquisition of INPAX Group. The loans carry interest at market rates of 6.97% on average and are repayable by instalments with a final maturity in 2009 to 2011. The proceeds were used to finance the operation of 江州聯合船廠 .

## 16. PROVISION FOR WARRANTY

The warranty provision arose on acquisition of INPAX Group represents management's best estimate, based on the Group's past experience for defective products, of the Group's liability under its product warranty which is granted to the Group's customers for a period of one year. There is no movement for the period subsequent to the acquisition of INPAX Group.

## 17. SHARE CAPITAL

| | Number of shares *(Unaudited)* | Amount *(Unaudited)* *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.001 each as at 1 January 2008 and 30 June 2008 | 250,000,000,000 | 250,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.001 each: | | |
| As at 1 January 2008 | 17,198,806,126 | 17,198 |
| Conversion of convertible notes | 588,235,294 | 588 |
| **At 30 June 2008** | **17,787,041,420** | **17,786** |

## 18. CONVERTIBLE LOAN NOTES

The Company issued convertible notes in 2007 and 2008. The details are as follows:

- On 18 May 2007, the Company issued convertible loan notes ("CBI") with an aggregate principal amount of HK$150,000,000. The fair value of the liability component at the date of issue is HK$139,426,909. CBI carries a coupon of 4% per annum and will be matured on 17 May 2009. CBI is denominated in Hong Kong dollars. The initial conversion price is HK$0.17 per share and is adjusted to HK$0.017 following a share subdivision in 2007, which is subject to anti-dilutive adjustments. The effective interest rate of the liability component is 7.95% per annum.

  Unless the notes have been converted by the noteholders, the Company will redeem CBI on the maturity date at the principal amount of the convertible notes then outstanding.

  After the conversion of HK$100,000,000 of CBI in 2007, the principal amount of CBI remained outstanding at 1 January 2008 amounted to HK$50,000,000. During the period, a further HK$10,000,000 of CBI was converted into 588,235,294 of the company's shares of HK$0.001 each.

  The movement of the liability component of CBI is as follow:

| | **1.1.2008 to 30.6.2008** *HK$'000* | 1.1.2007 to 31.12.2007 *HK$'000* |
|---|---|---|
| Liability component at the beginning of the period/year | **46,225** | — |
| Issue of convertible note | **—** | 136,638 |
| Conversion | **(9,554)** | (93,948) |
| Interest charged | **1,805** | 5,107 |
| Interest paid | **(1,989)** | (1,572) |
| | **36,487** | 46,225 |

## 18. CONVERTIBLE LOAN NOTES *(Con't)*

- On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Group (see Note 21). The convertible notes ("CBII") were issued on 16 April 2008 upon completion of the acquisition.

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

  The aggregate initial principal amount of the restricted convertible notes issued is HK$600 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 shares 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.

  The holder(s) of the restricted convertible notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into shares from 1 April 2009 to 15 April 2011 at the initial conversion price of HK$0.15 per share.

  The conversion rights of CBII shall only be exercisable so long as the aggregate shareholdings by Million King Investments Limited ("Million King"), an independent third party from which the Company acquired INPAX Group, its associates and parties acting in concert in the Company immediately upon such exercise will not reach or exceed 30% of the then issued share capital of the Company; and that Million King, its associates and parties acting in concert shall not become a controlling shareholder of the Company within the meaning of Listing Rules. Based on the existing issued share capital of the Company as at 30 June 2008, the full conversion of both the restricted and unrestricted convertible notes in aggregate will not result in the 30% limit to be reached or exceeded.

  In respect of the restricted convertible note, no interest will be payable. For the unrestricted convertible note, interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears.

  The initial principal amount of the restricted convertible note is subject to adjustment downward for the potential shortfall between the guaranteed profit of HK$600 million and the audited profit after taxation for the year ending 31 December 2008 to be determined on or before 31 March 2009.

## 18. CONVERTIBLE LOAN NOTES *(Con't)*

The CBII is not redeemable at the option of the noteholder(s). The Company shall have the right to redeem any portion of the CBII outstanding at an amount equals to the principal amount of the CBII together with any interest accrued at its sole and absolute discretion at any time prior to the maturity date of the CBII. At initial recognition and as at 30 June 2008, the directors of the Company consider the fair value of such redemption option to be insignificant. Unless previously converted or redeemed, the Company shall redeem the CBII on the maturity date of the CBII.

The CBII is freely transferrable, provided that the noteholders of the CBII must inform and obtain written consent from the Company of each transfer or assignment made by them. All noteholders of the CBII are still subject to the above-mentioned 30% limit.

Based on the latest available information, the directors of the Company estimate a shortfall of approximately HK$287 million as compared to the guaranteed profit of HK$600 million. Accordingly, the estimated principal amount of the restricted convertible note after taking into account the contingent adjustment for profit guarantee is approximately HK$313 million.

On initial recognition, the liability component of CBII issued by the Group is measured at its initial fair value of HK$1,784 million, which is determined by applying a discount rate of 16.25% to the estimated principal amount of the CBII of HK$2,713 million. The difference between the fair value of the CBII at initial recognition of HK$2,709 million and the initial fair value of the liability component of the CBII, representing the conversion option and amounting to HK$925 million, is credited directly to equity as convertible loan notes reserve.

The fair value of the equity component of the CBII as at initial recognition was calculated using the Binominal option pricing model. The inputs used in the model in determining the fair value at the initial recognition date were as follows:

| | **Restricted Liability Component 16 April 2008** | **Unrestricted Liability Component 16 April 2008** |
|---|---|---|
| Share price | **HK$0.149** | **HK$0.149** |
| Exercise price | **HK$0.15** | **HK$0.15** |
| Contractual Life | **3 years** | **3 years** |
| Risk-free rate | **1.659%** | **1.659%** |
| Expected dividend yield | **0%** | **0%** |
| Volatility | **49.05%** | **51.46%** |

## 18. CONVERTIBLE LOAN NOTES *(Con't)*

The movement of the liability component of CBII is as follows:

| | **1.1.2008 to 30.6.2008** |
|---|---|
| | ***HK$'000*** |
| Liability component at the beginning of the period | **—** |
| Issue of convertible note | **1,784,079** |
| Interest charged | **60,494** |
| Liability component at the end of the period | **1,844,573** |

During the period ended 30 June 2008, the effective interest rate of the liability portion of CBII was 16.25%.

## 19. DEFERRED TAX LIABILITIES

At the balance sheet date, deferred tax liabilities arose from withholding tax on the profit of 江州聯合船廠 and fair value adjustments on acquisition of INPAX Group.

## 20. OTHER LONG TERM PAYABLE

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Acquisition of INPAX Group | **154,638** | — |
| Inputed interest expense | **5,533** | — |
| At 30 June, 2008 | **160,171** | — |

## 21. ACQUISITION OF A SUBSIDIARY

On 5 November 2007, the Company entered into a sale and purchase agreement with Million King to acquire 100% interest in INPAX Group. The completion date of the agreement was on 16 April 2008, which is also the acquisition date for accounting purposes.

The consideration for the acquisition comprises HK$300,000,000 satisfied by cash, HK$3,000,000,000 initial principal amount of convertible loan notes (subject to adjustment, see below and Note 18) and HK$200,000,000 is to be satisfied by cash settlement on 31 December 2009. The fair value of the total consideration was approximately HK$3,163,388,000.

INPAX Group is engaged in the shipping building business in Jiangxi region, the PRC.

The total consideration is subject to adjustment based on the audited profit after taxation of INPAX Group for the year ending 31 December 2008. Million King has guaranteed to the Company that the audited profit after taxation for the year ending 31 December 2008 will not be less than HK$600,000,000. Any shortfall will be compensated by deducting the principal amount of the issued restricted convertible note (Note 18). Based on the latest available information, the amount of shortfall is estimated to be approximately HK$287,000,000, which has been deducted from the amount of the issued restricted convertible note accordingly.

## 21. ACQUISITION OF A SUBSIDIARY *(Con't)*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

| | **Acquiree's carrying amount before combination** *HK$'000* | **Provisional fair value adjustments** *HK$'000* | **Provisional Fair value** *HK$'000* |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 145,020 | 651,627 | 796,647 |
| Prepaid lease payment | 82,043 | 261,597 | 343,640 |
| Intangible assets | — | 1,626,339 | 1,626,339 |
| Inventories | 257,432 | 88,573 | 346,005 |
| Other receivables and prepayment | 746,948 | — | 746,948 |
| Pledged bank deposits | 15,548 | — | 15,548 |
| Bank balances and cash | 313,731 | — | 313,731 |
| Amounts due to customers for contract work | (810,526) | — | (810,526) |
| Trade and other payables | (196,486) | — | (196,486) |
| Bills payable | (22,206) | — | (22,206) |
| Provision for warranty | (8,707) | — | (8,707) |
| Bank borrowings | (366,402) | — | (366,402) |
| Deferred tax liabilities | (2,645) | (529,361) | (532,006) |
| Net assets acquired | 153,750 | 2,098,775 | 2,252,525 |
| Goodwill | | | 911,273 |
| Total consideration | | | 3,163,798 |
| Total consideration satisfied by: | | | |
| Cash | | | 300,000 |
| Deferred consideration *(Note 20)* | | | 154,638 |
| CBII *(Note 18)* | | | 2,709,160 |
| | | | 3,163,798 |
| Net cash outflow of cash and cash equivalents in respect of acquisition of INPAX Group: | | | |
| Cash consideration paid | | | (300,000) |
| Bank balances and cash acquired | | | 313,731 |
| | | | 13,731 |

INPAX Group contributed a profit of approximately HK$55,273,000 to the Group's result for the period between the date of acquisition and the balance sheet date.

## 21. ACQUISITION OF A SUBSIDIARY *(Con't)*

The initial accounting for the acquisition of INPAX Group involves identifying and determining the fair value to be assigned to the identifiable assets, liabilities and contingent liabilities and the cost of the business combination. The initial accounting for the acquisition has been determined provisionally, awaiting the receipt of professional valuation for the finalisation of identification of and the fair values of identifiable assets and liabilities of INPAX Group.

The provisional fair value adjustments of the property, plant and equipment are determined based on the assessment carried by the directors using depreciated placement cost while the prepaid lease payment and inventories are determined using market approach by reference to market evidence of transaction prices for similar properties and inventories. For provisional fair value adjustment of intangible asset, the directors adopted income capitalisation approach to determine the fair value.

The goodwill arising on the acquisition is attributable to the anticipated profitability of its business. In addition, the consideration paid for the combination effectively included amount in relation to the benefit of assembled work force amounting to approximately HK$115,000. This benefit is not recognised separately from goodwill as the amount is not significant.

If the acquisition had been completed on 1 January 2008, total group revenue for the period would have been approximately HK$624,576,000, and profit for the period would have been approximately HK$81,722,000. The pro forma 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 on 1 January 2008, nor is it intended to be a projection of future results.

**Impairment of goodwill**

As explained in note 3, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill is allocated to one individual cash generating unit ("CGU"), being the ship building segment. The carrying amount of goodwill (net of impairment loss) as at 30 June 2008 is approximately HK$910,018,000.

During the period ended 30 June 2008, the Group recognised an impairment loss of approximately HK$22,221,000 in relation to goodwill arising on acquisition of INPAX Group. Impairment test was performed and the management determined that the goodwill was impaired because the guaranteed profit is expected to fall short based on the latest available information.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 21.2%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

## 22. PLEDGE OF ASSETS

| | **30 June 2008** *HK$'000* | 31 December 2007 *HK$'000* |
|---|---|---|
| Bank deposits | **262,058** | 3,000 |
| Prepaid lease payments | **158,203** | — |
| | **420,261** | 3,000 |

Bank deposits and prepaid lease payments were pledged to banks for banking facilities granted by banks to the group.

## 23. CAPITAL COMMITMENTS

At 30 June 2008, the Group has capital expenditure of approximately HK$12,894,000 contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

There was no capital commitment as at 31 December 2007.

## 24. RELATED PARTY TRANSACTION

| | **30 June 2008** *HK$'000* | 31 December 2007 *HK$'000* |
|---|---|---|
| Directors remuneration | **898** | 684 |
| Share options granted | **9,841** | — |
| | **10,739** | 684 |

The remuneration of directors during the period was the short-term benefits determined by reference to market terms, individual responsibilities and performance.

## 25. SHARE-BASED SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed on 5 March 2008 and 7 May 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 4 March 2018 and 6 May 2018 respectively. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 30 June 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,719,000,000, representing 9.7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

## 25. SHARE-BASED SCHEME *(Con't)*

The following table discloses details of the options held by directors, employees and consultants and movements in such holding during the period ended 30 June 2008:

| Name | Date of grant | Exercisable period | Exercise price per share | Number of share options: Outstanding at 1.1.2008 | Granted during the period | Exercised during the period | Outstanding at 30.6.2008 |
|---|---|---|---|---|---|---|---|
| **Category I** | | | | | | | |
| Directors | 5 March 2008 | 5 March 2008 to 4 March 2018 | HK$0.180 | — | 80,000,000 | — | 80,000,000 |
| | | 5 March 2009 to 4 March 2018 | HK$0.180 | — | 60,000,000 | — | 60,000,000 |
| | | 5 March 2010 to 4 March 2018 | HK$0.180 | — | 60,000,000 | — | 60,000,000 |
| | | | | — | 200,000,000 | — | 200,000,000 |
| | 7 May 2008 | 7 May 2008 to 6 May 2018 | HK$0.143 | — | 52,000,000 | — | 52,000,000 |
| | | 7 May 2009 to 6 May 2018 | HK$0.143 | — | 39,000,000 | — | 39,000,000 |
| | | 7 May 2010 to 6 May 2018 | HK$0.143 | — | 39,000,000 | — | 39,000,000 |
| | | | | — | 130,000,000 | — | 130,000,000 |
| | | | | — | 330,000,000 | — | 330,000,000 |
| **Category II:** | | | | | | | |
| Employees | 7 May 2008 | 7 May 2008 to 6 May 2018 | HK$0.143 | — | 69,600,000 | — | 69,600,000 |
| | | 7 May 2009 to 6 May 2018 | HK$0.143 | — | 52,200,000 | — | 52,200,000 |
| | | 7 May 2010 to 6 May 2018 | HK$0.143 | — | 52,200,000 | — | 52,200,000 |
| | | | | — | 174,000,000 | — | 174,000,000 |
| **Category III:** | | | | | | | |
| Consultants | 7 May 2008 | 7 May 2008 to 6 May 2018 | HK$0.143 | — | 1,215,000,000 | — | 1,215,000,000 |
| | | | | — | 1,719,000,000 | — | 1,719,000,000 |

## 25. SHARE-BASED SCHEME *(Con't)*

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

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

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

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

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

The Group recognised the total expense of approximately HK$36,134,000 for the period ended 30 June 2008 (2007: Nil) in relation to share options granted by the Company.

During the period ended 30 June 2007, no options were granted.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The performances of metal trading business and securities trading business have not been satisfactory in recent years. During the period under review, the Group has successfully penetrated into the market of shipbuilding business in the PRC. The Group is now engaged in the production of metal vessel manufacturing and vessel ancillary products and equipment, metal trading and investments in securities.

For the six months ended 30 June 2008, the Group recorded a revenue of HK$428.99 million (2007: HK$3.91 million), an increase of 108.72 times over the same period of last year. The dramatic increase in revenue was due to the Group started to record revenue received from the shipbuilding business after the completion of acquisition of 100% equity interest (the "Acquisition") in Inpax Technology Limited and its wholly owned subsidiary, namely, Jiangxi Jiangzhou Union Shipbuilding Company Limited (Collectively the "Inpax Group") on 16 April 2008. The Group recorded a loss attributable to shareholders of HK$100.15 million (2007: profit of HK$22.20 million) for the six months ended 30 June 2008. The loss was mainly the results of the loss of change in fair market value of securities amounts to HK$14.35 million, an impairment loss recognized for the goodwill in relation to the Group's investment in Inpax Group amounting to HK$22.22 million, an amortization recognized for the customer relationships arising from the acquisition of Inpax Group amounting to HK$33.88 million, and an imputed interest expenses on convertible notes as the consideration for the acquisition of Inpax Group amounting to HK$62.30 million.

## Ship building business

Inpax Group became wholly owned subsidiary of the Company after the completion of Acquisition on 16 April 2008. The post-acquisition financial result of the Inpax Group was consolidated into the results of the Group since 16 April 2008. During the first half of 2008, the ship building business recorded a revenue of 428.22 million and contributed a gain of approximately HK$71.35 million, after deducting amortization of intangible assets of HK$33.88 million, to the consolidated results of the Group. According to the unaudited financial statements of Inpax Group, the revenue was HK$624.58 million and the profit was HK$81.72 million for the period from 1 January 2008 to 30 June 2008.

During the period under review, the increasing cost of raw material, shortage of shipping equipment, raising cost of labor, and appreciation in the value of RMB caused the increase of costs on the ship building business. The gross profit margin of this segment has decreased to approximately 16.8%. The directors believed that the profit margin will keep stable in the second half of 2008. The Group has only one building berth for the construction of vessel at 1 January 2008. Following two new building berths were put into operation in May 2008, the production capacity of the Group increases significantly in the second half of the year. Even though the global economic growth has slowed down, coupled with financial crisis in the United States of America, the vessel manufacturing industry in PRC remains promising. As at 30 June 2008, the Group has orders of building vessels amounting to approximately HK$10 billion and the Group's existing production capacity is fully booked to the year 2011.

To the best knowledge of the directors, the directors estimate that Inpax Group may not achieve the guarantee profit of HK$600 million for the year ending 31 December 2008. As stated in the Company's circular dated 6 February 2008, the vendor of Inpax Group shall compensate the shortfalls on a dollar-for-dollar basis by off-setting the convertible notes. The amount of shortfall is estimated to be approximately HK$287 million. The snow disaster in southern and eastern China provinces adversely affect the performance of Inpax Group in the first quarter of 2008.

## Metal trading business

The metal trading business generated revenue of approximately HK$0.77 million representing a decrease of approximately 80.31% as compared to approximately HK$3.91 million in the corresponding period of last year. For the six months ended 30 June 2008, the metal trading business record an insignificant loss of HK$44,000 as compared to a gain of HK$387,000 in the correspondence period of last year. The Group's metals trading business has remained difficult as the profit margin was still slim. The Group will continue to exercise caution when conducting its metal trading business.

### Securities trading business

The volatility of stock market during the first half of 2008 adversely affected the performance of the Group's securities investment business. For the six months ended 30 June 2008, the securities trading business record a loss of HK$15.38 million as compared to a gain of HK$28.57 million in the correspondence period of last year.

## INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had cash and bank balances of approximately HK$467.73 million (31 December 2007: HK$84.80 million) in which HK$262.06 million was pledged (31 December 2007: HK$3.00 million); unsecured margin loan of HK$82.36 million (31 December 2007: HK$51.76 million); unsecured short term bank loan of HK$56.82 million (31 December 2007: nil); long term bank borrowing of HK$227.27 million (31 December 2007: nil); long term convertible notes payable amounting to approximately HK$1,844.57 million (31 December 2007: HK$46.23 million) representing liabilities component of principal amount of HK$2,713.00 million (31 December 2007: HK$50.00 million). The gearing ratio defined as total liabilities of HK$4,656.54 million against total assets of HK$5,647.75 million was 82.45% at 30 June 2008.

## CHARGES ON GROUP ASSETS

As at 30 June 2008, HK$262.06 million of bank deposit and HK$158.20 million of prepaid lease payments were pledged to banks for banking facilities granted by banks to the Group. (31 December 2007: HK$3.00 million of bank deposit).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Hong Kong Dollar, RMB, United States Dollars and EURO. As at 30 June 2008, the Group does not hedge its exposure foreign exchange risk profile. The Boards will consider appropriate hedging measure in future as may be necessary.

## NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as the Acquisition disclosed in the announcement dated 5 November 2007 and the Company's circular dated 6 February 2008, there was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review. The details of the Acquisition are set out in the notes 21 to the condensed consolidated financial statements in the interim report.

## POST BALANCE SHEET EVENTS

As at 30 June 2008, the Group had no significant post balance sheet events.

## LITIGATION

During the period under review, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group.

## HUMAN RESOURCES

The Group had around 930 employees as at 30 June 2008. 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

At 30 June 2008, the Group has no material contingent liabilities.

## CAPITAL COMMITTMENT

At 30 June 2008, the Group has capital expenditure of approximately HK$12,894,000 contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

## PROSPECTS

The ship building industry experiences an explosive growth in 2007, it remains promising in 2008.The statistic of first half of 2008 shows that the total new orders in the world on ship building industry reached approximately 86 million dwt. The number of new orders hit its second record high. As the demand remains strong, the ship building price is still at a high level which can compensate the raising costs of material, labor costs and shipping equipment. Since the Group's existing production capacity has been fully booked up to 2011, the Group considers expanding its production capacity by building a new berth and improving the production efficiency by investing in research and development.

Looking into the second half of 2008, the directors expect the global economic conditions to remain challenging. Given the recent volatilities in metal trading and securities trading, it is difficult to explore good investment opportunities. The directors will reduce the trades in metal market and securities market to avoid risks. The volatile global financial market is starting to concern the directors.

The directors consider to adopt strategies to exit the business which is lose-making and with unpromising prospect. 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

At 30 June 2008, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) **Interest in ordinary shares of the company**

None of the directors or their associates had held any ordinary shares of the Company.

(ii) **Rights to acquire shares in the company**

At 30 June 2008, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

| Name of Director | Company/ name of associated corporation | Nature of interest | Number of ordinary shares |
|---|---|---|---|
| Chau On Ta Yuen | Company | Personal interest *(Note 1)* | 150,000,000 |
| Zhang Shi Hong | Company | Personal interest *(Note 1)* | 50,000,000 |
| Wang San Long | Company | Personal interest *(Note 2)* | 130,000,000 |

*Notes:*

1. Such number of Shares represents the underlying shares of the options granted on 7 March 2008 under the share option scheme of the Company adopted on 12 July 2002 ("2002 Scheme").

2. Such number of Shares represents the underlying shares of the options granted on 7 May 2008 under the 2002 Scheme.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations.

## SHARE OPTION SCHEME

The following share options were outstanding under 2002 scheme during the period commencing from 1 January 2008 to 30 June 2008:

| Name or Category of Participant | As at 1 January 2008 | Shares granted during the period | As at 30 June 2008 | Exercise Price | Date of Grant | Exercise Period |
|---|---|---|---|---|---|---|
| **Directors:** | | | | | | |
| Chau On Ta Yuen | — | 60,000,000 | 60,000,000 | 0.180 | 05-03-08 | 05-03-08 to 04-03-18 |
| | — | 45,000,000 | 45,000,000 | 0.180 | 05-03-08 | 05-03-09 to 04-03-18 |
| | — | 45,000,000 | 45,000,000 | 0.180 | 05-03-08 | 05-03-10 to 04-03-18 |
| Zhang Shi Hong | — | 20,000,000 | 20,000,000 | 0.180 | 05-03-08 | 05-03-08 to 04-03-18 |
| | — | 15,000,000 | 15,000,000 | 0.180 | 05-03-08 | 05-03-09 to 04-03-18 |
| | — | 15,000,000 | 15,000,000 | 0.180 | 05-03-08 | 05-03-10 to 04-03-18 |
| Wang San Long | — | 52,000,000 | 52,000,000 | 0.143 | 07-05-08 | 07-05-08 to 06-05-18 |
| | — | 39,000,000 | 39,000,000 | 0.143 | 07-05-08 | 07-05-09 to 06-05-18 |
| | — | 39,000,000 | 39,000,000 | 0.143 | 07-05-08 | 07-05-10 to 06-05-18 |
| Sub-total | — | 330,000,000 | 330,000,000 | | | |
| **Employees:** | — | 69,600,000 | 69,600,000 | 0.143 | 07-05-08 | 07-05-08 to 06-05-18 |
| | — | 52,200,000 | 52,200,000 | 0.143 | 07-05-08 | 07-05-09 to 06-05-18 |
| | — | 52,200,000 | 52,200,000 | 0.143 | 07-05-08 | 07-05-10 to 06-05-18 |
| Sub-total | — | 174,000,000 | 174,000,000 | | | |
| **Other participants:** | — | 1,215,000,000 | 1,215,000,000 | 0.143 | 07-05-08 | 07-05-08 to 06-05-18 |
| **Total :** | — | 1,719,000,000 | 1,719,000,000 | | | |

No share option was exercised, cancelled or lapsed during the six months ended 30 June 2008.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the following 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:

| Name of shareholder | Long/Short position | Capacity | Number of ordinary shares held | Number of underlying shares (convertible notes) held | Approximate percentage of the issued shares held |
|---|---|---|---|---|---|
| Million King Investments Limited *(Note)* | Long position | Beneficial owner | Nil | 20,000,000,000 | 112.44% |
| Li Ming | Long position | Beneficial owner | 900,000,000 | 705,882,351 | 9.03% |

*Note:* Pursuant to an announcement dated 15 November 2007, the Company entered into agree ment conditionally agreed to acquire 100% interest in INPAX Technology Limited from Million King Investments Limited at a consideration of HK$3,500,000,000, which partially satisfied by issued convertible note of HK$3,000,000,000. Million King Investments Limited, a company incorporated in the British Virgin Islands with limited liability whose shares are held by Hei Liang Ci (18%), Lee Chi Kong (18%), Li Kecheng(17%), Yiu Yat On(10%), Tang Qi (10%), Cheng Man For (17%) and Kwan Shan (10%). Cheng Man For and Kwan Shan are nominee holders of the shareholding in the Million King and on behalf of Li Jun.

Other than as disclosed above, 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 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited 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 2008.

## CORPORATE GOVERNANCE

The Company has complied with most of the code provisions ("Code Provision") as set out in Appendix 14 of the Listing Rules except for the following deviations:

**(i) Code Provision A.2.1**

The Company had been deviated from the Code Provision A.2.1 as the roles of the Chairman and Chief Executive Officer are not separated. Mr. Chau On Ta Yuen is in charge of the overall management of the Company as this would allow the Company to have more effective planning and execution of business strategies.

**(ii) Code Provision A.4.1**

The Company has deviated from Code Provision A.4.1. Although the independent non-executive directors are subject to retirement by rotation at the Company's annual general meeting pursuant to the bye-laws of the Company, not all of them were appointed for a specific term.

## 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 AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Si Ying and Mr. Zhang Xi Ping, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 have been reviewed by the audit committee of the Company as well as the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accounts.

## BOARD OF DIRECTORS

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

By order of the Board
**Chau On Ta Yuen**
*Chairman*

Hong Kong, 29 September 2008