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

(Incorporated in Bermuda with limited liability)
(Stock Code: 00651)

2010
Annual Report

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

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

PRINCIPAL SHARE REGISTRAR

HSBC Bank Bermuda Limited
(Formerly known as 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$1,305.32 million for the year ended 31 December 2010 when compared to turnover of approximately HK$1,239.53 million in 2009, an increase of 5.31% and loss attributable to the shareholders of approximately HK$867.39 million for the year ended 31 December 2010 when compared to HK$1,956.36 million in 2009, an decrease of 55.66%. The decrease in loss was mainly due to the decrease of impairment loss recognized on goodwill and intangible assets during the year.

The year 2010 was a still challenging year for the Group. The Group suffered from lack of new-orders, the drop of price in vessels and late delivery of vessels. To face this griming situation, the Group continues to negotiate with the ship-owners and takes a more flexible attitude to prices and delivery to ensure performance of secured orders. In addition, the Group builds a new sales team and takes cost control measures to improve the future performance. We hope this will serve us well through the current challenging period.

The Board of Directors does not recommend the payment of dividend for the year ended 31 December 2010.

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

31 March 2011

Management Discussion and Analysis

Overview

The Group is engaged in the production and operation of shipbuilding and securities trading business. For the year ended 31 December 2010, the Group recorded a revenue of HK$1,305.32 million (2009: HK$1,239.53 million), a slightly increase of approximately 5.31% over the year 2009. The gross loss *(before deducting the amortisation of intangible assets of HK$53.08 million (2009: HK$166.45 million))* was 367.73 million (2009: gross loss of HK$378.69 million). The main reasons of the gross loss of the group were the delivery of new model of vessels experienced defects with which the Group incurred repair costs, penalties and defect claims. The rectification works for the defects and the delays caused by certain ship-owner, among other matters, were continuous interrupted the production schedule and shipbuilding process of the Group. In order to ensure the successfully delivery of vessels, the Group has re-negotiated with the ship-owners to extend delivery dates with certain price reduction. The Group recognised the estimated foreseeable losses of approximately HK$356.19 million in respect of the foreseeable delay (2009: HK$339.72 million) for the year ended 31 December 2010.

The Group recorded HK$22.06 million (2009: HK$14.19 million) of other income for the year ended 31 December 2010, the increase of other income mainly represented the government grants of HK$6.8 million (2009: nil) during the year. The Group recorded a loss of HK$30.12 million (2009: HK$0.34 million) of other gains and losses for the year ended 31 December 2010, the increase of loss was mainly due to the provision of doubtful debt of HK$39.93 million (2009: nil). The provision was made on the prudence sake as the Group has obtained certain market information that one of the customers has filed for insolvency in late March 2011. The Group has approached this customer to verify the current situation but still not yet received any official reply. The Group has recorded HK$402.60 million impairment loss on intangible assets (2009: impairment losses on goodwill and intangible assets of HK$1,454.18 million) for the year ended 31 December 2010. The impairment loss reflected the uncertainty on the renewal of orders from the existing customers. Both the distribution and selling expenses of HK$1.56 million (2009: HK$1.28 million) and the administrative expense of HK$72.32 (2009: HK$77.67 million) were in line with the results in 2009. The Group recorded gain on modification of deferred consideration of approximately HK$36.01 million (2009: nil) as the agreed payment date was extended during the year. The Group recorded gain on modification of convertible notes payable of approximately HK$40.99 million (2009: nil) as the maturity date of convertible notes was extended during the year. The Group recorded finance costs of HK$154.68 million versus HK$115.00 million for the corresponding period last year. The increase reflected the fees incurred in connection with borrowings and an increase in bank borrowing interests. To sum up, the loss for the year ended 31 December 2010 was amounting to approximately HK$867.39 million (2009: HK$1,956.36 million), it is decreased by 55.66% in comparing with year 2009.

Shipbuilding business

In 2010, the China's shipbuilding industry show sign of recovery especially in the container sector but the sector of chemical tanker which is the main products of the Group in 2010 remained challenging.

During the year ended 31 December 2010, the performance of shipbuilding sector of the Group was in line with the performance in 2009. The shipbuilding business generated revenue of approximately HK$1,305.32 million to the Group, which representing an increase of approximately 5.31% as compared to approximately HK$1,239.53 million in 2009. The shipbuilding business recorded a loss before tax of HK$445.52 million *(before deducting amortisation of intangible assets and impairment cost on intangible assets)* (2009: HK$424.66 million *(before deducting amortisation of intangible assets, impairment costs on goodwill and impairment costs on intangible assets)*.The performance of shipbuilding business was still suffered by general delay of delivery of vessels. As at 31 December 2010, the secured order in hand of the Group reached 22 vessels (excluding the vessels in arbitrations) with shipbuilding work arranged to the end of 2012.

Trading business

For the year ended 31 December 2010, the trading businesses recorded an insignificant loss of approximately HK$1.19 million (2009: HK$0.60 million).

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

On 15 June 2010, the Company entered into an underwriting agreement with a underwriter in respect of an open offer. The basis of the open offer is one offer share for every two shares held, together with two bonus shares for every one offer share taken up. The subscription price is HK$0.5 per offer share. The intended use of proceeds was for repayment of debts and general working capital. The open offer was completed on 7 September 2010 and the net proceeds of the open offer of approximately HK$220 million. As at 31 December 2010, approximately HK$191 million (in which HK$60 million has been pledged to a bank as security for a facility granted to the Group) has been utilized as intended.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had cash and bank balances of approximately HK$532.21 million (31 December 2009: HK$656.62 million) in which HK$389.60 million was pledged (31 December 2009: HK$387.03 million); short term borrowings of HK$593.31 million (31 December 2009: HK$511.36 million); long term borrowings of HK$100.36 million (31 December 2009: HK$113.64 million); long term convertible notes payable amounted to approximately HK$427.29 million (31 December 2009: HK$416.17million) represented the fair value of principal amount of HK$507.00 million (31 December 2009: HK$507.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (14.02) at 31 December 2010 (31 December 2009: 2.72).

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December 2010 is set out in note 8 to the consolidated financial statements on pages 68 to 74.

CHARGES ON GROUP ASSETS

As at 31 December 2010, HK$420.66 million (31 December 2009: HK$387.03 million) of deposits, HK$180.47 million (31 December 2009: HK$53.29 million) of inventories, HK$279.58 million (31 December 2009: HK$79.42 million) of property, plant and equipment, HK$344.50 million (31 December 2009: nil) of prepaid lease payment and HK$240.43 million (31 December 2009: nil) of value-added tax recoverable, were pledged to banks for other borrowings and banking facilities granted by banks to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in RMB, Hong Kong Dollars, United States Dollars and EURO. As at 31 December 2010, 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

There was no new business, material acquisitions and disposals of subsidiaries and associated companies during the year.

SUBSEQUENT EVENTS

Significant events after end of the reporting period are set out in note 43 to the financial statements on page 112.

LITIGATION

As at the date of this report, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd ("Shipyard"), a wholly owned subsidiary of the Company, and Intrepid Chem ("Intrepid") regarding the validity of the rescission notice sent by Intrepid and its request for return of the principal payment for shipbuilding and interest, amounting to US$24.23 million is in arbitration proceedings. The Intrepid is currently negotiating with the Shipyard for reinstating the cancelled contract with revised terms. There is good opportunity for both parties to reach a settlement agreement without having to fight to the end in the arbitration.

In addition, the Shipyard and Sloman Neptun Schiffahrts-Aktiengesellschaft ("Sloman") regarding the validity of the rescission notices sent by Sloman and its request for return of the principal payment for shipbuilding and interest, amounting to US$72.85 million are in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and, Sloman was for vessel building and payments to Shipyard for the construction services rendered. If the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Sloman (i) Shipyard might incur a loss resulting from the recoverable amount (through the disposal of the vessels to other parties) of the vessels falling short of the principal payments for shipbuilding and interests as claimed by Sloman, or (ii) Shipyard might record a gain resulting from the recoverable amount (through the disposal of the vessels to other parties) of the vessels exceeding the principal payments for shipbuilding and interests as claimed by Sloman. As the quality of the vessels of the Group is internationally recognised and in compliance with the international standards, the Company considers that the vessels can be resold to other parties without any material discount on the market price and material modification or alteration.

In addition, the Shipyard and Algoma Tankers International Inc. ("Algoma") regarding the validity of the rescission notices sent by Alogma and its request for return of the principal payment for shipbuilding and interest, amounting to US$38.55 million are in arbitration proceedings. The principal payments for shipbuilding, in accordance with the shipbuilding contracts signed between Shipyard and Algoma was for vessel building and payments to Shipyard for the construction services rendered. Given that the process of the shipbuilding are in early stage, if the result of the arbitrations is unfavourable to Shipyard, the Group may be required to return the principal payments for shipbuilding and interests claimed by the Alogma.

HUMAN RESOURCES

The Group had around 1,350 employees as at 31 December 2010. 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 37 to the financial statements on page 107.

CONTINGENT LIABILITIES

During the year ended 31 December 2010, the delay in production schedules continues to impact the Group's shipbuilding business. As a result, seven vessels received rescission notices from vessel owners and the Group has engaged legal counsels to defend the Group of three arbitration proceedings concerning the seven vessels over the validity of the rescission notice.

If the result of the arbitrations is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$773 million in aggregate, to the vessel owners.

CAPITAL COMMITTMENTS

At 31 December 2010, the Group has capital expenditure of approximately HK$24.40 million (31 December 2009: HK$45.91million) in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements. There is no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

Looking into the year 2011, the directors expect that the condition of shipbuilding industry is uncertain. Imbalanced supply and demand market, it would be very difficult to get new orders with favourable terms. In order to improve the ability of pursuing new customers, the Group is setting up a sale team led by well-experienced professionals. Following the delivery of the chemical tankers and the recession of shipbuilding contracts of the remaining ones in 2010 and in early of 2011, the main product of the Group will shift to heavy-lift vessels in 2011. The heavy-lift model is expected to contribute gross profit to the Group in the coming year. The Group continues to negotiate with the ship-owners for the vessels in arbitration including but not limit to settling at an adjusted price acceptable to both parties, simultaneously, the Group is also actively pursuing new customers to buy the vessels in arbitration so as to refund the ship-owner.

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 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").

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 2010, 12 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	12/12
Mr. Li Ming	12/12
Mr. Zhang Shi Hong	12/12
Mr. Wang San Long	10/12
Independent non-executive directors:	
Mr. Hu Bai He	6/12
Ms. Xiang Si Ying	7/12
Mr. Zhang Xi Ping	7/12
Ms. Xiang Ying	7/12

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 2010.

Nomination of Directors

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

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. One meeting was held during the year ended 31 December 2010.

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 2010. 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	2/2

The Group's interim report of the six months to 30 June 2010 and the annual report for the year ended 31 December 2010 have been reviewed by the Audit Committee and recommendation was provided to the Board for approval.

Auditors' Remuneration

For the year ended 31 December 2010, the Auditors of the Company received approximately HK$1,500,000 for audit services and HK$400,000 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.

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

31 March 2011

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 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in notes 42 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 26.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out on pages 29 and 30.

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.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 30 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings as at 31 December 2010 are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2009: 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.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 113 of the annual report.

DIRECTORS

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

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

Independent non-executive directors:
Mr. Hu Bai He
Ms. Xiang Siying
Mr. Zhang Xi Ping
Ms. Xiang Ying

In accordance with Clause 87 of the Company's Bye-laws, Mr. Chau On Ta Yuen, Mr. Li Ming and Mr. Hu Bai He 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 63 was appointed a Director of the Company in September2007 and is the Chairman of the Group, Mr. Chau graduated from Xiamen University majoring in Chinese Language and literature. He is currently the independent non-executive director of Good Fellow Resources Limited, Come Sure Group (Holdings) Limited and Sumpo Food Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From December 2008 to September 2010, Mr. Chau was an independent non-executive director of Buildmore International Limited, the shares of which are listed on the Main Board of the Stock Exchange. From June 2003 to August 2009, Mr. Chau was an independent non-executive director of Everpride Biopharmaceutical Company Limited (now known as Hao Wen Holdings Limited), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. From March 2000 to November 2006, he was appointed as the executive director and the vice chairman of Everbest Century Holdings Limited (now known as Dynamic Energy Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chau is currently a member of the Chinese People Political Consultative Conference of the People's Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations.

Mr. Li Ming, aged 48, was appointed a Director of the Company in February 2009 and is the Deputy Chairman and Chief Executive Officer of the Group. Mr. Li graduated from Jiangxi Finance Institute (now known as Jiangxi University of Finance & Economics) majoring in planning statistics. Prior to joining the Company, Mr. Li held senior positions in a number of well-known companies in the People's Republic of China and had extensive experience in management and business planning. During the period from 3 September 2002 to 5 October 2007, he was appointed as 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.

Mr. Zhang Shi Hong, aged 42, was appointed a Director of the Company in December 2007. Mr. Zhang has over 16 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in the People's Republic of China. Mr. Zhang holds a Master's degree in Economics.

Mr. Wang San Long, aged 60, was appointed a Director of the Company in May 2008. Mr. Wang 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 chairman of one of the subsidiary of the Company, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.

Independent Non-Executive Directors

Mr. Hu Bai He, aged 48, appointed an independent non-executive Director of the Company in May 2008. Mr. Hu was graduated from Jiangxi University of Finance & Economics. He is a Senior Accountant, Certified Public Accountant, Certified Public Valuer and Certified Tax Agent in the People's Republic of China (the "PRC"). He has extensive experience in finance and accounting field. Mr. Hu is currently the General Manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he has had over seven years working experience with Ministry of Finance the PRC.

Ms. Xiang Si Ying, aged 48, was appointed an independent non-executive Director of the Company in May 2008. Ms. Xiang holds an MBA degree from the London Business School. She has extensive experience in all sectors of corporate finance, restructuring and merge and acquisitions practice. Ms. Xiang currently is an executive director with CDH Investments, a leading private equity firm in China. Prior to joining CDH, she had worked for China International Capital Corporation Limited since returning to China in early 2004. Before that Ms. Xiang had long career with International Finance Corporation, the private investment arm of the World Bank Group, in Washington, United States of America.

Mr. Zhang Xi Ping, aged 66, was appointed an independent non-executive Director of the Company in August 2008. Mr. Zhang 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 56, was appointed an independent non-executive Director of the Company in August 2009. Ms. Xiang was graduated and obtained her Bachelor's Degree in Economics from Zhongnan University of Economics and Law. Ms. Xiang is a qualified lawyer and a certified public accountant in the People's Republic of China. She also holds qualifications to act as a senior lecturer in Economic Law. Ms. Xiang has significant experience in the fields of mergers and acquisitions, financial services and risk management. Ms. Xiang is currently an independent supervisor of Guangdong Power Development Company Limited, the shares of which are listed on Shenzhen Stock Exchange. She is also an independent director of Guodian Nanjing Automation Company Limited and Guangdong Sky Dragon Ink Group Co. Ltd, the shares of which are listed on Shanghai Stock Exchange and Shenzhen Stock Exchange respectively.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interest in ordinary shares of the company

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

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held
Li Ming	Long position	Beneficial owner	199,987,500	0	5.45%
	Long position	Interest of controlled Corporation	31,775,000 (Note 1)	0	0.87%

Note 1 These shares are held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Li Ming.

(ii) Rights to acquire shares in the company

At 31 December 2010, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

Name of Director	Company/ name of associated corporation	Nature of interest	Number of ordinary shares
Chau On Ta Yuen	Company	Personal interest (Note 1)	4,743,000
Zhang Shi Hong	Company	Personal interest (Note 1)	1,581,000
Wang San Long	Company	Personal interest (Note 2)	4,110,600

Notes:

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

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

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

SHARE OPTION SCHEME

Particulars of the Company's share option scheme adopted on 27 May 2002 are set out in note 36 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the guarantee contracts disclosed in note 40(a) (Related party transactions) to the consolidated financial statements, no contract of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, save as disclosed below, no persons, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO. Other than as disclosed below, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 31 December 2010.

Name	Long/ Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held at 31 December 2010
Di Yunfei	Long	Beneficial owner	0	409,090,909	18.14%
Ho Kam Hung	Long	Beneficial owner	0	136,363,636	6.05%
Kwan Shan	Long	Beneficial owner	0	136,363,636	6.05%
Lee Ming Hin	Long	Beneficial owner	0	136,363,636	6.05%
Li Zizhong	Long	Beneficial owner	0	150,000,000	6.65%
Liu Bing	Long	Beneficial owner	10,725,189	150,000,000	7.13%
Ng Leung Ho	Long	Beneficial owner	0	450,000,000	19.95%
Sun Yi	Long	Beneficial owner	0	165,000,000	7.32%
Yang Li	Long	Beneficial owner	590,535	354,545,454	15.75%
Zheng Min	Long	Beneficial owner	4,828,965	172,745,760	7.87%
Zhou Qing	Long	Beneficial owner	0	175,000,000	7.76%

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 36 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 51% and 72%, 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 88%, 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 2010 with 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 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.

AUDITORS

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

On behalf of the Board

CHAU On Ta Yuen
Chairman
Hong Kong,
31 March 2011

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
(incorporated in Bermuda with limited liability)

We were engaged to audit 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 26 to 112, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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 financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

As set out in note 2 to the consolidated financial statements, the Group had various outstanding operational and financial matters as at 31 December 2010 and at the date of this report which had significant impact on the Group's financial position as at 31 December 2010 and results of operations for the year then ended and cast significant doubts on the Group's ability to continue as a going concern. These matters include significant delays due to quality problems on vessels delivered that have resulted in significant repair costs, penalties and defect claims. As a result of these delays, the Group has reduced the contract price for certain of the vessels currently in production and has received rescission notices for seven further vessels currently in production.

These matters indicate the existence of the following material uncertainties and that property, plant and equipment and prepaid lease payments may be impaired.

Material uncertainties

As set out in the consolidated statement of comprehensive income, the Group incurred a gross loss and a loss for the year attributable to owners of the Company of approximately HK$420,807,000 and HK$867,385,000, respectively, for the year ended 31 December 2010. Besides, as set out in note 2 to the consolidated financial statements, in addition to a number of operational issues, the Group's current liabilities exceeded its current assets by approximately HK$655 million and the Group had net liabilities of HK$108 million as at 31 December 2010. In addition, the Group has three arbitration proceedings in progress, as detailed in the next paragraph, which could have a material impact on the Group's ability to continue as a going concern if the result the arbitrations is unfavourable to the Group.

As set out in note 26 to the consolidated financial statements, the Group has engaged legal counsels to defend the Group in respect of three arbitration proceedings concerning the seven vessels for which rescission notices were received. If the result of the arbitrations is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interest for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$1,076 million in aggregate, to the customers. In return, the Group would assume control over the rescinded vessels and recognise those as the Group's inventories. However, there are uncertainties as to the Group's ability to sell these vessels to alternative customers at a price sufficient to cover the cost of such inventories and this may result in further impairment loss.

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

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

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

Disagreement about accounting treatment - Impairment of property, plant and equipment and prepaid lease payment

Included in the consolidated statement of financial position as at 31 December 2010 were property, plant and equipment and prepaid lease payment with carrying amounts of approximately HK$1,095,865,000 and HK$344,494,000, respectively. As set out in note 17 to the consolidated financial statements, the directors of the Company have determined that the recoverable amounts of the property, plant and equipment and prepaid lease payment approximated their carrying amounts and no impairment loss was recognised for the year ended 31 December 2010. However, such determination of recoverable amounts was not supported by estimation of the value-in-use of these assets in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the Hong Kong Institute of Certified Accountants ("HKAS 36"). Accordingly, the Group has not determined the recoverable amounts of these assets in accordance with the requirements HKAS 36, which requires such value-in-use determination to be based on reasonable and supportable assumption and consistent with past actual outcomes.

In the absence of a determination of the recoverable amounts of these assets based on the requirements of HKAS 36, we were unable to assess the amount of impairment loss to be recognised in respect of property, plant and equipment and prepaid lease payment, thereby affecting the loss for the year ended 31 December 2010 and the Group's net liabilities as at that date.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to form an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010	2009
		HK$'000	HK$'000
Revenue	8	1,305,318	1,239,532
Cost of sales		(1,726,125)	(1,784,671)
		(420,807)	(545,139)
Other income	9a	22,063	14,190
Other gains and losses	9b	(30,122)	(340)
Change in fair value of investments held for trading		750	(12,448)
Impairment loss on goodwill	33	—	(514,179)
Impairment loss on intangible assets	19	(402,603)	(940,000)
Distribution and selling expenses		(1,564)	(1,276)
Administrative expenses		(72,315)	(77,674)
Gain on modification of deferred consideration	29	36,014	—
Gain on modification of convertible notes payable	31	40,988	—
Finance costs	10	(154,680)	(115,002)
Gain on disposal of subsidiaries	11	—	126
Loss before tax	12	(982,276)	(2,191,742)
Taxation	13	114,891	235,380
Loss for the year attributable to owners of the Company		(867,385)	(1,956,362)
Exchange difference arising on translation		11,414	—
Total comprehensive loss for the year attributable to owners of the Company		(855,971)	(1,956,362)
			(restated)
Loss per share			
- basic and diluted	16	(HK$0.59)	(HK$2.12)

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,095,865**	1,071,307
Deposit paid for acquisition of property, plant and equipment		**3,136**	3,029
Prepaid lease payments - non current portion	18	**342,732**	337,899
Intangible assets	19	**—**	440,152
Pledged deposits for other borrowings	20	**31,059**	—
		1,472,792	1,852,387
Current assets			
Inventories	21	**348,115**	333,635
Trade and other receivables	22	**428,974**	615,640
Prepayment for purchase of raw materials	22	**737,330**	1,013,021
Prepaid lease payment - current portion	18	**1,762**	1,726
Amounts due from customers for contract work	26	**—**	34,292
Tax recoverable		**5,150**	5,752
Investments held for trading	23	**3,938**	1,609
Pledged bank deposits	24	**389,603**	387,031
Bank balances and cash	24	**142,608**	269,588
		2,057,480	2,662,294
Current liabilities			
Trade, bills and other payables	25	**1,221,387**	986,094
Amounts due to customers for contract work	26	**863,925**	1,411,870
Borrowings - due within one year	27	**593,306**	511,364
Provision for warranty	28	**34,097**	33,025
Deferred consideration	29	**—**	200,000
		2,712,715	3,142,353
Net current liabilities		**(655,235)**	(480,059)
		817,557	1,372,328

Consolidated Statement of Financial Position (Continued)

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	30	**112,762**	45,105
Reserves		**(221,117)**	461,711
		(108,355)	506,816
Non-current liabilities			
Borrowings - due after one year	27	**100,360**	113,636
Deferred consideration	29	**187,543**	—
Convertible notes payable	31	**427,293**	416,168
Deferred tax liabilities	32	**210,716**	335,708
		925,912	865,512
		817,557	1,372,328

The consolidated financial statements on pages 26 to 112 were approved and authorised for issue by the Board of Directors on 31 March 2011 are signed on its behalf by:

CHAU On Ta Yuen **ZHANG Shi Hong**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	Statutory reserve HK$'000	Translation reserve HK$'000	Capital reserve HK$'000 (note c)	Convertible notes reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	33,740	2,666,673	528,327	—	84,956	802	162,236	42,012	(1,225,337)	2,293,409
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 convertiblenotes 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
Exchange differences on translation	—	—	—	—	11,414	—	—	—	—	11,414
Loss for the year	—	—	—	—	—	—	—	—	(867,385)	(867,385)
Total comprehensive income (loss)for the year	—	—	—	—	11,414	—	—	—	(867,385)	(855,971)
Recognition of equity-settled share-based payment	—	—	—	—	—	—	—	894	—	894
Modification of convertible notes	—	—	—	—	—	—	(141,547)	—	161,475	19,928
Share options forfeited during the year	—	—	—	—	—	—	—	(4,895)	4,895	—
Issues of shares upon open offer	67,657	157,867	—	—	—	—	—	—	—	225,524
Share issue expenses	—	(5,546)	—	—	—	—	—	—	—	(5,546)
Transfer (note b)	—	(2,840,084)	2,840,084	10,674	—	(802)	—	—	(9,872)	—
At 31 December 2010	**112,762**	**152,321**	**3,368,411**	**20,390**	**96,370**	**—**	**—**	**43,693**	**(3,902,302)**	**(108,355)**

Notes:

(a) Contributed surplus of the Company comprises:

i) Pursuant to a group reorganisation in 2001, the then issued share capital of HK$469,869,000 representing 4,698,693,818 shares with a par value of HK$0.10 each were cancelled to the extent of HK$0.09 on each issued share. The cancelled portion of HK0.09 each amounting to HK$422,882,000 was transferred to contributed surplus.

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

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

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

The reduced portion of HK0.19 each for the 443,045,319 2005 Consolidated Shares amounting to HK$84,179,000 was transferred to contributed surplus.

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

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

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

The reduced portion of HK0.04 each for the 531,645,319 2006 Consolidated Shares amounting to HK$21,266,000 was transferred to contributed surplus.

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	NOTE	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Loss before tax		(982,276)	(2,191,742)
Adjustments for:			
Depreciation of property, plant and equipment		60,733	52,222
Change in fair value of investments held for trading		(750)	12,448
Gain on disposal of subsidiaries	11	—	(126)
Gain on modification of deferred consideration		(36,014)	—
Gain on modification of convertible notes		(40,988)	—
Loss on disposal of property, plant and equipment		5,630	642
Interest income		(10,031)	(6,235)
Finance costs		154,680	115,002
Release of prepaid lease payment		7,077	7,080
Amortisation of intangible assets		53,084	166,450
Impairment loss on goodwill		—	514,179
Impairment loss on intangible assets		402,603	940,000
Impairment loss recognised on trade receivables		39,929	—
Impairment loss on inventories		23,397	—
Impairment loss on prepayment		32,521	—
Share-based payment expense		894	5,682
Operating cash flows before movements in working capital		(289,511)	(384,398)
(Increase) decrease in inventories		(28,489)	148,490
Decrease (increase) in trade and other receivables, prepayment for purchase of raw materials		429,128	(203,313)
(Increase) decrease in investments held for trading		(1,579)	4,367
Increase (decrease) in trade, bills and other payables		219,568	(392,705)
Increase in provision of warranty		80	30,051
(Decrease) increase in amounts due from (to) customers for contract work		(550,203)	1,019,499
Decrease in margin loan payables		—	(32,499)
Cash (used in) generated from operations		(221,006)	189,492
Tax paid		(408)	(20,454)
Interest received		10,031	6,235
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(211,383)	175,273

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2010

	NOTE	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(52,893)**	(209,653)
Increase in pledged bank deposits		**(2,572)**	(210,383)
Increase in pledged deposits for other borrowings		**(31,059)**	—
Proceeds from disposal of property, plant and equipment		**722**	2,353
Disposal of subsidiaries	11	**—**	(1,362)
NET CASH USED IN INVESTING ACTIVITIES		**(85,802)**	(419,045)
FINANCING ACTIVITIES			
Borrowings raised		**755,172**	454,545
Proceeds from rights issue of shares		**225,524**	108,796
Repayment of borrowings		**(711,200)**	(170,455)
Interest paid		**(99,944)**	(30,890)
Share issue expenses		**(5,546)**	(2,270)
NET CASH FROM FINANCING ACTIVITIES		**164,006**	359,726
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(133,179)**	115,954
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**6,199**	—
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**269,588**	153,634
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**142,608**	269,588

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 are set out in note 42.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollar ("HKD") for the convenience of the shareholders as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group has encountered a number of operational and financial issues during the year ended 31 December 2010 which has had an impact on the consolidated financial statements. These issues, together with the actual and potential impacts, are described below.

As set out in Note 26, the Group delivered six vessels during the year and two vessels subsequent to the year ended 31 December 2010. Of these five belong to a new model of vessel with which the Group experienced quality problems since 2009, which resulted in the Group incurring significant repair costs, penalties and defect claims including price reduction in 2010 on certain vessels in production, and was also one of the major reasons the Group experienced significant delay in vessel building in 2010 and receipt of seven vessel rescission notices from customers for vessels already in production but not yet delivered in accordance with the terms of the contracts with these customers.

As a result, three arbitration proceedings concerning the seven rescinded vessels were in progress over the validity of the rescission notices. If the result of the arbitration is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$1,076 million in aggregate, to the vessel owners.

In the opinion of the directors, irrespective of the results of the arbitration, the Group would be able to deliver four of the vessels, either to the original customers upon reaching mutual settlement agreements or to alternative customers that the Group is in the process of sourcing, which had finished construction and the remaining three vessels, which were unshaped and at their preliminary construction stage, were written off, resulting in a loss recognised of HK$112,137,000 in aggregate.

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

The abovementioned operational matters had a significant impact on the going concern status of the Group and the Company, resulting in a net loss of HK$867 million to the Group for the year ended 31 December 2010 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$655 million and the Group turned into net liabilities of HK$108 million. In addition, the following circumstances may affect the Group's financial position:

a) deferred consideration having a principal of HK$200 million is due for payment on 31 January 2012 (note 29);

b) the Group breached the loan covenants for a bank loan of approximately HK$18 million. The amount was presented as a current liability in the consolidated statement of financial position at 31 December 2010 (note 27); and

c) as described above and in note 26, the Group has various arbitration proceedings in progress with vessel owners over the validity of seven rescission notices, which, if arbitrated unfavourable to the Company, could result in the Group refunding principal and interest amounting to approximately HK$1,076 million. Although the directors are of the opinion that the Group can achieve a favourable outcome from the arbitration either through re-negotiation of the terms of the original contracts, or by identifying new customers to whom the existing vessels in production can be sold, the outcome of the arbitration cannot be ascertained with certainty and accordingly, there could be a significant adverse impact on the Group once the proceedings are completed.

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

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

b) The Group has been pursuing new customers so as to enlarge its customer base and new sales orders. At the same time, the Group has tightened cost control so as to reduce unnecessary expenditure.

c) The Group is in negotiation with banks to allow revolving of loans upon their due dates;

d) The Group is in negotiation with the creditor of the deferred consideration to extend the maturity date;

e) The Group was in negotiation with the bank to obtain a waiver letter in relation to the breach of covenants for the bank loan of approximately HK$18 million (note 27). The waiver letter was subsequently received in March 2011; and

f) On 26 March 2011, the Company entered into a short term loan facility line with a financial institution upon which the Company could draw a maximum of HK$100 million from 1 April 2011 to 31 March 2012.

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

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 these consolidated financial statements were authorised to issue.

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

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

New and revised Standards and Interpretations applied in the current year

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

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised standards and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

Amendments to HKAS 32 – Classification of Right Issues

In the current year, the Group has early adopted amendments to HKAS 32 – *Classification of Right Issues* in advance of its effective date.

The amendments to HKAS 32 address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. A financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency is an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

During the year, the Company performed an open offer of rights issue to its then existing owners at a subscription price per offer share of HK$0.5, which is a foreign currency of the Company. The application of these amendments has resulted in classification of the open offer of rights issues as an equity instrument instead of a derivative financial liability instrument up to the date of issue of rights share.

The early adoption of amendments to HKAS 32 – *Classification of Rights Issues* does not have impact to the result of the Group in previous year as the Group did not have any rights issue in prior year.

Amendments to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of HKAS 17 does not affect the classification of the Group's leasehold land at 1 January and 31 December 2010.

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

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2009 and 2010, there were no bank loans that were repayable more than one year after the end of the reporting period but contained a repayment on demand clause. As at 31 December 2010, there was one bank loan that was repayable within one year after the end of the reporting period and contain a repayment on demand clause. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years, and its only impact on the consolidated financial statements was that in the preparation of the Group's liquidity and interest risk tables, this bank loan was included in the "on demand or less than 1 month" time band rather than in the time bands of the scheduled repayments.

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

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2012.
4 Effective for annual periods beginning on or after 1 July 2011.
5 Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The application of HKFRS 9 *Financial Instruments* (as issued in November 2010) may not affect the classification and measurement of the Group's financial assets and financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

New and revised Standards and Interpretations issued but not yet effective (Continued)

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. As set out in note 31, the Group has entered into transactions of this nature subsequent to the year end. Under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. The application of HK (IFRIC) -Int 19 results in the excess of HK$7,241,000, representing the difference between the fair value of the Company's share and the carrying amount of the extinguished liabilities of HK$239,990,000, being recognised by the Group as a loss on extinguishment of part of CB II (defined in note 31) in the consolidated statement of comprehensive income for the year ending 31 December 2011.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts 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 shipbuilding construction contracts for the year.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measure reliably. Such interest income 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, if any.

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

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

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

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost and are charged to the 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 standard hours incurred up to the reporting date as a percentage of total estimated standard hours for each contract. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable 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 (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets held for trading and loans and receivables. 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 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)

Effective interest method (Continued)

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

Financial assets at 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 pledged deposits for other borrowings, 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 financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the 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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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.

Interest expense is recognised on an effective interest basis.

Convertible notes issued by the Group

Convertible notes contains liability and equity components

Convertible notes issued by the Group that contain both 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).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible notes issued by the Group (Continued)

Convertible notes contains liability and equity components (Continued)

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.

Convertible loan notes contains liability component and conversion option derivative

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible notes issued by the Group (Continued)

Other financial liabilities

Other financial liabilities of the Group include trade and other payables, bills payable, 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When an existing financial liability's terms are substantially modified, such that the discounted present value of the cash flows under the new terms including any fees paid net of any fees received is at least 10 per cent different from the discounted present values of the remaining cash flows of the original financial liability, it is accounted for as an extinguishment of the original financial liability and a recognition of a new financial instrument with the difference, being the carrying amount of the financial liability extinguished and the fair value of the financial instrument issued, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Taxation

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

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

Deferred taxation is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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's foreign operations 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 in other comprehensive income and accumulated in equity (the translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Leasing

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

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.

Intangible assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Share options granted to employees

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

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

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

Share options granted to consultants

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated statement of comprehensive income and are reported separately as other income.

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 if the revision affects both current and future periods.

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

Construction contracts

The Group recognises contract revenue and profit or loss on each shipbuilding contract according to management's estimation of the outcome of the contract as well as the percentage of completion of shipbuilding works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the shipbuilding contracts as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit or loss recognised. The Group also revisits and revises the estimate of contract profit or loss as the contract progresses based on the information available in the market. Foreseeable losses are provided when identified. During the year, due to unforeseen circumstances in certain shipbuilding contracts, the Group recognised foreseeable losses of approximately HK$356,189,000 (2009: HK$339,718,000) in respect of certain shipbuilding contracts. Details of which are set out in note 26.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating unit to which the 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 2010, the carrying amount of intangible assets is nil (2009: HK$440,152,000 net of accumulated impairment loss and amortisation of approximately HK$1,221,649,000). Details of the recoverable amount calculation are disclosed in note 19.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowance for inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The Group reviews its inventory levels in order to identify slow-moving and obsolete items. When the Group identifies items of inventories which have a net realisable value lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. As at 31 December 2010, the carrying amount of inventories amounted to HK$348,115,000 (2009: HK$333,635,000).

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

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness, the past collection history of each customer and the customer's operation as a going concern. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2010, the carrying amount of trade receivables amounted to nil (2009: HK$39,475,000) (net of allowance for doubtful debts of HK$39,929,000 (2009: Nil)).

6. CAPITAL RISK MANAGEMENT

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

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

The capital structure of the Group consists of net debts, which include the cash and cash equivalents, borrowings (note 27), deferred consideration (note 29), convertible notes payable (note 31) 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

	2010	2009
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss		
– Held for trading	**3,938**	1,609
Loans and receivables (including cash and cash equivalents)	**751,810**	1,064,253
Financial liabilities		
Liabilities measured at amortised cost	**2,212,365**	1,726,863

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, bills payable, 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, other payables, 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 a foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS (Continued)

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**438,037**	113,150	**29,884**	78,903
EUR	**—**	—	**28,846**	50,281
HKD	**617,176**	646,263	**33,466**	9,828

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 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 adjusts their translation at the year end for 5% change in foreign currency rates. The sensitivity analysis includes bank balances in USD, EUR and HKD, other payables 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 in total effect where RMB strengthens against USD, EUR and HKD. For weakening of RMB against USD, EUR and HKD would be an equal and opposite impact on the loss.

7. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	2010	2009
	HK$'000	HK$'000
Loss for the year		
– USD	20,408	1,712
– EUR	(1,442)	(2,514)
– HKD	29,164	31,822

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 deposits and deferred consideration in 2010 (2009: variable-rate bank borrowings and bank deposits), and exposed to fair value interest rate risk in relation to fixed-rate bank balances, pledged bank deposits, borrowings and the liability component of convertible notes payable for both years.

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 deposits and deferred consideration (2009: variable rate bank borrowings 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 deposits and deferred consideration (2009: variable rate bank borrowings 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. 5 and 50 basis points (2009: 25 and 50 basis points) increase or decrease for bank deposits and deferred consideration in 2010 (2009: variable-rate bank deposits and bank borrowings) respectively, is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower for borrowings and deferred consideration, and all other variables were held constant, the loss for the year would increase/decrease by HK$1,000,000 (2009: increase/decrease by HK$568,000).

If interest rate had been 5 basis points (2009: 25 basis points) higher/lower for bank deposits, and all other variables were held constant, the loss for the year would decrease/increase by HK$55,000 (2009: decrease/increase by HK$673,000).

7. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(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% higher/lower and all other variables were held constant, loss for the year ended 31 December 2010 would decrease/increase by HK$197,000 (2009: HK$80,000) 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 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group has significant concentration of credit risk in a few customers and significant concentration of credit risk by geographical location in Germany, which 90% (2009: 81%) of revenue is arisen from customers in Germany. The directors consider that the risks will be mitigated by exploring new markets other than Germany.

In addition, the Group has concentration of credit risks on its other receivables balances as 39.7% (2009: 61.4%) of its trade and other receivables was due from 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 bank could only be withdrawn by the company for shipbuilding purpose. In the event of bankruptcy or the stakeholder's failure to function its role stipulated in the agreement, the bank would retain the receivables for shipbuilding purpose under the arrangement.

The Group has concentration of credit risk on bank deposits as 62.2% (2009: 70.5%) of deposits are placed with three banks (2009: 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. During the year, the Group breached one bank loan covenant with which the Group was required not to leverage over a certain amount of bank borrowing. Accordingly, the loan of HK$18,000,000 which matures in 2012 is presented as current liability in the consolidated statement of financial position. The Group obtained the waiver letter for the loan covenant breached subsequent to the year end. The management is closely monitoring the utilisation of borrowings and ensure compliance with loan covenants and financing activities plan (as detailed in note 2).

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

The Group relied on borrowings and convertible notes as significant source of liquidity. Details of which are set out in notes 27 and 31.

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

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables

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

	Weighted average effective interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flow	Carrying amount at 31.12.2010
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010								
Non-derivative financial liabilities								
Trade and other payables	—	542,576	47,598	—	—	—	590,174	590,174
Bills payables	—	—	57,218	256,471	—	—	313,689	313,689
Deferred consideration	15.85%	—	—	—	220,000	—	220,000	187,543
Convertible notes payable								
– liability component (note)	15.85%	—	—	5,400	510,249	—	515,649	427,293
Borrowings								
– fixed rates	6.08%	185,606	25,575	395,028	34,062	59,608	699,879	693,666
		728,182	130,391	656,899	764,311	59,608	2,339,391	2,212,365

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate	On demand or 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 31.12.2009 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

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

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to HK$58,824,000 (2009: Nil). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within 1 to 3 months after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$59,577,000.

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.

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;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and

- the fair value of derivative instruments is calculated using option pricing models for optional derivatives.

7. FINANCIAL INSTRUMENTS (Continued)

7c. Fair value (Continued)

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 statement approximate their fair values:

	31.12.2010		31.12.2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	**HK$'000**	HK$'000	HK$'000
Financial liabilities				
Borrowings - long-term				
– fixed rate	**—**	**—**	113,636	131,703
Convertible loan notes				
– liability component	**427,293**	**399,400**	416,168	405,193

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

	31.12.2010	31.12.2009
Borrowings - long-term	**N/A**	5.4% p.a.
Convertible loan notes - liability component	**21.85% p.a.**	20.5% p.a.

7. FINANCIAL INSTRUMENTS (Continued)

7c. Fair value (Continued)

Fair value measurements recognised in the consolidated 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	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 and prior year.

8. SEGMENT INFORMATION

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

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

Principal activities are as follows:

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

2) Trading business – trading of metal and operated in Hong Kong

Information regarding the above segments is reported below:

2010

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

8. SEGMENT INFORMATION (Continued)

2009

	Shipbuilding HK$'000	Trading business HK$'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)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment loss represents the loss from each segment without allocation of other income, change in fair value of investment held for trading, gain on modification of convertible notes, gain on modification of deferred consideration, 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:

	2010 HK$'000	2009 HK$'000
Assets		
Segment assets		
– Shipbuilding	**2,984,878**	3,824,507
– Trading	**22**	103
Total segment assets	**2,984,900**	3,824,610
Bank and pledged bank deposit	**532,211**	656,619
Unallocated corporate assets	**13,161**	33,452
Consolidated assets	**3,530,272**	4,514,681
Liabilities		
Segment liabilities for shipbuilding	**2,115,057**	2,398,216
Borrowings	**693,666**	625,000
Convertible notes payable	**427,293**	416,168
Deferred tax liabilities	**210,716**	335,708
Deferred consideration	**187,543**	200,000
Unallocated corporate liabilities	**4,352**	32,773
Consolidated liabilities	**3,638,627**	4,007,865

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 borrowings, convertible notes payable, deferred consideration, deferred tax liabilities and interest payable to convertibles note holders.

8. SEGMENT INFORMATION (Continued)

Geographical information

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

Name of the Country	Revenue from external customers as at 31 December		Non-current assets for year ended 31 December	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Germany	1,201,772	1,092,103	—	—
United States of America	97,973	147,404	—	—
The PRC	5,573	25	1,440,368	1,850,517
Others	—	—	1,365	1,870
	1,305,318	1,239,532	1,441,733	1,852,387

Note: Non-current asset included property, plant and equipment, deposit paid for acquisition of property, plant and equipment, prepaid lease payments and intangible assets.

8. SEGMENT INFORMATION (Continued)

Other segment information

2010

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	53,429	—	684	54,113
Depreciation of property, plant and equipment, amortisation of intangible assets and release of prepaid lease payment	120,336	—	558	120,894
Loss on disposal of property, plant and equipment	5,630	—	—	5,630
Provision for warranty	25,474	—	—	25,474
Share-based payment	398	—	496	894
Impairment loss on intangible assets	402,603	—	—	402,603
Allowance for a trade debtor	39,929	—	—	39,929
Foreseeable losses recognised in respect of delay in vessel delivery and additional estimated costs	356,189	—	—	356,189
Write-off of shipbuilding costs for vessels unshaped due to rescission of vessels	105,181	—	—	105,181
Write-off of inventories and prepayments due to rescission of vessels	55,918	—	—	55,918

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

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

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2009

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	209,640	—	13	209,653
Depreciation of property, plant and equipment, amortisation of intangible assets and release of 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
Claims and additional repair cost arising from a delivered vessel's defects	40,092	—	—	40,092
Penalties and associated additional costs from delay in vessel delivery due to prolonged shipbuilding process arising from vessel's defects	82,019	—	—	82,019
Foreseeable losses recognised in respect of delay in vessel delivery and additional estimated costs	339,718	—	—	339,718

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Income tax expense (income)	14,701	—	(250,081)	(235,380)

8. SEGMENT INFORMATION (Continued)

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	
	2010	2009
	HK$'000	HK$'000
Customer A[1]	**438,482**	—
Customer B[1]	**403,962**	421,812
Customer C[1]	**92,598**	356,799
Customer D[1]	**97,973**	147,404

[1] Revenue from shipbuilding

9A. OTHER INCOME

	2010	2009
	HK$'000	HK$'000
Interest on bank deposits	**10,031**	6,235
Sales of scrap materials	**5,189**	6,931
Government grants	**6,783**	—
Others	**60**	1,024
	22,063	14,190

9B. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	HK$'000
Loss on disposal of property, plant and equipment	**(5,630)**	(642)
Impairment loss recognised on trade receivables	**(39,929)**	—
Foreign exchange gain	**15,437**	302
	(30,122)	(340)

10. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (note 31)	57,513	57,559
Imputed interest expense on deferred consideration (note 29)	23,557	26,553
Bank borrowings	57,418	39,115
Other borrowings	2,642	2,447
Guarantee fee incurred in connection with bank borrowings	8,563	—
Arrangement fee incurred in connection with other borrowings	6,207	—
	155,900	125,674
Less: amount capitalised in construction in progress	(1,220)	(10,672)
	154,680	115,002

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.34% per annum (2009: the whole capitalised borrowing costs arose from specific borrowing to expenditure on qualifying assets).

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 investment 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 ended 31 December 2009.

12. LOSS BEFORE TAX

	2010 HK$'000	2009 HK$'000
Loss before tax has been arrived at after charging:		
Directors' emoluments	**5,003**	8,638
Other staff costs (including share-based payment of HK$211,000 (2009: HK$984,000))	**59,096**	52,686
Contributions to retirement benefits scheme, excluding directors	**5,072**	4,484
Total staff costs	**69,171**	65,808
Auditors' remuneration	**1,900**	1,268
Amortisation of intangibles assets (included in cost of sales)	**53,084**	166,450
Depreciation of property, plant and equipment	**60,733**	52,222
Release of prepaid lease payments	**7,077**	7,080
Minimum lease payments under operating leases in respect of rented premises	**1,254**	1,575
Shipbuilding contract costs recognised as expenses	**1,726,125**	1,784,671
Claims and additional repair cost arising from a delivered vessel's defects (included in shipbuilding contract cost and recognised as cost of sales)	**—**	40,092
Penalties and associated additional costs from delay in vessel delivery due to prolonged shipbuilding process arising from vessel's defects (included in shipbuilding contract costs recognised as cost of sales)	**—**	82,019
Foreseeable losses recognised in respect of delay in vessel delivery and additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales) (Note 26)	**356,189**	339,718
Write-off of shipbuilding costs for vessels unshaped due to rescission of vessels (included in cost of sales) (Note 26)	**105,181**	—
Write-off of inventories and prepayments due to rescission of vessels (included in cost of sales) (Note 26)	**55,918**	—

13. TAXATION

	2010	2009
	HK$'000	HK$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**1,195**	14,701
Deferred tax	**(116,086)**	(250,081)
	(114,891)	(235,380)

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards. Shipyard (as defined in Note 31) enjoys 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 step up to 25% from 2012.

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

	2010	2009
	HK$'000	HK$'000
Loss before tax	**(982,276)**	(2,191,742)
Tax at applicable domestic income tax rate of 25% (2009: 25%)	**(245,569)**	(547,936)
Tax effect of expenses not deductible for tax purpose	**153,054**	318,367
Tax effect of income not taxable for tax purpose	**(23,571)**	(166)
Tax effect of tax exemption granted to a PRC subsidiary	**—**	(14,702)
Deferred tax on undistributed earnings of a PRC subsidiary	**—**	9,057
Under(over) provision in prior year	**1,195**	—
Tax credit for the year	**(114,891)**	(235,380)

At the end of the reporting period, the Group had unused tax losses of approximately HK$1,917,000 (2009: HK$1,941,000) 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

	2010					2009				
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Executive:										
Mr. Chau On Ta Yuen	—	1,288	12	354	1,654	—	1,300	12	2,750	4,062
Mr. Li Ming	—	1,188	12	—	1,200	—	1,093	10	—	1,103
Mr. Zhang Shi Hong	—	948	12	118	1,078	—	960	12	917	1,889
Mr. Wang San Long	—	534	6	211	751	—	278	4	1,031	1,313
Independent non-executive:										
Mr. Hu Bai He	80	—	—	—	80	80	—	—	—	80
Ms. Xiang Siying	80	—	—	—	80	80	—	—	—	80
Mr. Zhang Xiping	80	—	—	—	80	80	—	—	—	80
Ms. Xiang Ying	80	—	—	—	80	31	—	—	—	31
	320	3,958	42	683	5,003	271	3,631	38	4,698	8,638

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in note 14 above. The emoluments of the remaining one highest paid individual are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	708	720
Retirement benefits scheme contributions	12	12
Share-base payments	24	113
	744	845

Their emoluments were within the following bands:

	2010 HK$'000	2009 HK$'000
Nil to HK$1,000,000	1	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:

	2010 HK$'000	2009 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(867,385)**	(1,956,362)

	2010 '000	2009 '000 (restated)
Number of shares (Note)		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,473,249**	921,742

The computation of diluted loss per share for the years ended 31 December 2010 and 2009 does not include the share options and convertible notes as the assumed exercise of these share options and convertible notes has an anti-dilutive effect.

Note: The weighted average of ordinary shares for the purposes of calculating basic and diluted loss per share for the year ended 31 December 2009 have been retrospectively adjusted for the bonus element of the open offer of rights shares completed during the year (note 30(a)).

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2009	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
Currency realignment	30,043	176	878	3,660	7,168	41,925
Additions	640	129	431	5,986	46,927	54,113
Transfer	114,216	—	—	3,979	(118,195)	—
Disposals	(7,199)	(690)	(183)	(4)	—	(8,076)
At 31 December 2010	917,725	5,390	27,489	110,703	186,451	1,247,758
DEPRECIATION						
At 1 January 2009	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
Currency realignment	3,273	43	255	824	—	4,395
Provided for the year	43,563	819	3,761	12,590	—	60,733
Eliminated on disposals	(1,424)	(208)	(91)	(1)	—	(1,724)
At 31 December 2010	110,257	1,675	9,594	30,367	—	151,893
CARRYING VALUES						
At 31 December 2010	807,468	3,715	17,895	80,336	186,451	1,095,865
At 31 December 2009	715,180	4,754	20,694	80,128	250,551	1,071,307

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

At 31 December 2010 and 2009, the buildings of the Group are situated on land in the PRC under medium-term land use right.

For the years ended 31 December 2010 and 2009, the directors of the Company, after taking account the economic condition and industrial development prospect, had considered that the gross operating loss incurred during the years indicates impairment loss for the Group's property, plant and equipment and prepaid lease payments and therefore conducted an impairment review on the carrying amounts of the property, plant and equipment and prepaid lease payments.

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

Details of impairment test on property, plant and equipment in 2009 are set out in note 33.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2010 **HK$'000**	2009 HK$'000
Leasehold land held under medium-term lease in the PRC	**344,494**	339,625
Analysed for reporting purposes as:		
Non-current asset	**342,732**	337,899
Current asset	**1,762**	1,726
	344,494	339,625

Details of impairment test on prepaid lease payment were set out in note 17.

19. INTANGIBLE ASSETS

	Contracted and uncontracted customer relationships
	HK$'000
COST	
At 1 January 2009 and 31 December 2009	1,661,801
Currency realignment	58,652
At 31 December 2010	1,720,453
AMORTISATION AND IMPAIRMENT	
At 1 January 2009	115,199
Charge for the year	166,450
Impairment loss recognised in the year	940,000
At 31 December 2009	1,221,649
Currency realignment	43,117
Charge for the year	53,084
Impairment loss recognised in the year	402,603
At 31 December 2010	1,720,453
CARRYING VALUES	
At 31 December 2010	—
At 31 December 2009	440,152

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

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

19. INTANGIBLE ASSETS (Continued)

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Details of the impairment test on intangible assets as at 31 December 2009 are set out in note 33.

In 2010, as some of the previous contracted customers issued rescission notice of several vessels during the year and did not renew any new sales order with the Group, the Group recognised an impairment loss of HK$402,603,000 to fully write down the intangible assets that arose on the acquisition of INPAX Group.

20. DEPOSITS PLEDGED FOR OTHER BORROWINGS

In August 2010, a loan of RMB120 million (approximately HK$141 million) was extended to the Group by a financial institution in the PRC. Deposit amounting to RMB26.4 million (approximately HK$31 million) was pledged to secure the borrowing, which will mature in August 2014. Accordingly, the deposit is classified as non-current.

21. INVENTORIES

	2010	2009
	HK$'000	HK$'000
Raw materials	**348,115**	333,635

During the year, the Group made impairment loss of HK$ 32,521,000 (2009: Nil) in relation to shipbuilding contracts that were expected to be cancelled.

22. TRADE AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables	**39,929**	39,475
Less: Allowance for doubtful debts (Note 1)	**(39,929)**	—
	—	39,475
Value-added tax recoverable	**240,434**	195,423
Deposits placed with a stakeholder (Note 2)	**170,113**	338,382
Others	**18,427**	42,360
Total trade and other receivables	**428,974**	615,640
Prepayment for purchase of raw materials	**737,330**	1,013,021

Note 1: In March 2011, an overseas debtor filed for insolvency. Accordingly, the trade receivable as at 31 December 2010 was fully provided.

Note 2: 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 relevant to 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 as at 31 December 2009 represented the final instalment receivable from ship buyers. Credit period was based on mutual agreements reached between the entity and ship buyers which varies case by case.

The Group did not have trade receivables that were overdue but not impaired as at 31 December 2010 and 31 December 2009.

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

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

23. INVESTMENTS HELD FOR TRADING

	2010	2009
	HK$'000	HK$'000
At fair value:		
Equity securities listed in Hong Kong	3,938	1,609

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

24. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates ranging from 0.01% to 0.36% (2009: from 0.01% to 0.36%) per annum.

The pledged deposits carry a fixed interest rate of 2.50% (2009: 1.89%) per annum and are pledged for secured bills payables as required by the relevant banks.

25. TRADE, BILLS AND OTHER PAYABLES

	2010	2009
	HK$'000	HK$'000
Trade payable	63,522	36,413
Bills payable	313,689	346,023
Advances from customers for shipbuilding contracts not yet commenced construction	293,045	476,084
Refund to customers for unshaped vessels written off (note 26)	423,172	—
Interest payable	2,340	30,095
Dividend payable to former equity holders of a subsidiary	22,518	21,757
Consideration payable for acquisition of property, plant and equipment	44,372	42,859
Other payables and accruals	58,729	32,863
	1,221,387	986,094

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

	2010	2009
	HK$'000	HK$'000
0 - 30 days	117,995	79,409
30 - 60 days	142,116	154,705
61 - 90 days	61,801	9,781
Over 90 days	55,299	138,541
	377,211	382,436

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 within the credit timeframe.

Bills payable are secured by pledged bank deposits (note 24).

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

26. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2010	2009
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	1,735,234	1,383,585
Recognised profits less recognised losses	(145,620)	37,432
	1,589,614	1,421,017
Less: Progress payments and progress billings	(2,453,539)	(2,798,595)
Amounts due to customers for contract works	(863,925)	(1,377,578)
Analysed for reporting purposes as:		
Amounts due from contract customers	—	34,292
Amounts due to contract customers	(863,925)	(1,411,870)
	(863,925)	(1,377,578)

2009

For the year ended 31 December 2009, 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 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.

In addition, 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 from delay in delivery due to prolonged shipbuilding process arising from vessel's defects amounting to HK$27,771,000 were agreed with a customer in respect of a shipbuilding contract completed before 31 December 2009 and were included in cost of goods sold for that year. HK$54,248,000 was also provided and included in costs of goods sold in the consolidated financial statements for the year ended 31 December 2009 in respect of another shipbuilding contract completed subsequent to the end of that reporting period for the same nature.

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

2010

During the year ended 31 December 2010, the delay in production schedules continues to impact the Group's shipbuilding business. As a result, the Group received rescission notices from vessel owners in respect of seven vessels and the Group has engaged legal counsels to defend the Group of three arbitration proceedings concerning the seven vessels over the validity of the rescission notices.

If the result of the arbitrations is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$1,076 million in aggregate, to the customers.

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

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

Of the seven vessels which the Group received rescission notices, four were finished construction and were basically ready for delivery. The Group recognised foreseeable loss for these four outstanding contracts amounting to HK$119,960,000 (2009: HK$223,732,000) for the year, as their total estimated contracts costs, as determined based on the original budgeted costs plus claims, penalties and associated additional costs by reference to those incurred by the six delivered vessels during the year and two vessels delivered subsequent to the year ended 31 December 2010, exceed the total estimated contract revenue. In addition, the Group also recognised a loss of HK$236,229,000 (2009: HK$115,986,000) in respect of other shipbuilding contracts in progress due to change in estimate used in the determination of the amount of the contract cost and contract revenue.

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

27. BORROWINGS

	2010 HK$'000	2009 HK$'000
Bank loans	**559,754**	625,000
Other borrowings	**133,912**	—
	693,666	625,000
Secured	**430,136**	227,273
Unsecured	**263,530**	397,727
	693,666	625,000
Carrying amount repayable:		
Within one year	**593,306**	511,364
More than one year but not more than two years	**34,599**	113,636
More than two years but not more than five years	**65,761**	—
	693,666	625,000
Less: Amounts due within one year shown under current liabilities	**(593,306)**	(511,364)
	100,360	113,636

27. BORROWINGS (Continued)

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

	2010 HK$'000	2009 HK$'000
Fixed-rate borrowings:		
Within one year	**593,306**	397,728
In more than one year but not more than two years	**34,599**	113,636
In more than two years but not more than five years	**65,761**	—
	693,666	511,364

In addition, at 31 December 2009, the Group had a variable-rate borrowing which carried interest at London Interbank Offered Rate ("LIBOR") plus 3.2% per annum. Interest was repricing in accordance with the relevant bank's periodic announcement. The borrowing was fully repaid in 2010.

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:

	2010	2009
Fixed-rate borrowings	**4.86% to 8.42%**	4.86% to 8.42%
Variable-rate borrowing	**N/A**	5.03%

During the year, the Group obtained a new borrowing of RMB120 million (approximately HK$141 million), which will be repayable in 16 quarterly instalments commencing August 2010. The borrowing carries interest of 5.76% per annum. The proceeds were used to finance the operation of the Group.

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

27. BORROWINGS (Continued)

During the year ended 31 December 2009, the Group breached covenants for two bank loans. One bank loan required the Group not to leverage over a certain amount of bank borrowing while the other one required the Group to pledge a certain amount of deposits in the bank to secure the borrowing from that bank. The Group had 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 was presented as current liability in the consolidated statement of financial position. The Group had 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 had a maturity of less than one year, it was also presented as current liabilities in the consolidated statement of financial position. The loan was fully repaid in 2010.

As at 31 December 2010, the principal amounts of Group's bank loans with repayment on demand clause amounted to HK$58,824,000 (2009: Nil).

28. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2009	2,974
Additional provision for the year	33,025
Reversal of provision	(2,974)
At 31 December 2009	33,025
Currency realignment	1,165
Additional provision for the year	25,474
Reversal of provision	(25,567)
At 31 December 2010	34,097

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

29. DEFERRED CONSIDERATION

	2010	2009
	HK$'000	HK$'000
At 1 January	200,000	173,447
Gain on modification	(36,014)	—
Imputed interest expense	23,557	26,553
At 31 December	187,543	200,000

The amount was interest free and originally repayable on 31 December 2009 and represented HK$200,000,000 deferred consideration payable for the acquisition of a subsidiary in 2008. The imputed interest rate was 16.25% per annum.

On 30 November 2009, the Company entered into an agreement with the creditor, Million King Investment Limited ("Million King"), an independent third party, to defer its payment to 31 January 2010.

On 7 January 2010, Million King further agreed to defer the repayment date to 31 January 2011 and charged interest at Hong Kong prime rate upon the entering of another extension agreement. On 23 April 2010, the Group entered into another agreement with Million King to further extend the payment from 31 January 2011 to 31 January 2012 (the "Deferred Consideration Extensions").

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

The fair value of the new deferred consideration was calculated based on the present value of the contractually determined stream of future cash flows discounted at 15.85% (determined by reference to the effective interest rate of the liability portion of CBII, see Note 31), being the effective interest rate of the new deferred consideration.

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

30. SHARE CAPITAL

	Number of shares		Share capital	
	2010	2009	**2010**	2009
			HK$'000	HK$'000
Ordinary shares of HK$0.05				
Authorised:				
At the beginning of the year	**5,000,000,000**	250,000,000,000	**250,000**	250,000
Share consolidation (note d)	**—**	(245,000,000,000)	**—**	—
At the end of the year	**5,000,000,000**	5,000,000,000	**250,000**	250,000
Issued and fully paid:				
At the beginning of the year	**902,099,651**	33,739,982,591	**45,105**	33,740
Open offer on 7 September 2010 (note a(i))	**451,049,825**	—	**22,552**	—
Bonus issue on 7 September 2010 (note b(ii))	**902,099,650**	—	**45,105**	—
Issue of new shares on 5 June 2009 (note b)	**—**	3,400,000,000	**—**	3,400
Conversion of convertible notes (note c)	**—**	465,000,000	**—**	465
	2,255,249,126	37,604,982,591	**112,762**	37,605
Share consolidation (note d)	**—**	(36,852,882,940)	**—**	—
Issue of new shares on 31 August 2009 (note e)	**—**	150,000,000	**—**	7,500
At the end of the year	**2,255,249,126**	902,099,651	**112,762**	45,105

30. SHARE CAPITAL (Continued)

Notes:

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

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

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

at a subscription price of HK$0.5 per offer share became unconditional and a total of 451,049,825 offer shares were issued, resulting in a gross proceed of approximately HK$225.5 million received by the Company. Accordingly, 902,099,650 bonus shares having a par value of HK$0.05 each were also issued.

(b) 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 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.

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

(d) 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.

(e) 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 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.

31. CONVERTIBLE NOTES PAYABLE

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Technology Limited and its wholly owned subsidiary, Jiangxi Jiangzhou Union Shipbuilding Company Limited ("Shipyard") (the "INPAX Group"). The convertible notes ("CBI") were issued on 16 April 2008 upon completion of the acquisition.

CBI 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.

The difference between i) the aggregate principal amount of the CBI of HK$2,617 million, representing the aggregate amount of the principal amount of the unrestricted convertible notes of HK$2,400 million and the adjusted principal amount of the restricted convertible notes issued of HK$217 million, and ii) the fair value of the liability component of the CBI of approximately HK$1.7 billion, representing the conversion option of approximately HK$0.9 billion was credited directly to equity as convertible 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$4.30 following the share placements (note 30(b) and 30(e)), the share consolidation (note 30(d)) in 2009 and the open offer and the related bonus element (note 30(a)(i) and 30(a)(ii)) in 2010.

The holder(s) of the unrestricted convertible notes may convert the whole or any part of the principal amount of the unrestricted convertible notes outstanding into ordinary shares of the Company from 16 April 2008, the date of issue of the convertible notes, to 15 April 2011, the date of maturity, at an initial conversion price of HK$0.15 per conversion share, which is subject to anti-dilutive adjustments and was adjusted to HK$4.30 following the share placements, the share consolidation in 2009 and the open offer and the related bonus element in 2010.

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.

31. CONVERTIBLE NOTES PAYABLE (Continued)

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

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

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

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

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

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

31. CONVERTIBLE NOTES PAYABLE (Continued)

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

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

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

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

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

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

31. CONVERTIBLE NOTES PAYABLE (Continued)

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

	HK$'000
Liability component of CBI at 1 January 2009	421,440
Conversion	(52,898)
Interest charged	57,559
Interest paid	(9,933)
Liability component of CBI at 31 December 2009	416,168
Gain on modification of CBI	(40,988)
Interest charged	57,513
Interest paid	(5,400)
Liability component of CBII at 31 December 2010	427,293

Fair value of the conversion option as at 31 December 2010 was insignificant.

On 21 December 2010, the Group entered into subscription agreements with certain holders of CBII to surrender the CBII notes held by them of principal amount of approximately HK$282,549,000 in consideration for the subscription of 1,412,745,760 shares of the Company having a par value of HK$0.05 each at a subscription price of HK$0.2 per subscription share. For the remaining portion of CBII notes with principal amount of HK$225,000,000, the Group entered into agreements with the note holders that, i) the conversion price is reduced from HK$4.3 per share to HK$0.22 per share; ii) the maturity date is extended from April 2012 to April 2014, and iii) other terms and conditions remain unchanged. The transactions became unconditional upon consents and approval obtained from the Stock Exchange on 31 January 2011 and shareholders at a special general meeting held on 28 January 2011.

The fair value of the Company's shares issued to settle CBII with principal amount of approximately HK$282,549,000 through the share subscription was approximately HK$247,231,000 based on the closing price of the Company's shares on 31 January 2011 of HK$0.175 each. The excess of approximately HK$7,241,000, representing the difference between the fair value of the Company shares and the carrying amount of the relevant portion of the CBII of HK$239,990,000, would be recognised by the Group as a loss on extinguishment of part of CBII in the consolidated statement of comprehensive income for the year ending 31 December 2011.

31. CONVERTIBLE NOTES PAYABLE (Continued)

The modification of the terms of the remaining portion of CBII explained in above represents an extinguishment of CBII with principal amount of HK$ 225,000,000 and a recognition of new convertible notes ("CBIII"). The excess of the fair value of CBIII, comprising a liability portion and a conversion option derivative at 28 January 2011, over the carrying amount of the remaining CBII would be charged to the consolidated statement of comprehensive income for the year ending 31 December 2011. The Group is still in the process of assessing the fair value of the CB III.

32. DEFERRED TAX LIABILITIES

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

	Convertible notes payable 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 2009	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 CBI (credit to equity)	(3,899)	—	—	(3,899)
At 31 December 2009	19,928	30,762	285,018	335,708
Currency realignment	—	—	11,022	11,022
Credit to profit or loss	—	—	(116,086)	(116,086)
Reversal on modification of CBI (credit to equity)	(19,928)	—	—	(19,928)
At 31 December 2010	**—**	**30,762**	**179,954**	**210,716**

33. GOODWILL AND IMPAIRMENT TESTING

The movement of the goodwill is as follows:

	HK$'000
COST	
At 1 January 2009, 31 December 2009 and 2010	836,400
IMPAIRMENT	
At 1 January 2009	322,221
Impairment loss recognised in the year	514,179
At 31 December 2009 and 2010	836,400
CARRYING VALUES	
At 31 December 2009 and 2010	—

For the purposes of impairment testing, goodwill is allocated to one individual cash generating unit ("CGU"), being the shipbuilding segment. Goodwill was attributable to the acquisition of INPAX Group in 2008.

The recoverable amount of the shipbuilding CGU as at 31 December 2009 had been determined based on a value in use calculation. For impairment purpose, the calculation used cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 20.5%. The cash flows beyond the 5-year period were extrapolated with 3% growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows which included budgeted sales and gross margin. Such estimation was 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 HK$514,179,000 to fully write down the amount of goodwill, and approximately HK$940,000,000 in respect of intangible assets which also arose on acquisition of INPAX Group.

34. CAPITAL COMMITMENTS

	2010	2009
	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	**24,398**	45,910

35. PLEDGE OF ASSETS

As at the end of the reporting periods, the following assets were pledged for the Group's borrowings:

	2010	2009
	HK$'000	HK$'000
Deposits	**420,662**	387,031
Inventories	**180,471**	53,290
Properties, plant and equipment	**279,583**	79,416
Prepaid lease payments	**344,495**	—
Value-added tax recoverable	**240,434**	—
	1,465,645	519,737

Deposits comprise both bank deposits and deposits pledged for other borrowings.

Bank deposits, inventories, properties, plant and equipment and prepaid lease payments and value-added tax recoverable 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.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed on 27 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. In addition, the Company may, from time to time, grant share options to outside third parties for settlement for goods or services provided to the Company.

At 31 December 2010, 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 46,449,780 (2009: 54,354,780), representing 2.1% (2009: 3.8%) 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.

36. 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 2009 and 2010:

				Number of share options		
Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Outstanding at 1.1.2009 and 1.1.2010 (Note 2)	Forfeited during the year (Note3)	Outstanding at 31.12.2010 (Note 2)
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK$5.693	2,529,600	—	2,529,600
		5 March 2009 to 4 March 2018	HK$5.693	1,897,200	—	1,897,200
		5 March 2010 to 4 March 2018	HK$5.693	1,897,200	—	1,897,200
				6,324,000	—	6,324,000
	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	1,644,240	—	1,644,240
		7 May 2009 to 6 May 2018	HK$4.523	1,233,180	—	1,233,180
		7 May 2010 to 6 May 2018	HK$4.523	1,233,180	—	1,233,180
				4,110,600	—	4,110,600
				10,434,600	—	10,434,600

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

				Number of share options		
Name	Date of grant	Exercisable period	Exercise price per share (Note 1)	Outstanding at 1.1.2009 and 1.1.2010 (Note 2)	Forfeited during the year (Note3)	Outstanding at 31.12.2010 (Note 2)
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	2,200,752	(1,264,800)	935,952
		7 May 2009 to 6 May 2018	HK$4.523	1,650,564	(948,600)	701,964
		7 May 2010 to 6 May 2018	HK$4.523	1,650,564	(948,600)	701,964
				5,501,880	(3,162,000)	2,339,880
Consultants	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	38,418,300	(4,743,000)	33,675,300
				54,354,780	(7,905,000)	46,449,780

Notes:

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 and the open offer and the related bonus element become effective on 7 September 2010, the exercise prices of shares options were adjusted to HK$5.693 and HK$4.523 accordingly.

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

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

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

No share options exercised during the year ended 31 December 2009 and 2010. 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.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

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

The Group recognised the total expense of approximately HK$894,000 for the year ended 31 December 2010 (2009: HK$5,682,000) in relation to share options granted by the Company.

37. RETIREMENT BENEFITS SCHEME

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

The Company's 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 statement of comprehensive income 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.

38. CONTINGENT LIABILITIES

During the year ended 31 December 2010, the delay in production schedules continues to impact the Group's shipbuilding business. As a result, the Group received rescission notices from vessel owners in respect of seven vessels and the Group has engaged legal counsels to defend the Group of three arbitration proceedings concerning the seven vessels over the validity of the rescission notice.

If the result of the arbitrations is unfavourable to the Group, the Group will be required to return the principal payments for the shipbuilding contracts of the vessels in arbitration and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts, which amount to approximately HK$773 million in aggregate, to the vessel owners.

39. OPERATING LEASE COMMITMENTS

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

	2010	2009
	HK$'000	HK$'000
Within one year	**1,013**	—
In the second to fifth year inclusive	**464**	—
	1,477	—

40. RELATED PARTY TRANSACTIONS

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

(a) The Group paid fees of approximately HK$17,241,000 (2009: 13,636,000) to RuiLien Group（中國瑞聯實業集團有限公司） in respect of shipbuilding services including guarantee issued by RuiLien Group for the Group's entering of certain shipbuilding contracts. The Company's executive director, Mr. Li Ming, has beneficial interests in both the Company and RuiLien Group and has significant influence on RuiLien Group.

The amount due to RuiLien Group of approximately HK$14,706,000 (2009: HK$10,227,000) at the end of the reporting period is included in other payables. The amount is unsecured, interest free and repayable on demand.

(b) The remuneration of directors during the year was as follows:

	2010 HK$'000	2009 HK$'000
Short-term benefits	4,278	3,902
Post-employment benefits	42	38
Share-based payment expenses	683	4,698
	5,003	8,638

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

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010	2009
	HK$'000	HK$'000
ASSETS AND LIABILITIES		
ASSETS		
Property, plant and equipment	77	54
Investment in subsidiaries	280,064	1,165,643
Other receivables	2,411	113
Amounts due from subsidiaries	197,174	49,815
Investments held for trading	3,938	1,609
Bank balances and cash	27,119	8,219
	510,783	1,225,453
LIABILITIES		
Other payables	4,302	32,726
Deferred consideration	187,543	200,000
Convertible notes payable	427,293	416,168
Deferred tax liabilities	—	19,928
	619,138	668,822
NET LIABILITIES	(108,355)	556,631
Capital and reserves		
Share capital	112,762	45,105
Reserves	(221,117)	511,526
	(108,355)	556,631

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 and 2009 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
			2010		2009		
			Directly %	Indirectly %	Directly %	Indirectly %	
China Ocean Shipbuilding Holdings Limited	British Virgin Islands*	I ordinary share of US$1 each	100	—	100	—	Investment holding
China Ocean Shipbuilding (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	—	100	Inactive
China Ocean Shipbuilding Services Limited	Hong Kong	1 ordinary share of HK$1 each	—	100	—	100	Inactive
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	—	Investment holding
Premier Win Investments Limited#	British Virgin Islands*	1 ordinary share of US$1 each	—	—	100	—	Inactive

42. 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
			2010		2009		
			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**	PRC	RMB371,210,500 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 struck off of during 2010.

None of the subsidiaries had any debt securities at 31 December 2010 and 2009 or at any time during the years.

43. SUBSEQUENT EVENTS

Significant events after end of the reporting period are set out in Notes 2 and 31.

As mentioned in Note 22, in March 2011, an overseas debtor filed for insolvency. Other than the trade receivable from this debtor which the Group has fully provided for impairment loss, a vessel which is close to completion of construction also belongs to the debtor. In accordance with the relevant shipbuilding contract, upon bankruptcy of the debtor, the Group is entitled to retain the advance payments received and to claim compensation for loss or damage, if any, as limited to the difference between the relevant shipbuilding contract price and the price at which the relevant vessel is subsequently sold by the Group. The Group is still in the process of assessing the impact at the date these consolidated financial statements were authorised for issuance.

Financial Summary

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(867,385)**	(1,956,362)	(468,996)	(54,626)	(61,789)

	At 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**3,530,272**	4,514,681	5,588,298	392,544	148,623
TOTAL LIABILITIES	**(3,638,627)**	(4,007,865)	(3,294,889)	(102,936)	(2,960)
NET ASSETS	**(108,355)**	506,816	2,293,409	289,608	145,663