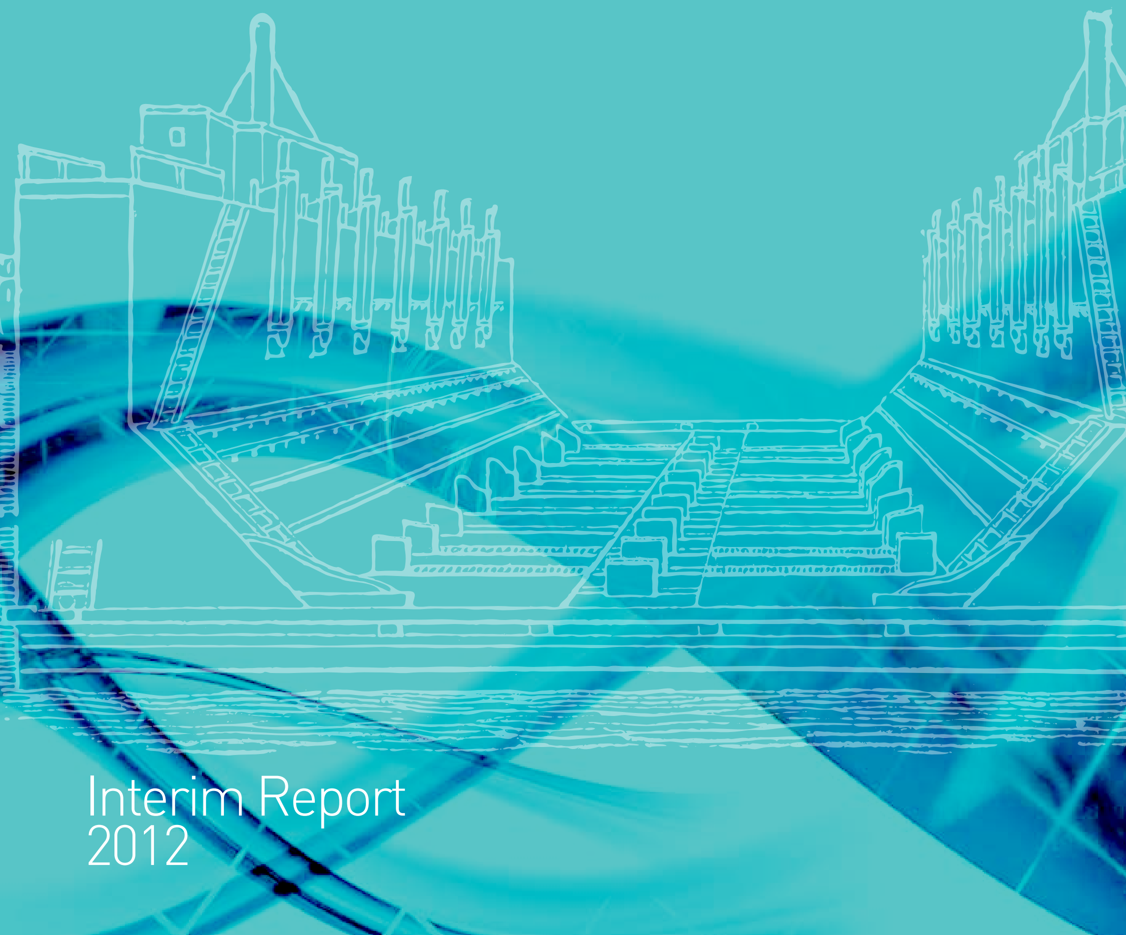
China Ocean Shipbuilding Industry Group Limited
中海船舶重工集團有限公司

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



Interim Report 2012

CONTENTS

	Pages
Condensed Consolidated Statement of Comprehensive Income	2
Condensed Consolidated Statement of Financial Position	3
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to the Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	28
Other Information	34

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Revenue	3	**833,004**	620,551
Cost of sales		**(802,851)**	(652,883)
Gross profit (loss)		**30,153**	(32,332)
Other income		**9,281**	44,822
Other gains and losses		**7,966**	–
Gain on settlement of deferred consideration	12	**52,936**	–
Gain on modification of convertible notes payable	14	**–**	4,262
Loss on extinguishment of convertible notes payable	14	**–**	(7,241)
Change in fair value of investments held for trading		**(1,339)**	596
Impairment loss on recognised in respect of property, plant and machinery		**–**	(50,000)
Selling and distribution expenses		**(792)**	(721)
Administrative expenses		**(43,362)**	(60,349)
Finance costs	4	**(89,661)**	(68,265)
Loss before tax	5	**(34,818)**	(169,228)
Income tax credit	6	**1**	11,082
Loss for the period attributable to owners of the Company		**(34,817)**	(158,146)
Exchange differences arising on translation		**678**	(3,687)
Total comprehensive expenses for the period attributable to owners of the Company		**(34,139)**	(161,833)
Loss per share – basic and diluted	7	**HK(0.95) cents**	HK(4.68) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**669,170**	683,525
Deposit paid for acquisition of property, plant and equipment		**3,420**	3,136
Prepaid lease payments – non-current portion		**337,555**	339,192
Trade receivables – non-current portion	8	**70,678**	–
Pledged deposits for other borrowings		**32,208**	32,472
		1,113,031	1,058,325
CURRENT ASSETS			
Inventories		**104,255**	180,369
Trade, bills and other receivables	8	**454,573**	577,482
Prepayment for purchase of raw materials	8	**590,065**	818,869
Prepaid lease payments – current portion		**1,864**	1,842
Amounts due from customers for contract work		**–**	12,880
Tax recoverable		**5,374**	5,418
Investments held for trading		**1,412**	2,750
Pledged bank deposits		**225,790**	360,841
Bank balances and cash		**138,988**	150,506
		1,522,321	2,110,957
CURRENT LIABILITIES			
Trade, bills and other payables	9	**1,044,510**	1,459,753
Amounts due to customers for contract work		**1,003,082**	957,515
Amount due to a related party		**221**	31,588
Amount due to a director		**756**	615
Borrowings – due within one year	10	**483,228**	538,117
Provision for warranty	11	**43,981**	25,366
Deferred consideration	12	**–**	217,268
		2,575,778	3,230,222
NET CURRENT LIABILITIES		**(1,053,457)**	(1,119,265)
TOTAL ASSETS LESS CURRENT LIABILITIES		**59,574**	(60,940)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2012

	Notes	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	13	**183,400**	183,400
Reserves		**(618,934)**	(584,795)
		(435,534)	(401,395)
NON-CURRENT LIABILITIES			
Borrowings – due after one year	10	**49,596**	68,972
Convertible notes payable	14	**265,086**	157,135
Promissory notes payable	15	**67,726**	–
Deferred tax liabilities		**112,700**	114,348
		495,108	340,455
		59,574	(60,940)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	**183,400**	**328,914**	**3,368,411**	**98,658**	**43,693**	**34,824**	**(4,459,295)**	**(401,395)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(34,817)**	**(34,817)**
Exchange differences arising on translation	**–**	**–**	**–**	**678**	**–**	**–**	**–**	**678**
Total comprehensive expenses for the period	**–**	**–**	**–**	**678**	**–**	**–**	**(34,817)**	**(34,139)**
At 30 June 2012 (Unaudited)	**183,400**	**328,914**	**3,368,411**	**99,336**	**43,693**	**34,824**	**(4,494,112)**	**(435,534)**
At 1 January 2011	112,762	152,321	3,368,411	96,370	43,693	20,390	(3,902,302)	(108,355)
Loss for the period	–	–	–	–	–	–	(158,146)	(158,146)
Exchange differences arising on translation	–	–	–	(3,687)	–	–	–	(3,687)
Total comprehensive expenses for the period	–	–	–	(3,687)	–	–	(158,146)	(161,833)
Surrender of convertible notes for the subscription of new shares	70,638	176,593	–	–	–	–	–	247,231
At 30 June 2011 (Unaudited)	183,400	328,914	3,368,411	92,683	43,693	20,390	(4,060,448)	(22,957)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(39,807)**	451,075
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**102,889**	(94,856)
NET CASH USED IN FINANCING ACTIVITIES	**(75,278)**	(193,004)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(12,196)**	163,215
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**678**	8,884
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**150,506**	142,608
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD represented by bank balances and cash	**138,988**	314,707

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The unaudited condensed interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

In preparing the condensed consolidated financial statements of the Group, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss before tax of approximately HK$34.82 million for the six months ended 30 June 2012 and, as of that date, the Group's had net current liabilities and net liabilities of approximately HK$1,053.46 million and HK$435.53 million respectively. After considering the Group's internal financial resources, present available facilities granted by banks and other parties, engagement of legal counsels to defend the arbitration, actively pursuing new customers, imposing cost control measures and negotiating with the local government for providing assistance, the directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs and Hong Kong Accounting Standards ("HKASs") issued by the HKICPA:

Amendment to HKFRS 1	First-time Adoption of Hong Kong Financial Report in Standards-Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendment to HKFRS 7	Financial Instruments: Disclosures – Transfer of Financial Assets
Amendment to HKFRS 12	Deferred Tax: Recovery of Underlying Assets

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

The Group has not early applied the following new and revised HKASs, HKFRSs, amendments and interpretation ("INT") that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
	Mandatory effective date of HKFRS 9 and transition disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
HK(IFRIC*) – INT 20	Stripping costs in the production phase of a surface mine[1]

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

* *IFRIC represents the International Financial Reporting Interpretations Committee*

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2015.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2014.

Save as disclosed in the annual report of the Company for the year ended 31 December 2011, the directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for service rendered in the normal course of business, net of discounts and sales related taxes. Revenue from shipbuilding represents income arising on construction contracts for shipbuilding during the both periods.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker for resources allocation and performance assessment. The segments are managed separated each of the businesses, which operate in distinct geographical location, provide different types of services which requires different service information to formulate different marketing strategies. The Group's operating and reportable segment are shipbuilding and trading business.

The segment information for the six months ended 30 June 2012 is as follows:

	Shipbuilding HK$'000 (Unaudited)	Trading business HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue	833,004	–	833,004
Segment result	7,423	(334)	7,089
Unallocated other income			4,561
Change in fair value of investments held for trading			(1,339)
Gain on settlement of deferred consideration			52,936
Unallocated corporate expenses			(8,404)
Finance costs			(89,661)
Loss before tax			(34,818)

3. REVENUE AND SEGMENT INFORMATION (Continued)

The segment information for the six months ended 30 June 2011 is as follows:

	Shipbuilding HK$'000 (Unaudited)	Trading business HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue	620,551	–	620,551
Segment result	(135,827)	(27)	(135,854)
Unallocated other income			44,822
Loss on change in fair value of convertible notes			(2,979)
Unallocated corporate expenses			(6,952)
Finance costs			(68,265)
Loss before tax			(169,228)

4. FINANCE COSTS

	Six months ended 30 June	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	**18,731**	16,211
Promissory notes payable at effective interest rates	**3,852**	–
Imputed interest expense on deferred consideration	**2,643**	14,194
Borrowings and others (including guarantee fee, arrangement fees and bills payables)	**64,435**	37,860
	89,661	68,265

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**36,824**	33,964
Amortisation of prepaid lease payments	**3,617**	3,697
Impairment loss recognised in respect of property, plant and equipment	**–**	50,000
Loss (gain) on disposal of property, plant and equipment	**589**	(200)
Shipbuilding contract costs recognised as expenses	**802,851**	652,883

6. INCOME TAX CREDIT

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

Under the law of the People's Republic of China (the "PRC") on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

Income tax credit for the period represented the reversal of deferred tax liabilities.

No deferred tax asset has been recognised due to unpredictability of future profits streams.

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**(34,817)**	(158,146)

	Six months ended 30 June	
	2012	2011
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,667,995**	3,379,202

The computation of diluted loss per share for the periods ended 30 June 2012 and 2011 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.

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Trade receivables	**118,460**	39,929
Trade receivables – non-current portion	**(70,678)**	–
Trade receivables – current portion	**47,782**	39,929
Less: Allowance for doubtful debts *(Note a)*	**(39,929)**	(39,929)
Trade receivables, net	**7,853**	–
Value-added tax recoverable	**202,251**	258,935
Bills receivables	**122**	394
Deposits placed with a stakeholder *(Note b)*	**83,379**	157,324
Deposits placed to a guarantor *(Note c)*	**73,200**	73,800
Others receivables	**87,768**	87,029
Total trade, bills and other receivables	**454,573**	577,482
Trade receivables		
– non-current portion	**70,678**	–
– current portion	**7,853**	–
	78,531	–
Prepayment for purchase of raw materials	**590,065**	818,869

Notes:

a. In March 2011, a sole overseas debtor filed for insolvency. Accordingly, it was fully provided.

b. 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 shipbuilding contract.

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

Notes: (Continued)

c. Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. Guarantee deposits were approximately HK$73,200,000 (equivalent to RMB60,000,000) and HK$73,800,000 (equivalent to RMB60,000,000) as at 30 June 2012 and 31 December 2011 respectively.

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within one month	**–**	–
More than one month but not more than three months	**15,706**	–
More than three months	**62,825**	–
	78,531	–

During the period ended 30 June 2012, trade receivables represent the deferral final receivable from ship buyers in five instalments. The average credit period was 1 – 1.5 years for each instalment.

At 31 December 2011, the average credit period was based on mutual agreements reached between the entity and ship buyers which vary case by case.

The Group did not have trade receivables that were overdue but not impaired at 30 June 2012 and 31 December 2011.

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.

9. TRADE, BILLS AND OTHER PAYABLES

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Trade payables	**83,787**	78,904
Bills payables	**348,737**	527,747
	432,524	606,651
Advances from customers for shipbuilding contracts not yet commenced construction	**28,945**	277,287
Refund to customers for unshaped vessels written-off	**363,402**	366,381
Interest payable	**2,111**	2,111
Dividend payable to former owner of a subsidiary	**124**	23,425
Consideration payable for acquisition of prepaid lease payments	**46,014**	46,391
Accrual of guarantee fee to a guarantor	**–**	11,631
Contribution payables to labour union and education funds	**8,309**	7,603
Accrual of contractor fees	**36,663**	20,300
Other payables and accruals	**126,418**	97,973
	1,044,510	1,459,753

9. TRADE, BILLS AND OTHER PAYABLES (Continued)

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
0 – 30 days	**48,139**	232,378
31 – 60 days	**181,139**	123,039
61 – 90 days	**3,522**	66,884
Over 90 days	**199,724**	184,350
	432,524	606,651

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

Bills payable are secured by pledged bank deposits.

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

10. BORROWINGS

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Bank borrowings	327,814	384,685
Other borrowings	205,010	222,404
	532,824	607,089
Secured	383,432	236,541
Unsecured	149,392	370,548
	532,824	607,089

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within one year	483,228	538,117
More than one year but not more than two years	39,629	38,603
More than two years but not more than five years	9,967	30,369
	532,824	607,089
Less: Amounts due within one year shown under current liabilities	(483,228)	(538,117)
	49,596	68,972

10. BORROWINGS (Continued)

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Fixed-rate borrowings:		
Within one year	**208,728**	210,691
More than one year but not more than two years	**39,629**	38,603
More than two years but not more than five years	**9,967**	30,369
	258,324	279,663

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Variable-rate borrowings:		
Within one year	**274,500**	327,426

10. BORROWINGS (Continued)

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

Effective interest rates:

	30 June 2012	31 December 2011
Fixed-rate borrowings (bank and other borrowings)	**5.58% to 18%**	5.10% to 15%
Variable-rate borrowings (bank borrowings)	**7.22% to 18.30%**	5.35% to 8.53%

During the period ended 30 June 2012 and the year ended 31 December 2011, the Group obtained several new fixed-rate borrowings in aggregated of approximately USD9,680,000 (equivalent to approximately HK$74,373,000) and approximately USD9,956,000 (equivalent to approximately HK$77,547,000) respectively, which will be repayable within 100-180 days. The borrowings carry interest of a range from 5.6% to 5.9% per annum.

During the period ended 30 June 2012 and the year ended 31 December 2011, the Group obtained loan advances from employees of approximately HK$7,186,000 (equivalent to RMB5,890,000) and approximately HK$39,348,000 (equivalent to RMB31,990,000) respectively, which bear interest rate of 15% per annum and will be repayable in August 2012. The proceeds were used to finance the daily operation of the Group.

11. PROVISION FOR WARRANTY

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

12. DEFERRED CONSIDERATION

On 30 January 2012, the Company entered into a settlement deed (the "Settlement Deed") with Million King Investments Limited ("Million King"). Pursuant to the Settlement Deed, the Company's payment obligation of the deferred consideration of HK$200,000,000 ("Deferred Consideration") shall be fully settled and discharged upon issuance of the convertible notes of HK$105 million ("CN") and the promissory notes of HK$95 million ("PN") from the Company to Million King and / or its nominees and settlement of the relevant interests by the Company. Completion of the Settlement Deed shall take place upon fulfillment of some conditions precedent. The directors considered that all conditions precedent have been fulfilled on 28 February 2012.

On 28 February 2012, the excess of the carrying amount of the Deferred Consideration, over (i) the fair value of CN and PN, and (ii) outstanding interest payment, which was amounted to approximately HK$52,936,000, was credited to the condensed consolidated statement of comprehensive income for the period ended 30 June 2012.

13. SHARE CAPITAL

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Authorised:		
20,000,000,000 (2011: 20,000,000,000) ordinary shares of HK$0.05 each *(Note 1)*	**1,000,000**	1,000,000
Issued and fully paid:		
3,667,994,886 (2011: 3,667,994,886) ordinary shares of HK$0.05 each *(Note 2)*	**183,400**	183,400

Note 1: Pursuant to an ordinary resolution at the annual general meeting held on 23 June 2011, the authorised share capital of the Company was increased from HK$250,000,000 divided into 5,000,000,000 shares to HK$1,000,000,000 divided into 20,000,000,000 shares by the creation of additional 15,000,000,000 shares.

Note 2: During the six months ended 30 June 2011, certain convertible note holders surrendered approximately HK$282.55 million of convertible notes for the subscription of 1,412,745,760 new shares.

14. CONVERTIBLE NOTES PAYABLE

The Company issued convertible notes in 2008 and 2012. The details are as follows:

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") (collectively known as 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 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 was 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 notes reserve during the year ended 31 December 2008.

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 (i) the share placements and the share consolidation in 2009; and (ii) the open offer and the related bonus element in 2010.

14. CONVERTIBLE NOTES PAYABLE (Continued)

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

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

The 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.

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").

14. CONVERTIBLE NOTES PAYABLE (Continued)

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 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 during the year ended 31 December 2010.

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 holders that, i) the conversion price is reduced from HK$4.30 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 "CN Modification"). The transactions became unconditional upon consents and approvals obtained from the Stock Exchange on 31 January 2011 and shareholders at a special general meeting held on 28 January 2011.

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's shares and the carrying amount of the relevant portion of the CBII of HK$239,990,000, have been recognised by the Group as a loss on extinguishment of part of CBII in the consolidated statement of comprehensive income during the year ended 31 December 2011.

The effect of CN Modification represents the extinguishment of CBII having a carrying amount of HK$193,266,282 with revised terms and conditions as mentioned above (the "CBIII"), which has a fair value of HK$189,004,303 comprising a liability portion of approximately HK$138 million and a conversion option derivative at the date when the CN Modification became effective. The difference of approximately HK$4,262,000 between CBII and CBIII on the date of the CN Modification was credited to the consolidated statement of comprehensive income during the year ended 31 December 2011.

14. CONVERTIBLE NOTES PAYABLE (Continued)

At 31 December 2011, CBIII having a carrying amount of approximately HK$208,524,000 which has a fair value of HK$157,135,000 comprising a liability portion of approximately HK$154 million and an insignificant conversion option. The difference of approximately HK$51,389,000 was credited to the consolidated statement of comprehensive income during the year ended 31 December 2011.

The fair value of the conversion option component of CBIII was calculated using the Binominal option pricing model while the fair value of the liability component of CBIII was calculated based on the present value of the contractually determined stream of future cash flows discounted at 20.36%, being the effective interest rate of CBIII.

On 28 February 2012, the Company settled part of its payment obligation of the Deferred Consideration by issuing convertible notes (the "CBIV") to Million King and / or its nominees.

The aggregated principal amount of the CBIV is HK$105 million, coupon interest at a rate of 3% per annum and will be accrued on a day-to-day basis on the outstanding principal amount of the CBIV, payable semi-annually in arrears. The holders of the CBIV may convert the whole or any part of the outstanding principal amount of the CBIV into ordinary shares of the Company from 28 February 2012 to 28 February 2015, the date of maturity, at the initial conversion price of HK$0.15 per share.

15. PROMISSORY NOTES PAYABLE

On 28 February 2012, the Company settled part of its payment obligation of the Deferred Consideration by issuing promissory notes (the "PN") to Million King and / or its nominees.

The aggregated principal amount of the PN is HK$95 million, bears interest at the rate of 3% per annum and will be accrued on a day-to-day basis on the outstanding principal amount of the PN, payable semi-annually in arrears, up to the maturity date on 31 December 2014. The PN is transferable only if the relevant principal amount and corresponding interest would be transferred together.

16. COMMITMENTS

(a) Operating lease commitments

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within one year	**1,921**	894
In the second to fifth year inclusive	**1,392**	200
	3,313	1,094

(b) Capital commitments

At 30 June 2012, the Group has capital expenditure of approximately HK$4.16 million (31 December 2011: HK$7.95 million) contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

17. PLEDGE OF ASSETS

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Deposits	**257,998**	393,313
Inventories	**49,690**	156,618
Property, plant and equipment	**421,008**	399,627
Prepaid lease payments	**339,419**	341,034
Value-added tax recoverable	**202,251**	258,935
	1,270,366	1,549,527

Deposits, inventories, properties, plant and equipment, prepaid lease payments, and value-added tax recoverable were pledged to banks and other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

18. 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$1,250 (31 December 2011: HK$1,000) in maximum of relevant payroll costs to the MPF Scheme, which is matched by employees.

The Company's subsidiary in the PRC is a member 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 subsidiary's employees, are charged to the condensed consolidated statement of comprehensive income in the period to which they relate and represent the amount of contributions payable by the subsidiary to the scheme. The only obligation of the Group with respect to the retirement benefits scheme operated by the government of PRC is to make the required contributions under the scheme.

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

19. RELATED PARTY TRANSACTIONS

The Group had transactions and balances with related parties as follows:

(a) The Group paid fees of approximately HK$6,765,000 (equivalent to RMB5,500,000) (30 June 2011: Nil) to China Ruilian Holding Corp. ("China Ruilian")（中國瑞聯實業集團有限公司）in respect of shipbuilding services including guarantee issued by China Ruilian for the Group's entering of certain shipbuilding contracts. During the period under review, the Company's executive director, Mr. Li Ming ("Mr. Li"), has beneficial interests in both the Company and China Ruilian and has significant influence on China Ruilian. In July 2012, Mr. Li sold his interests in China Ruilian to a third party. Accordingly, he ceased to have any interests in China Ruilian since July 2012.

The amount due to China Ruilian of approximately HK$221,000 (31 December 2011: HK$31,588,000) at the end of the reporting period is included in amount due to a related party. The amount is unsecured, interest free and repayable on demand.

19. RELATED PARTY TRANSACTIONS (Continued)

(b) Mr. Wang San Long ("Mr. Wang"), the executive director of the Company, has provided a free counter-guarantee in favor of the guarantor of the Group（江西省信用擔保股份有限公司）to guarantee the Group for all its payment obligations under loan agreements with banks for the loans amounting to RMB80,000,000 at 30 June 2012 (31 December 2011: RMB 50,000,000).

Mr. Li, Mr. Wang and Mr. Zhang Shi Hong, the executive directors of the Company, have provided a free guarantee in favor of the Group to guarantee a facility of RMB120,000,000 granted by a financial institution in the PRC for the six months ended 30 June 2012 and for the year ended 31 December 2011.

At 30 June 2012, Mr. Wang has advanced loan of HK$756,000 (equivalent to RMB620,000) (2011: HK$615,000 (equivalent to RMB500,000)) to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable in August 2012.

(c) The remuneration of directors during the periods was as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Fees, salaries and other benefits	**2,130**	1,909
Contributions to retirement benefits scheme	**19**	19
	2,149	1,928

The remuneration of directors is determined by the Board on the basis of the recommendations made by the remuneration committee having regarded to the performance of individual and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is engaged in the production and operation of shipbuilding and trading of securities. During the period under review, the weak global economic situation and in particular the general uncertainty resulting from the unresolved sovereign debt crisis in the euro-zone that are impacting shipbuilding market. The prices of ships dropped. However, the improvement in production efficiency of the Group mainly led to a 34.2% increase in the Group's revenues, from HK$620.55 million to HK$833.00 million, and turned from a gross loss of HK$32.33 million to a gross profit of HK$30.15 million in comparing with the same period of last year. The other income and gain of the Group decreased from HK$44.82 million to HK$17.25 million, mainly due to the absence of grants of HK$26.79 million from government. The Group recorded a gain of HK$52.94 million on settlement of deferred consideration because the aggregated fair value of the convertible and promissory notes issued to settle deferred consideration was less than the carrying amount of the deferred consideration at the settlement date. The administrative expenses of the Group were decreased from HK$60.35 million to HK$43.36 million, primarily due to the absence of an additional land use tax paid. The finance costs of the Group increased by 31.3% to HK$89.66 million from HK$68.27 million. The increase was mainly due to the Group faced with higher costs on obtaining funds from banks and other parties, resulting from most banks imposed tightening credit policy on shipbuilding sector. Some banks even tightened contractual conditions, such as increase in collateral requirements, required additional guarantees and non-interest rate charges. The Group recorded an insignificant amount (2011: HK$11.08 million) of tax credit because no tax credit is arising from reversal of deferred taxation.

In conclusion, the Group recorded a loss attributable to shareholders of HK$34.82 million (2011: loss of HK$158.15 million) for the six months ended 30 June 2012. The loss for the period under review was decreased by approximately 78.0% in comparing with the same period of last year. It was mainly due to the improvement in profit margins, the gain on settlement of deferred consideration and the absence of impairment loss recognised on property, plant and equipment.

SHIPBUILDING BUSINESS

In the first half of 2012, shipbuilding industry in China continued to face difficulties as the placement of new orders for vessels declined about 50%, as compared to the same period of last year. Shipyards are engaged in fierce competition to win new orders in the markets. As a result, they struggled with less favorable payment terms and pricing pressures imposed by the ship-buyers. The private-owned enterprises also faced difficulties in securing loans from banks as most banks were tightening their credit policy. Overcapacity and tight credit created risk of closure of business in Chinese shipbuilding market. Certain small and medium sized shipyards have halted production and / or initiated the process for restructuring.

Despite tough market conditions, the shipbuilding sector of the Group still achieved 34.2% growth in revenues and recorded a slight profit before finance costs. This was mainly due to the Group's efforts on improving production efficiency and imposing costs control measures. After the Group strengthened its operating efficiency and re-negotiated the terms with ship-buyers, the problem of delay in delivery of vessels had solved in 2012.

For the six months ended 30 June 2012, the shipbuilding segment generated revenue of approximately HK$833.00 million representing an increase of approximately of 34.2% as compared to approximately HK$620.55 million in the corresponding period last year. The increase in revenue was mainly due to the improvement in production efficiency. During the reporting period, the vessels were delivered to ship-buyers in accordance with the delivery schedule. It caused an insignificant foreseeable losses recognised in the current period. In line with the absence of material foreseeable losses, the Group turned from a gross loss of HK$32.33 million to a gross profit of HK$30.15 million. The shipbuilding segment recorded a profit of HK$7.42 million (2011: loss of HK$135.83 million).

As at 30 June 2012, the secured order book comprised ten heavy lift vessels which are scheduled for delivery up to the mid of 2013. In addition, certain new orders which are currently being negotiated and is likely to be concluded in the near future.

TRADING BUSINESS

For the six months ended 30 June 2012, the trading business recorded a loss of approximately HK$334,000 (2011: approximately HK$27,000).

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

SHARE CAPITAL

There was no movement in share capital during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$396.99 million (31 December 2011: HK$543.82 million) in which HK$225.79 million (31 December 2011: HK$360.84 million) was pledged; short-term borrowings of HK$483.23 million (31 December 2011: HK$538.12 million); long-term borrowings of HK$49.60 million (31 December 2011: HK$68.97 million); long-term promissory notes payable amounted to approximately HK$67.73 million (31 December 2011: Nil); long-term convertible notes payable amounted to approximately HK$265.09 million (31 December 2011: HK$157.14 million) represented the fair value of principal amount of HK$330.00 million (31 December 2011: HK$225.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.25) at 30 June 2012 (31 December 2011: (2.19)).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and Euro. As at 30 June 2012, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

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

EVENTS AFTER THE REPORTING PERIOD

As at 30 June 2012, the Group had no significant post balance sheet events.

LITIGATION AND ARBITRATION

Jiangxi Jiangzhou Union Shipbuilding Co. Ltd (the "Shipyard"), a wholly owned subsidiary of the Company, with Sloman Neptun Schiffahrts-Aktiengesellschaft (the "Sloman") had an arbitration process related to the refund of instalments paid including interests, amounting to approximately US$73 million, on contracts to build three chemical tankers. In November 2011, Sloman and Shipyard have reached new agreements to reinstate all the contracts in arbitration with revised terms. According to the terms of agreements, the vessels in arbitration had been delivered to Sloman in June 2012. Following the delivery of vessels, the arbitration proceeding with Sloman has settled and withdrawn. The Group considered that there was no material adverse financial impact to the results of the Group in 2012 and 2011.

As at the date of this report, Shipyard has an arbitration proceeding in progress with a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices. Algoma sent the rescission notices to the Shipyard on the ground that the Shipyard failed to meet the delivery date in relation to a third-party sister ship. It requested for the refund of instalments paid including interests, amounting to approximately US$39 million, on contracts to build three chemical tankers. The hearing is scheduled to be heard in September 2012 in England. As at the date of this report, the Shipyard and its legal counsels have well-prepared to handle the arbitration matters. If the Shipyard wins the arbitration, the Shipyard may stand to make a significant amount of compensation, while if the Shipyard loses the arbitration, the Shipyard may be required to refund of the installments paid for shipbuilding, its related interests and legal fees to Algoma. For the sake of prudence, the Group classified the refund of deposits and its interest under current liabilities in the financial statements. The Group considered that there has already reflected the unfavourable outcomes of the arbitration, if any.

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

HUMAN RESOURCES

The Group had around 1,200 employees as at 30 June 2012. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group has an arbitration proceeding in progress with a ship-buyer in respect of three vessels over his 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 up to the settlement date. The principal payments and the interests accrued up to 30 June 2012 of approximately HK$363 million (31 December 2011: HK$366 million) in aggregate, were recorded as “Other Payables” in the condensed consolidated statement of financial position.

Other than disclosed above, the directors of the Company are of the opinion that the Group has no other material contingent liabilities at 30 June 2012.

PROSPECTS

Looking into the second half of 2012, the directors expect that the conditions of shipbuilding industry remain very challenging. Chinese shipbuilding sector is deteriorating, new ship orders and ship price are still keep at a low level. To face this difficult situation, the Group continues to strengthen its internal control, enhance efficiency, reduce costs and most importantly, struggle to secure new orders.

In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations. The Group is now under a negotiation to engage in a project for manufacturing combine harvester. On the other hand, a negotiation to acquire a company engaged in research and development, manufacturing and sale of electricity meters and provision of equipment and professional solutions for electrical systems was suspended as the performance of the target company does not meet the expectation of the Group.

The directors will carry out the securities trading business cautiously and will continue to reinforce the Group’s financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, 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	240,642,500	–	6.56%
	Long position	Interest of controlled Corporation	31,775,000 *(Note 1)*	–	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

As at 30 June 2012, 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	Exercise price
Chau On Ta Yuen	Company	Personal interest *(Note 1)*	4,743,000	HK$5.693
Zhang Shi Hong	Company	Personal interest *(Note 1)*	1,581,000	HK$5.693
Wang San Long	Company	Personal interest *(Note 2)*	4,110,600	HK$4.523

Notes:

1. Such number of Shares represents the underlying shares of the options granted on 5 March 2008 under the 2002 Scheme (as defined below).

2. Such number of Shares represents the underlying shares of the options granted on 7 May 2008 under the 2002 Scheme (as defined below).

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 (the "2002 Scheme") are set out in Note 37 to the consolidated financial statements of the Company's 2011 annual report. The life of 2002 Scheme is ten years from its date of adoption. It has expired on 26 May 2012. As at 30 June 2012, options to subscribe for 46,449,780 shares were granted but not yet exercised under the 2002 Scheme. These options shall remain exercisable pursuant to the rules of the 2002 Scheme.

At the Company' annual general meeting held on 27 June 2012 (the "AGM"), an ordinary resolution was proposed to approve the adoption of a new share option scheme (the "2012 Scheme"), which has taken effect after the resolution was passed at the AGM and the Company obtained the listing approval granted by the Hong Kong Stock Exchange Limited. The purpose of the 2012 Scheme is to recognize and motivate the contribution of eligible participants, to provide incentives to them, to help the Company retaining eligible participants and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. Particulars of the 2012 Scheme are set out in the Company's circular dated 28 May 2012. As at 30 June 2012, no options to subscribe for shares were granted under the 2012 Scheme.

The following share options were outstanding as at 1 January 2012 and 30 June 2012:–

				Number of share options		
Name	**Date of grant**	**Exercisable period**	**Exercise price per share** *(Note 1)*	**Outstanding at 1.1.2012**	**Movement during the period** *(Note 2)*	**Outstanding at 30.06.2012**
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
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	935,952	–	935,952
		7 May 2009 to 6 May 2018	HK$4.523	701,964	–	701,964
		7 May 2010 to 6 May 2018	HK$4.523	701,964	–	701,964
				2,339,880	–	2,339,880
Other participants	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	33,675,300	–	33,675,300
				46,449,780	–	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 became effective on 7 September 2010, the exercise prices of shares options were adjusted to HK$5.693 and HK$4.523 accordingly.

2. No share option was granted, exercised, cancelled or lapsed during the six months ended 30 June 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 19 (Related party transactions) to the condensed consolidated financial statements, no contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, save as disclosed below, no persons, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO. Other than as disclosed below, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 30 June 2012.

Name	Long / Short position	Capacity	Number of ordinary shares held	Number of underlying share held	Approximate percentage of the issued shares held at 30 June 2012
Di Yun Fei	Long position	Beneficial owner	–	409,090,909	11.15%
Li Jun	Long position	Beneficial owner	7,340,297	386,133,333	10.73%
Yang Li	Long position	Beneficial owner	150,590,535	204,545,454	9.68%

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2012.

CORPORATE GOVERNANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

CHANGE OF INFORMATION OF DIRECTORS

Mr. Li Ming was appointed as an executive director of ShenZhen Microgate Technology Co. Ltd which was listed on the Shenzhen Stock Exchange on 23 May 2012.

The monthly salaries of Mr. Chau On Ta Yuen, Mr. Li Ming and Mr. Zhang Shi Hong were increased by HK$10,000 with effect from 1 May 2012.

The annual directors' fees of Ms. Xiang Si Ying, Ms. Xiang Ying and Mr. Hu Bai He were increased by HK$20,000 with effect from 15 May 2012.

REMUNERATION COMMITTEE

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

THE ESTABLISHMENT OF NOMINATION COMMITTEE

The Company set up a Nomination Committee on 28 March 2012 to ensure that there are fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee comprises the Chairman of the Board and three independent non-executive directors, Mr. Chau On Ta Yuen, Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying. The Chairman of the Nomination Committee is Ms. Xiang Ying.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been reviewed by the audit committee of the Company.

BOARD OF DIRECTORS

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

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 29 August 2012