ANNUAL REPORT 2013

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)

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
Ms. Xiang Ying

COMPANY SECRETARY

Mr. Ngai Man Wo

AUDITOR

ZHONGLEI (HK) CPA Company Limited
Suites 313-316
3/F., Shui On Centre
6-8 Harbour Road, Wan chai
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

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BRANCH REGISTRAR IN HONG KONG

Tricor Abacus Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong
(to be effective 31 March 2014)

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the annual report of China Ocean Shipbuilding Industry Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

The Group recorded an audited consolidated turnover of approximately HK$491.14 million for the year ended 31 December 2013 when compared to turnover of approximately HK$1,870.30 million in 2012, an decrease of 73.74% and loss attributable to the shareholders of approximately HK$337.44 million for the year ended 31 December 2013 when compared to HK$344.10 million in 2012, an decrease of 1.94%. The decrease in turnover was mainly, among others, due to the works on new orders has not yet commenced.

The year 2013 was still a very challenging year for the shipbuilding industry. The combination of excess capacity in shipbuilding and a credit crunch continued to affect the industry adversely. In such difficult market conditions, the Group negotiated with the ship-owners to ensure the successful delivery of vessels, continued to take cost control measures and actively seeking new orders. Looking forward into 2014, as the worldwide economy has gradually recovered and the low asset prices attract investors into shipbuilding sector. Coupled with the policies imposed by the Chinese government to cut off excess capacity, the new orders are climbing up and the new building price is slightly increased. We take the view that the future of the industry is cautiously optimistic and we have confidence that the Group will go well through the current challenging years.

The Board of Directors does not recommend the payment of dividend for the year ended 31 December 2013.

In conclusion, I would like to thank all shareholders and staff for your continued support.

CHAU On Ta Yuen
Chairman

28 March 2014

Management Discussion and Analysis

OVERVIEW

The Group is engaged in the production and operation of shipbuilding and securities trading business. During the year under review, the shipbuilding market in China was still suffered from a long term downturn since the financial crises occurred in 2008. The industry continued to face the over capacity and the low level new building price. Many shipyards, especially the private shipyards, were struggling with plummeting orders and soaring debts. The conditions of the industry were very challenging but it seems to reach its trough. The new orders were increasing and the new building prices were slightly increased since late 2013. In addition, starting from the third quarters of 2013, Chinese authorities have introduced a slew of measures to crack down on overcapacity-plagued shipbuilding industries, encourage upgrading and mergers. The latest development indicates the shipbuilding industry may be set for a turnaround.

For the year ended 31 December 2013, the Group recorded a revenue of HK$491.14 million (2012: HK$1,870.30 million), a decrease of approximately 73.74% in compare to the year 2012. The decrease is mainly due to the production capacity of the shipyard cannot be fully utilized as a result of the downturn of shipbuilding market. The Group's gross margin was turned from a loss of HK$39.18 million in 2012 to a slight profit of HK$8.35 million in 2013. The turnaround was mainly contributed by the less foreseeable losses were recognized during 2013.

The Group recorded HK$11.92 million (2012: HK$12.36 million) of other income, HK$1.27 million (2012: HK$1.45 million) of other gains and losses and HK$1.75 million (2012: HK$1.65 million) of selling and distribution expenses for the year ended 31 December 2013.These items did not show significant change in comparing with last year.

The administrative expenses of HK$179.99 million (2012: HK$97.13 million). The significant increase was primarily due to the recognition of impairment of trade receivables amounting to HK$83.97 million during 2013.

The finance costs of the Group decreased by 4.54% to HK$173.83 million from HK$182.10 million. The total finance costs remained at a high level, even though there was a slight decrease during the year, mainly due to the Group was still at a high level of borrowing and need to obtain liquidity from the "high rate" sources of credit.

The other material items to affect the loss of for the year were absence of impairment loss recognized in respect of property, plant and equipment (2012: HK$90.62 million), the decrease of loss on fair value change of convertible notes payable from HK$20.95 million to HK$1.11 million and the absence of gain on settlement of deferred consideration (2012: HK$52.94 million). The contributions to the bottom line due to absence of impairment loss recognised in respect of property, plant and equipment and decrease in loss on fair value change of convertible notes payable were partially offset by the absence of gain on settlement of deferred consideration.

To conclude, the loss for the year ended 31 December 2013 was amounting to approximately HK$337.44 million (2012: HK$344.10 million), it was decreased by 1.94% in comparing with year 2012.

SHIPBUILDING BUSINESS

During 2013, the shipbuilding segment was still performing at low level due to a lack of liquidity and new orders. During the year ended 31 December 2013, the shipbuilding business of the Group generated revenue of approximately HK$491.14 million to the Group, representing a decrease of approximately 73.74% as compared to approximately HK$1,870.30 million in 2012. The decrease in revenue mainly due to the works on new orders has not yet commenced because the ship-owner obtained financial supports from its bank was later than expected. During the year 2013, the adverse effect of the shipyard did not run in its full capacity which offsetting by less foreseeable loss recognized during the year. Consequently, the Group recorded a slight gross profit of HK$8.35million for the year ended 31 December 2013 (2012: gross loss of HK$39.18 million).

The Group agreed to extend credit terms to a shipowner in light of considering the longterm relationship with the shipowner and ensuring successfully delivery of vessels in 2012. At 31 December 2013, the gross amount due from this shipowner increased to approximately HK$167.94 million in which approximately HK$125.56 million is long term debt (at 31 December 2012: approximately HK$150.74 million included approximately HK$134.20 million long term debt). During the year ended 31 December 2013, the Group has received approximately HK$9.30 million from the shipowner for the partial settlement of the deferral final payments. In view of the payment history of the shipowner and in order to improve the Group's short term liquidity, the shipyard was under negotiation with certain parties such as other shipowner and bank to settle the outstanding balances in cash immediately by them. The Group is likely need to provide a discount to the parties. Accordingly, for the sake of prudence, the Group has made HK$83.97 million provision for impairment of trade receivable.

The shipbuilding business recorded a loss before tax of HK$151.66 million (before finance costs) (2012: HK$109.68 million (before deducting impairment cost recognized in property, plant and equipment and finance costs). The increase of loss was mainly due to the one off provision for doubtful debt.

During the year 2013, the Group had delivered two heavy lift vessels to ship-owners. As at 31December 2013, the secured order book comprised five heavy lift vessels. In January 2014, the contract for constructing four multi-purposes vessels was effective and the works for construction is scheduled to be started in mid 2014. In addition, the contract for constructing two multi-purposes vessels would likely to become effective in the coming month. Besides, certain new orders including eight multi-purpose vessels are currently being closely negotiating.

TRADING BUSINESS

The trading business recorded insignificant losses in both 2013 and 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$310.67 million (31 December 2012: HK$309.30 million) of which HK$297.12 million (31 December 2012: HK$269.45 million) was pledged; short term borrowings of HK$610.82 million (31 December 2012: HK$608.01 million); long term borrowings of HK$292.33 million (31 December 2012: HK$31.08 million); convertible notes payable amounted to approximately HK$295.72 million (31 December 2012: HK$278.63 million) represented the principal amount of HK$314.42 million (31 December 2012: HK$330.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (1.04) as at 31 December 2013 (31December 2012: (1.49)).

During the year, 103,866,666 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes at a conversion of HK$0.15 per share.

USE OF PROCEEDS FROM ISSUE OF SHARES

On 23 July 2013, the Company entered into the subscription agreements with two subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 200,000,000 subscription shares at a price of HK$0.102 per subscription share. The gross proceeds from the subscription were approximately HK$20.40 million and the net proceeds were approximately HK$20.35 million. The subscription has been completed on 31 July 2013. The Group has fully utilized the net proceeds from the subscriptions as general working capital of the Group during the year 2013.

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December 2013 is set out in Note 8 to the consolidated financial statements from page 59 to 64.

CHARGES ON GROUP ASSETS

As at 31 December 2013, HK$297.12 million (31 December 2012: HK$302.45 million) of deposits, HK$23.04 million (31 December 2012: HK$50.91 million) of inventories, HK$511.18 million (31 December 2012: HK$522.77 million) of property, plant and equipment, HK$329.83 million (31 December 2012: 335.14 million) of prepaid lease payments and HK$137.03 million (31 December 2012: HK$148.23 million) 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 Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2013, 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 during the year under review.

SUBSEQUENT EVENTS

Significant events after the end of the reporting period are set out in Note 46 to the financial statements on page 100.

LITIGATION

On 1 May 2013, the UK Arbitration Tribunal granted the arbitral awards on the arbitration proceeding between a wholly owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd. (the "Shipyard") and a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices sent by Algoma. Pursuant to the awards Shipyard was liable to pay Algoma the refund of the installments, its related interest and legal costs. On 23 May 2013, Shipyard submitted an application to the UK court for permission to appeal on a question of law arising out of the awards but the court refused in early November 2013. In enforcing the awards, Algoma served notices for payments in late November 2013. On 27 December 2013, Shipyard has settled the installment and its related interests amounting to US$38,941,731 (approximately HK$302.19 million). For details of the results of arbitration, please refer to the Company's announcement dated 2 May 2013, 8 November 2013 and 30 December 2013.

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

HUMAN RESOURCES

The Group had around 830 employees as at 31 December 2013. 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.

RELATED PARTY TRANSACTIONS

Significant balances with related parties and related party transactions entered into by the Group during the year ended 31 December 2013 are disclosed in Notes 43 to the financial statements on pages 95 and 96.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in Note 40 to the financial statements on page 94.

CONTINGENT LIABILITIES

(a) The Group has an arbitration proceeding in progress with a vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012. During the year ended 31 December 2013, the Group had fully settled the principal payments for the shipbuilding contracts of the vessels in arbitration and the corresponding interests in aggregate, to the relevant vessel owner. Accordingly, there was no material contingent liability in connection to the arbitration at 31 December 2013 (31 December 2012: approximately HK$372,338,000 which were recorded as "Trade, bills and other payables" as disclosed in Note 26 to the consolidated financial statements for the year ended 31 December 2012).

(b) At 31 December 2013, the Group has not paid the social security fund for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2013 of approximately HK$31,091,000 (equivalent to RMB24,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated financial statements. (2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. and the relevant government authority on 3 March 2014 in respect of the accrued social security fund, all amounts should be repaid before December 2015. The Directors considered that if the Group could settle the accrued social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(c) At 31 December 2013, the Group has not paid the housing provident fund contributions for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2013 of approximately HK$5,491,000 (equivalent to RMB4,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position. (2012: approximately HK$3,063,000 (equivalent to RMB2,450,000)). The directors are of the opinion that the possibility to the risk of being imposed the penalty of the relevant government authority is remote.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2013 and 2012.

CAPITAL COMMITMENTS

At 31 December 2013, there was no (31 December 2012: HK$3.82 million) capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements.

There was no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

PROSPECTS

Since late 2013, there has sign of recovery on overall shipbuilding market due to the higher charter rate, recovery of global economic, new policies to cut in overcapacity and urge restructuring and upgrades. It gave the shipbuilding industry a good start in a new year, sustainability remains to be proven. Looking into 2014, the general view on the shipbuilding market is cautiously optimistic.

The Group expected to be operated in a difficult environment in 2014, at least in the first half of the year, due to lack of liquidity and the works on new orders are likely to be commenced in mid 2014. To face this difficult market condition, the Group will continue to strengthen its internal control, enhance efficiency and seeking new orders. The directors expect that a certain amount of new orders will be placed and become effective in the coming months. In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations by examining diversification. The Directors will continue to reinforce the Group's financial position so that the Group will be 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 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 2013, 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 *(Chairman)*	12/12
Mr. Li Ming *(Deputy Chairman and CEO)*	11/12
Mr. Zhang Shi Hong	12/12
Mr. Wang San Long	12/12
Independent non-executive directors:	
Mr. Hu Bai He	5/12
Ms. Xiang Si Ying	6/12
Ms. Xiang Ying	5/12

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.

Every Director shall ensure that he/she can contribute sufficient time and effort to the corporate affairs of the Company once he/she accepts the appointment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. The position of Chief Executive Officer is vested with executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

BOARD COMPOSITION

The Board comprises four executive directors and three independent non-executive directors as 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.

DIVERSIFICATION OF THE BOARD

In determining the composition of the Board, the Company seeks to achieve board diversity through the consideration of a number of factors and measurable criteria, age, education background, industry experience, geographical location and duration of service. The Nomination Committee has reviewed the composition of the Board in accordance with the Listing Rules and concluded that the composition of the Board is in compliance with the diversification requirements of 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 three independent non-executive directors of their independence and considers them to be independent throughout the year.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive directors is appointed for an initial term of not more than two years commencing from his/her date of appointment and is renewable successively for a term of two years until termination. He/She is subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Bye-laws.

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 2013.

NOMINATION COMMITTEE

The Company has set up a Nomination Committee 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, namely, 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. The terms of reference of the Nomination Committee are consistent with the terms set out in the Code. The nomination of directors should take into consideration of the nominee's qualification, experience, ability and potential contributions to the Company.

One meeting was held during the year ended 31 December 2013. All members attended the meeting. The members of the Nomination Committee reviewed the directors' details, the composition of the board and access the independence of all independent non-executive directors. They satisfied the structure, size and composition (including the skills, knowledge and experience) of the Board and the independence of independent non-executive directors.

The revised terms of reference of the Nomination Committee were adopted by the Board on 20 December 2013 and were consistent with the terms set out in the Code.

REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee to ensure that there are formal and transparent procedures for setting up policies on the remuneration of the Directors and senior management. The terms of reference of the Remuneration Committee were consistent with the terms set out in the Code. The Remuneration Committee comprises three independent non-executive directors, Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying and one executive director, Mr. Li Ming. The Chairman of the Remuneration Committee is Ms. Xiang Ying.

One meeting was held during the year ended 31 December 2013. All members attended the meeting. They made recommendation to the Board regarding the Company's remuneration policy and the remuneration package of all directors (excluding his own remunerations) of the Company. No Director was involved in deciding his own remuneration during the year under review.

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 reference of the Audit Committee were consistent with the terms set up in the Code.

The Audit Committee comprises three 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.

Two meetings were held during the year ended 31 December 2013. The individual attendance of each member is set out below:

Name of member	Number of committee meetings attended
Mr. Hu Bai He	2/2
Ms. Xiang Si Ying	2/2
Ms. Xiang Ying	2/2

The Group's interim report of the six months to 30 June 2013 and the annual report for the year ended 31 December 2013 had been reviewed by the Audit Committee and recommendation was provided to the Board for approval.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, the auditors of the Company received approximately HK$1,000,000 for audit services and HK$190,000 for 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.

CORPORATE GOVERNANCE FUNCTION

In order to achieve enhanced corporate governance of the Company, the Board has undertaken constant review of the policies for corporate governance of the Company, the training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements. During this year, the Board performed the duties relating to corporate governance matters such as adoption of a whistleblowing policy and appointed external professionals to carry out internal control review.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Directors are continually updated on the latest development and changes in the Listing Rules, the Code and other regulatory requirements in order to ensure the compliance with the same by the Directors. Directors are also encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills. All Directors had provided a record of training they received during the year to the Company. According to the training records provided by the Directors, the training attended by them during the reporting period is summarized as follows:

Directors	Corporate Governance, regulatory development and training on other relevant topics
Mr. Chau On Ta Yuen	✓
Mr. Li Ming	✓
Mr. Zhang Shi Hong	✓
Mr. Wang San Long	✓
Mr. Hu Bai He	✓
Ms. Xiang Si Ying	✓
Ms. Xiang Ying	✓

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. During the year, the directors appointed external professional to conduct an annual review of the effectiveness of the Group's system of internal control covering financial, operational and compliance controls.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHT

The Company recognizes the importance of good communications with all shareholders and investors. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of such annual general meeting. 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. The Company provides information relating to the Company and its business in its annual and half-yearly report and also disseminates such information electronically through its website at "www.irasia.com/listco/hk/chinaoceanshipbuilding" and the website of the Stock Exchange.

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules.

MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF THE COMPANY

During the reporting period, no amendment had been made to the Memorandum of Association and Bye-Laws of the Company.

On behalf of the Board

CHAU On Ta Yuen
Chairman
28 March 2014

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 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 45 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 23 of the annual report.

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 page 26 of the annual report.

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 in share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings as at 31 December 2013 are set out in Note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2012: 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 accounts 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 101 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
Ms. Xiang Ying

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

All of the remaining directors will 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 66, was appointed as a Director in September 2007 and is the Chairman of the Group. Mr. Chau graduated from Xiamen University majoring in Chinese Language and literature. He is currently an independent non-executive director of Good Fellow Resources Limited, Come Sure Group (Holdings) Limited, Sumpo Food Holdings Limited and Redco properties Group Limited, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Save as disclosed above, Mr. Chau did not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years. Mr. Chau is currently a member and holds the office of deputy officer of the Social and Legal Affairs Committee of the Chinese People Political Consultative Conference of the People's Republic of China. He is also the vice chairman of Hong Kong Federation of Fujian Associations.

Mr. Li Ming, aged 51, was appointed as a Director 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. Mr. Li is currently an executive director of Shenzhen Microgate Technology Co. Ltd., the shares of which are listed on the ShenZhen Stock Exchange. Save as disclosed above, Mr. Li did not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Mr. Zhang Shi Hong, aged 45, was appointed as a Director 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 63, was appointed as a Director in May 2008. Mr. Wang has more than thirty years 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 51, appointed as an independent non-executive Director 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 of the PRC.

Ms. Xiang Si Ying, aged 51, was appointed as an independent non-executive Director 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 of 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.

Ms. Xiang Ying, aged 59, was appointed as an independent non-executive Director 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. During the period from 31 August 2011 to 25 November 2012, she was appointed as an independent director of Anxin Trust & Investment Co. Ltd., the shares of which are listed on Shanghai Stock Exchange. Ms. Xiang is currently an independent director of Guangdong Sky Dragon Ink Group Co. Ltd, the shares of which are listed on Shenzhen Stock Exchange. Save as disclosed above, Ms. Xiang did not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, 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

Name	Long/Short position	Capacity	Number of ordinary shares held	Approximate percentage of the issued shares held
Li Ming (note 1)	Long position	Beneficial owner	250,682,500	6.31%
	Long position	Interest of controlled Corporation (note 2)	31,775,000	0.80%
	Long position	Beneficial owner and Interest of controlled Corporation	282,457,500	7.11%

Note 1: Mr. Li Ming is an executive director of the Company.

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

(ii) Rights to acquire shares in the company

As at 31 December 2013, 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 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 (the "2002 Scheme") are set out in Note 39 to the consolidated financial statements. The life of 2002 Scheme is ten years from its date of adoption. It has expired on 26 May 2012. As at 31 December 2013, 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, 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 and the Company obtained the listing approval granted by the Stock Exchange of Hong Kong Limited. As at 31 December 2013, no options to subscribe for shares were granted under the 2012 Scheme.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 43 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 2013, 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 2013.

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 2013
Di Yu Fei	Long	Beneficial owner	0	409,090,909	10.30%
Li Jun	Long	Beneficial owner	7,340,297	386,133,333	9.91%
Yang Li	Long	Beneficial owner	150,590,535	204,545,454	8.94%

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the Board of Directors, having regard to their responsibility to the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in Note 39 to the consolidated financial statements.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 12% and 43%, 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 99% and 100%, 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 customer.

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 Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance. The Company has complied with most of the code provisions 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"). Further information on the Company's corporate governance practice is set out in the Corporate Governance Report from 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

ZHONGLEI (HK) CPA Company Limited was appointed as the auditors of the Company at 17 January 2012. The financial statements had been audited by ZHONGLEI (HK) CPA Company Limited who will retire and, being eligible, offer themselves for re-appoint. A resolution will be submitted to the annual general meeting to re-appointment Messrs. ZHONGLEI (HK) CPA Company Limited as auditors of the Company.

On behalf of the Board

CHAU On Ta Yuen
Chairman
Hong Kong,
28 March 2014

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

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 have audited the consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 100, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 of the Company (the "Directors") are responsible for the preparation of 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 Public 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 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 as described in the Basis for Disclaimer of Opinion paragraphs, 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 about whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(a) Impairment of trade receivables

Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

As explained in our report dated 28 March 2013 on the Group's consolidated financial statements for the year ended 31 December 2012, we were not provided with sufficient evidence to enable us to assess as to the trade receivables could be recovered in full or to determine the amount of impairment, if any. We qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2012 in respect of this scope limitation accordingly.

Any adjustments found to be necessary to the opening balances as at 1 January 2013 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2013. The comparative figures for the year ended 31 December 2012 shown in these consolidated financial statements may not be comparable with the figures for the current year.

Limitation of scope on impairment assessment of trade receivables

Included in the Group's trade receivables of approximately HK$83,966,000 as at 31 December 2013 were gross trade receivables of approximately HK$167,932,000 (equivalent to USD21,650,000), net of impairment loss of approximately HK$83,966,000 recognised during the year ended 31 December 2013. This trade receivable is due from a ship buyer in relation to the deferral final payments of several vessel contracts as stated in Note 22 to the consolidated financial statements. The Directors are of the view that the Group is able to recover the net outstanding balances, and therefore no further impairment should be provided. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such receivables could be recovered in full or to determine the amount of impairment, if any. There were no other alternative audit procedures that we could carry out to verify the valuation of this receivables as at 31 December 2013. Accordingly, we were unable to satisfy ourselves as to whether the impairment loss recognised during the year and the balance of the trade receivables as at 31 December 2013 was fairly stated, which would have consequential effect on net current liabilities and net liabilities of the Group as at 31 December 2013 and their loss for the year then ended.

Any adjustment to the amount of the above trade receivables found to be necessary would affect the Group's net liabilities as at 31 December 2013 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

(b) Material fundamental uncertainties relating to going concern basis

As set out in the consolidated statement of profit or loss and other comprehensive income, the Group incurred loss for the year attributable to owners of the Company of approximately HK$337,440,000 for the year ended 31 December 2013. 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$1,507,637,000 and the Group had net liabilities of approximately HK$1,037,202,000 as at 31 December 2013. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As set out in Note 2 to the consolidated financial statements, the Directors 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. 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 and non-current liabilities 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 and non-current liabilities as current assets and current liabilities respectively.

However, we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as and when they fall due, and we consider that due to the potential interaction of the above material uncertainties and their possible cumulative effect on the consolidated financial statements is extreme, we have disclaimed our opinion.

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 obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements for the year ended 31 December 2013. 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.

ZHONGLEI (HK) CPA Company Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Suites 313-316, 3/F., Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

28 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	8	**491,144**	1,870,304
Cost of sales		**(482,797)**	(1,909,483)
Gross profit (loss)		**8,347**	(39,179)
Other income	9	**11,922**	12,362
Other gains and losses	10	**(1,268)**	(1,448)
Change in fair value of investments held for trading		**(1,089)**	(320)
Impairment loss recognised in respect of property, plant and equipment	17	**–**	(90,617)
Selling and distribution expenses		**(1,752)**	(1,651)
Administrative expenses		**(179,993)**	(97,128)
Gain on settlement of deferred consideration	32	**–**	52,936
Loss on fair value change of convertible notes payable	34	**(1,114)**	(20,949)
Finance costs	11	**(173,832)**	(182,100)
Loss before tax		**(338,779)**	(368,094)
Income tax credit	12	**1,339**	23,993
Loss for the year attributable to owners of the Company	13	**(337,440)**	(344,101)
Other comprehensive expense:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(10,177)**	(4,550)
Total comprehensive expenses for the year attributable to owners of the Company		**(347,617)**	(348,651)
Loss per share			
– Basic and diluted	16	**(HK$0.09)**	(HK$0.09)

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**551,084**	577,546
Prepaid lease payments – non-current portion	18	**322,549**	333,226
Intangible assets	19	**–**	–
Pledged deposits for other borrowings	20	**–**	33,000
Trade receivables – non-current portion	22	**62,781**	134,200
		936,414	1,077,972
CURRENT ASSETS			
Inventories	21	**84,362**	122,018
Trade receivables – current portion	22	**21,185**	15,750
Other receivables	22	**187,453**	328,286
Prepayment for purchase of raw materials	22	**105,190**	324,397
Prepaid lease payments – current portion	18	**7,280**	1,910
Investments held for trading	23	**1,341**	2,430
Available-for-sale investments	24	**–**	6,250
Pledged bank deposits	25	**297,120**	269,447
Bank balances and cash	25	**13,549**	39,854
		717,480	1,110,342
CURRENT LIABILITIES			
Trade, bills and other payables	26	**841,949**	1,160,722
Amounts due to customers for contract work	27	**392,387**	580,961
Amounts due to related parties	28	**72,251**	53,285
Amount due to a director	29	**842**	812
Borrowings – due within one year	30	**610,822**	608,004
Provision for warranty	31	**7,705**	35,530
Convertible notes payable	34	**219,319**	–
Promissory notes payable	35	**79,842**	–
Deferred consideration	32	**–**	–
		2,225,117	2,439,314
NET CURRENT LIABILITIES		**(1,507,637)**	(1,328,972)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(571,223)**	(251,000)

Consolidated Statement of Financial Position (Continued)

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CAPITAL AND RESERVES			
Share capital	33	**198,593**	183,400
Reserves		**(1,235,795)**	(906,474)
		(1,037,202)	(723,074)
NON-CURRENT LIABILITIES			
Borrowings – due after one year	30	**292,326**	31,080
Convertible notes payable	34	**76,400**	278,632
Promissory notes payable	35	**–**	68,713
Deferred tax liabilities	36	**97,253**	93,649
		465,979	472,074
		(571,223)	(251,000)

The consolidated financial statements on pages 23 to 100 were approved and authorised for issue by the board of directors on 28 March 2014 and are signed on its behalf by:

CHAU On Ta Yuen	**ZHANG Shi Hong**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital HK$'000 (Note 33)	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Translation reserve HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000 (Note 34)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	183,400	328,914	3,368,411	34,824	98,658	43,693	–	(4,459,295)	(401,395)
Loss for the year	–	–	–	–	–	–	–	(344,101)	(344,101)
Other comprehensive expense									
Items that may be subsequently reclassified to profit or loss:									
Exchange differences arising on translation of foreign operations	–	–	–	–	(4,550)	–	–	–	(4,550)
Total comprehensive expenses for the year	–	–	–	–	(4,550)	–	–	(344,101)	(348,651)
Recognition of equity component of convertible notes payable	–	–	–	–	–	–	26,972	–	26,972
At 31 December 2012	183,400	328,914	3,368,411	34,824	94,108	43,693	26,972	(4,803,396)	(723,074)
Loss for the year	–	–	–	–	–	–	–	(337,440)	(337,440)
Other comprehensive expense									
Items that may be subsequently reclassified to profit or loss:									
Exchange differences arising on translation of foreign operations	–	–	–	–	(10,177)	–	–	–	(10,177)
Total comprehensive expenses for the year	–	–	–	–	(10,177)	–	–	(337,440)	(347,617)
Issuance of shares upon conversion of convertible notes (Note 33)	5,193	11,966	–	–	–	–	(4,002)	–	13,157
Issuance of shares (Note 33)	10,000	10,332	–	–	–	–	–	–	20,332
At 31 December 2013	**198,593**	**351,212**	**3,368,411**	**34,824**	**83,931**	**43,693**	**22,970**	**(5,140,836)**	**(1,037,202)**

Notes:

(a) There were a group reorganisation in 2001 and share consolidations in 2005 and 2006, the aggregate amount of approximately HK$3,368,411,000 was recorded in contributed surplus.

(b) According to the relevant laws in the People's Republic of China (the "PRC"), the wholly foreign-owned enterprises in the PRC are required to transfer 10% of their net profit before 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. The wholly foreign-owned enterprises in PRC are also required to maintain a staff welfare and incentive bonus fund, while the amount and allocation basis are decided by the enterprise.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(338,779)	(368,094)
Adjustments for:		
Depreciation of property, plant and equipment	60,015	58,897
Change in fair value of investments held for trading	1,089	320
Gain on settlement of deferred consideration	–	(52,936)
Loss on fair value change of convertible notes payable	1,114	20,949
Written-off of inventories	89	–
Written-off of property, plant and equipment	3	7,001
Interest income	(5,580)	(3,986)
Finance costs	173,832	182,100
Amortisation of prepaid lease payments	7,280	7,234
Impairment loss recognised in respect of property, plant and equipment	–	90,617
Impairment loss recognised in respect of trade receivables	83,966	794
Impairment loss recognised in respect of other receivables	5,506	1,090
Operating cash flows before movements in working capital	(11,465)	(56,014)
Decrease in inventories	40,495	55,418
Increase in trade receivables	(14,383)	(150,744)
Decrease in other receivables	143,074	241,546
Decrease in prepayment for purchase of raw materials	226,993	481,157
Decrease in amounts due from customers for contract work	–	12,671
Increase in amounts due to related parties	17,687	22,211
Increase in amount due to a director	–	207
Decrease in trade, bills and other payables	(346,631)	(275,295)
(Decrease) increase in provision for warranty	(28,678)	9,751
Decrease in amounts due to customers for contract work	(202,517)	(360,985)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash used in operations	(175,425)	(20,077)
Tax paid	–	–
Interest received	5,580	3,986
NET CASH USED IN OPERATING ACTIVITIES	(169,845)	(16,091)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,655)	(33,147)
Disposal (purchase) of available-for-sale investments	6,400	(6,250)
(Increase) decrease in pledged bank deposits	(21,206)	91,394
Decrease in pledged deposits for other borrowings	33,792	–
NET CASH FROM INVESTING ACTIVITIES	10,331	51,997
FINANCING ACTIVITIES		
Borrowings raised	656,207	636,985
Repayment of borrowings	(447,351)	(623,667)
Repayment for deferred consideration	–	(10,000)
Interest paid	(93,710)	(125,383)
Issuance of shares, net of issuance cost	20,332	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	135,478	(122,065)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,036)	(86,159)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	39,854	150,506
Effect of foreign exchange rate changes	(2,269)	(24,493)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	13,549	39,854

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. GENERAL

China Ocean Shipbuilding Industry Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's 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 Corporate Information section to this annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 45 to the consolidated financial statements.

The functional currency of the Company and its subsidiaries (hereinafter collectively known as the "Group") was Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders as the Company's shares are listed on Hong Kong.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the director of the Company (the "Directors") have given consideration to the future liquidity of the Group.

The Group incurred a consolidated loss of approximately HK$337,440,000 for the year ended 31 December 2013 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,507,637,000 and HK$1,037,202,000 respectively. In addition, the Group has borrowings with the principal amount of approximately HK$6,976,000 (equivalent to RMB5,450,000) which are overdue during the year ended 31 December 2013, whereas it have became repayable on demand. After our deliberated considerations on the financial position of the Group, the capability for repaying such overdue liabilities depends on the Group's improvement of operation and financing activities.

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

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

b) The Group is in negotiation with banks to allow revolving of loans upon their due dates when the same renewal conditions entitling the past renewal are met;

c) The Group is in negotiation with financial institutions such as financial leasing company to obtain new borrowings;

d) The Group is seeking assistance from local government;

e) The outstanding balance (after provision for impairment) due from a ship buyer is expected to be recovered;

f) The Group is in negotiation with its creditors to extend payment due date;

g) Subsequent to the year ended date, the Company entered amendment deed with the convertible note holders to extend the due date of repayment from April 2014 to April 2016; and

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

h) Subsequent to the year ended date, the Company has raised approximately HK$56.61 million by issuing 530,000,000 shares to four subscribers.

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 this 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 and non-current liabilities as current assets and current liabilities respectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND HONG KONG ACCOUNTING STANDARDS (“HKASs”)

In the current year, the Group has applied the following new and revised HKFRSs and HKASs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC*) – Interpretation (“Int”) 20	Stripping Costs in the Production Phase of a Surface Mine

* *IFRIC represents the International Financial Reporting Interpretation Committee*

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int-12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosure, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the new and revised HKFRSs and HKASs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs and HKASs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC)* – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted

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

Annual Improvements to HKFRSs 2010 – 2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements.

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

Annual Improvements to HKFRSs 2011 – 2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in the fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in Note 7.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The Directors do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The Directors do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group do not have any financial assets and financial liabilities that qualify for offset.

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Directors do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's 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 at the end of the each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follow:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and 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.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

– servicing fees are recognised by reference to the proportion of the total cost of providing the service; and

– revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 income can be measured reliably. Interest income is accrued on a time basis, by reference to the 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised accumulated 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.

Depreciation is recognised so as to write-off the cost of assets 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated statement of profit or loss and other comprehensive income over the period of the lease on a straight-line basis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is 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 of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 end of the reporting period 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 will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

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 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

Financial assets are classified into one of the three categories including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 debt instrument 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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, 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 other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL 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
- on initial recognition it is a part of a portfolio of identified 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 FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "change in fair value of investments held for trading" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 7c to the consolidated financial statements.

4. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*
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 receivables, other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified accumulated impairment losses (see accounting policy of impairment loss on financial assets below).

AFS financial assets
AFS financial assets are non-derivatives that are either designated as or AFS are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated unlisted equity investments as AFS financial assets on initial recognition of those items.

Dividend on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

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

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets *(Continued)*
For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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 a trade and other receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments
Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities of the Group include trade, bills and other payables, borrowings, amounts due to related parties, amount due to a director and promissory notes payable which are subsequently measured at amortised cost, using the effective interest method.

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments *(Continued)*

Convertible notes contains liability and equity components

Convertible notes issued by the Group that contain both the liability and equity components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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 gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes 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 accumulated losses. 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 derivate in proportion to the allocation of the gross 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 notes designated as fair value through profit or loss

Convertible notes issued by the Group (including related embedded derivatives) are designated as financial liabilities at fair value through profit or loss on initial recognition. At each reporting dates subsequent to initial recognition, the entire convertible notes is measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

4. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. 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 the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

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 “loss before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 goodwill or 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and 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 and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised into profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are 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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risk; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF") and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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

Share-based payment transactions

Share options granted to employees
For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and 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 original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share option 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 option 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, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants (Continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a-below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 to the consolidated financial statements, the Directors 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.

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern and liquidity

As explained in Note 2 to the consolidated financial statements, the financial position of the Group indicates the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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 current year, due to unforeseen circumstances in certain shipbuilding contracts, the Group recognised foreseeable losses of approximately HK$30,711,000 (2012: HK$94,142,000) in respect of certain shipbuilding contracts.

Profit recognition for construction contracts

The Group commences recognition of profit for each shipbuilding construction contract when the percentage of completion exceeds 10% for that vessel, assuming that the outcome of the contract can be reasonably ascertained, as management considers that after this stage, the total contract costs attributable to the contracts can be measured reliably.

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-off of inventories as allowance for inventories. During the year ended 31 December 2013, an amount of HK$89,000 has been write-off as allowance and at 31 December 2013, the carrying amount of inventories amounted to approximately HK$84,362,000 (2012: HK$122,018,000).

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 property, plant and equipment

The carrying amount of property, plant and equipment is reviewed annually and adjusted for impairment in accordance with HKAS 36 *Impairment of Assets* whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The value-in-use calculation requires the Group to determine the recoverable amount of the assets based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the future cash flows are less than expected, a material impairment loss may arise. During the current year, the Group has not recognised any impairment loss (2012: HK$90,617,000) in respect of property, plant and equipment. Details of the recoverable amount calculation for property, plant and equipment is disclosed in Note 17.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of prepaid lease payments

The carrying amount of prepaid lease payments is reviewed annually and adjusted for impairment in accordance with HKAS 36 *Impairment of Assets* whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The market value calculation requires the Group to determine the recoverable amount of the assets based on the comparison approach assuming sale with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market. Where the market value is less than the carrying value, an impairment loss may arise. The Group has not recognised any impairment loss in respect of prepaid lease payment for the years ended 31 December 2013 and 2012. Details of the recoverable amount calculation for prepaid lease payments is disclosed in Note 18.

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. At 31 December 2013, the carrying amount of trade receivables is HK$83,966,000 (net of allowance for doubtful debts of approximately HK$84,760,000) (2012: carrying amount of trade receivables is HK$149,950,000, net of allowance for doubtful debts of approximately HK$794,000).

Provision for warranty

The Group provides for the estimated cost of warranties granted on shipbuilding products and undertakings to repair or replace items that do not perform satisfactorily at the time revenues for the related items are recognised. The shipbuilding products are covered by warranty for one year from the date of delivery. While the Group has put in place product quality programs and processes, warranty obligations are affected by actual product failure rates and by material usage and service delivery costs incurred in correcting a product failure. The warranty provision is established based upon the best estimates at the amounts necessary to settle future and existing claims on products sold as at the end of the reporting period. While management believes that the Group's warranty provisions are adequate and that the judgments applied are appropriate, the ultimate cost of product warranty could differ materially from the estimates. When the actual cost of quality of the products is lower than management originally anticipated, the Group releases an appropriate proportion of the provision, and if the cost of quality is higher than anticipated, the Group increases the provision.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Directors determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 7c provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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, convertible notes payable, promissory notes payable and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors 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 the 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 issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Fair value through profit or loss		
– Investments held for trading	**1,341**	2,430
Loans and receivables (including bank balances and cash)	**578,679**	811,699
Available-for-sale investments	**–**	6,250
	580,020	820,379
Financial liabilities		
Other financial liabilities measured at amortised cost	**1,897,474**	1,922,062
Convertible notes payable	**295,719**	278,632
	2,193,193	2,200,694

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include pledged deposits for other borrowings, trade receivables, other receivables, investments held for trading, available-for-sale investments, pledged bank deposits, bank balances and cash, trade, bills and other payables, amounts due to related parties, amount due to a director, borrowings, convertible notes payable and promissory 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

(i) Currency risk

The Company and its major operating subsidiary use RMB as its functional currency and are mainly exposed to currency risk in respect of United States dollars ("USD"), Euro ("EUR"), Great British Pound ("GBP") and HK$, arising from foreign currency denominated pledged bank deposits, bank balances and cash, trade receivables, other receivables, trade and other payables, borrowings, convertible notes payable and promissory notes payable. The Group's other operating subsidiaries (all use HK$ 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.

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

	Liabilities		Assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**–**	56,017	**136,146**	195,523
EUR	**20,202**	33,369	**71,460**	4,733
HK$	**394,958**	358,018	**2,623**	13,045
GBP	**20,000**	–	**–**	–

7. **FINANCIAL INSTRUMENTS** (Continued)

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of USD, EUR and HK$.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2012: 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 translations at the end of the reporting period for a 5% (2012: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss before tax where RMB strengthens 5% (2012: 5%) against the relevant currency. For a 5% (2012: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss and the balances below would be negative.

	2013	2012
	HK$'000	HK$'000
Decrease (increase) in loss		
– USD Impact	**(6,807)**	(6,975)
– EUR Impact	**(2,563)**	1,432
– HK$ Impact	**19,617**	17,249

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings, and exposed to fair value interest rate risk in relation to pledged deposits for other borrowings, pledged bank deposits, amount due to related parties, amount due to a director, fixed-rate borrowings, the liability component of convertible notes payable and promissory notes payable.

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

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances and borrowings at the end of the reporting period. The analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 5 and 50 basis points (2012: 5 and 50 basis points) increase or decrease in interest rate for bank balances and borrowings 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 (2012: 50 basis points) higher/lower for borrowings and all other variables were held constant, the loss before tax for the year ended 31 December 2013 would increase/decrease by approximately HK$3,006,000 (2012: HK$1,758,000).

If interest rate had been 5 basis points (2012: 5 basis points) higher/lower for bank balances, and all other variables were held constant, the loss before tax for the year ended 31 December 2013 would decrease/increase by approximately HK$7,000 (2012: HK$20,000).

(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 end of the reporting period.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, loss before tax for the year ended 31 December 2013 would decrease/increase by approximately HK$67,000 (2012: HK$122,000) as a result of the change in fair value of investments held for trading.

7. **FINANCIAL INSTRUMENTS** (Continued)

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

Credit risk

As at 31 December 2013, 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 consider that the Group's credit risk on receivables is significantly reduced.

The Group has significant concentration of credit risk on the largest customer as it represented 100% (2012: 100%) of the outstanding trade receivables at 31 December 2013 and significant concentration of credit risk by geographical location in Germany, in which 98.5% (2012: 100%) of total revenue is arisen from a customer in Germany. The Directors consider that the risks will be mitigated by exploring new markets other than Germany.

The Group has concentration of credit risk on bank deposits and balances as 80.2% (2012: 51.1%) of pledged bank deposits and bank balances and cash which were placed with three banks (2012: three banks).

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Operational risk

The Group's exposure to operational risk is primarily attributable to heavy reliance on W. Bockstiegel GmbH & Co. Reederei KG ("W. Bockstiegel"), the major customer of the Group in Germany. The revenue contributed by the shipbuilding service to W. Bockstiegel amounted to approximately HK$483,987,000 (2012: HK$1,771,718,000) which accounted for approximately 98.5% (2012: 94.7%) of the Group's total turnover for the year ended 31 December 2013.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group was exposed to liquidity risk at 31 December 2013 as the Group had net current liabilities and net liabilities of approximately HK$1,507,637,000 and HK$1,037,202,000, respectively. In order to improve the Group's liquidity position, the Directors have been implementing various operating and financing measures, details of which are set out in Note 2 to the consolidated financial statements.

The Group relied on borrowings as significant sources of liquidity, details of which are set out in Note 30 to the consolidated financial statements.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Liquidity risk** (Continued)*

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 borrowings with 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.

Liquidity risk tables

The table includes both interest and principal cash flows. To the extent that interest flows are at 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 HK$'000	Over 1 month but less than 3 months HK$'000	Over 3 months but less than 1 year HK$'000	Over 1 year but less than 2 years HK$'000	Over 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2013 HK$'000
2013								
Non-derivative financial liabilities								
Trade and other payables	–	343,654	67,747	128,426	–	–	539,827	539,827
Bills payables	–	90,880	31,488	179,200	–	–	301,568	301,568
Amounts due to related parties	17.21	24,484	–	48,163	–	–	72,647	72,251
Amount due to a director	15.00	–	–	957	–	–	957	842
Convertible notes payable (Note)	13.90	–	–	246,372	–	89,962	336,334	295,719
Promissory notes payable (Note)	19.15	–	–	93,659	–	–	93,659	79,842
Borrowings								
– fixed rates	9.77	44,834	38,140	230,226	–	–	313,200	301,850
– variable rates	8.69	63,295	17,128	261,309	104,866	187,460	634,058	601,298
		567,147	154,503	1,188,312	104,866	277,422	2,292,250	2,193,197

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	Over 1 month but less than 3 months HK$'000	Over 3 months but less than 1 year HK$'000	Over 1 year but less than 2 years HK$'000	Over 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012								
Non-derivative financial liabilities								
Trade and other payables	–	680,749	7,921	131,777	–	–	820,447	820,447
Bills payables	–	57,649	30,022	252,050	–	–	339,721	339,721
Amounts due to related parties	7.57	10,625	–	45,678	–	–	56,303	53,285
Amount due to a director	15.00	–	–	934	–	–	934	812
Convertible notes payable (Note)	14.01	–	–	–	225,185	94,994	320,179	278,632
Promissory notes payable (Note)	19.15	–	–	–	–	78,784	78,784	68,713
Borrowings								
– fixed rates	5.60	49,641	12,237	212,371	32,121	–	306,370	287,469
– variable rates	6.81	229,756	46,937	87,492	–	–	364,185	351,615
		1,028,420	97,117	730,302	257,306	173,778	2,286,923	2,200,694

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

At 31 December 2013 and 31 December 2012, there was no principal amount of the Group's bank borrowings with unconditional repayment on demand clause.

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Liquidity risk** (Continued)*

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

c. Fair value measurement of financial instruments

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial asset/financial liability	Fair value as at 31 December 2013 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities classified as held for trading in the consolidated statement of financial position	**Asset-approximately 1,341**	Level 1	Quoted price in an active market
Convertible notes payable classified as liabilities in the consolidated statement of financial position	**Liability-approximately 219,319**	Level 2	Discounted at a rate that reflects the credit risk of various counterparties

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2013 and 2012.

Fair value hierarchy as at 31 December 2013

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial asset				
Investments held for trading	1,341	–	–	1,341
Financial liability				
Convertible notes payable	–	219,319	–	219,319

The fair values of the financial liability included in the level 2 category above have been determined in accordance with generally accepted pricing models with the most significant inputs as mentioned above.

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

8. REVENUE AND SEGMENT INFORMATION

Information reported to the board of Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

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

b) Trading business – provision of trading and operated in Hong Kong.

Segment revenues and results

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

For the year ended 31 December 2013

	Shipbuilding HK$'000	Trading business HK$'000	Total HK$'000
Segment revenue	491,144	–	491,144
Segment result	(151,660)	–	(151,660)
Unallocated other income			5,580
Unallocated other gains and losses			(1,176)
Change in fair value of investments held for trading			(1,089)
Loss on fair value change of convertible notes payable			(1,114)
Finance costs			(173,832)
Unallocated corporate expenses			(15,488)
Loss before tax			(338,779)

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2012

	Shipbuilding HK$'000	Trading business HK$'000	Total HK$'000
Segment revenue	1,870,304	–	1,870,304
Segment result	(200,294)	–	(200,294)
Unallocated other income			1,179
Unallocated other gains and losses			(1,448)
Change in fair value of investments held for trading			(320)
Loss on fair value change of convertible notes payable			(20,949)
Gain on settlement of deferred consideration			52,936
Finance costs			(182,100)
Unallocated corporate expenses			(17,098)
Loss before tax			(368,094)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment result represents the loss from each segment without allocation of certain other income, certain other gains or losses, change in fair value of investments held for trading, loss on fair value change of convertible notes payable, gain on settlement of deferred consideration, certain corporate expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2013 HK$'000	2012 HK$'000
Assets		
Segment assets		
– Shipbuilding	1,341,164	1,837,141
– Trading business	–	–
Total segment assets	1,341,164	1,837,141
Pledged deposits for other borrowings	–	33,000
Pledged bank deposits and bank balances and cash	310,669	309,301
Unallocated corporate assets	2,061	8,872
Consolidated assets	1,653,894	2,188,314
Liabilities		
Segment liabilities		
– Shipbuilding	1,294,775	1,820,638
– Trading business	–	–
Total segment liabilities	1,294,775	1,820,638
Borrowings	903,148	639,084
Convertible notes payable	295,719	278,632
Promissory notes payable	79,842	68,713
Deferred tax liabilities	97,253	93,649
Unallocated corporate liabilities	20,359	10,672
Consolidated liabilities	2,691,096	2,911,388

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

- all assets are allocated to operating segments other than pledged deposits for other borrowings, pledged bank deposits, bank balances and cash, investments held for trading and certain corporate property, plant and equipment; and
- all liabilities are allocated to operating segments other than borrowings, convertible notes payable, promissory notes payable, deferred tax liabilities and certain other payables and accruals.

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets (excluded financial instruments) by geographical locations are detailed below:

	Revenue from external customers year ended 31 December		Non-current assets at 31 December	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Germany	**483,987**	1,870,304	**–**	–
The PRC	**7,157**	–	**873,317**	910,271
Hong Kong	**–**	–	**316**	501
	491,144	1,870,304	**873,633**	910,772

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31 December 2013

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	8,655	–	–	8,655
Depreciation of property, plant and equipment	59,830	–	185	60,015
Amortisation of prepaid lease payments	7,280	–	–	7,280
Written-off of inventories	89	–	–	89
Written-off of property, plant and equipment	3	–	–	3
Additional provision for warranty	7,705	–	–	7,705
Foreseeable losses recognised in respect of additional estimated costs	30,711	–	–	30,711
Impairment loss recognised in respect of trade receivables	83,966	–	–	83,966
Impairment loss recognised in respect of other receivables	5,506	–	–	5,506

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Income tax credit	(1,339)	–	–	(1,339)
Foreign exchange loss	1,176	–	–	1,176

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Year ended 31 December 2012

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	32,982	–	165	33,147
Depreciation of property, plant and equipment	58,362	–	535	58,897
Impairment loss recognised in respect of property, plant and equipment	90,617	–	–	90,617
Amortisation of prepaid lease payments	7,234	–	–	7,234
Written-off of property, plant and equipment	7,001	–	–	7,001
Additional provision for warranty	35,530	–	–	35,530
Foreseeable losses recognised in respect of additional estimated costs	94,142	–	–	94,142
Impairment loss recognised in respect of trade receivables	794	–	–	794
Impairment loss recognised in respect of other receivables	1,090	–	–	1,090

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

	Shipbuilding HK$'000	Trading business HK$'000	Unallocated HK$'000	Total HK$'000
Income tax credit	(23,993)	–	–	(23,993)
Foreign exchange gain	(276)	–	(5,277)	(5,553)

Information about major customers

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

	Year ended 2013 HK$'000	Year ended 2012 HK$'000
Customer A[1]	**483,987**	1,771,718

[1] Revenue from shipbuilding

9. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Interests on bank deposits	5,580	3,986
Sales of scrap materials	2,967	3,655
Government grants	–	2,865
Others	3,375	1,856
	11,922	12,362

10. OTHER GAINS AND LOSSES

	2013 HK$'000	2012 HK$'000
Written-off of inventories	(89)	–
Written-off of property, plant and equipment	(3)	(7,001)
Foreign exchange (loss) gain	(1,176)	5,553
	(1,268)	(1,448)

11. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (Note 34)	35,596	41,547
Imputed interest expense on deferred consideration (Note 32)	–	2,643
Promissory notes payable at effective interest rates (Note 35)	13,817	10,071
Interest on bank borrowings and bill payables	36,490	67,564
Interest on other borrowings	48,014	25,337
Guarantee fee and fund management fee incurred in connection with borrowings	35,502	25,486
Overdue interests	3,863	9,442
Others	550	10
	173,832	182,100

12. INCOME TAX CREDIT

	2013 HK$'000	2012 HK$'000
Current tax	–	–
Deferred tax (Note 36)	(1,339)	(23,993)
	(1,339)	(23,993)

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 Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2013 HK$'000	2012 HK$'000
Loss before tax	(338,779)	(368,094)
Tax at applicable domestic income tax rate of 25% (2012: 25%)	(84,695)	(92,024)
Tax effect of expenses not deductible for tax purpose	37,996	78,770
Tax effect of income not taxable for tax purpose	(11)	(14,857)
Tax effect of tax loss not recognised	43,989	2,718
Effect of different tax rates of subsidiaries operating in other jurisdiction	1,382	1,400
Income tax credit for the year	(1,339)	(23,993)

13. LOSS FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Loss for the year has been arrived at after charging:		
Directors' and chief executives' emoluments (Note 14)	5,289	4,752
Other staff costs:		
Salaries and other benefits	67,745	66,905
Contributions to retirement benefits scheme	11,596	10,221
Total staff costs	84,630	81,878
Auditor's remuneration		
– Current year (including non-audit service of HK$190,000 (2012: HK$180,000))	1,190	1,180
Depreciation of property, plant and equipment	60,015	58,897
Amortisation of prepaid lease payments	7,280	7,234
Minimum lease payments under operating leases in respect of office premises	2,089	2,005
Shipbuilding contract costs recognised as cost of sales	482,797	1,909,483
Foreseeable losses recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	30,711	94,142
Impairment loss recognised in respect of trade receivables	83,966	794
Impairment loss recognised in respect of other receivables	5,506	1,090

14. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

	Year ended 31 December 2013				Year ended 31 December 2012			
	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Executive directors:								
Mr. Chau On Ta Yuen *(Chairman)*	–	1,443	–	1,443	–	1,402	14	1,416
Mr. Li Ming *(Deputy Chairman and Chief Executives Officer)*	–	1,333	15	1,348	–	1,293	14	1,307
Mr. Zhang Shi Hong	–	1,090	15	1,105	–	1,049	14	1,063
Mr. Wang San Long	–	1,091	2	1,093	–	685	2	687
Independent non-executive directors:								
Mr. Hu Bai He	100	–	–	100	93	–	–	93
Ms. Xiang Siying	100	–	–	100	93	–	–	93
Ms. Xiang Ying	100	–	–	100	93	–	–	93
	300	4,957	32	5,289	279	4,429	44	4,752

Note:

No emoluments were paid by Group to any of the Directors or chief executives, as an inducement to join or joining the Group or as compensation for loss of office. Neither the Directors nor any of the chief executives waived any emoluments in both years. Apart from Directors, the Group has not classified any other person as chief executives during the years ended 31 December 2013 and 2012.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2012: three) were Directors whose emoluments are included in Note 14 above. The emoluments of the remaining one (2012: two) highest paid individuals were as follows:

	2013 HK$'000	2012 HK$'000
Salaries and other benefits	918	1,704
Contributions to retirement benefits scheme	–	14
	918	1,718

Their emoluments were within the following band:

	Number of employee 2013	2012
Nil to HK$1,000,000	1	2

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid employees 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:

	2013 HK$'000	2012 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	(337,440)	(344,101)

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	3,803,600	3,667,995

The computation of diluted loss per share for the years ended 31 December 2013 and 2012 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2012	997,948	5,632	30,777	158,632	132,599	1,325,588
Exchange adjustments	25,034	83	388	3,389	–	28,894
Additions	165	–	–	15	32,967	33,147
Transfer	103,895	–	–	61,671	(165,566)	–
Written-off	–	(325)	(5,142)	(11,879)	–	(17,346)
At 31 December 2012	1,127,042	5,390	26,023	211,828	–	1,370,283
Exchange adjustments	41,577	120	595	5,100	–	47,392
Additions	5,297	10	472	–	2,876	8,655
Transfer	1,866	(201)	201	1,010	(2,876)	–
Written-off	–	(42)	(5)	–	–	(47)
At 31 December 2013	**1,175,782**	**5,277**	**27,286**	**217,938**	**–**	**1,426,283**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2012	579,658	2,097	13,975	46,333	–	642,063
Exchange adjustments	10,327	36	219	923	–	11,505
Depreciation provided for the year	36,855	595	4,209	17,238	–	58,897
Impairment loss recognised for the year	90,617	–	–	–	–	90,617
Written-off	–	(304)	(3,004)	(7,037)	–	(10,345)
At 31 December 2012	717,457	2,424	15,399	57,457	–	792,737
Exchange adjustments	17,778	57	387	4,269	–	22,491
Depreciation provided for the year	35,895	228	3,640	20,252	–	60,015
Written-off	–	(41)	(3)	–	–	(44)
At 31 December 2013	**771,130**	**2,668**	**19,423**	**81,978**	**–**	**875,199**
CARRYING VALUES						
At 31 December 2013	**404,652**	**2,609**	**7,863**	**135,960**	**–**	**551,084**
At 31 December 2012	409,585	2,966	10,624	154,371	–	577,546

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for 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	20%
Motor vehicles	12.5%
Plant and machinery	6.67% – 25%

At 31 December 2013 and 2012, the buildings of the Group are situated on land in the PRC under medium-term lease.

For the years ended 31 December 2013 and 2012, the Directors after taking into account the economic condition and industrial development prospect, had considered that the gross operating loss incurred during the years indicated impairment loss for the Group's property, plant and equipment and therefore conducted an impairment review on the carrying amounts of the property, plant and equipment.

The Directors appointed an independent professional valuer, BMI Appraisals Limited, to perform a valuation on the property, plant and equipment as at 31 December 2013, no impairment (2012: impairment loss of approximately HK$90,617,000) was considered necessary as the recoverable amount based on the valuation report dated 27 March 2014, which was exceed the aggregate carrying amounts of the property, plant and equipment as at 31 December 2013. The value-in-use calculation is based on a pre-tax discount rate of 20.66% and cash flow projections prepared from financial forecasts approved by the management of the Group, taking into account of the current economic condition and operation of shipbuilding industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the management's expectations for the market development.

At 31 December 2013, certain plant and machinery with carrying values of approximately HK$106,832,000 (2012: HK$113,645,000) and certain buildings with ownership certificates of approximately HK$404,351,000 (2012: HK$409,122,000) have been pledged to a bank and a financial institution in the PRC to secure the Group's borrowings (Note 38).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2013	2012
	HK$'000	HK$'000
Leasehold land held under medium-term lease in the PRC	**329,829**	335,136
Analysed for reporting purposes as:		
Non-current asset	**322,549**	333,226
Current asset	**7,280**	1,910
	329,829	335,136

At 31 December 2013, the Group's prepaid lease payments with carrying value of approximately HK$329,829,000 (2012: HK$335,136,000) have been pledged to various banks to secure the Group's borrowings (Note 38).

Application for land use right certificate of the lake located in Xiaochao Lake Ruichang City Jiangxi Province (the "Lake") with aggregate carrying values of approximately HK$167,958,000 (2012: HK$170,661,000) was still in progress and the land use right certificate had not been issued to the Group by the relevant government authorities at 31 December 2013. The Lake is amortised over its estimated useful life of 50 years (2012: 50 years) on a straight-line basis.

The Directors are of the opinion that the Group has acquired the beneficial title of the Lake at the end of the reporting period, and the land use right certificate can be obtained upon the settlement of the purchase consideration.

For the years ended 31 December 2013 and 2012, the Directors, after taking into account the economic condition and industrial development prospect, had considered that the gross operating loss incurred during the years indicated impairment loss for the Group's prepaid lease payments and therefore conducted an impairment review on the carrying amounts of prepaid lease payments.

The Directors appointed an independent professional valuer, BMI Appraisals Limited, to perform a valuation on the prepaid lease payments at 31 December 2013 and no impairment loss (2012: HK$Nil) was considered necessary as the market value of the prepaid lease payments was amounting to approximately HK$391,680,000 (equivalent to RMB306,000,000) (2012: HK$390,000,000 (equivalent to RMB312,000,000)) based on the valuation report dated 27 March 2014, which was exceed the carrying value of prepaid lease payments. The market value is calculated by comparison approach assuming sale with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market. Other key assumptions for the prepaid lease payments valuation relate to (i) the property is sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement; (ii) no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner; and (iii) the proper legal title of the property is in possession and the property could be transferred with its residual term of land use rights at no extra land premium or other onerous payment payable to the government.

19. INTANGIBLE ASSETS

	Contracted and uncontracted customer relationships HK$'000
COST	
At 1 January 2012	1,798,734
Exchange adjustments	29,248
At 31 December 2012	1,827,982
Exchange adjustments	43,872
At 31 December 2013	1,871,854
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2012	1,798,734
Exchange adjustments	29,248
At 31 December 2012	1,827,982
Exchange adjustments	43,872
At 31 December 2013	1,871,854
CARRYING VALUES	
At 31 December 2013 and 31 December 2012	–

Intangible assets represent contracted and uncontracted customer relationships arising from the acquisition of INPAX Group (as defined in Note 34) during the year ended 31 December 2008.

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

20. PLEDGED DEPOSITS FOR OTHER BORROWINGS

In August 2010, a borrowing of approximately HK$141 million (equivalent to RMB120 million) was granted to the Group by a financial institution in the PRC. Deposit amounting to approximately HK$33 million (equivalent to approximately RMB26.4 million) at 31 December 2012 was pledged to secure this borrowing (Note 38).

At 31 December 2013, the pledged deposits for other borrowings was released as the borrowing was fully repaid during the year ended 31 December 2013.

21. INVENTORIES

	2013 HK$'000	2012 HK$'000
Raw materials	**84,362**	122,018

At 31 December 2013, the Group's inventories with carrying value of approximately HK$23,040,000 (2012: HK$50,911,000) have been pledged to various banks to secure the Group's borrowings (Note 38).

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

	2013 HK$'000	2012 HK$'000
Trade receivables – non-current portion	**125,562**	134,200
Less: Allowance for doubtful debts	**(62,781)**	–
Trade receivables – non-current portion, net	**62,781**	134,200
Trade receivables – current portion	**43,164**	16,544
Less: Allowance for doubtful debts	**(21,979)**	(794)
Trade receivables – current portion, net	**21,185**	15,750
Total trade receivables, net of allowance for doubtful debts (Note a)	**83,966**	149,950
Other receivables	**49,656**	101,734
Less: Allowance for doubtful debts	**(6,596)**	(1,090)
Other receivables, net	**43,060**	100,644
Value-added tax recoverable (Note b)	**137,031**	148,225
Deposits placed with a stakeholder	**3,950**	1,085
Deposits placed to a guarantor (Note c)	**–**	75,000
Deposit paid for acquisition of property, plant and equipment (Note d)	**3,412**	3,332
Total other receivables, net	**187,453**	328,286
Prepayment for purchase of raw materials (Note e)	**105,190**	324,397

Notes:

(a) Trade receivables of approximately HK$83,966,000 as at 31 December 2013 (2012: approximately HK$149,950,000 (equivalent to USD19,000,000)) were gross trade receivables of approximately HK$168,726,000 (equivalent to USD21,650,000) (2012: approximately of HK$150,744,000 (equivalent to USD19,000,000 and RMB646,000)), net of impairment loss of approximately HK$83,966,000 recognised during the year ended 31 December 2013 (2012: approximately HK$794,000). It represents the deferral final receivables from a ship buyer, an independent third party of the Group, in relation to the final payment for the acquisition of eight (2012: seven) vessels from the Group, by five instalments in 5.5 years (2012: five instalments in 5.5 years) and one (2012: Nil) vessel acquired from the Group by four instalments in 4.5 years (2012: Nil).

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

Notes: (Continued)

(b) At 31 December 2013, the Group's value-added tax recoverable of approximately HK$137,031,000 (equivalent to RMB107,056,000) (2012: approximately HK$148,225,000 (equivalent to RMB118,580,000)) has been pledged to a bank to secure the Group's banking facilities (Note 38).

(c) Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. During the year ended 31 December 2012, guarantee deposits of HK$75,000,000 (equivalent to RMB60,000,000) had been paid by the Group and the guarantee deposits have been refunded to the Group during the year ended 31 December 2013.

(d) Deposit paid for acquisition of property, plant and equipment was the purchase consideration paid for a property owned by a property developer in September 2008 at approximately HK$3,412,000 (equivalent to RMB2,665,700) (2012: approximately HK$3,332,000 (equivalent to RMB2,665,700)) which located in Nanchang. The premises permit has not yet been obtained and the ownership of property has not been transferred to the Group as at 31 December 2013. Under this circumstance, the Directors intent to terminate the acquisition agreement and the management is in negotiation with the property developer to refund the deposit paid. The Directors are of the opinion that the balances could be fully recoverable from the property developer within one year and legal action would otherwise be proposed.

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

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

	2013 HK$'000	2012 HK$'000
Within three months	–	23,625
More than three months but not more than one year	14,931	126,325
More than one year	69,035	–
	83,966	149,950

The Group did not have trade receivables that were overdue but not impaired at 31 December 2013 and 2012. The Group did not hold any collateral over these balances.

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

The Directors consider that the carrying amounts of trade and other receivables approximated to their fair values.

Movement in the allowance for doubtful debts for trade receivables:

	2013 HK$'000	2012 HK$'000
At 1 January	794	39,929
Impairment loss recognised	83,966	794
Amounts written-off as uncollectible	–	(39,929)
At 31 December	84,760	794

At the end of the reporting period, the Group's trade receivables were individually determined to be impaired.

Movement in the allowance for doubtful debts for other receivables:

	2013 HK$'000	2012 HK$'000
At 1 January	1,090	–
Impairment loss recognised	5,506	1,090
At 31 December	6,596	1,090

Included in trade receivables, other receivables and prepayment for purchase of raw materials are the following amounts denominated in a currency other than the functional currency of the Group:

	2013 '000	2012 '000
USD	15,905	25,272
EUR	3,561	7,718

23. INVESTMENTS HELD FOR TRADING

	2013 HK$'000	2012 HK$'000
Listed securities:		
Equity securities listed in Hong Kong	1,341	2,430

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

24. AVAILABLE-FOR-SALE INVESTMENTS

	2013 HK$'000	2012 HK$'000
Unlisted investments:		
Unlisted equity investments in PRC	–	6,250

During the year ended 31 December 2012, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., the wholly-owned subsidiary of the Company, contributed 10% issued capital in Jiujiang Jiangzhou Heavy Industry Co. Ltd ("Jiujiang Heavy"). Jiujiang Heavy is a private company established in the PRC and has not yet commenced business.

The available-for-sale investments is measured at cost less accumulated impairment at the end of the reporting period because there is no quoted market price available and the range of reasonable fair values estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

At 31 December 2012, the carrying amounts of available-for-sale investments approximated to their fair values and no impairment was considered necessary.

During the year ended 31 December 2013, all the available-for-sale investments were sold to an independent third party at a consideration of RMB5,000,000.

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.35% (2012: from 0.01% to 0.35%) per annum.

The pledged bank deposits carry fixed interest rate of 2.60% (2012: 2.60%) per annum and were pledged for secured bills payables as required by the relevant banks (Note 38).

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the Group:

	2013 '000	2012 '000
USD	1,627	5,743
EUR	3,156	458

26. TRADE, BILLS AND OTHER PAYABLES

	2013 HK$'000	2012 HK$'000
Trade payables	**130,162**	140,535
Bills payables	**301,568**	339,721
	431,730	480,256
Refund to customers for unshaped vessels written-off (Note i)	**–**	372,338
Consideration payable for acquisition of prepaid lease payments	**48,277**	47,145
Payable to guarantors (Note ii and iii)	**35,903**	12,671
Contribution payables to labour union and education funds	**11,261**	9,439
Accrual of contractor fees	**22,797**	27,642
Accrual of government funds	**84,851**	33,541
Other payables and accruals (Note iv)	**207,130**	177,690
	841,949	1,160,722

Notes:

(i) The Group has one arbitration proceeding in progress with one vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012.

During the year ended 31 December 2013, judgment of the arbitration has been finalised, the Group had fully settled the principal payments and the corresponding interests for the shipbuilding contracts of the vessels in arbitration (2012: approximately HK$372,338,000) in aggregate, to the relevant vessel owner.

(ii) The amount of accrual of guarantee fees for providing guarantee in respect of the banking facilities granted to the Group and funds from an independent third party of approximately HK$27,343,000 (equivalent to RMB21,362,000) in aggregate, at 31 December 2013 (2012: approximately HK$11,820,000 (equivalent to RMB9,456,000)).

(iii) The amount due to China Ruilian Holding Corporate ("China Ruilian") of approximately HK$8,560,000 (equivalent to RMB6,687,000) at 31 December 2013 was related to guarantee issued by China Ruilian for the Group's entering of certain shipbuilding contracts (2012: approximately HK$851,000 (equivalent to RMB681,000)).

(iv) Material balances included in other payables and accruals are as follow:

(a) The Group has accrued the land use tax of approximately HK$21,551,000 (equivalent to RMB16,837,000) at 31 December 2013 (2012: approximately HK$13,960,000 (equivalent to RMB11,170,000)).

(b) The Group has an accrued salaries of approximately HK$63,717,000 (equivalent to RMB49,779,000) at 31 December 2013 (2012: approximately HK$13,680,000 (equivalent to RMB10,940,000)).

(c) The Group has accrued the social security fund for and on behalf of its employees of approximately HK$31,091,000 (equivalent to RMB24,290,000) at 31 December 2013 (2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)). Pursuant to a repayment agreement signed between Jiangxi Jiangzhou Union Shipbuilding Co. Ltd., a wholly owned subsidiary of the Company and the relevant government authority on 3 March 2014, the amounts of accrued social security fund should be repaid before December 2015.

(d) At 31 December 2013, the Group has a provision of legal costs for the arbitration which settled during the year 2013 of approximately HK$20,000,000 (2012: HK$Nil).

26. 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 the reporting periods:

	2013 HK$'000	2012 HK$'000
0 – 30 days	108,919	153,932
31 – 60 days	107,031	124,039
61 – 90 days	8,722	38,168
Over 90 days	207,058	164,117
	431,730	480,256

Bills payables are secured by pledged bank deposits (Note 38).

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

Included in trade payables and other payables are the following amounts denominated in a currency other than the functional currency of the Group.

	2013 '000	2012 '000
GBP	1,565	–

27. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2013 HK$'000	2012 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	763,451	942,575
Recognised profits less recognised losses	(92,059)	(163,990)
	671,392	778,585
Less: progress payments and progress billings	(1,063,779)	(1,359,546)
Amounts due to customers for contract work	(392,387)	(580,961)

During the years ended 31 December 2013 and 2012, the inactive demand for new vessels, rising labour and materials costs and appreciation of RMB continue to impact the Group's shipbuilding business.

28. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, interest-bearing at the rate range from nil to 22.2% per annum and repayable within one year.

29. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest-bearing of 15% (2012: 15%) per annum and will be repayable in August 2014 (2012: August 2013).

30. BORROWINGS

	2013 HK$'000	2012 HK$'000
Bank borrowings	547,431	274,619
Other borrowings	355,717	364,465
	903,148	639,084
Secured	444,153	210,267
Unsecured	458,995	428,817
	903,148	639,084

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

	2013 HK$'000	2012 HK$'000
Within one year	610,822	608,004
More than one year but not more than two years	–	31,080
More than two years but not more than five years	292,326	–
	903,148	639,084
Less: Amounts due within one year shown under current liabilities	(610,822)	(608,004)
Amounts due after one year shown under non-current liabilities	292,326	31,080

30. BORROWINGS (Continued)

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

	2013 HK$'000	2012 HK$'000
Fixed-rate borrowings:		
Within one year	**301,850**	256,389
More than one year but not more than two years	**–**	31,080
	301,850	287,469

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

	2013 HK$'000	2012 HK$'000
Variable-rate borrowings:		
Within one year	**308,972**	351,615
More than two years but not more than five years	**292,326**	–
	601,298	351,615

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

	2013	2012
Effective interest rates:		
Fixed-rate borrowings (bank and other borrowings)	**1.27% to 54.75%**	3% to 15%
Variable-rate borrowings (bank and other borrowings)	**5.54% to 24%**	5.54% to 11.84%

30. BORROWINGS (Continued)

The details of other borrowings are as follows:

(i) During the year ended 31 December 2010, the Group obtained a new borrowing of approximately HK$141,000,000 (equivalent to RMB120,000,000), which would be repayable in 16 quarterly instalments commencing from August 2010. The borrowing carries interest of 5.34% per annum. The proceeds were used to finance the daily operation of the Group and were secured by the bank deposits of approximately HK$33,000,000 (equivalent to RMB26,400,000) at 31 December 2012. At 31 December 2012, the outstanding borrowings was amounting to approximately HK$70,648,000 (equivalent to RMB56,518,000). The borrowing were fully repaid and the pledged deposits for secure the borrowing was released during the year ended 31 December 2013.

(ii) During the year ended 31 December 2012, the Group obtained several new fixed-rate borrowings in aggregate of approximately HK$57,389,000 (equivalent to approximately USD7,065,000) which would be repayable within 100-180 days. The borrowings carry interest of a range from 5.6% to 5.8% per annum. The borrowings were fully repaid during the year ended 31 December 2013.

(iii) At 31 December 2013, the Group has loan advances from employees of approximately HK$40,212,000 (equivalent to RMB31,415,000) (2012: approximately HK$38,563,000 (equivalent to RMB30,850,000)) which bears interest rate of 15% (2012: 15%) per annum and will be repayable in August 2014 (2012: August 2013). The proceeds were used to finance the daily operation of the Group.

(iv) During the year ended 31 December 2012, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd., a wholly-owned subsidiary of the Company, had entered into the cooperation agreement with the independent third parties for the construction of six vessels. Pursuant to the cooperation agreement, the independent third parties had paid deposit of approximately HK$206,464,000 (equivalent to RMB161,300,000) at 31 December 2013 (2012: approximately HK$197,865,000 (equivalent to RMB158,292,000)) to Jiangxi Jiangzhou Union Shipbuilding Co. Ltd. Before the commencement of the shipbuilding process, the deposit carried interest at 90% of benchmark rate on The People's Bank of China. As at 31 December 2013, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd. is in negotiation with the independent third parties to finalise the terms of the shipbuilding contracts and has not commenced the shipbuilding process.

(v) At 31 December 2013, the Group has a balances of loan advances from several independent third parties of approximately HK$109,041,000 (equivalent to RMB85,188,000) (2012: Nil). The proceeds were used to finance the daily operation of the Group. The borrowings carry interest of a range from 6.24% to 54.75% per annum and overdue interest of a range from 33.6% to 146% per annum.

At 31 December 2013 and 2012, there was no principal amount of the Group's bank borrowings with repayment on demand clause.

At 31 December 2013, borrowings of approximately HK$444,153,000 (2012: HK$210,267,000) were secured by several collaterals (Note 38).

At 31 December 2013, a bank borrowing of the Group of approximately RMB149,000,000, which bears interest at 120% of base rate on The People's Bank of China per annum and will be repayable on 31 December 2016. The Company signed an undertaking letter to provide a guarantee in favour of the bank in order for Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., a wholly-owned subsidiary of the Company, to obtain the facility on 26 December 2013 and execute a charge over the Company's 100% indirect equity interests in Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. in favour of the bank as continuing security to secure the payment obligations of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.

30. BORROWINGS (Continued)

Included in the borrowings are the following amounts denominated in currencies other than the functional currencies of the Group:

	2013 '000	2012 '000
USD	–	7,065
EUR	1,912	3,288

31. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2012	25,366
Exchange adjustments	413
Additional provision for the year	35,530
Reversal of provision	(25,779)
At 31 December 2012	35,530
Exchange adjustments	1,078
Additional provision for the year	7,705
Reversal of provision	(36,608)
At 31 December 2013	**7,705**

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.

32. DEFERRED CONSIDERATION

	2013 HK$'000	2012 HK$'000
At 1 January	–	217,268
Imputed interest expense (Note 11)	–	2,643
Settlement	–	(219,911)
At 31 December	–	–

The amount was interest free and originally repayable on 31 December 2009. The amount represented HK$200,000,000 deferred consideration payable for the acquisition of INPAX Group (as defined in Note 34) during the year ended 31 December 2008. The imputed interest rate was 16.25% per annum.

During the year ended 31 December 2009, the Company entered into an agreement with the creditor, Million King Investments Limited ("Million King"), an independent third party, to defer its payment to 31 January 2010.

32. DEFERRED CONSIDERATION (Continued)

During the year ended 31 December 2010, Million King further agreed to defer its payment to 31 January 2012.

On 30 January 2012, the Company entered into a settlement deed (the "Settlement Deed") with Million King. Pursuant to the Settlement Deed, the Company's payment obligation of the deferred consideration HK$200,000,000 and the relevant interest should be fully settled and discharged by cash, offset against other receivables, issuance of the convertible notes of with the principal amount of HK$105 million ("CBIV") and the promissory notes with the principal amount of HK$95 million ("PN") from the Company to Million King and/or its nominees. Completion of the Settlement Deed should take place upon fulfillment of some conditions precedent. The Directors considered that all conditions precedent had 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 CBIV and PN; and (ii) outstanding interest payment, which was amounted to approximately HK$52,936,000, was credited to the consolidated statement of profit or loss and other comprehensive income as a gain on settlement of deferred consideration during the year ended 31 December 2012.

Details of the gain on settlement of the deferred consideration on 28 February 2012 are as follows:

	2012 HK$'000
Accumulated deferred consideration:	
At 1 January	217,268
Imputed interest expense (Note 11)	2,643
	219,911
Settled by:	
Cash	(10,000)
Offset against other receivables	(2,192)
Fair value of HK$105 million CBIV (Note 34)	(90,910)
Fair value of HK$95 million PN (Note 35)	(63,873)
	(166,975)
Gain on settlement of deferred consideration	52,936

33. SHARE CAPITAL

	Number of shares		Amount	
	2013	2012	**2013**	2012
			HK$'000	HK$'000
Ordinary shares of HK$0.05 each				
Authorised:				
At 1 January and 31 December	**20,000,000,000**	20,000,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
At 1 January	**3,667,994,886**	3,667,994,886	**183,400**	183,400
Issue of shares upon conversion of convertible notes (Note a)	**103,866,666**	–	**5,193**	–
Subscription of shares (Note b)	**200,000,000**	–	**10,000**	–
At 31 December	**3,971,861,552**	3,667,994,886	**198,593**	183,400

Notes:

(a) On 5 July 2013, certain convertible notes holders surrendered of approximately HK$15.58 million of convertible notes for the subscription of 103,866,666 new shares. Details are disclosed in Note 34(b) to the consolidated financial statement.

(b) On 23 July 2013, the Company entered into a subscription agreement with a subscriber, in which the subscriber could subscribe 200,000,000 new ordinary shares with the par value of HK$0.05 each at a price of HK$0.102 per subscription share. Net proceed of approximately HK$20,332,000 were raised and used as daily operating of the Group. The subscription was completed on 31 July 2013.

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

34. CONVERTIBLE NOTES PAYABLE

(a) Issuance of convertible notes for INPAX Group Acquisition

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

CBI comprised restricted convertible notes and unrestricted convertible notes.

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

34. CONVERTIBLE NOTES PAYABLE (Continued)

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

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 for the year ended 31 December 2008 of INPAX Group of approximately 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 initial aggregate principal amount of the unrestricted convertible notes of HK$2,400 million and the adjusted principal amount of the restricted convertible notes issued of approximately 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.

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 (iii) the open offer and the related bonus element in 2010.

In respect of the restricted convertible notes, no interest will be payable. For the unrestricted convertible notes, 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, 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.

34. CONVERTIBLE NOTES PAYABLE (Continued)

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

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

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 15 April 2012 to 15 April 2014; and iii) other terms and conditions remain unchanged (the "CBIII"). The transactions became unconditional upon consents and approvals obtained from the Stock Exchange on 31 January 2011 and shareholders at a special general meeting held on 28 January 2011.

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 as at 31 December 2011.

The valuation of the entire CBIII was performed by, Greater China Appraisal Limited ("Greater China"), an independent professional valuer not connected to the Group. The inputs used in the model in determining the fair value were as follows:

	CBIII at 31 December 2011
Share price	HK$0.102
Exercise price	HK$0.22
Contractual life	2.29 years
Risk-free rate	0.393%
Expected dividend yield	0%
Volatility	38.77%

34. CONVERTIBLE NOTES PAYABLE (Continued)

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

On 28 February 2012, part of the deferred consideration was settled by issuing CBIV and PN 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.

The valuation of the CBIV was performed by Greater China. The inputs used in the model in determining the fair value were as follows:

	CBIV at 28 February 2012
Share price	HK$0.118
Exercise price	HK$0.150
Contractual life	3.00 years
Risk-free rate	0.334%
Expected dividend yield	0%
Volatility	42.24%

On 5 July 2013, certain holders of CBIV to surrender the CBIV notes held by them of principal amount of HK$15.58 million in consideration for the convert 103,866,666 shares of the Company having a par value of HK$0.05 each at a conversion price of HK$0.15 per conversion share. For the remaining portion of CBIV notes with principal amount of HK$89.42 million, each and every term and condition under CBIV shall remain unchanged.

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 12.07% and 14.040%, being the effective interest rate of CBIII as at 31 December 2013 and 2012 respectively.

As at 31 December 2013 and 2012, the valuation of the CBIII was performed by Greater China. The inputs used in the model in determining the fair value were as follows:

	CBIII at 31 December 2013	CBIII at 31 December 2012
Share price	HK$0.086	HK$0.066
Exercise price	HK$0.22	HK$0.22
Contractual life	0.29 years	1.29 years
Risk-free rate	0.119%	0.106%
Expected dividend yield	0%	0%
Volatility	32.40%	41.35%

34. CONVERTIBLE NOTES PAYABLE (Continued)

The movements of the liability and equity component of CBIII and CBIV were as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2012	157,135	–	157,135
Issuance of CBIV (Note 32)	63,938	26,972	90,910
Loss on fair value change	20,949	–	20,949
Interest charged (Note 11)	41,547	–	41,547
Interest paid	(4,937)	–	(4,937)
At 31 December 2012	278,632	26,972	305,604
Conversion of CBIV	(13,157)	(4,002)	(17,159)
Loss on fair value change	1,114	–	1,114
Interest charged (Note 11)	35,596	–	35,596
Interest paid	(6,466)	–	(6,466)
At 31 December 2013	**295,719**	**22,970**	**318,689**

	2013 HK$'000	2012 HK$'000
Convertible notes – liability component:		
Analysed for reporting purpose as:		
Non-current liabilities	**76,400**	278,632
Current liabilities	**219,319**	–
	295,719	278,632

35. PROMISSORY NOTES PAYABLE

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

The aggregated principal amount of the PN is HK$95 million, bears interest at the rate of 3% per annum and is 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.

The movements of the liability component of PN were as follows:

	HK$'000
At 1 January 2012	–
Issuance of PN (Note 32)	63,873
Offset against other receivables	(3,817)
Interest charged (Note 11)	10,071
Interest paid	(1,414)
Liability component of PN at 31 December 2012	68,713
Interest charged (Note 11)	13,817
Interest paid	(2,688)
Liability component of PN at 31 December 2013	**79,842**

On 31 December 2012, the Company entered into a settlement agreement with Million King and one PN holder. Pursuant to the settlement agreement, other receivables of HK$3,000,000 from Million King shall be fully settled and discharged by PN with principal amount of HK$5,000,000 of the PN holder.

36. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed earnings of the PRC subsidiaries	Fair value adjustments on properties, prepaid lease payments and intangible assets	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2012	30,762	83,586	114,348
Exchange adjustments	–	3,294	3,294
Credit to profit and loss (Note 12)	–	(23,993)	(23,993)
At 31 December 2012	30,762	62,887	93,649
Exchange adjustments	–	4,943	4,943
Credit to profit and loss (Note 12)	–	(1,339)	(1,339)
At 31 December 2013	**30,762**	**66,491**	**97,253**

At the end of the reporting period, the Group had unused tax losses of approximately HK$198,449,000 (2012: HK$22,493,000) available to offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

37. CAPITAL COMMITMENTS

	2013	2012
	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	–	3,819

38. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged for the Group's banking facilities, bills payables and borrowings:

	2013 HK$'000	2012 HK$'000
Deposits (Notes 20 and 25)	**297,120**	302,447
Inventories (Note 21)	**23,040**	50,911
Properties, plant and equipment (Note 17)	**511,183**	522,767
Prepaid lease payments (Note 18)	**329,829**	335,136
Value-added tax recoverable (Note 22)	**137,031**	148,225
	1,298,203	1,359,486

39. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 27 May 2002 (the "Scheme 2002"). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 June 2012, the Scheme 2002 was expired and those options under the Scheme 2002 shall remain exercisable pursuant to the rules of the Scheme 2002, and a new share option scheme (the "Scheme 2012") was adopted.

The purpose of the Scheme 2002 and Scheme 2012 is to enable the Company to grant options to eligible employees, including Directors and its subsidiaries, to subscribe for shares of the Company as incentives and to provide them with a direct economic interest in attaining the long-term business objective of the Company.

At 31 December 2013, the number of outstanding share options under the Scheme 2012 was 46,449,780 (2012: the Scheme 2012 was 46,449,780), representing 1.17% (2012: 1.27%) 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 2002 and Scheme 2012 are 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.

No share option has been granted under the Scheme 2012 by the Company during the years ended 31 December 2013 and 2012.

39. SHARE OPTION SCHEME (Continued)

The following table discloses details of the options held by Directors, employees and consultants and movements in such holdings during the years ended 31 December 2013 and 2012:

Name	Date of grant	Exercisable period	Exercise price per share (Note a)	Number of share options: Outstanding at 31 December 2012 and 31 December 2013
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK$5.693	2,529,600
		5 March 2009 to 4 March 2018	HK$5.693	1,897,200
		5 March 2010 to 4 March 2018	HK$5.693	1,897,200
				6,324,000
	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	1,644,240
		7 May 2009 to 6 May 2018	HK$4.523	1,233,180
		7 May 2010 to 6 May 2018	HK$4.523	1,233,180
				4,110,600
				10,434,600
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	935,952
		7 May 2009 to 6 May 2018	HK$4.523	701,964
		7 May 2010 to 6 May 2018	HK$4.523	701,964
				2,339,880

39. SHARE OPTION SCHEME (Continued)

Name	Date of grant	Exercisable period	Exercise price per share (Note a)	Number of share options Outstanding at 31 December 2012 and 31 December 2013
Consultants (Note b)	7 May 2008	7 May 2008 to 6 May 2018	HK$4.523	33,675,300
				46,449,780

Notes:

a. 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.

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

The remaining contractual life of these outstanding share options is approximately 4.4 years (2012: 5.4 years). The weighted average exercise price is HK$4.682 (2012: HK$4.682) per share.

No share options were granted and exercised during the years ended 31 December 2013 and 2012. The estimated fair values of the options granted on 5 March 2008 and 7 May 2008 are approximately HK$18,086,000 and HK$30,502,000 respectively.

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

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

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

40. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group and in funds under the control of trustees. The Group contributes 5% or HK$1,250 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

41. CONTINGENT LIABILITIES

(a) The Group has an arbitration proceeding in progress with a vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012. During the year ended 31 December 2013, the Group had fully settled the principal payments for the shipbuilding contracts of the vessels in arbitration and the corresponding interests in aggregate, to the relevant vessel owner. Accordingly, there was no material contingent liability in connection to the arbitration at 31 December 2013 (31 December 2012: approximately HK$372,338,000 which were recorded as "Trade, bills and other payables" as disclosed in Note 26 to the consolidated financial statements for the year ended 31 December 2012).

(b) At 31 December 2013, the Group has not paid the social security fund for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2013 of approximately HK$31,091,000 (equivalent to RMB24,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated financial statements. (2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. and the relevant government authority on 3 March 2014 in respect of the accrued social security fund, all amounts should be repaid before December 2015. The Directors considered that if the Group could settle the accrued social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

41. CONTINGENT LIABILITIES (Continued)

(c) At 31 December 2013, the Group has not paid the housing provident fund contributions for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2013 of approximately HK$5,491,000 (equivalent to RMB4,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position. (2012: approximately HK$3,063,000 (equivalent to RMB2,450,000)).

The Director are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2013 and 2012.

42. 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:

	2013	2012
	HK$'000	HK$'000
Within one year	**1,014**	1,694
In the second to fifth year inclusive	**–**	692
	1,014	2,386

Operating lease payments represent rental payables by the Group for certain of its office premises. Leases are negotiated and rentals are fixed for an average term of 2 years (2012: 2 years).

43. RELATED PARTY TRANSACTIONS

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

(a) During the year ended 31 December 2013, the Group borrowed of approximately HK$25,815,000 (equivalent to approximately RMB20,168,000) (2012: approximately HK$39,848,000 (equivalent to approximately RMB31,878,000)) from Guangchang Zongbang Credit Loan Co.,Ltd. ("Zongbang Credit"). The proceeds were used to finance the daily operation of the Group. The Company's executive director, Mr. Li Ming ("Mr. Li") has beneficial interests in Zongbang Credit. The loans are unsecured, interest-bearing at a rate of 1.85% per month and repayable in April to May 2014. The interests incurred of approximately HK$9,711,000 (equivalent to approximately RMB7,707,000) during the year ended 31 December 2013. (2012: approximately HK$2,913,000 (equivalent to approximately RMB2,368,000)).

43. RELATED PARTY TRANSACTIONS (Continued)

(b) During the year ended 31 December 2013, Zha Jiu Peng and Wu Ge, the senior management of the Group, have advanced loan of HK$324,000 and HK$2,592,000 (equivalent to approximately RMB253,000 and RMB2,025,000) respectively to the Group (2012: HK$312,000 and HK$2,500,000 (equivalent to RMB250,000 and RMB2,000,000 respectively)). The loan is unsecured, interest-bearing at 15% per annum and repayable in August 2014. The interests incurred to Zha Jiu Peng and Wu Ge of approximately HK$3,800 and HK$31,500 (equivalent to RMB3,000 and RMB25,000) during the year ended 31 December 2013, respectively.

(c) During the year ended 31 December 2013, the Group had repaid the borrowing from its investee, Jiujiang Jiangzhou Heavy Industry Co., Ltd. ("Jiujiang Heavy") (2012: borrowing of HK$4,375,000 (equivalent to RMB3,500,000)). The 10% of equity interest of Jiujiang Heavy was owned by Jiangxi Jiangzhou Union Shipbuilding Co. Ltd., a wholly-owned subsidiary of the Company are sold to an independent third party during the year ended 31 December 2013, Jiujiang Heavy ceased to be a related party of the Group thereafter. The loan is unsecured and non-interest bearing.

(d) During the year ended 31 December 2013, the Group had repaid the borrowing from Shanghai Xianglong Investment Management Co. Ltd. ("Shanghai Xianglong") (2012: borrowing of HK$6,250,000 (equivalent to RMB5,000,000)). The equity interest of Shanghai Xianglong is owned as to 20% by Jiujiang Heavy. The loan were used to finance the daily operation of the Group.

(e) During the year ended 31 December 2013, the Group borrowed of HK$43,520,000 (equivalent to RMB34,000,000) from Jiangxi Haoli Fanya Energy Development Co., Ltd. ("Haoli Energy"). The Company's executive director, Mr. Zhang Shi Hong ("Mr. Zhang") is the legal representative of Haoli Energy. The loan is unsecured, interest-bearing at 14.4% per annum and repayable in December 2014.

(f) Mr. Wang San Long, the executive director of the Company, has provided a free counter-guarantee in favor of the Group to guarantee a facility of RMB170,000,000 (2012: RMB236,100,000) granted by banks in the PRC during the year ended 31 December 2013. At 31 December 2013, Mr. Wang has advanced loan of HK$842,000 (equivalent to approximately RMB658,000) to the Group (2012: HK$812,000 (equivalent to RMB650,000)). The loan is unsecured, interest-bearing at 15% per annum and repayable in August 2014. The interests incurred of approximately HK$10,000 (equivalent to RMB8,000) during the year ended 31 December 2013.

(g) Mr. Li Ming, the executive director of the Company, has provided a free counter-guarantee in favor of the Group to guarantee a facility of RMB60,000,000 (2012: RMB60,000,000) granted by banks in the PRC for the year ended 31 December 2013.

(h) The remuneration of Directors and chief executives during the years ended 31 December 2013 and 2012 has been disclosed in Note 14 to the consolidated financial statements. The remuneration of Directors and chief executives is recommended by the remuneration committee having regarded to the performance of individual and market trends.

The Directors are of the view that the terms of the above related party transactions are fair and reasonable, based on normal commercial terms where no charge over the assets of the Group is created in respect of the above transactions.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		15	38
Investments in subsidiaries	(a)	1	1
		16	39
CURRENT ASSETS			
Other receivables		20	20
Loan to subsidiary	(b)	15,000	–
Amounts due from subsidiaries	(a)	964	7,182
Investments held for trading		1,341	2,430
Bank balances and cash		377	3,538
		17,702	13,170
CURRENT LIABILITIES			
Convertible notes payable		219,319	–
Promissory notes payable		79,842	–
Other payables		20,297	9,920
Deferred consideration		–	–
		319,458	9,920
NET CURRENT (LIABILITIES) ASSETS		(301,756)	3,250
TOTAL ASSETS LESS CURRENT LIABILITIES		(301,740)	3,289
NON-CURRENT LIABILITIES			
Convertible notes payable		76,400	278,632
Promissory notes payable		–	68,713
Financial guarantee		190,720	–
		267,120	347,345
NET LIABILITIES		(568,860)	(344,056)
CAPITAL AND RESERVES			
Share capital		198,593	183,400
Reserves	(c)	(767,453)	(527,456)
		(568,860)	(344,056)

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) (i) Investments in subsidiaries

	2013 HK$'000	2012 HK$'000
Unlisted investment, at cost	3,067,687	3,067,687
Less: Accumulated provision for impairment	(3,067,686)	(3,067,686)
	1	1

(ii) Amounts due from subsidiaries

	2013 HK$'000	2012 HK$'000
Amounts due from subsidiaries	173,309	177,538
Less: Accumulated provision for impairment	(172,345)	(170,356)
	964	7,182

Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(b) During the year ended 31 December 2013, a loan of HK$15,000,000 was granted to Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., the wholly-owned subsidiary of the Company, by the Company. The amount is unsecured, interest free and repayable within one year.

(c) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000 (Note 34)	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012	328,914	3,368,411	–	43,693	(4,236,921)	(495,903)
Loss for the year, representing total comprehensive expenses for the year	–	–	–	–	(58,525)	(58,525)
Recognition of equity component of convertible notes payable	–	–	26,972	–	–	26,972
At 31 December 2012	328,914	3,368,411	26,972	43,693	(4,295,446)	(527,456)
Loss for the year, representing total comprehensive expenses for the year	–	–	–	–	(258,293)	(258,293)
Issuance of shares upon conversion of convertible notes payable	11,966	–	(4,002)	–	–	7,964
Issuance of shares	10,332	–	–	–	–	10,332
At 31 December 2013	**351,212**	**3,368,411**	**22,970**	**43,693**	**(4,553,739)**	**(767,453)**

45. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2013 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company 2013		Principal activities
			Directly %	Indirectly %	
INPAX Technology Limited	British Virgin Islands*	10,000 ordinary shares of USD1 each	100	–	Investment holding
Merge Limited	Hong Kong	1 ordinary share of HK$1 each	100	–	Inactive
China Ocean Shipbuilding Holdings Limited	British Virgin Islands*	1 ordinary share of USD1 each	100	–	Investment holding
Smart Victor Holdings Limited	British Virgin Islands*	1 ordinary share of USD1 each	100	–	Investment holding
China Ocean Shipbuilding Services Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	Inactive
China Ocean Shipbuilding (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	Sale agent for shipbuilding
Golden Device Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	Inactive
Jiangxi Jiangzhou Union Shipbuilding Co., Ltd **	PRC	USD59,000,000 paid-up registered capital	–	100	Manufacturing metal vessel, vessel ancillary products and reparation 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.

None of the subsidiaries had any debt securities at 31 December 2013 and 2012 or at any time during both years.

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 6 March 2014, the Company entered into the subscription agreements with four subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 530,000,000 subscription shares at a price of HK$0.107 per subscription share. The gross proceeds from the subscription were approximately HK$56.71 million and the net proceeds were approximately HK$56.61 million. The Company intends to apply the net proceeds from the subscriptions as repayment of debts and general working capital of the Group. The condition precedent under the subscription agreements has been fulfilled and completion of the subscriptions took place on 20 March 2014. Upon the completion of the subscription, the share capital and the share premium of the Company would be increased by approximately HK$26.50 million and HK$30.11 million respectively.

(b) On 25 March 2014, the Company and the noteholders entered into the amendment deed pursuant to which the parties agreed to amend the terms and conditions of the CBIII, inclusive of i) the extension of the maturity date from 15 April 2014 to 15 April 2016; and ii) the interest to be accrued on the outstanding principal of the CBIII shall be payable annually (as opposed to semi-annually under the existing terms and conditions of the CBIII). As at 31 December 2013, the CBIII in the principal amount of HK$225,000,000 remain outstanding.

47. DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

Financial Summary

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(337,440)**	(344,101)	(542,559)	(867,385)	(1,956,362)

	At 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**1,653,894**	2,188,314	3,169,282	3,530,272	4,514,681
TOTAL LIABILITIES	**(2,691,096)**	(2,911,388)	(3,570,677)	(3,638,627)	(4,007,865)
NET (LIABILITIES) ASSETS	**(1,037,202)**	(723,074)	(401,395)	(108,355)	506,816