China Ocean Shipbuilding Industry Group Limited
中海船舶重工集團有限公司

(Formerly known as Wonson International Holdings Limited 和成國際集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00651)

Annual Report 2009

*For identification purpose only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors:

Mr. Chau On Ta Yuen *(Chairman)*

Mr. Li Ming *(Deputy Chairman & Chief Executive Officer)*

Mr. Zhang Shi Hong

Mr. Wang San Long

Independent non-executive directors:

Mr. Hu Bai He

Ms. Xiang Siying

Mr. Zhang Xi Ping

Ms. Xiang Ying

COMPANY SECRETARY

Mr. Ngai Man Wo

AUDITORS

Deloitte Touche Tohmatsu

35th Floor, One Pacific Place

88 Queensway

Hong Kong

PRINCIPAL BANKERS

China Merchants Bank Co. Ltd.

Bank of Communications Co. Ltd

Chiyu Banking Corporation Ltd.

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL OFFICE

Unit 1103,11/F., China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street, Hamilton HM11

Bermuda

BRANCH REGISTRAR IN HONG KONG

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

Chairman's Statement

Dear Shareholders,

The Company and its subsidiaries (the "Group") recorded an audited consolidated turnover of approximately HK$1,239.53 million for the year ended 31 December 2009 when compared to turnover of approximately HK$1,191.60 million in 2008, an increase of 4.02 % and loss attributable to the shareholders of approximately HK$1,956.36 million for the year ended 31 December 2009 when compared to HK$469.00 million in 2008, an increase of 317.13%. The significant increase in loss was mainly due to the impairment loss recognized on goodwill and intangible assets and the increase in cost of sales during the year.

The year 2009 was a challenging year for the shipbuilding industry. The effects of new-orders shrank, the vessel price dropped and the deferred delivery of vessel were spread across the industry. To face this griming situation, the Group continues to close negotiation with the ship-owners, takes a more flexible attitude to prices and delivery and actively assists the financing of ship-owners to ensure performance of secured orders. In light of the shrinking new orders, the Group considers offer competitive price for getting new orders. We believe this will serve us well through the current challenging period.

The Board of Directors does not recommend the payment of dividend for the year ended 31 December 2009.

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

Chau On Ta Yuen
Chairman

28 April, 2010

Management Discussion and Analysis

Overview

The Group is engaged in the production and operation of shipbuilding and trading business. For the year ended 31 December 2009, the Group recorded a revenue of HK$1,239.53 million (2008: HK$1,191.60 million), an increase of approximately 4.02 % over the year 2008. The increase in revenues was due to the Group recorded full year revenues of shipbuilding business while it only recorded the revenues after the completion of acquisition of Inpax Group in 2008. The gross loss (before deducting the amortisation of intangible assets of HK$166.45 million (2008: HK$115.20 million) was HK$378.69 million (2008: gross profit of HK$275.67 million). The reasons of the gross loss of the group are as follows:

(i) The shrank of new orders, the decrease in the price of new-build vessel, exchange difference arising from appreciation in the value of RMB, drastic fluctuations in the price of raw materials costs which reduce the overall gross profit of the Group for the year ended 31 December 2009.

(ii) During the year, the Group incurred modification costs to amend the defects for a new model of vessel. The modification works led to delay in delivery and claims by the customer. The claim and modification costs amounted to approximately HK$40.09 million (2008: nil) in aggregate.

(iii) The modification works, among other matters, prolonged the Group's overall shipbuilding process and led to a general delay for vessel production and delivery. Penalties and associated additional costs arising from delay in vessel delivery amounting to approximately HK$82.02 million. Furthermore, the Group also provided the estimated foreseeable losses of approximately HK$339.72 million in respect of the foreseeable delay, which were also included in costs of goods sold for the year ended 31 December 2009.

The impairment loss in goodwill and intangible assets recognised for the year ended 31 December 2009 was HK$1,454.18 million in aggregate (2008: HK$322.22 million). The significant increase in impairment loss has reflected the continuous effect of financial crisis occurred in September 2008. The new-orders shrank, the vessel price dropped and a strong recovery of shipbuilding industry seems remote, which cast doubt on the potential profitability of the shipbuilding segment.

The administrative expense was HK$77.67 million, up HK$13.41 million versus the corresponding period last year. The Group recorded finance costs of HK$115.00 million versus HK$233.31million for the corresponding period last year, reflecting a significant decrease in effective interest expenses. The decrease of effective interest was due to a majority of convertible notes which has been converted into shares.

To sum up, the loss for the year ended 31 December 2009 was amounting to approximately HK$1,956.36 million (2008: HK$469.00 million, it significantly increased by 317.13 % in comparing with year 2008.

Shipbuilding business

The China's Shipbuilding industry has swung sharply from rapid growth to uncertainty in the late 2008. After that, the industry faced a grim situation but shows signs of recovery in or about June 2009. However this recovery cannot be sustained, given the potentially excess in shipbuilding capacity. The ship-owners are very cautious on placing new orders, negotiating on lowering ship building price, deferring ship delivery or payment.

During the year ended 31 December 2009, the performance of shipbuilding sector of the Group was unsatisfactory. The shipbuilding business generated revenue of approximately HK$1,239.53 million to the Group, which representing an increase of approximately of 4.09% as compared to approximately HK$1,190.82million in 2008. The increase in revenues was due to the Group recorded full year revenues during the year ended 31 December 2009 while it only recorded the revenues after the completion of acquisition of Inpax Group in 2008. The shipbuilding business recorded a loss before tax of HK$424.66 million (before deducting amortisation of intangible assets ,impairment cost on goodwill and impairment cost on intangible assets) (2008: profit of HK$286.01 million (before deducting amortisation of intangible assets and impairment cost on goodwill) .The poor performance of shipbuilding business were mainly due to the following factors: (i) deferred delivery of vessels (ii) exchange difference arising from appreciation in the value of RMB; (iii) drastic fluctuations of the price of raw materials and (iv) the modification costs. The details are disclosed above in the overall review section. As at 31 December 2009, the order in hand of the Group reached 35 vessels with shipbuilding work arranged to the mid of 2012.

Trading business

For year ended 31 December 2009, the trading businesses recorded a insignificant loss of approximately HK$599,000 (2008: HK$34,000).

LIQUIDITY AND FINANCIAL RESOURCES

On 21 May 2009, the Company entered into a placing agreement with a placing agent for placement of 3,400,000,000 ordinary shares of HK$0.001 each of the Company on a best-efforts basis at the price of HK$0.013 per share to independent third parties. The placement was completed on 5 June 2009 and the net proceeds of the placing amounted to approximately HK$43.00 million.

On 20 August2009, the Company entered into a placing agreement with a placing agent for placement of 150,000,000 ordinary shares of HK$0.05 each of the Company on a best-efforts basis at the price of HK$0.43 per share to independent third parties. The placement was completed on 31 August 2009 and the net proceeds of the placing amounted to approximately HK$63.43 million.

As at 31 December 2009, the Group had cash and bank balances of approximately HK$656.62 million (31 December 2008: HK$334.80 million) in which HK$387.03 million was pledged (31 December 2008: HK$176.65 million); unsecured short term margin loan of HK$0 (31 December 2008: HK$32.50 million); short term bank loan of HK$511.36 million (31 December 2008: HK$113.64 million); long term bank borrowing of HK$113.64 million (31 December 2008: HK$227.27 million); long term convertible notes payable amounted to approximately HK$416.17 million (31 December 2008: HK$421.44million) represented liabilities component of principal amount of HK$507.00 million (31 December 2008: HK$577.00 million). The gearing ratio defined as non-current liabilities and short term loans divided by total shareholders' equity was 2.72 at 31 December 2009(31 December 2008: 0.61).

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December, 2009 is set out in note 8 to the consolidated financial statements on page 63.

CHARGES ON GROUP ASSETS

As at 31 December 2009, HK$387.03million (31 December 2008: 176.65 million) of bank deposit, HK$53.29 million (31 December 2008: nil) of inventories, HK$79.42 million (31 December 2008: nil) of property, plant and equipment were pledged to banks for banking facilities granted by banks to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in RMB, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2009, the Group does not hedge its exposure to foreign exchange risk profile. The Boards will consider appropriate hedging measure in future as may be necessary.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as the information disclosed in note 11 to the consolidated financial statements on page 71, there was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review.

POST BALANCE SHEET EVENTS

As at 31 December 2009, the Group had no significant post balance sheet events.

LITIGATION

During the year ended 31 December 2009, 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. After the year end, a customer served a notice on Jiangxi Jiangzhou Union shipbuilding Co., Ltd, a wholly-owned subsidiary of the Company, among other things, to rescind the relevant sale contract, and the aforesaid matter was referred to the agreed arbitration proceeding.

HUMAN RESOURCES

The Group had around 1,350 employees as at 31 December 2009. 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.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 40 to the financial statements on page 105.

CONTINGENT LIABILITIES

At 31 December 2009, the Group has no material contingent liabilities.

CAPITAL COMMITTMENT

At 31 December 2009, the Group has capital expenditure of approximately HK$45.91million (31 December 2008: HK$40.59million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements and no capital expenditure (31 December 2008: HK$79.42 million) a in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

The unprecedented financial crisis has led to a sharp contraction in world economy in the late of 2008. While initially shipbuilding was to some degree insulated from these effects because of very strong order books. However, new orders have fallen significantly, and the cancellations or deferral orders were increasing in 2009. There is therefore growing concern about overcapacity. Looking into the year 2010, the directors expect that the conditions of shipbuilding industry remain challenging. In the imbalanced supply and demand market, it would be very difficult to get new orders without offering competitive price. The Group has adjusted its strategy to intensify its effort on the special vessels markets which was hit lightly by the industry downturn. On the other hand, the Group continues to close negotiation with the ship-owners, takes a more flexible attitude to prices and delivery and actively assists the financing of ship-owners to ensure performance of secured orders. The effect of re-negotiation with the ship-owners is likely to adversely affect the profit earning capacity.

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

Report on Corporate Governance

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance. The Company has complied with most of the code provisions ("Code Provision") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") except for the deviation from Code Provision A.2.1. as the roles of the Chairman and Chief Executive Officer are not separated. On 3 February 2009, Mr. Li Ming has been appointed as the CEO of the Company. Accordingly, such deviation was remedied.

The Board of Directors

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

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2009, 23 board meetings were held. The individual attendance of each Director is set out below:

Name	**Number of board meetings attended**
Executive directors:	
Mr. Chau On Ta Yuen	23/23
Mr. Zhang Shi Hong	23/23
Mr. Wang San Long	5/23
Mr. Li Ming (appointed on 3 February 2009)	21/21
Independent non-executive directors:	
Mr. Hu Bai He	2/23
Ms. Xiang Si Ying	3/23
Mr. Zhang Xi Ping	3/23
Ms. Xiang Ying (appointed on 12 August 2009)	2/8

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

Chairman

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

Board Composition

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

Independence of Independent Non-executive Directors

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

Terms of appointment of Non-executive Directors

The non-executive directors are subject to retirement by rotation at the Company's annual general meeting pursuant to the bye-laws of the Company. All of them were appointed for a term of two years from the date of appointment.

Model Code for Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2009.

Nomination of Directors

The nomination of directors should take into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. Two meetings were held during the year to discuss appointment of new directors.

Remuneration Committee

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee was comprised of four independent non-executive directors, Mr. Hu Bai He, Ms. Xiang Si Ying, Mr. Zhang Xi Ping and Ms. Xiang Ying and the Chairman of the Remuneration Committee is Mr. Zhang Xi Ping. No meeting was held during the year ended 31 December 2009.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the Code. No Director is involved in deciding his own remuneration.

Audit Committee

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the Code.

The Audit Committee comprises all four Independent Non-executive Directors, and the chairman of the Audit Committee, Mr. Hu Bai He possesses a professional accountancy qualification and has substantial experience in accounting and financial matters.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters concerning the Group's audit.

Two meetings were held during the year ended 31 December 2009. The individual attendance of each member is set out below:

Name of member	Number of committee meetings attended
Hu Bai He	2/2
Xiang Si Ying	2/2
Zhang Xi Ping	2/2
Xiang Ying (appointed on 12 August 2009)	1/1

The Group's interim report of the six months to 30 June 2009 and the annual report for the year ended 31 December 2009 have been reviewed by the Audit Committee and recommendation was provided to the Board for approval.

Auditors' Remuneration

For the year ended 31 December 2009, the Auditors of the Company received approximately HK$1,150,000 for audit services and HK$290,000 for tax and other services.

Directors' Responsibility for the Financial Statements

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

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

Internal Control

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

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

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility.

Communication with Shareholders

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

On behalf of the Board
Zhang Shi Hong
Director

28April 2010

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of Comprehensive Income on page 24.

DIVIDENDS

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements on page 78.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 32 to the consolidated financial statements on page 90.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2008: Nil).

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

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

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

CHANGE OF COMPANY NAME

The Board announced on 22 December 2009 that the change of the English name of the Company from "Wonson International Holdings Limited" to "China Ocean Shipbuilding Industry Group Limited" and adopt the Chinese name "中海船舶重工集團有限公司" as the secondary name of the Company. The Board considered that the change of the Company name will benefit its future business development as the new name of the Company will better reflect the new development focus of the shipbuilding related business of the Group and provide the Company with a new corporate identity and image.

DIRECTORS

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

Executive directors:

Mr. Chau On Ta Yuen - *Chairman*	
Mr. Li Ming - *Deputy Chairman and Chief Executive Officer*	(appointed on 3 February 2009)
Mr. Zhang Shi Hong	
Mr. Wang San Long	

Independent non-executive directors:

Mr. Hu Bai He	
Ms. Xiang Siying	
Mr. Zhang Xi Ping	
Ms. Xiang Ying	(appointed on 12 August 2009)

In accordance with Clause 86(2) of the Company's Bye-laws, Ms. Xiang Ying retires and being eligible, offer herself for re-election at the forthcoming annual general meeting.

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

All of the remaining directors continue in office.

BIOGRAPHICAL DETAILS OF DIRECTORS

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

Executive Directors

Mr. Chau On Ta Yuen, aged 62, graduated from Xiamen University majoring in Chinese Language and literature. Mr. Chau is currently the independent non-executive director of Wonderful World Holdings Limited, Buildmore International Limited and Come Sure Group (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. From 5 June 2003 to 20 August 2009, Mr. Chau was an independent non-executive director of Everpride Biopharmaceutical Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. From March 2000 to November 2006, he was appointed as the executive director and the vice chairman of Everbest Century Holdings Limited (now known as Dynamic Energy Holdings Limited) which is listed on the Main Board of the Stock Exchange. Mr. Chau is a member of the Chinese People Political Consultative Conference of the People Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations.

Mr. Li Ming, aged 47, graduated from Jiangxi Finance Institute (now known as Jiangxi University of Finance & Economics) majoring in planning statistics. Prior to joining the Company, Mr. Li held senior positions in a number of well-known companies in the People's Republic of China and had extensive experience in management and business planning. During the period from 3 September 2002 to 5 October 2007, he was appointed as an non-executive director of Ningbo Yidong Electronic Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

Mr. Zhang Shi Hong, aged 41, has over 15 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in the PRC. Mr. Zhang holds a Master's degree in Economics.

Mr. Wang San Long, aged 59, has more than thirty years working experience in the field of ship-building. He is a senior engineer and was graduated from ship-building department of Huazhong Gong Xue Yuan (now known as Huazhong University of Science and Technology). Mr. Wang is a member of Changjiang Committee in China Classification Society. He is also a member of teaching guidance committee of ship engineering department in Jiujiang Vocational and Technical College. Mr. Wang is currently the director and general manager of one of the subsidiary of the Company, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.

Independent Non-Executive Directors

Mr. Hu Bai He, aged 47, was graduated from Jiangxi University of Finance & Economics. He is a Senior Accountant, Certified Public Accountant, Certified Public Valuer and Certified Tax Agent in the PRC. He has extensive experience in finance and accounting field. Mr. Hu is currently the General Manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he has had over seven years working experience with Ministry of Finance the PRC.

Ms. Xiang Si Ying, aged 47, holds an MBA degree from the London Business School. She has extensive experience in corporate finance, restructuring, initial public offering and merge and acquisitions deals. Ms. Xiang is currently an executive director of private equity department of China International Capital Corporation Limited ("CICC"). Prior to joining CICC in 2004, she has had over ten years working experience with International Finance Corporation, the private investment arm of the World Bank Group, in Washington DC, United States of America.

Mr. Zhang Xi Ping, aged 65, graduated from the department of shipping design and building at Harbin Institute of Military Engineering in 1968 and completed a postgraduate course in fluid mechanics at Shanghai Jiao Tong University in 1977. He is a professorial engineer and a senior economist in the PRC. Mr. Zhang has extensive experience in shipping field and has held senior positions in several national companies.

Ms. Xiang Ying, aged 55, was graduated and obtained her Bachelor's Degree in Economics from Zhongnan University of Economics and Law. Ms. Xiang is a qualified lawyer and a certified public accountant in the People's Republic of China. She also holds qualifications to act as a senior lecturer in Economic Law.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interest in ordinary shares of the company

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

Name	Long/ Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held
Li Ming (note 1)	Long position	Beneficial owner	64,695,000	0	7.17%
	Long position	Interest of controlled Corporation	12,710,000 (note 2)	0	1.41%

Note 1 Mr. Li Ming has been appointed as a director of the Company on 3 February 2009.

Note 2 These shares are held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Li Ming.

(ii) Rights to acquire shares in the company

At 31 December 2009, 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)	3,000,000
Zhang Shi Hong	Company	Personal interest (Note 1)	1,000,000
Wang San Long	Company	Personal interest (Note 2)	2,600,000

Notes:

1. Such number of Shares represents the underlying shares of the options granted on 5 March 2008 under the share option scheme of the Company adopted on 27 May 2002 ("2002 Scheme").

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

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

SHARE OPTION SCHEME

Particulars of the Company's share option scheme adopted on 27 May 2002 are set out in note 39 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the guarantee contracts disclosed in note 42(1) to the consolidated financial statements, no contract of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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 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 31 December 2009.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 39 to the consolidated financial statements.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 18% and 42%, respectively, of the Group's total purchase for the year.

The aggregate amount of turnover attributable to the Group's largest customer and five largest customers taken together accounted for 33% and 91%, respectively of the Group's total turnover for the year.

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2009 with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Further information on the Company's corporate governance practice including any deviations from the Code is set out in the Corporate Governance Report on pages 8 to 12.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chau On Ta Yuen
Chairman

Hong Kong, 28 April 2010

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF
CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中海船舶重工集團有限公司
(FORMERLY KNOWN AS WONSON INTERNATIONAL HOLDINGS LIMITED
前稱和成國際集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 109, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of HK$1,956 million for the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by HK$480 million. The directors have been implementing various operating and financing measures as disclosed in note 2 to the consolidated financial statements to improve the Group's financial position. The directors of the Company consider that after taking into account these steps, the Group will have sufficient working capital to finance its operations and its financial obligations as and when they fall due. However, certain of these measures have not yet been successfully completed and accordingly, these conditions, along with other matters set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009	2008
		HK$'000	HK$'000
Revenue	8	1,239,532	1,191,596
Cost of sales		(1,784,671)	(1,031,125)
		(545,139)	160,471
Other income	9a	14,190	14,679
Other gains and losses	9b	(340)	9,276
Loss on disposal of available-for-sale investments		—	(1,025)
Change in fair value of investments held for trading		(12,448)	(37,928)
Impairment loss on goodwill	36	(514,179)	(322,221)
Impairment loss on intangible assets	19	(940,000)	—
Distribution and selling expenses		(1,276)	(670)
Administrative expenses		(77,674)	(64,261)
Finance costs	10	(115,002)	(233,311)
Gain on disposal of subsidiaries	11	126	—
Loss before tax	12	(2,191,742)	(474,990)
Taxation	13	235,380	5,994
Loss for the year attributable to owners of the Company		(1,956,362)	(468,996)
Other comprehensive income (expense)			
Exchange difference arising on translation		—	84,956
Loss on change in fair value of available-for-sale investments		—	(1,286)
Release on disposal of available-for-sale investments		—	1,025
Other comprehensive income for the year		—	84,695
Total comprehensive loss for the year		(1,956,362)	(384,301)
Loss per share	16		
- basic and diluted		(HK$2.54)	(HK$1.22)

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,071,307**	916,871
Deposit paid for acquisition of property, plant and equipment		**3,029**	3,029
Prepaid lease payments - non current portion	18	**337,899**	345,004
Goodwill	36	**—**	514,179
Intangible assets	19	**440,152**	1,546,602
		1,852,387	3,325,685
Current assets			
Inventories	22	**333,635**	482,125
Trade and other receivables	23	**615,640**	562,518
Prepayment for purchase of raw materials	23	**1,013,021**	863,043
Prepaid lease payment - current portion	18	**1,726**	1,701
Amounts due from customers for contract work	27	**34,292**	—
Tax recoverable		**5,752**	—
Investments held for trading	24	**1,609**	18,423
Pledged bank deposits	25	**387,031**	176,648
Bank balances and cash	25	**269,588**	158,155
		2,662,294	2,262,613
Current liabilities			
Trade, bills and other payables	26	**986,094**	1,371,331
Amounts due to customers for contract work	27	**1,411,870**	358,079
Margin loan payable	28	**—**	32,499
Bank overdrafts	25	**—**	4,521
Bank borrowings - due within one year	29	**511,364**	113,637
Provision for warranty	30	**33,025**	2,974
Deferred consideration	31	**200,000**	173,447
		3,142,353	2,056,488
Net current (liabilities) assets		**(480,059)**	206,125
		1,372,328	3,531,810

Consolidated Statement of Financial Position (Continued)

At 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	32	**45,105**	33,740
Reserves		**461,711**	2,259,669
		506,816	2,293,409
Non-current liabilities			
Bank borrowings - due after one year	29	**113,636**	227,273
Convertible notes payable	33	**416,168**	421,440
Deferred tax liabilities	34	**335,708**	589,688
		865,512	1,238,401
		1,372,328	3,531,810

The consolidated financial statements on pages 24 to 109 were approved and authorised for issue by the Board of Directors on 28 April 2010 are signed on its behalf by:

Chau On Ta Yuen
DIRECTOR

Zhang Shi Hong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Statutory reserve HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible notes reserve HK$'000	Shared-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	17,198	495,907	528,327	—	—	802	3,454	—	261	(756,341)	289,608
Exchange differences on translation	—	—	—	—	84,956	—	—	—	—	—	84,956
Loss on change in fair value of available-for-sale investments	—	—	—	—	—	—	—	—	(1,286)	—	(1,286)
Release on disposal of available-for-sale investments	—	—	—	—	—	—	—	—	1,025	—	1,025
Loss for the year	—	—	—	—	—	—	—	—	—	(468,996)	(468,996)
Total comprehensive income (loss) for the year	—	—	—	—	84,956	—	—	—	(261)	(468,996)	(384,301)
Recognition of equity components of convertible notes payable	—	—	—	—	—	—	889,887	—	—	—	889,887
Deferred tax liability arising on recognition of equity component of convertible notes	—	—	—	—	—	—	(146,831)	—	—	—	(146,831)
Release of deferred tax liability upon conversion	—	—	—	—	—	—	114,445	—	—	—	114,445
Recognition of equity-settled shared-based payment	—	—	—	—	—	—	—	42,012	—	—	42,012
Conversion of convertible notes payable	16,542	2,170,766	—	—	—	—	(698,719)	—	—	—	1,488,589
At 31 December 2008	33,740	2,666,673	528,327	—	84,956	802	162,236	42,012	—	(1,225,337)	2,293,409

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2009

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Statutory reserve HK$'000 (note b)	Translation reserve HK$'000	Capital reserve HK$'000 (note c)	Convertible notes reserve HK$'000	Shared-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Loss for the year and total comprehensive loss for the year	–	–	–	–	–	–	–	–	–	(1,956,362)	(1,956,362)
Transfer	–	–	–	9,716	–	–	–	–	–	(9,716)	–
Release of deferred tax liability upon conversion	–	–	–	–	–	–	4,663	–	–	–	4,663
Recognition of equity-settled shared-based payment	–	–	–	–	–	–	–	5,682	–	–	5,682
Shares issued	10,900	97,896	–	–	–	–	–	–	–	–	108,796
Transaction costs attributable to issue of shares	–	(2,270)	–	–	–	–	–	–	–	–	(2,270)
Conversion of convertible notes payable	465	77,785	–	–	–	–	(25,352)	–	–	–	52,898
At 31 December 2009	45,105	2,840,084	528,327	9,716	84,956	802	141,547	47,694	–	(3,191,415)	506,816

Notes:

(a) Contributed surplus of the Company mainly represents the difference between the value of the underlying net assets of certain subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to a group reorganisation in 1998 and the amount arose from cancelling the paid up capital of the Company pursuant to a group reorganisation in 2001.

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

(c) Capital reseve represents the difference between the nominal value of share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to a group reorganisation prior to the listing of the Company's shares in 1998.

Consolidated Statement of Cash Flow

For the year ended 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(2,191,742)**	(474,990)
Adjustments for:			
Depreciation of property, plant and equipment		**52,222**	33,959
Change in fair value of investments held for trading		**12,448**	37,928
Gain on disposal of a subsidiary	11	**(126)**	—
Loss on disposal of available-for-sale investment		**—**	1,025
Loss on disposal of property, plant and equipment		**642**	624
Interest income		**(6,235)**	(7,617)
Finance costs		**115,002**	233,311
Release of prepaid lease payment		**7,080**	4,812
Amortisation of intangible asset		**166,450**	115,199
Impairment loss on goodwill		**514,179**	322,221
Impairment loss on intangible asset		**940,000**	—
Share-based payment expense		**5,682**	42,012
Operating cash flows before movements in working capital		**(384,398)**	308,484
Decrease (increase) in inventories		**148,490**	(135,742)
Increase in trade and other receivables, prepayment for purchase of raw materials		**(203,313)**	(675,734)
Decrease in investments held for trading		**4,367**	175,000
(Decrease) increase in trade, bills and other payables		**(392,705)**	1,120,181
Increase (decrease) in provision of warranty		**30,051**	(5,733)
Increase (decrease) in amounts due from(to) customers for contract work		**1,019,499**	(452,447)
Decrease in margin loan payables		**(32,499)**	(19,260)
Cash generated from operations		**189,492**	314,749
Tax paid		**(20,454)**	—
Interest received		**6,235**	7,617
NET CASH FROM OPERATING ACTIVITIES		**175,273**	322,366

Consolidated Statement of Cash Flow (Continued)

For the year ended 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Increase in pledged bank deposit		**(210,383)**	(161,100)
Purchase of property, plant and equipment		**(209,653)**	(126,702)
Disposal of a subsidiary	11	**(1,362)**	—
Proceeds from disposal of property, plant and equipment		**2,353**	21
Deposit paid for acquisition of property, plant and equipment		**—**	(3,029)
Decrease in loan receivables		**—**	48,364
Proceeds from disposal of available-for-sale investments		**—**	20,257
Acquisition of a subsidiary	35	**—**	13,731
NET CASH USED IN INVESTING ACTIVITIES		**(419,045)**	(208,458)
FINANCING ACTIVITIES			
New bank loan raised		**454,545**	16,314
Proceeds from issue of shares		**108,796**	—
Repayment of bank borrowings		**(170,455)**	(41,807)
Interest paid		**(30,890)**	(26,702)
Share issued expenses		**(2,270)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**359,726**	(52,195)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**115,954**	61,713
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**—**	7,125
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**153,634**	84,796
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		**269,588**	153,634
Bank balances and cash		**269,588**	158,155
Bank overdraft		**—**	(4,521)
		269,588	153,634

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 43 and 44, respectively.

The functional currency of the Company was originally Hong Kong dollars ("HKD"). On 16 April 2008, the Company acquired INPAX Group (as defined in note 35) which has Renminbi ("RMB") as its 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 PRC, taking into consideration that the Company's principal activity was holding of investments in subsidiaries. The directors have therefore determined that the functional currency of the Company was changed to RMB after the acquisition of the INPAX Group.

The consolidated financial statements are presented in HKD for the convenience of the shareholders as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Group, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of HK$1,956 million for the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$480 million. In addition, the following circumstances may affect the Group's financial position:

a) deferred consideration of HK$200 million which was due for payment on 31 January 2011 (note 31);

b) convertible notes payable with an aggregate carrying amount of approximately HK$416 million as at 31 December 2009 which will mature on 15 April 2011. The Group is required to redeem the convertible notes at their principal amount of approximately HK$508 million upon maturity (note 33); and

c) The Group breached several loan covenants for two of the bank loans with an aggregate amount of approximately HK$136 million. The amount was presented as current liabilities in the consolidated statement of financial position at 31 December 2009 (note 29).

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

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

a) The Group has been actively pursuing new customers so as to enlarge its customer base. In addition, taking advantage of its expanded operation capacity which allows a better negotiating position, the Group places more stringent selection criteria for new sales orders with better margin from potential customers. At the same time, the Group has tightened cost control so as to reduce unnecessary expenditure. With all these measures, the Group is expecting to improve its performance in the coming years;

b) On 23 April 2010, the Group entered into an agreement to extend the payment of the deferred consideration of HK$200 million from 31 January 2011 to 31 January 2012 (note 31);

c) On 26 April 2010, the Group entered into a loan agreement with China MinSheng Banking Corp., Ltd and the bank agreed to grant a loan of RMB80 million for the operational requirements of the Group. The loan is interest bearing at 5.84% per annum and has a maturity date on 26 April 2011. The Group has not yet drawn the loan at the date of this report;

d) On 27 April 2010, the Group announced to have entered into an extension letter with each of the holders of the Group's convertible notes 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 convertible notes, each and every term and condition under the existing convertible notes shall remain unchanged. The extension of the Group's convertible notes is conditional, among other things, on the approval by the shareholders of the Company at a special general meeting and the necessary consents and approvals by the Stock Exchange. Details of the extension of the maturity date of the convertible notes were set out in the Company's announcement dated 27 April 2010. The extension of the Group's convertible notes has not yet been completed at the date of this report (note 33);

e) The Group is in negotiation with potential convertible note holders to issue new convertible notes ("CBIII") to increase the Group's liquidity. The proceeds from CBIII will be used to finance the operations of the Group. As at the date of the report, the Group has not yet finalised CBIII in terms of, inter-alia, the principal amount and the conversion price; and

f) The Group has obtained a waiver letter from one of the banks in relation to the breach of covenants for one of its bank loans amounting to approximately HK$23 million. The Group has not obtained any waiver letter in respect of another loan of approximately HK$113 million (note 29).

The directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the date of this report. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 8) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) - Int14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) - Int17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) - Int19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 January 2011.

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

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

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

The application 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 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

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

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

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and is presented separately in the consolidated statement of financial position.

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 statement of comprehensive income. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

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

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

Interest income from a financial asset is accrued on a time basis, by reference to principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

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 statement of comprehensive income over the period of the lease on a straight line basis.

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 best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Construction contracts

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

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss of the Group includes financial assets held for trading.

A financial asset is classified as held for trading if:

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

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gains or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

Impairment losses on available-for sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Convertible notes issued by the Group

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial liabilities

Other financial liabilities of the Group include trade and other payables, bills payable, margin loan payable, bank overdrafts, bank borrowings and deferred consideration which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

Deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to settle the carrying amount of its liabilities.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Inventories

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

Leasing

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme/State-managed retirement benefit scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Share-based payment transactions

Share options granted to employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share-based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment 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-based payment reserve will be transferred to accumulated losses.

Share options granted to consultants

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Construction contracts

The Group recognises contract revenue and profit on each shipbuilding contract according to management's estimation of the eventual outcome of the contract as well as the percentage of completion of shipbuilding works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the shipbuilding contracts as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit recognised. The Group also revisits and revises the estimate of contract profit as the contract progresses based on the information available in the market. Foreseeable losses are provided when identified. During the year, due to unforeseen circumstances in completing certain shipbuilding contracts, the Group estimated foreseeable losses of approximately HK$393,966,000 (2008: Nil) in respect of certain shipbuilding contracts. Details of which are set out in note 27.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible asset is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amounts of goodwill and intangible assets are nil and approximately HK$440,152,000, respectively (2008: approximately HK$514,179,000 and HK$1,546,602,000, respectively) (net of accumulated impairment loss and amortisation of approximately HK$836,400,000 and HK$1,221,649,000, respectively (2008: HK$322,221,000 and HK$115,199,000, respectively)). Details of the recoverable amount calculation are disclosed in notes 19 and 36.

6. CAPITAL RISK MANAGEMENT

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

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

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

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2009	2008
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss		
– Held for trading	**1,609**	18,423
Loans and receivables (including cash and cash equivalents)	**1,064,253**	777,577
Financial liabilities		
Liabilities measured at amortised cost	**1,726,863**	1,294,596

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies

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

Market risk

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

(i) Currency risk

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

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

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

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

	Liabilities		Assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**113,150**	—	**78,903**	2,985
EUR	**—**	—	**50,281**	4,242
HKD	**646,263**	657,701	**9,828**	18,677

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against USD, EUR and HKD, respectively. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for 5% change in foreign currency rates. The sensitivity analysis includes bank balances in USD, EUR and HKD, trade receivable in USD and EUR, bank borrowing in USD, deferred consideration and convertible notes payables in HKD where the denomination of the receivables or payables is in a currency other than the functional currency of the relevant group entities. A positive number indicates a decrease in loss for the year where RMB strengthens against USD, EUR and HKD. For weakening of RMB against USD, EUR and HKD would be an equal and opposite impact on the loss and the balance below would be negative.

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	2009	2008
	HK$'000	HK$'000
Loss for the year		
– USD	**1,712**	(149)
– EUR	**(2,514)**	(212)
– HKD	**31,822**	31,951

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank deposits (2008: variable-rate bank overdraft and bank deposits), and exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank borrowings, deferred consideration and the liability component of convertible notes payable (2008: fixed-rate pledged bank deposits, bank borrowings, liability component of convertible note payable, margin loan payables, deferred consideration and the liability component of convertible note payable).

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's variable rate bank borrowing in LIBOR and bank deposits.

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowing and bank deposits at the end of the reporting period. The analysis is prepared assuming the amount of the outstanding at that date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2008: 50 basis points) higher/lower for bank borrowings, 25 basis points (2008: 50 basis points) higher/lower for bank deposits, and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$105,000 (2008: increase/decrease by HK$766,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank deposits.

(iii) Price risk on investments held for trading

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

Sensitivity analysis

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

If the prices of the respective equity instruments had been 5% (2008: 5%) higher/lower and all other variables were held constant, loss for year would decrease/increase by HK$80,000 (2008: HK$921,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group has concentration of credit risks in respect of the shipbuilding contracts entered into with a few customers by the Group and significant concentration of credit risk with respect to customers' geographical location in Germany, which 81% (2008: 99%) of revenue is arisen from customers for Germany. In view of their good reputation and good business history in the past with the customers, the directors consider that the risks will be mitigated by strengthening strategic relationship with existing customers, improving customised services and exploring new markets for new customers.

In addition, the Group has concentration of credit risks on its outstanding trade and other receivables as 61.4% (2008: 75.7%) of its trade and other receivables were due from a customer and a stakeholder in sales contracts in aggregate.

In order to minimise the credit risk in respect of the receivables from the stakeholder, the Group signed fund transfer agreements with the stakeholder and banks with which the receivables are placed. The agreements specify the receivables placed in banks could only be withdrawn by the company for shipbuilding purpose. In the event of bankruptcy of the stakeholder's failure to function its note stipulated in the agreement B, the bank would retain the receivables for shipbuilding purpose under the arrangement. Regarding the receivable from a customer, in view of the long term relationship with the customer, the directors considered there is no significant credit risk.

The Group has concentration of credit risk on bank deposits as 70.5% (2008: 83.9%) of deposits are placed with three banks (2008: three banks). The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensure compliance with loan covenants and financing activities plan (as detined in note 2).

The directors of the Company are taking active steps to improve the liquidity postion of the Group, details of which are set out in note 2.

The Group relied on bank borrowings and convertible notes as significant source of liguidity. Details of which are set out in note 29 and 33.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flow	Carrying amount at 31.12.2009
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009								
Non-derivative financial liabilities								
Trade and other payables	—	117,491	22,181	—	—	—	139,672	139,672
Bills payables	—	56,818	77,273	211,932	—	—	346,023	346,023
Deferred consideration	5%	—	200,833	—	—	—	200,833	200,000
Convertible notes payable								
– liability component (note)	16.25%	—	—	5,400	510,249	—	515,649	416,168
Bank borrowings								
– variable rates	4.96%	113,636	—	—	—	—	113,636	113,636
– fixed rates	6.5%	23,364	6,094	385,831	122,872	—	538,161	511,364
		311,309	306,381	603,163	633,121	—	1,853,974	1,726,863

7. FINANCIAL INSTRUMENTS (Continued)

7b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2008 HK$'000
2008								
Non-derivative financial liabilities								
Trade and other payables	—	80,121	3,031	34,082	—	—	117,234	117,234
Bills payables	—	45,454	159,091	—	—	—	204,545	204,545
Margin loan payables								
– fixed rates	12%	324	650	33,925	—	—	34,899	32,499
Deferred consideration	16.25%	—	—	200,000	—	—	200,000	173,447
Convertible notes payable								
– liability component (note)	16.25%	—	—	5,400	5,400	579,999	590,799	421,440
Bank borrowings								
– variable rates	7%	4,521	—	—	—	—	4,521	4,521
– fixed rates	8.2%	289	5,608	128,349	18,639	244,382	397,267	340,910
		130,709	168,380	401,756	24,039	824,381	1,549,265	1,294,596

Note: This is categorised based on contractual term of redemption obligation at maturity, the holders of the convertible notes can convert the notes into the Company's shares anytime.

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

7. FINANCIAL INSTRUMENTS (Continued)

7c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets (including available-for-sale unlisted debt securities) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

Excepted as detailed in the following table, the directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	31/12/2009		31/12/2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	**HK$'000**	HK$'000	HK$'000
Financial liabilities				
Bank loans - long-term				
– fixed rate	**130,682**	**131,703**	227,273	223,297
Convertible loan notes				
– liability component	**416,168**	**405,193**	421,440	394,051

7. FINANCIAL INSTRUMENTS (Continued)

7c. Fair value (Continued)

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 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).

	31.12.2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at fair value through profit and loss				
Non-derivative financial assets held for trading	1,609	—	—	1,609

There were no transfers between Level 1 and 2 in the current year.

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the executive directors of the Company) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker, being the chief executive officer, for resources allocation and performance assessment. The segments are managed separately as each of the businesses, which operate in distinct geographical location, provide different types of services which requires different service information to formulate different marketing strategies. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

1) shipbuilding - newly acquired business operated in the PRC (a new operating segment in 2008)

2) metal trading - original business operated in Hong Kong

8. SEGMENT INFORMATION (Continued)

2009

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

8. SEGMENT INFORMATION (Continued)

2008

	Shipbuilding HK$'000	Metal trading HK$'000	Total HK$'000
Revenue	1,190,824	772	1,191,596
Segment result	(151,405)	(34)	(151,439)
Other income			12,891
Change in fair value of investment held for trading			(37,928)
Loss on disposal of available-for-sale investments			(1,025)
Unallocated corporate expenses			(49,953)
Share-based payment expenses			(14,225)
Finance costs			(233,311)
Loss before tax			(474,990)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss from each segment without allocation of other income, central administrative costs, certain share-based payment expenses, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2009 HK$'000	2008 HK$'000
Assets		
Segment assets		
– Shipbuilding	**3,824,507**	5,232,411
– Metal trading	**103**	772
Total segment assets	**3,824,610**	5,233,183
Bank and pledge bank deposit	**656,619**	334,803
Unallocated corporate assets	**33,452**	20,312
Consolidated assets	**4,514,681**	5,588,298
Liabilities		
Segment liabilities for shipbuilding	**2,398,216**	1,730,978
Bank borrowings	**625,000**	340,910
Convertible notes payable	**416,168**	421,440
Deferred tax liabilities	**335,708**	589,688
Deferred consideration	**200,000**	173,447
Unallocated corporate liabilities	**32,773**	38,426
Consolidated liabilities	**4,007,865**	3,294,889

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

- all assets are allocated to reportable segments other than bank and pledged bank deposits, certain corporate property, plant and equipment and tax recoverable; and
- all liabilities are allocated to reportable segments other than bank borrowings, convertible notes payable, deferred consideration, deferred tax liabilities and interest payable to convertible note holders.

8. SEGMENT INFORMATION (Continued)

Geographical information

The Group's main operations, amounting to 99% of the Group's operation, are located in the PRC.

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

	Revenue from external customers for year ended 31 December		Non-current assets at 31 December	
Name of the Country	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Germany	**1,092,103**	1,042,849	**—**	—
United States of America	**147,404**	145,030	**—**	—
The PRC	**25**	2,945	**1,850,517**	3,323,235
Others	**—**	772	**1,870**	2,450
	1,239,532	1,191,596	**1,852,387**	3,325,685

8. SEGMENT INFORMATION (Continued)

Other segment information

2009

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

	Shipbuilding HK$'000	Metal trading HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	209,640	—	13	209,653
Depreciation, amortisation of intangible assets and prepaid lease payment	225,157	—	595	225,752
Loss on disposal of property, plant and equipment	642	—	—	642
Provision for warranty	33,025	—	—	33,025
Share based payment	1,902	—	3,780	5,682
Impairment loss on goodwill	514,179	—	—	514,179
Impairment loss on intangible assets	940,000	—	—	940,000

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

	Shipbuilding HK$'000	Metal trading HK$'000	Total HK$'000
Income tax expense	14,702	—	14,702

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2008

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

	Shipbuilding HK$'000	Metal trading HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	124,256	—	2,446	126,702
Additions to deposit paid for acquisition of property, plant and equipment	3,029	—	—	3,029
Additions of prepaid lease payments	343,640	—	—	343,640
Additions to goodwill	817,262	—	—	817,262
Additions to intangible assets	1,626,339	—	—	1,626,339
Depreciation and amortisation	153,455	—	515	153,970
Loss on disposal of property, plant and equipment	624	—	—	624
Provision for warranty	2,729	—	—	2,729
Share based payment	27,787	—	14,225	42,012
Impairment loss on goodwill	322,221	—	—	322,221

Information about major customers

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

	Year ended 2009 HK$'000	2008 HK$'000
Customer A[1]	**421,812**	189,751
Customer B[1]	**356,799**	232,209
Customer C[1]	**147,404**	145,031

[1] Revenue from shipbuilding

9a. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Dividend income from investments held for trading	—	2,385
Interest on bank deposits	**6,235**	6,762
Interest on loan receivables	—	855
Sales of scrap materials	**6,931**	4,626
Others	**1,024**	51
	14,190	14,679

9b. OTHER GAINS AND LOSSES

	2009 HK$'000	2008 HK$'000
Loss on disposal of property, plant and equipment	**(642)**	(624)
Foreign exchange gain	**302**	9,900
	(340)	9,276

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (note 33)	**57,559**	188,188
Imputed interest expense on deferred consideration (note 31)	**26,553**	18,809
Bank borrowings	**28,443**	19,353
Other borrowings	**2,447**	6,961
	115,002	233,311

11. GAIN ON DISPOSAL OF SUBSIDIARIES

In 2009, the Group disposed of Able King Investment Limited and its subsidiaries (collectively as "Able King Group") to an independent third party at a consideration of HK$1,000. The net liabilities of the Able King Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of: (Note)	
Other receivables	213
Bank balances	1,363
Other payables	(1,701)
	(125)
Gain on disposal	126
Cash consideration	1
Net cash outflow arising on disposal:	
Cash consideration	1
Bank balances disposed of	(1,363)
	(1,362)

Note: Able King Group held an available-for-sale invesment (note 20) at cost of HK$13,489,000, which was fully impaired in 2006.

The Able King Group did not make any significant contribution to the results or cash flow of the Group for the year.

12. LOSS BEFORE TAX

	2009 HK$'000	2008 HK$'000
Loss before tax has been arrived at after charging:		
Directors' emoluments	**8,638**	19,591
Other staff costs (including share-based payment of HK$984,000 (2008: HK$2,416,000))	**52,686**	39,314
Contributions to retirement benefits scheme, excluding directors	**4,484**	4,187
Total staff costs	**65,808**	63,092
Share-based payment expense (included in cost of sales)	**—**	22,842
Auditors' remuneration	**1,268**	1,150
Amortisation of intangibles assets (included in cost of sales)	**166,450**	115,199
Depreciation of property, plant and equipment	**52,222**	33,959
Release of prepaid lease payments	**7,080**	4,812
Minimum lease payments under operating leases in respect of rented premises	**1,575**	1,427
Contract costs recognised as expenses	**1,784,671**	1,030,747
Claims and additional repair cost arising from a delivered vessel's defects (included in cost of sales)	**40,092**	—
Penalties and associated additional costs from delay in vessel delivery due to prolonged shipbuilding process (included in cost of sales)	**82,019**	—
Expected losses recognised in respect of foreseeable delay in vessel delivery and additional estimated costs (included in cost of sales)	**339,718**	—

13. TAXATION

	2009	2008
	HK$'000	HK$'000
Current tax:		
PRC Enterprise Income Tax	14,701	—
Deferred tax	(250,081)	(5,994)
	(235,380)	(5,994)

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

In accordance with Article 8 of the Foreign Enterprise Income Tax ("FEIT') law of 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 fully exempted financial years of Union Shipbuilding Co. (as defined in note 35) were the year ended 31 December 2007 and 2008, respectively.

Under the Law of the PRC on Enterprise Income Tax ("the EIT Law") and Implementation Regulation of the EIT Law, Union Shipbuilding Co. (as defined in note 35) 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.

13. TAXATION (Continued)

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

	2009 HK$'000	2008 HK$'000
Loss before tax	**(2,191,742)**	(474,990)
Tax at applicable domestic income tax rate of 25% (2008: 25%)	**(547,936)**	(118,748)
Tax effect of expenses not deductible for tax purpose	**318,367**	148,764
Tax effect of income not taxable for tax purpose	**(166)**	(3,382)
Tax effect of tax exemption granted to a PRC subsidiary	**(14,702)**	(54,333)
Deferred tax on undistributed earnings of a PRC subsidiary	**9,057**	21,705
Tax credit for the year	**(235,380)**	(5,994)

At the end of the reporting period, the Group had unused tax losses of approximately HK$1,941,000 (2008: HK$25,906,000) available to offset against future profits. No deferred taxation asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

14. DIRECTORS' EMOLUMENTS

	2009					2008				
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive:										
Mr. Chau On Ta Yuen	–	1,300	12	2,750	4,062	–	1,300	12	10,460	11,772
Mr. Li Ming	–	1,093	10	–	1,103	–	–	–	–	–
Mr. Zhang Shi Hong	–	960	12	917	1,889	–	960	5	3,487	4,452
Mr. Wang San Long	–	278	4	1,031	1,313	–	137	4	2,807	2,948
Mr. Tang Chi Ming	–	–	–	–	–	132	–	–	–	132
Independent non-executive:										
Mr. Hu Bai He	80	–	–	–	80	51	–	–	–	51
Ms. Xiang Siying	80	–	–	–	80	51	–	–	–	51
Mr. Zhang Xiping	80	–	–	–	80	31	–	–	–	31
Ms. Xiang Ying	31	–	–	–	31	–	–	–	–	–
Mr. Sin Chi Fai*	–	–	–	–	–	31	–	–	–	31
Ms. Chan Ling, Eva*	–	–	–	–	–	74	–	–	–	74
Mr. Chan Sek Nin, Jackey*	–	–	–	–	–	49	–	–	–	49
	271	3,631	38	4,698	8,638	419	2,397	21	16,754	19,591

* Directors resigned during the year ended 31 December 2008.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2008: three) were directors of the Company whose emoluments are included in note 14 above. The emoluments of the remaining one (2008: two) highest paid individuals are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	720	864
Retirement benefits scheme contributions	12	12
Share-base payments	113	1,699
	845	2,575

Their emoluments were within the following bands:

	2009 HK$'000	2008 HK$'000
Nil to HK$1,000,000	1	—
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	—	1

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

16. LOSS PER SHARE

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

	2009	2008
	HK$'000	HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted losses per share	**(1,956,362)**	(468,996)

	2009	2008
	'000	'000
		(restated)
Number of shares (Note)		
Weighted average number of ordinary shares for the purposes of basic loss per share	**769,465**	383,202

The computation of diluted loss per share for the year ended 31 December 2009 and 2008 does not include the share options and covertible notes as the exercise of both share options and convertible notes has an anti-dilutive effect.

Note: The weighted average of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2008 have been retrospectively adjusted for the effect of share consolidation completed in 2009 (note 32(c)).

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2008	996	216	—	—	—	1,212
Additions	35	3,946	7,103	36,645	78,973	126,702
Acquired on acquisition of a subsidiary	651,976	638	14,746	41,492	87,795	796,647
Disposals	(524)	(169)	(48)	—	—	(741)
Currency realignment	15,302	298	830	4,263	9,150	29,843
At 31 December 2008	667,785	4,929	22,631	82,400	175,918	953,663
Additions	—	846	3,885	18,049	186,873	209,653
Transfer	112,240	—	—	—	(112,240)	—
Disposals	—	—	(153)	(3,367)	—	(3,520)
At 31 December 2009	780,025	5,775	26,363	97,082	250,551	1,159,796
DEPRECIATION						
At 1 January 2008	58	21	—	—	—	79
Provided for the year	26,164	351	2,053	5,391	—	33,959
Eliminated on disposals	(59)	(21)	(16)	—	—	(96)
Currency realignment	2,334	20	150	346	—	2,850
At 31 December 2008	28,497	371	2,187	5,737	—	36,792
Provided for the year	36,348	650	3,523	11,701	—	52,222
Eliminated on disposals	—	—	(41)	(484)	—	(525)
At 31 December 2009	64,845	1,021	5,669	16,954	—	88,489
CARRYING VALUES						
At 31 December 2009	715,180	4,754	20,694	80,128	250,551	1,071,307
At 31 December 2008	639,288	4,558	20,444	76,663	175,918	916,871

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Buildings	5%
Furniture and fixtures	25%
Motor vehicles	12.5%
Plant and machinery	6.67% - 25%

For the year ended 31 December 2009, the Group's shipbuilding business suffered gross operating loss. The directors, after taking account the economic condition and industrial development prospect, have considered that the gross operating loss indicates impairment loss for the Group's buildings, plant and machinery and construction in progress and therefore conducted a review on the carrying amounts of the property, plant and equipment. Details of impairment test on property, plant and equipment are set out in note 36.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2009	2008
	HK$'000	HK$'000
Leasehold land held under medium-term lease in the PRC	**339,625**	346,705
Analysed for reporting purposes as:		
Non-current asset	**337,899**	345,004
Current asset	**1,726**	1,701
	339,625	346,705

19. INTANGIBLE ASSETS

	Contracted and uncontracted customer relationships HK$'000
COST	
At 1 January 2008	—
Acquired on acquisition of INPAX Group (note 35)	1,626,339
Currency realignment	35,462
At 31 December 2008 and 2009	1,661,801
AMORTISATION AND IMPAIRMENT	
At 1 January 2008	—
Amortisation charge for the year	115,199
At 31 December 2008	115,199
Amortisation charge for the year	166,450
Impairment loss recognised in the year	940,000
At 31 December 2009	1,221,649
CARRYING VALUES	
At 31 December 2009	440,152
At 31 December 2008	1,546,602

Intangible assets represent contracted and uncontracted customer relationships arising from the acquisition of INPAX Group in prior year.

The amount will be amortised over its estimated useful life of 10 years on a straight-line basis.

Details of the impairment test on intangible assets are set out in note 36.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	HK$'000	HK$'000
Unlisted securities:		
Equity securities at cost	—	13,489
Less: impairment loss recognised	—	(13,489)
	—	—

The unlisted investment for the year ended 31 December 2008 represents approximately a 5.94% interest in the issued share capital of Found Macau Investments International Limited ("Found Macau"), an investment holding company incorporated in the British Virgin Islands. Found Macau was formed to invest in gaming, entertainment and related business in Macau through its subsidiaries. Included in the investment cost is the fair value adjustment of HK$13,489,000 arising from an interest free loan advanced to Found Macau which was considered as deemed capital contribution.

In view of the recurring operating losses incurred by Found Macau, the directors of the Company reviewed the carrying amount of the unlisted investment based on its expected recoverable amount. Accordingly, an impairment loss of HK$13,489,000 was identified and charged to the consolidated statement of comprehensive income in 2006.

Such investment was disposed of through the disposal of Able King Group (note 11) during the year.

21. INTEREST IN AN ASSOCIATE

	2009 & 2008
	HK$'000
Cost of unlisted investment in an associate	—
Loan to an associate	54,050
Less: Impairment loss recognised	(54,050)
	—

In previous years, in view of the recurring operating loss incurred by the associate, full impairment had been recognised and the Group did not share loss of the associate as the unrecognised loss involved was negligent. Details of the Group's associate at 31 December 2009 are set out in note 44.

22. INVENTORIES

	2009	2008
	HK$'000	HK$'000
Raw materials	**333,635**	482,125

23. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	HK$'000
Trade receivables	39,475	3,053
Value-added tax recoverable	195,423	109,385
Deposits placed with a stakeholder (Note)	338,382	426,004
Others	42,360	24,076
Total trade and other receivables	615,640	562,518
Prepayment for purchase of raw materials	1,013,021	863,043

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

Trade receivables at the end of the reporting period represent the final instalment receivable from ship buyers which is due in August 2010. Credit period was based on mutual agreements reached between the entity and ship buyers which varies case by case.

Included in the Group's trade receivable balances at 31 December 2008 was a debtor with aggregate carrying amount of HK$3,053,000 which was past due but not provided for impairment loss. The amount was fully settled during year 2009.

The Group did not have trade receivables passed due but not impaired as at 31 December 2009.

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

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

24. INVESTMENTS HELD FOR TRADING

	2009 HK$'000	2008 HK$'000
At fair value:		
Equity securities listed in Hong Kong	**1,609**	18,423

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

25. BANK BALANCES/PLEDGED BANK DEPOSITS/BANK OVERDRAFTS

Bank balances/pledged bank deposits

Bank balances carry interest at market rates ranging from 0.01% to 0.36% (2008: from 0.01% to 0.72%) per annum.

The pledged deposits carry a fixed interest rate of 1.89% (2008: 3.78%) per annum and are to pledge secure bills payables as required by the relevant banks.

Bank overdrafts

Bank overdrafts carry interest at market rate at prime rate + 2% per annum.

26. TRADE, BILLS AND OTHER PAYABLES

	2009 HK$'000	2008 HK$'000
Trade payable	**36,413**	40,753
Bills payable	**346,023**	204,545
Advances from customers for ship construction contracts	**476,084**	1,024,767
Interest payable	**30,095**	20,160
Dividend payable to former equity holders of a subsidiary	**21,757**	21,757
Consideration payable for acquisition of property, plant and equipment	**42,859**	42,859
Others payable and accruals	**32,863**	16,490
	986,094	1,371,331

Advances from customers for ship construction contracts represent advances from customers for ship building but the construction work has not commenced at the end of the reporting period.

The following is an aged analysis of trade payables and bills payables at the end of the reporting periods:

	2009 HK$'000	2008 HK$'000
0 - 30 days	**79,409**	79,538
30 - 60 days	**154,705**	25,757
61 - 90 days	**9,781**	1,916
Over 90 days	**138,541**	138,087
	382,436	245,298

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

Bills payable are secured by pledged bank deposits (note 25).

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

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2009 HK$'000	2008 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	**1,383,585**	1,002,281
Recognised profits less recognised losses	**37,432**	314,905
	1,421,017	1,317,186
Less: Progress payments and progress billings	**(2,798,595)**	(1,675,265)
Amounts due to customers for contract works	**(1,377,578)**	(358,079)
Analysed for reporting purposes as:		
Amounts due from contract customers	**34,292**	—
Amounts due to contract customers	**(1,411,870)**	(358,079)
	(1,377,578)	(358,079)

During the year, defects were identified for a new model of vessel subsequent to the completion of a shipbuilding contract. The defects led to claims by the customer as additional repair cost was incurred by the customer by hiring a shipbuilder in South Korea to mend the defects. The additional repair cost was fully reimbursed by the Group. The claims and repair cost amounting to approximately HK$40,092,000 (2008: Nil) in aggregate were determined in accordance with a rate stipulated in the shipbuilding contract and billing invoice from the shipbuilder in South Korea, which was included in cost of sales for the year ended 31 December 2009.

The commencement of the new vessel model together with the rectification work for the defects prolonged the Group's overall shipbuilding process and led to a general delay for ensuing vessel production and delivery. Penalties and associated additional costs amounting to HK$27,771,000 (2008: Nil) were agreed with a customer for such delay in respect of a shipbuilding contract completed before the end of the reporting period and was included in cost of goods sold. HK$54,248,000 (2008: Nil) was also provided and included in costs of goods sold in the consolidated financial statements for penalties and associated additional costs in respect of another shipbuilding contract completed subsequent to the end of the reporting period.

The delays encountered in the shipbuilding process in respect of the three shipbuilding contracts described above caused delays in the production schedules of outstanding shipbuilding contracts which were in progress as at 31 December 2009 such that their originally planned delivery schedule of 2010 and afterwards are no longer expected to be met. The Group recognises expected loss for these outstanding contracts as their total estimated contract costs to be incurred, as determined based on the original budgeted costs plus the claims, penalties and associated additional costs by reference to those incurred by the three precedent delayed vessels, will exceed the total contract revenue to be recognised in future periods. The Group recognised the expected losses of HK$339,718,000 in 2009 (2008: Nil).

28. MARGIN LOAN PAYABLE

The amount was unsecured, bore fixed interest rate at 12% (2008: 12%) per annum and the amount was fully repaid in 2009.

29. BORROWINGS

	2009	2008
	HK$'000	HK$'000
Secured	227,273	52,296
Unsecured	397,727	288,614
	625,000	340,910
Carrying amount repayable:		
Within one year	511,364	113,637
More than two years but not more than five years	113,636	227,273
	625,000	340,910
Less: Amounts due within one year shown under current liabilities	(511,364)	(113,637)
	113,636	227,273

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

	2009	2008
	HK$'000	HK$'000
Fixed-rate borrowings:		
Within one year	397,728	113,637
In more than two years but not more than five years	113,636	227,273
	511,364	340,910

In addition, at 31 December 2009, the Group has a variable-rate borrowing of HK$113,636,000 repayable with one year (2008: Nil) which carries interest at London Interbank Offered Rate ("LIBOR") plus 3.2% per annum. Interest is repriced in accordance with the relevant bank's announcement.

29. BORROWINGS (Continued)

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

Effective interest rate:

	2009	2008
Fixed-rate brownings	**4.86% to 8.42%**	6.66% to 10.2%
Variable-rate borrowing	**5.03%**	N/A

The Group's borrowings denominated in HKD, currency other than the functional currency of the relevant Group entity, are set out below:

	HK$'000
As at 31 December 2009	—
As at 31 December 2008	4,521

During the year, the Group breached covenants for two bank loans. One bank loan requires the Group not to leverage over a certain amount of bank borrowing while the other one requires the Group to pledge a certain amount of deposits in the bank to secure the borrowing from that bank. The Group has obtained a waiver letter for the breach of covenant for one of the loans relating to over leverage subsequent to 31 December 2009. Accordingly, the loan of HK$23,000,000 is presented as current liability in the consolidated statement of financial position. The Group has not obtained any waiver letter for the breach of loan covenant arising from insufficient pledged deposits to secure the relevant loan of HK$113,000,000. As the loan has a maturity of less than one year, it is also presented as current liabilities in the consolidated statement of financial position.

30. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2008	—
Acquired on acquisition of INPAX Group (note 35)	8,707
Additional provision for the year	2,729
Reversal of provision	(8,177)
Currency realignment	(285)
At 31 December 2008	2,974
Additional provision for the year	33,025
Reversal of provision	(2,974)
At 31 December 2009	**33,025**

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

31. DEFERRED CONSIDERATION

	2009	2008
	HK$'000	HK$'000
At 1 January	**173,447**	—
Acquisition of INPAX Group (note 35)	**—**	154,638
Imputed interest expense	**26,553**	18,809
At 31 December	**200,000**	173,447

The amount is interest free and repayable on 31 December 2009 and represents HK$200,000,000 deferred consideration payable for the acquisition of INPAX Group in 2008. The imputed interest rate is 16.25% per annum.

On 30 November 2009, the Company entered into an agreement with Million King (as defined in note 35) to defer its payment to 31 January 2010. On 7 January 2010, it was further deferred to 31 January 2011 upon the entering of another extention agreement and commences to carry interest at Hong Kong Prime rate.

On 23 April 2010, the Group further entered into an agreement with Million King to extend the payment from 31 January 2011 to 31 January 2012.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
			HK$'000	HK$'000
Ordinary shares of HK$0.05 (2008: HK$0.001) each (note c)				
Authorised:				
At the beginning of the year	**250,000,000,000**	250,000,000,000	**250,000**	250,000
Share constitution (note c)	**(200,000,000,000)**	—	**—**	—
At the end of the year	**500,000,000,000**	250,000,000,000	**250,000**	250,000
Issued and fully paid:				
At the beginning of the year	**33,739,982,591**	17,198,806,126	**33,740**	17,198
Issue of new shares on 5 June 2009 (note a)	**3,400,000,000**	—	**3,400**	—
Conversion of convertible notes (note b)	**465,000,000**	16,541,176,465	**465**	16,542
	37,604,982,591	33,739,982,591	**37,605**	33,740
Share consolidation (note c)	**(36,852,882,940)**	—	**—**	—
Issue of new shares on 31 August 2009 (note d)	**150,000,000**	—	**7,500**	—
At the end of the year	**902,099,651**	33,739,982,591	**45,105**	33,740

32. SHARE CAPITAL (Continued)

Notes:

(a) On 21 May 2009, the Company entered into a placing agreement with a placing agent for a placement of 3,400,000,000 ordinary shares of HK$0.001 each of the Company on a best-effort basis at a price of HK$0.013 per share, which represents a discount of approximately 13.33% to the closing price of HK$0.015 per share as quoted on the Stock Exchange, to independent third parties. The placing was completed on 5 June 2009 and an aggregate of 3.4 billion ordinary shares of the Company were issued.

(b) During the year ended 31 December 2009, part of the CBII (as defined in note 33) was converted into 465,000,000 ordinary shares of HK$0.001 each of the Company.

(c) Pursuant to an ordinary resolution at the annual general meeting held on 24 June 2009, every fifty issued and unissued shares of HK$0.001 each in the Company was consolidated into one share of HK$0.05 each in the Company and the share consolidation became effective on 25 June 2009.

(d) On 20 August 2009, the Company entered into another placing agreement with a placing agent for a placement of 150,000,000 ordinary shares of HK$0.05 each of the Company on a best-effort basis at the price of HK$0.43 per share, which represents a discount of approximately 18.87% to the closing price of HK$0.53 per share as quoted on the Stock Exchange, to independent third parties.

The placing was completed on 31 August 2009 and an aggregate of 150 million ordinary shares of the Company were issued.

All the shares issued during the year ranked pari passu with the then existing shares in all respect.

33. CONVERTIBLE NOTES PAYABLE

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 accrual on a day to day basis on the outstanding principal amount, payable annually in arrears, and would be mature on 17 May 2009. CBI is denominated in HKD. 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.

The entire CBI was fully converted as at 31 December 2008.

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

	2009	2008
	HK$'000	HK$'000
Liability component at the beginning of the year	—	46,225
Conversion	—	(45,990)
Interest charged	—	2,264
Interest paid	—	(2,499)
	—	—

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 35). 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 initial aggregate principal amount of the restricted convertible notes issued is HK$600 million, which is subject to a downward adjustment for the potential shortfall between the guaranteed profit of HK$600 million and the audited profit after taxation of INPAX Group for the year ended 31 December 2008. Based on the audited profit after taxation of INPAX Group of HK$217 million, the shortfall is determined to be approximately HK$383 million as compared to the guaranteed profit of HK$600 million.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The difference between the aggregate principal amount of the restricted and unrestricted CBII of HK$2,617 million, representing the aggregate amount of the principal amount of the unrestricted convertible notes of HK$2,400 million and the adjusted principal amount of the restricted convertible notes issued of HK$217 million, and the fair value of the liability component of the CBII of approximately HK$1.7 billion, represents the conversion option of approximately HK$0.9 billion, which is credited directly to equity as convertible loan notes reserve.

The holder(s) of the restricted convertible notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into ordinary shares of the Company from 1 April 2009 to 15 April 2011, the date of maturity, at the initial conversion price of HK$0.15 per share, which was adjusted to HK$7.26 following the share placements (note 32(a) and 32(d)) and the share consolidation (note 32(c)) in 2009.

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 was adjusted to HK$7.26 following the share placements and the share consolidation in 2009.

The conversion rights of CBII shall only be exercisable so long as the aggregate shareholdings in the Company held by Million King, its associates and parties acting in concert 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.

In respect of the restricted convertible note, no interest will be payable. For the unrestricted convertible note, coupon interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears. The interest due on October 2008, April 2009 and October 2009 amounting to approximately HK$27,984,000 in aggregate (2008: HK$22,584,000) was deferred to April 2010 in accordance with deferred agreements reached with the holders and was included in other payables in the consolidated statement of financial position.

The CBII is not redeemable at the option of the noteholder(s) prior to maturity. The Company shall have the right to redeem any portion of the 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. In the opinion of the directors of the company, such redemption option has risks and characteristics that are closely related to CBII as the redemption option's exercise price is approximately equal on each exercise date to the amortised cost of the host instrument. Unless previously converted or redeemed, the Company shall redeem the CBII at par on the maturity date of the CBII.

33. CONVERTIBLE NOTES PAYABLE (Continued)

The CBII is freely transferrable, provided that the noteholder(s) 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.

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

	Liability component of restricted convertible notes 16 April 2008	**Liability component of unrestricted convertible notes 16 April 2008**
Share price	HK$0.149	HK$0.149
Exercise price	HK$0.15	HK$0.15
Contractual Life	3 years	3 years
Risk-free rate	1.659%	1.659%
Expected dividend yield	0%	0%
Volatility	49.05%	51.46%

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

	HK$'000
Liability component at 1 January 2008	—
Issue of convertible note (16 April 2008)	1,723,162
Conversion	(1,469,597)
Interest charged	185,924
Interest paid	(18,049)
Liability component at 31 December 2008	421,440
Conversion	(52,898)
Interest charged	57,559
Interest paid	(9,933)
Liability component at 31 December 2009	416,168

33. CONVERTIBLE NOTES PAYABLE (Continued)

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

As at 31 December 2009, the principal amounts of restricted and unrestricted convertible notes which are outstanding are approximately HK$148 million (2008: HK$217 million) and approximately HK$360 million (2008: HK$360 million), respectively.

On 27 April 2010, the Group announced to have entered into an extension letter with each of the holders of the Group's convertible notes 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 convertible notes, each and every term and condition under the existing convertible notes shall remain unchanged. The extension of the Group's convertible notes is conditional, among other things, on the approval by the shareholders of the Company at a special general meeting and the necessary consents and approvals by the Stock Exchange. Details of the extension of the maturity date of the convertible notes were set out in the Company's announcement dated 27 April 2010. The extension of the Group's convertible notes has not yet been completed at the date of this report.

34. DEFERRED TAX LIABILITIES

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

	Convertible loan notes HK$'000	Withholding tax on undistributed earnings of the PRC subsidiaries HK$'000	Fair value adjustments on properties and intangible asset HK$'000	Total HK$'000
At 1 January 2007	—	—	—	—
Acquisition of INPAX Group (note 35)	—	—	532,006	532,006
Currency realignment	—	—	4,292	4,292
(Credit) charge to profit or loss	(27,699)	21,705	—	(5,994)
Charge to equity for the year	146,831	—	—	146,831
Reversal on conversion of CBII during the (credit to equity)	(87,447)	—	—	(87,447)
At 31 December 2008	31,685	21,705	536,298	589,688
(Credit) charge to profit or loss	(7,858)	9,057	(251,280)	(250,081)
Reversal on conversion of CBII during the year (credit to equity)	(3,899)	—	—	(3,899)
At 31 December 2009	**19,928**	**30,762**	**285,018**	**335,708**

35. ACQUISITION OF A SUBSIDIARY

On 5 November 2007, the Company entered into a sale and purchase agreement with Million King Investments Limited ("Million King") to acquire 100% interest in INPAX Technology Limited and its subsidiary 江西江州聯合造船有限責任公司 ("Union Shipbuilding Co.") (collectively the "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 cash payment of HK$300,000,000, convertible loan notes (see note 33) and interest free deferred cash payment of HK$200,000,000 to be settled on 31 December 2009. The fair value of the total consideration was approximately HK$3,067,687,000.

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

35. ACQUISITION OF A SUBSIDIARY (Continued)

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

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	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	(2,100)	744,848
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	2,096,675	2,250,425
Goodwill			817,262
Total consideration			3,067,687
Total consideration satisfied by:			
Cash			300,000
Deferred consideration (note 31)			154,638
CBII (note 33)			2,613,049
			3,067,687
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

35. ACQUISITION OF A SUBSIDIARY (Continued)

INPAX Group contributed a profit of approximately HK$190,850,000 to the Group's result for the period between the date of acquisition and 31 December 2008.

The 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 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 fair value adjustment of intangible assets, 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 year ended 31 December 2008 would have been approximately HK$1,387,182,000, and loss for the year would have been approximately HK$442,547,000. 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.

36. GOODWILL

The movement of the goodwill is as follows:

COST	
At 1 January 2008	—
Acquired on acquisition of INPAX Group (note 35)	817,262
Currency realignment	19,138
At 31 December 2008 and 2009	836,400
IMPAIRMENT	
At 1 January 2008	—
Impairment loss recognised for the year	322,221
At 31 December 2008	322,221
Impairment loss recognised in the year	514,179
At 31 December 2009	836,400
CARRYING VALUES	
At 31 December 2009	—
At 31 December 2008	514,179

For the purposes of impairment testing, goodwill is allocated to one individual cash generating unit ("CGU"), being the shipbuilding segment.

The carrying amounts of goodwill, intangible assets and property, plant and equipment are attributable to the acquisition of INPAX Group which engaged in shipbuilding service.

36. GOODWILL (Continued)

The recoverable amount of this unit has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 20.5% (2008: 19.4%). The cash flows beyond the 5-year period are extrapolated with 3% (2008: 0%) growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for market development including deteriorated sentiment for sales of new vessels due to global economic recession commenced since the second half year of 2008, which cast doubt on the potential profitability in the shipbuilding industry in the PRC. The management of the Company therefore was of the opinion that their previous expectation on the potential profitability could not be met and as a result, goodwill was impaired accordingly.

During the year ended 31 December 2009, the Group recognised an impairment loss of approximately HK$514,179,000 (2008: HK$322,221,000) to fully write down the amount of goodwill and approximately HK$940,000,000 (2008: Nil) in respect of intangible assets which arose on acquisition of INPAX Group.

The impairment loss recognised for the shipbuilding CGU is first to reduce the carrying amount of goodwill and then to the intangible assets.

37. CAPITAL COMMITMENTS

	2009	2008
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**45,910**	40,587
Capital expenditure in respect of acquisition of properties, plant and equipment authorised but not contracted for	**—**	79,418

38. PLEDGE OF ASSETS

	2009 HK$'000	2008 HK$'000
Bank deposits	**387,031**	176,648
Inventories	**53,290**	—
Properties, plant and equipment	**79,416**	—
Prepaid lease payments	**—**	37,250
	519,737	213,898

Bank deposits, inventories, properties, plant and equipment and prepaid lease payments were pledged to banks for banking facilities granted by banks to the group.

Pledged bank deposits represents deposits pledged to banks to secure bills payable issued by the Group and is therefore classified as current assets. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

39. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed on 27 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. 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 31 December 2009, the number of shares with a par value of HK$0.05 in respect of which options had been granted and remained outstanding under the Scheme was 34,380,000 (2008: 34,380,000), representing 3.8% (2008: 5.1%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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.

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses details of the options held by directors, employees and consultants and movements in such holding during the years ended 31 December 2008 and 2009:

Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Number of share options: Outstanding at 1.1.2008 (Note 2)	Granted during the year	Exercised during the year	Outstanding at 31.12.2008 and 31.12.2009 (Note 2)
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK$9.0	—	1,600,000	—	1,600,000
		5 March 2009 to 4 March 2018	HK$9.0	—	1,200,000	—	1,200,000
		5 March 2010 to 4 March 2018	HK$9.0	—	1,200,000	—	1,200,000
				—	4,000,000	—	4,000,000
	7 May 2008	7 May 2008 to 6 May 2018	-HK$7.15	—	1,040,000	—	1,040,000
		7 May 2009 to 6 May 2018	HK$7.15	—	780,000	—	780,000
		7 May 2010 to 6 May 2018	HK$7.15	—	780,000	—	780,000
				—	2,600,000	—	2,600,000
				—	6,600,000	—	6,600,000

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Number of share options: Outstanding at 1.1.2008 (Note 2)	Granted during the year	Exercised during the year	Outstanding at 31.12.2008 and 31.12.2009 (Note 2)
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$7.15	—	1,392,000	—	1,392,000
		7 May 2009 to 6 May 2018	HK$7.15	—	1,044,000	—	1,044,000
		7 May 2010 to 6 May 2018	HK$7.15	—	1,044,000	—	1,044,000
				—	3,480,000	—	3,480,000
Consultants	7 May 2008	7 May 2008 to 6 May 2018	HK$7.15	—	24,300,000	—	24,300,000
				—	34,380,000	—	34,380,000

Notes:

1. The initial exercise prices of the shares options granted on 5 March 2008 and 7 May 2008 are HK$0.18 and HK$0.143 respectively. Upon the share consolidation became effective on 25 June 2009, the exercise prices of shares options were adjusted to HK$9.00 and HK$7.15 accordingly.

2. The number of outstanding share options has been adjusted retrospectively to take into account the effect of the share consolidation effective on 25 June 2009.

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

No share options were exercised during the year ended 31 December 2008 and 2009. The estimated fair values of the options granted on 5 March 2008 and 7 May 2008 are approximately HK$18,086,000 and HK$30,502,000 respectively.

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

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

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

The Group recognised the total expense of approximately HK$5,682,000 for the year ended 31 December 2009 (2008: HK$42,012,000) in relation to share options granted by the Company.

40. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,000 in maximum of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the relevant subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

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

41. 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 which fall due as follows:

	2009	2008
	HK$'000	HK$'000
In respect of rented premises:		
Within one year	—	269
In the second to fifth year inclusive	—	95
	—	364

42. RELATED PARTY TRANSACTIONS

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

(1) The Group paid a guarantee fee of approximately HK$13,636,000 (2008: Nil) to 中國瑞聯實業集團有限公司 (「瑞聯實業」) in respect of guarantee issued by 瑞聯實業for the Group's entering of certain shipbuilding contracts. The Company's executive director, Mr. Li Ming, has beneficial interest in 瑞聯實業 .

The amount due to瑞聯實業of approximately HK$10,227,000 (2008: Nil) at the end of the reporting period was included in other payables. The amount is unsecured, interest free and repayable on demand.

(2) The remuneration of directors and other members of key management during the year was as follows:

	2009	2008
	HK$'000	HK$'000
Short-term benefits	**3,902**	2,816
Post employment benefits (Retirement benefit contribution)	**38**	21
Share-based payment expenses	**4,698**	16,754
	8,638	19,591

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

43. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2009		2008		
			Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	
Able King Investment Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	100	—	Investment holding
Acewell Investments Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding
Ample Asset Investment Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding
China Ocean Shipbuilding Holdings Limited	British Virgin Islands*	I ordinary share of US$1 each	100	—	—	—	Investment holding
China Ocean Shipbuilding (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	—	—	Inactive
China Ocean Shipbuilding Services Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	—	—	Inactive
Global Empire Group Inc#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding
Gold Castle Investments Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding

43. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2009		2008		
			Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	
Giant Wave Limited#	Hong Kong	1 ordinary share of HK$1 each	—	—	—	100	Securities investment
King Force International Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding
Merge Limited	Hong Kong	1 ordinary share of HK$1 each	100	—	100	—	Inactive
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US$1 each	100	—	100	—	Investment holding
Ocean Vision Investments Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	—	100	Investment holding
Premier Win Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	100	—	100	—	Inactive
Wealth Prospect Limited#	Hong Kong	2 ordinary share of HK$1 each	—	—	—	100	Inactive

43. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2009		2008		
			Directly %	Indirectly %	Directly %	Indirectly %	
INPAX Technology Limited	British Virgin Islands*	10,000 ordinary share of US$1 each	**100**	**—**	100	—	Investment holding
Jiangxi Union Ship building Company Limited** 江洲聯合船廠	British Virgin Islands	RMB270,950,000 paid-up registered capital	**—**	**100**	—	100	Manufacturing metal vessel, vessel ancillary products and repiration of vessels

* The companies are engaged in investment business and have no specific principal place of operation.
** The Company is registered in the form of a wholly foreign owned enterprise.
\# The companies were disposed of during 2009.

None of the subsidiaries had any debt securities at 31 December 2009 and 2008 or at any time during the years.

44. PARTICULARS OF AN ASSOCIATE

Particulars of the Group's associate as at 31 December 2009 and 2008 is as follows:

Name of associate	Place of incorporation/ operation	Issued share capital	Nominal value of issued share capital held by the Group 2009 & 2008	Principal activity
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK$1 each	49%	Inactive

Financial Summary

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(1,956,362)**	(468,996)	(54,626)	(61,789)	(51,706)

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**4,514,681**	5,588,298	392,544	148,623	211,491
TOTAL LIABILITIES	**(4,007,865)**	(3,294,889)	(102,936)	(2,960)	(4,034)
NET ASSETS	**506,816**	2,293,409	289,608	145,663	207,457