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

Annual Report 2014

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
Dr. Tse Kwing Chuen
(appointed on 11 August 2014 and resigned on 23 March 2015)
Mr. Chen Hong
(appointed on 11 August 2014 and resigned on 17 March 2015)

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 313-317
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

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 2014.

The Group recorded an audited consolidated revenue and loss for the year attributable to owners of the Company amounting to approximately HK$104.88 million and HK$633.18 million respectively for the year ended 31 December 2014, representing an decrease of 78.65% and increase of 87.64% respectively with compared to last year.

In 2014, the shipbuilding industry was still suffering from continued weakness due to a lacklustre global recovery and overcapacity. Although the industry was on track toward recovery during the first half of the year, this momentum could not be sustained, preventing the sector from seeing a rebound. Under current difficult market conditions, the Group continued to implement cost control measures and actively secured new orders, which helped mitigate the negative impact from the overall industry slump. In addition, the Group also entered into the financial leasing business, in particular to target shipbuilding and related enterprises in the PRC and we also sought new business opportunities in the LNG-related sector.

Looking forward into 2015, we expect that current market sentiment will remain at a low ebb. However, following the launch of favourable policies by the Chinese Government to help boost the financial leasing business, we hope our new financial business operations will become a profit driver in the long run, and will help improve our shipbuilding operations by providing greater opportunities for the Group to receive funds from banks. Moreover, following a host of new measures implemented at the national level to cut excess capacity, we are hopeful that the demand for new orders will return to normal levels, allowing the shipyard to run at full capacity. Backed by our strategy of business diversification, our early prudent move into new business sectors, and an improved business environment, we remain confident that the Group will persevere and thrive during this current challenging economic period.

In closing, I would like to express my heartfelt appreciation to our shareholders, investors and partners for their strong support. I would also like to express my gratitude to our Directors and all Group employees for their diligence and valuable contributions.

CHAU On Ta Yuen
Chairman

30 March 2015

Management Discussion and Analysis

OVERVIEW

China Ocean Shipbuilding Industry Group Limited is engaged in the production and operation of shipbuilding, securities trading and providing financial services business.

2014 was another challenging year for the Group and the shipbuilding industry in general. After a pick-up in new orders and rising new building prices in second half of 2013 and early 2014, market momentum began to weaken again in the fourth quarter of the year. This downturn was a result of the fragile global recovery since 2009 and prolonged excess capacity in the PRC's shipbuilding industry. The plunging price of oil further lowered the incentive to invest in energy-saving ships and it also delayed the dismantling of outdated ships, and this had a negative impact on the demand for new ships as well as construction prices.

For the year ended 31 December 2014, the Group recorded revenues of HK$104.88 million (2013: HK$491.14 million), a decrease of approximately 78.65 % compared to 2013. This decrease was mainly the result of revenues from new shipbuilding orders commenced construction work in the last quarter of the year, which have not yet been recognized in the reporting period. In addition to the decrease in revenues, production capacity of the Group's shipyard has yet to be fully utilized amidst the current sluggish demand in the shipbuilding market, as well as the foreseeable losses incurred to secure the delivery of vessels that caused the Group's gross margin recorded a loss of HK$156.47 million in 2014 (2013: profit of HK$8.35 million).

In order to minimise the risks due to the current adverse operating environment in the shipbuilding sector, the Group sought to proactively explore and diversify into new businesses that may offer better prospects in order to improve overall operational efficiency. In June 2014, the Group announced its entry into the financial services business and the formation of a joint venture in Zhoushan. The joint venture began operations by forming a company with a shipbuilding enterprise in Zhoushan for the development of clean energy and shipping related business. In September 2014 the Group set up a subsidiary in Qianhai, Shenzhen, and obtained a business license to conduct financial leasing business, providing finance leases, especially for shipbuilding and related enterprises in the PRC enterprises. In November 2014 the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province.

For the year ended 31 December 2014, the Group recorded HK$6.73 million (2013: HK$11.92 million) in other income, gain of HK$1.14 million (2013: loss of HK$1.27 million) in other gains and losses, and HK$2.41 million (2013: HK$1.75 million) for selling and distribution expenses. These items did not record a significant change compared with last year.

Administrative expenses of HK$111.45 million (2013: HK$179.99 million) recorded a significant decrease and was primarily due to a decrease in the recognition of impairment of trade receivables from HK$83.97 million to HK$8.25 million.

During the year ended 31 December 2014, due to a lack of liquidity in recent years, the Group placed a great deal of effort on improving its financial position by fund raising activities. The Company issued one billion Hong Kong dollar convertible bonds in June 2014. These convertible bonds incurred significantly effective interest and resulted to a higher of 42.63% finance costs to HK$247.94 million (2013: HK$173.83 million) for the Group. In addition, the Group recorded isolated one-off, non-recurring costs that included impairment loss recognised in respect of property, plant and equipment, loss on the modification of convertible notes payable as well as share-based payment expenses amounting to HK$134.46 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK$633.18 million (2013: loss of HK$337.44 million) for the year ended 31 December 2014. The loss increased by approximately 87.64% compared to last year.

SHIPBUILDING BUSINESS

The shipbuilding sector came under intense pressure due to a lack of liquidity and new orders in recent years, over production capacity and volatile shipbuilding market. The Group, however, was included in the "White List" that PRC authorities published based on the "Regulatory Conditions for Shipbuilding Industry"《船舶行業規範條件》, aimed at encouraging financial institutions to provide more capital support for shipyards. Despite this measure, financial institutions did not relax their credit policies and restrictions, and the availability of bank loans to shipbuilders remained limited during 2014.

During the year ended 31 December 2014, revenues from the shipbuilding segment amounted to HK$104.08 million, representing a drop of 78.81% compared with last year and the gross loss of HK$157.27 million. The operating performance of the shipbuilding segment of the Group was also affected by account receivables deferral from a ship buyer, which the Group has already made a provision for impairment of trade receivables in 2013 and 2014. The Group also has been in advanced negotiations with other shipowners and banks and is confident of achieving greater progress in recovering the net receivables in 2015.

As at 31 December 2014, the secured order book of the Group comprised totally 11 heavy lift vessels and multi-purpose vessels. Moreover, specific new orders, including totally 12 multi-purpose vessels, multi-purpose vessels and chemical tankers are expected to become effective in the near future. In addition, certain new orders are currently being actively negotiated.

TRADING BUSINESS

The trading business recorded insignificant losses in both 2014 and 2013.

FINANCIAL SERVICES BUSINESS

During the year ended 31 December 2014, the Group expanded into the financial services business, specifically financial leasing services to enterprises in the PRC, especially targeting private shipyards. In September 2014, the Group obtained a business license for China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited, a wholly owned subsidiary company of the Group, established in Qianhai, Shenzhen. Besides, the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province. Since the financial services sector has begun to operate in late 2014, so only a small contribution was recorded to the Group during the year.

During the year ended 31 December 2014, the financial services segment began contributing revenues of HK$0.80 million and recorded a loss of HK$1.82 million. In addition, the Group also shared the profit of HK$1.59 million from the financial leasing company in Zhejiang province.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$127.09 million (31 December 2013: HK$310.67 million) of which HK$113.15 million (31 December 2013: HK$297.12 million) was pledged; short-term borrowings of HK$711.25 million (31 December 2013: HK$610.82 million); long-term borrowings of HK$219.24 million (31 December 2013: HK$292.33 million); short-term promissory notes payable amounted to approximately HK$ nil (31 December 2013: HK$79.84 million); convertible bonds/notes payable amounted to approximately HK$572.94 million (31 December 2013: HK$295.72 million) represented the principal amount of HK$718 million (31 December 2013: HK$314.42 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.02) at 31 December 2014 (31 December 2013: (1.04)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the year ended 31 December 2014, 1,022,727,270 shares, 596,133,333 shares and 1,410,000,000 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes/bonds at a conversion price of HK$0.22 per share, HK$0.15 and HK$0.20 per share respectively.

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, namely Qin Weijia, Wang Yongli, Wan Yong and Charmate Development Ltd, 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, representing of a 17.69% discount on the closing price (i.e. HK$0.13) of the last trading day immediately before the announcement date. The gross proceeds from the subscription were approximately HK$56.71 million and the net proceeds were approximately HK$56.61 million. The subscription has been completed on 20 March 2014. During the year ended 31 December 2014, the Group has fully utilized the net proceeds from the subscriptions for (i) approximately HK$29.57 million was used to repay debts; and (ii) approximately HK$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

On 14 May 2014, the Company entered into a placing agreement with Partner Capital Securities Limited, for placement of convertible bonds of the Company in an aggregate principal amount of HK$1,000,000,000 on a best-efforts basis. The convertible bonds have an initial conversion price of HK$0.20 per share (subject to adjustment) and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. On 27 June 2014, the issuance of the convertible bonds was completed, HK$964,000,000 convertible bonds was issued to Kingwin Capital Group Limited and HK$36,000,000 convertible bonds was issued to Partners Equity Investment Fund I, both parties were independent third parties to the Company. During the reporting period, the Group has fully utilized the net proceeds as follows:

(i) approximately HK$504 million was used as formation of a joint venture entity at Zhoushan, PRC;

(ii) approximately HK$126 million was used as first tranche of the initial capital requirement of a financial leasing company established in Shenzhen, PRC;

(iii) approximately HK$57 million was used to acquire a minority stake in a company which principally engages in financial leasing business in Zhejiang Province in the PRC;

(iv) approximately HK$220 million was used to repay debts and other borrowings (including partially settled loan from employees and promissory notes due on 31 December 2014);

(v) approximately HK$55 million was used to repay loans from banks;

(vi) approximately HK$10 million was used as direct costs of production; and

(vii) approximately HK$13 million was used as daily operating costs of the Group.

(For details of the variation of the use of proceeds, please refer to the announcement and circular of the Company dated 6 August 2014 and 3 October 2014 respectively.)

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December 2014 is set out in Note 8 to the consolidated financial statements from page 67 to 73.

CHARGES ON GROUP ASSETS

As at 31 December 2014, HK$113.15 million (31 December 2013: HK$297.12 million) of deposits, HK$ nil (31 December 2013: HK$23.04 million) of inventories, HK$377.90 million (31 December 2013: HK$511.18 million) of property, plant and equipment, HK$320.53 million (31 December 2013: HK$329.83 million) of prepaid lease payments and HK$ nil (31 December 2013: HK$137.03 million) of value-added tax recoverable, were pledged to banks or other parties for borrowings, bills payable and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and borrowings.

As at 31 December 2014, the Company were pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure a outstanding bank borrowing amounted to RMB107 million. For details, please refer to the Company's announcement dated 30 December 2013.

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 2014, 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

(i) In August 2014, the Group formed a joint venture in Zhoushan. The joint venture began operations by forming a company with a shipbuilding enterprise in Zhoushan for the development of clean energy and shipping related business. (For details, please refer the company's announcements dated 6 August 2014 and 18 December 2014.)

(ii) In September 2014 the Group set up a subsidiary in Qianhai, Shenzhen, and obtained a business license to conduct financial leasing business, providing finance leases, especially for shipbuilding and related enterprises in the PRC enterprises. (For details, please refer the company's announcement dated 8 October 2014.)

(iii) In November 2014 the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province. (For details, please refer the company's announcement dated 6 November 2014.)

Save as disclosed above, 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 47 to the financial statements on page 114.

LITIGATION

As at 31 December 2014, the details of the outstanding litigations of the Group are set out as follows:

(i) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Jiangzhou Union Shipbuilding Ltd. ("Jiangxi Shipbuilding"), a wholly-owned subsidiary of the Company. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB4,220,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

(ii) In December 2014, a supplier filed its writ with 中國國際經濟貿易仲裁委員會 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay RMB3,812,000 for purchase of paint and delivery charges. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB3,812,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

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

HUMAN RESOURCES

The Group had around 700 employees as at 31 December 2014. 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 2014 are disclosed in Note 44 to the financial statements on pages 108 and 109.

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 41 to the financial statements on page 107.

CONTINGENT LIABILITIES

(i) At 31 December 2014, the Group has not paid the social security fund for and on behalf of its employees which 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 2014 of approximately HK$40,683,000 (equivalent to RMB32,546,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statements of financial position (2013: approximately HK$31,091,000 (equivalent to RMB24,290,000)).

    A repayment agreement was signed between Jiangxi Shipbuilding and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Per the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(ii) At 31 December 2014, the Group has not paid the housing provident fund contributions for and on behalf of its employees which 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 2014 of approximately HK$7,210,000 (equivalent to RMB5,768,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2013: approximately HK$5,491,000 (equivalent to RMB4,290,000)). The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

Save as disclosed above, the directors of the Company are of the opinion that the Group has no material contingent liabilities at 31 December 2014.

CAPITAL COMMITMENTS

At 31 December 2014, the Group has capital commitment of approximately HK$125 million (31 December 2013: Nil) contracted but not provided in the consolidated financial statements in respect of unpaid registered capital for China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited.

PROSPECTS

In 2014, The China New Shipbuilding Price Index once hit a near 3-year high of 960 points yet it failed to maintain steady growth. We expect that the new building prices stay low in the coming year as overcapacity remains a problem in the industry. In response to the deteriorating operational environment for the shipbuilding sector, the PRC Government introduced more beneficial national policies, including – "Notice of the State Council on Issuing the Implementation Plans on Accelerating Structural Adjustment and Promoting Transformation and Upgrading of the Shipbuilding Industry (2013-2015)", which aims to promote structural adjustments, continuous quality improvements and greater efficiency in the industry.

The State Council of the PRC published 'Opinions of the State Council concerning the Promotion of the Healthy Development of Maritime Industry'(《國務院關於促進海運業健康發展的若干意見》) on 3 September 2014. The 'Opinion' is the first policy document outlining at the national level the strategic development directions for the maritime industry in the PRC with emphasis on industry reform. The Central Government aims to build a modern maritime system with high energy and economic efficiency as well as one that is internationally competitive by 2020. The policy encourages the development of fleets for transporting crude oil, liquid natural gas, containers and other related cargo.

The Group believes that implementation of these policies will lead to a healthier operating environment and will benefit the industry as a whole over the long term despite today's instability in the market. With the government's supporting policies in place, the Group remains cautiously optimistic in the long term development of the industry.

Concerning financial leasing operations, the Group is optimistic about near-term prospects as financing and leasing have become key alternative financing channels for the industry behind direct bank loans. As a shipbuilding company with a long history and extensive client base, the Group has established and nurtured strong relationships with shipowners and shipbuilding companies and we fully understand the needs and difficulties related to raising capital as well as the unique challenges facing shipbuilding enterprises in the PRC. The Group believes that shipbuilding enterprises will face greater financial needs in order to support their operations after the change in the payment policy for new ships. We also expect that financial leasing will contribute more to revenues and also improve performance of the Group in future.

To overcome various adverse economic impacts to the Group and achieve a more balanced business model with an aim to broaden the income base and provide better returns to the shareholders, the Group has been taking steps to explore the possibility of developing operations in the more profitable LNG-related business in the PRC. China is one of the world's largest energy consumers and the government desire to increase the share of natural gas in China's energy mix as illustrated in the China's Action Plan for the Prevention and Control of Air Pollution issued by China's State Council in September 2013. The prospect of LNG-related business is promising.

The preliminary plan of the LNG project is to develop the industry chain along the Yangtze River basin, for liquefied natural gas ("LNG") used in vessels, in particular the development of storage and transport, and movable refuelling system of new energy with a focus on LNG, thereby transforming the middle reaches of Yangtze River as a production hub for LNG storage, ships and related facilities, in addition, providing logistics services industry to establish a logistics centre for energy by integrating the industry chain for LNG used in vessels along the Yangtze River basin and the construction of new-energy vessels.

The Group has pressed ahead with its strategic LNG-related business plans with the cooperation of JiuJiang government. A professional team with experienced experts in the field has already in place and is making great progress on in-depth investigations to unveil new LNG-related projects.

Looking forward, the Group will continue to reinforce its overall financial position in order to prepare for any possible changes in the industry, as well as taking advantage of all viable and profitable investment opportunities to achieve our goal of business diversification.

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 2014, 22 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)*	29/29
Mr. Li Ming *(Deputy Chairman and CEO)*	29/29
Mr. Zhang Shi Hong	29/29
Mr. Wang San Long	29/29
Dr. Tse Kwing Chuen (appointed on 11 August 2014)	10/11
Mr. Chen Hong (appointed on 11 August 2014)	10/11
Independent non-executive directors:	
Mr. Hu Bai He	17/29
Ms. Xiang Si Ying	15/29
Ms. Xiang Ying	18/29

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, such as 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 2014.

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. 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.

One meeting was held during the year ended 31 December 2014. All members attended the meeting. The members of the Nomination Committee reviewed the proposed directors' details and made recommendation to the board for the appointment of directors during the year.

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.

Two meetings were held during the year ended 31 December 2014. 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.

Three meetings were held during the year ended 31 December 2014. The individual attendance of each member is set out below:

Name of member	Number of committee meetings attended
Mr. Hu Bai He	3/3
Ms. Xiang Si Ying	3/3
Ms. Xiang Ying	3/3

The Group's interim report of the six months to 30 June 2014 and the annual report for the year ended 31 December 2014 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 2014, the auditors of the Company received approximately HK$1,250,000 for audit services and HK$560,000 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 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. The Directors namely Chau On Ta Yuen, Li Ming, Zhang Shi Hong, Wang San Long, Hu Bai He, Xiang Si Ying and Xiang Ying 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 was related to Corporate Governance, regulatory development and training on other relevant topics.

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
30 March 2015

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 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 46 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 24 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 27 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 2014 are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution (2013: 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 115 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
Dr. Tse Kwing Chuen (appointed on 11 August 2014 and resigned on 23 March 2015)
Mr. Chen Hong (appointed on 11 August 2014 and resigned on 17 March 2015)

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. Li Ming, Mr. Wang San Long and Ms. Xiang Ying 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 67, 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. Mr. Chau has been an executive director of ELL Environmental Holdings Limited and an independent non-executive director of Good Fellow Resources Limited, Come Sure Group (Holdings) Limited, Leyou Technologies 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. Chau was awarded the Bronze Bauhinia Star by the Hong Kong Government of Special Administration Region in 2010.

Mr. Li Ming, aged 52, 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 has been an executive director of Shenzhen Microgate Technology Co. Ltd. from May 2012 to October 2013, 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 46, 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 64, 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 52, 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 52, 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 60, 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 2014, 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	355,042,500	4.71%
	Long position	Interest of controlled Corporation (note 2)	34,450,000	0.46%
	Long position	Beneficial owner and Interest of controlled Corporation	389,492,500	5.17%

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 2014, 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
	Company	Personal interest (Note 3)	45,000,000	HK$0.211
Zhang Shi Hong	Company	Personal interest (Note 1)	1,581,000	HK$5.693
	Company	Personal interest (Note 3)	16,000,000	HK$0.211
Wang San Long	Company	Personal interest (Note 2)	4,110,600	HK$4.523
	Company	Personal interest (Note 3)	16,000,000	HK$0.211
Li Ming	Company	Personal interest (Note 3)	40,000,000	HK$0.211
Chen Hong	Company	Personal interest (Note 3)	8,000,000	HK$0.211
Hu Bai He	Company	Personal interest (Note 3)	1,000,000	HK$0.211
Xiang Siying	Company	Personal interest (Note 3)	1,000,000	HK$0.211
Xiang Ying	Company	Personal interest (Note 3)	1,000,000	HK$0.211

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.

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

3. Such number of Shares represents the underlying shares of the options granted on 7 May 2014 under the share option scheme of the Company adopted on 27 June 2012.

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 40 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 2014, 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 2014, options to subscribe for 366,000,000 shares were granted but not yet exercised under the 2012 Scheme.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 44 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 2014, 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 2014.

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 2014
Wang Ping	Long	Personal	14,850,000	2,160,000,000	28.88%
Kingwin Capital Group Ltd	Long	Corporation	–	2,160,000,000 (Note 1)	28.68%
Chu Yuet Wah	Long	Personal	–	1,000,000,000	13.28%
Open Success Holdings Limited	Long	Corporation	–	1,000,000,000 (Note 2)	13.28%

Note 1: The underlying shares are held by Kingwin Capital Group Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Mr. Wang Ping.

Note 2: The underlying shares are held by Open Success Holdings Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms. Chu Yuet Wah.

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 40 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 19% and 32%, 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 96% 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 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 on pages 10 to 13.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors was interested in any business apart from the Group's business, which competed or was likely to compete either directly or indirectly with business of the Group during the year.

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
30 March 2015

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 24 to 114, which comprise the consolidated statement of financial position as at 31 December 2014, 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 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 2014 on the Group's consolidated financial statements for the year ended 31 December 2013, 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 2013 in respect of this scope limitation accordingly.

Any adjustments found to be necessary to the opening balances as at 1 January 2014 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2014. The comparative figures for the year ended 31 December 2013 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$75,985,000 as at 31 December 2014 were gross trade receivables of approximately HK$168,329,000 (equivalent to USD21,650,000), net of accumulated impairment loss of approximately HK$92,344,000, in which HK$8,245,000 has been recognised during the year ended 31 December 2014. This trade receivable is due from a ship buyer in relation to the deferral final payments of several vessel contracts as stated in Note 23 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 2014. 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 2014 were fairly stated, which could have consequential effect on net current liabilities and net liabilities of the Group as at 31 December 2014 and the 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 2014 and the Group's loss for the year then ended and related 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$633,177,000 for the year ended 31 December 2014. Besides, as set out in Note 2 to the consolidated financial statements, the Group's current liabilities exceeded its current assets by approximately HK$1,249,634,000 and the Group had net liabilities of approximately HK$778,278,000 as at 31 December 2014. 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 2014. 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

30 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	8	**104,880**	491,144
Cost of sales		**(261,353)**	(482,797)
Gross (loss) profit		**(156,473)**	8,347
Other income	9	**6,729**	11,922
Other gains and losses	10	**1,136**	(1,268)
Loss on modification of convertible notes payable	34	**(26,591)**	–
Change in fair value of investments held for trading		**2,750**	(1,089)
Impairment loss recognised in respect of property, plant and equipment	17	**(65,706)**	–
Selling and distribution expenses		**(2,412)**	(1,752)
Administrative expenses		**(111,454)**	(179,993)
Gain (loss) on fair value change of convertible notes payable	34	**2,110**	(1,114)
Gain on early redemption of promissory notes payable		**2,927**	–
Finance costs	11	**(247,943)**	(173,832)
Share-based payments expenses	40	**(42,163)**	–
Share of profit of an associate	20	**1,586**	–
Share of profit of joint ventures	21	**1,206**	–
Loss before tax		**(634,298)**	(338,779)
Income tax credit	12	**1,121**	1,339
Loss for the year attributable to owners of the Company	13	**(633,177)**	(337,440)
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**14,207**	(10,177)
Total comprehensive expenses for the year attributable to owners of the Company		**(618,970)**	(347,617)
Loss per share			
– Basic and diluted	16	**(HK$0.12)**	(HK$0.09)

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**417,500**	551,084
Prepaid lease payments – non-current portion	18	**313,171**	322,549
Intangible assets	19	**–**	–
Interest in an associate	20	**58,621**	–
Interests in joint ventures	21	**503,463**	–
Trade receivables – non-current portion	23	**35,843**	62,781
Finance lease receivables – non-current portion	25	**26,123**	–
		1,354,721	936,414
CURRENT ASSETS			
Inventories	22	**49,671**	84,362
Trade receivables – current portion	23	**40,142**	21,185
Other receivables	23	**192,730**	187,453
Prepayment for purchase of raw materials	23	**73,118**	105,190
Prepaid lease payments – current portion	18	**7,358**	7,280
Investments held for trading	24	**3,636**	1,341
Finance lease receivables – current portion	25	**11,280**	–
Pledged bank deposits	26	**113,154**	297,120
Bank balances and cash	26	**13,934**	13,549
		505,023	717,480
CURRENT LIABILITIES			
Trade, bills and other payables	27	**672,339**	841,949
Amounts due to customers for contract work	28	**341,881**	392,387
Amounts due to related parties	29	**26,287**	72,251
Amounts due to directors	30	**2,754**	842
Borrowings – due within one year	31	**711,254**	610,822
Provision for warranty	32	**142**	7,705
Convertible bonds/notes payable	34	**–**	219,319
Promissory notes payable	35	**–**	79,842
		1,754,657	2,225,117
NET CURRENT LIABILITIES		**(1,249,634)**	(1,507,637)
TOTAL ASSETS LESS CURRENT LIABILITIES		**105,087**	(571,223)

Consolidated Statement of Financial Position (Continued)

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CAPITAL AND RESERVES			
Share capital	33	**376,536**	198,593
Reserves		**(1,154,814)**	(1,235,795)
		(778,278)	(1,037,202)
NON-CURRENT LIABILITIES			
Borrowings – due after one year	31	**219,238**	292,326
Convertible bonds/notes payable	34	**572,935**	76,400
Deferred tax liabilities	36	**91,192**	97,253
		883,365	465,979
		105,087	(571,223)

The consolidated financial statements on pages 24 to 114 were approved and authorised for issue by the board of directors on 30 March 2015 and are signed on its behalf by:

CHAU On Ta Yuen
Director

ZHANG Shi Hong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 bonds/ notes reserve HK$'000 (Note 34)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	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 reclassified subsequently to profit or loss:									
Exchange differences arising on translating 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
Subscription 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)
Loss for the year	–	–	–	–	–	–	–	(633,177)	(633,177)
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss:									
Exchange differences arising on translating foreign operations	–	–	–	–	14,207	–	–	–	14,207
Total comprehensive expenses for the year	–	–	–	–	14,207	–	–	(633,177)	(618,970)
Recognition of equity component of convertible bonds payable (Note 34)	–	–	–	–	–	–	218,135	–	218,135
Issuance of shares upon conversion of CBV (Note 33)	51,136	204,900	–	–	–	–	–	–	256,036
Issuance of shares upon conversion of CBIV (Note 33)	29,807	73,249	–	–	–	–	(22,970)	–	80,086
Issuance of shares upon conversion of CBVI (Note 33)	70,500	215,887	–	–	–	–	(61,514)	–	224,873
Subscription of shares (Note 33)	26,500	30,210	–	–	–	–	–	–	56,710
Transaction costs attributable to issuance of shares	–	(109)	–	–	–	–	–	–	(109)
Recognition of equity-settled share-based payments (Note 40)	–	–	–	–	–	42,163	–	–	42,163
At 31 December 2014	**376,536**	**875,349**	**3,368,411**	**34,824**	**98,138**	**85,856**	**156,621**	**(5,774,013)**	**(778,278)**

Notes:

(a) There were a group reorganisation in 2001 and share consolidation 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 2014

	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(634,298)**	(338,779)
Adjustments for:		
Share of profit of an associate	**(1,586)**	–
Share of profit of joint ventures	**(1,206)**	–
Depreciation of property, plant and equipment	**60,195**	60,015
Change in fair value of investments held for trading	**(2,750)**	1,089
Gain on early redemption of promissory notes payable	**(2,927)**	–
Loss on modification of convertible notes payable	**26,591**	–
Share-based payments expenses	**42,163**	–
Gain on disposal of property, plant and equipment	**(4)**	–
Gain on disposal of investments held for trading	**(541)**	–
(Gain) loss on fair value change of convertible notes payable	**(2,110)**	1,114
Written-off of inventories	**124**	89
Written-off of property, plant and equipment	**117**	3
Interest income	**(5,008)**	(5,580)
Finance costs	**247,943**	173,832
Amortisation of prepaid lease payments	**7,358**	7,280
Impairment loss recognised in respect of property, plant and equipment	**65,706**	–
Impairment loss recognised in respect of finance lease receivables	**378**	–
Impairment loss recognised in respect of trade receivables	**8,245**	83,966
Impairment loss recognised in respect of other receivables	**320**	5,506
Operating cash flows before movements in working capital	**(191,290)**	(11,465)
Decrease in inventories	**32,590**	40,495
Decrease (increase) in trade receivables	**710**	(14,383)
(Increase) decrease in other receivables	**(9,990)**	143,074
Decrease in prepayment for purchase of raw materials	**29,607**	226,993
(Decrease) increase in amounts due to related parties	**(47,530)**	17,687
Increase in amounts due to directors	**1,738**	–
Decrease in trade, bills and other payables	**(176,724)**	(346,631)
Decrease in provision for warranty	**(7,744)**	(28,678)
Decrease in amounts due to customers for contract work	**(59,703)**	(202,517)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Cash used in operations	(428,336)	(175,425)
Interest received	5,008	5,580
NET CASH USED IN OPERATING ACTIVITIES	(423,328)	(169,845)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(16,327)	(8,655)
Disposal of available-for-sale investments	–	6,400
Disposal of investments held for trading	996	–
Decrease (increase) in pledged bank deposits	190,930	(21,206)
Decrease in pledged deposits for other borrowings	–	33,792
Net cash outflow on acquisition of an associate	(57,048)	–
Net cash outflow on acquisition of joint ventures	(502,267)	–
Additions of finance lease receivables	(37,781)	–
Proceeds from disposal of property, plant and equipment	128	–
Net cash inflow on acquisition of a subsidiary	27	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(421,342)	10,331
FINANCING ACTIVITIES		
Borrowings raised	885,572	656,207
Repayment of borrowings	(924,144)	(447,351)
Interest paid	(118,490)	(93,710)
Issuance of shares, net of issuance cost	56,601	20,332
Cash settlement for promissory notes payable	(85,040)	–
Proceeds from issue of convertible bonds	985,000	–
NET CASH FROM FINANCING ACTIVITIES	799,499	135,478
NET DECREASE IN CASH AND CASH EQUIVALENTS	(45,171)	(24,036)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	13,549	39,854
Effect of foreign exchange rate changes	45,556	(2,269)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	13,934	13,549

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 46 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 in 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 attributable to owners of the Company of approximately HK$633,177,000 for the year ended 31 December 2014 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,249,634,000 and HK$778,278,000 respectively.

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 finance 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; and

(g) subsequent to the year end date, the Company has raised net proceeds of approximately HK$59.90 million by issuing convertible bonds with principal amount of HK$60 million to three subscribers.

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

The Directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from 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")

Application of new and revised HKFRSs and HKASs

The Group has applied the following new and revised HKFRSs and HKASs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*) – Interpretation 21	Levies

* *IFRIC represents the International Financial Reporting Interpretation Committee*

Expect as described below, 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 disclosure set out in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. 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 consolidated and separate financial statements.

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

Application of new and revised HKFRSs and HKASs (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment Entities *(Continued)*

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 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.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosure for Non-Financial Assets* for the first time in the current year. 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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of these changes.

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

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 not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Annual Improvements Project	Annual Improvements 2010-2012 Cycle[6]
Annual Improvements Project	Annual Improvements 2011-2013 Cycle[4]
Annual Improvements Project	Annual Improvements 2012-2014 Cycle[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities – Applying the Consolidation Exception[5]
Amendments to HKAS 1	Disclosure Initiative[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exception. Early application is permitted.

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 general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting 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.

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

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

HKFRS 9 Financial Instruments *(Continued)*

- 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- 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 application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact 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)

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

– At cost

– In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or

– Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact 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)

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

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 and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

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

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

Annual Improvements to HKFRSs 2010-2012 Cycle *(Continued)*
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. As the amendments do not contain any effective date, they are considered to be immediately effective.

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 the application of these amendments will have a material effect on the Group's consolidated financial statements.

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, the Group 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 these amendments 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)

New and revised HKFRSs and HKASs issued but not yet effective (Continued)

Annual Improvements to HKFRSs 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKRFS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere with the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (Cap. 32).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

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.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders:

– potential voting rights held by the Group, other vote holders or other parties;

– rights arising from other contractual arrangements; and

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 a subsidiary 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint ventures exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

An investment in an associate or joint ventures is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue from the 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 income 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

Prepaid lease payments

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

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

When 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.

When 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.

When 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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Financial assets are classified into one of the three categories including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables 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.

Financial assets at FVTPL

Financial assets at FVTPL of the Group represent 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 7(c) 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. Loans and receivables (including trade receivables, other receivables, finance lease 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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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 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)

***Financial assets** (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. 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. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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.

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.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial liabilities and equity instruments** (Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Convertible bonds/notes contains liability and equity components

The component parts of compound instruments (convertible bonds/notes) issued by the Company are classified separately as financial liabilities and equity 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.

At the date of issue, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instruments maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity 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 bonds/notes are allocated to the liability and equity components 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 bonds/notes using the effective interest method.

Convertible bonds/notes contains liability component and conversion option derivate

The component parts of the convertible bonds/notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

At the date of issue, both the liability and conversion option components are recognised at fair value. In subsequent periods, the liability component of the convertible bonds/notes is carried at amortised cost using the effective interest method. The conversion option derivative and other embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial liabilities and equity instruments** (Continued)*

Convertible bonds/notes contains liability component and conversion option derivate (Continued)

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

Convertible bonds/notes designated as fair value through profit or loss

Convertible bonds/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 bonds/notes is measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial guarantee

A financial guarantee is a guarantee that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured of their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

(ii) the amount initially recognised loss, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

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 assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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.

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.

Current 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 items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

***Deferred tax** (Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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 lessor
Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the 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 acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and 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 arrangements

Share options granted to employees
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 40.

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 share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When 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 retained earnings.

Share options granted to consultants
Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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 judgement in applying accounting policies

The following are the critical judgement, 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgement in applying accounting policies (Continued)

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 significant 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.

Classification of Zhoushan China Ocean Investment Fund ("Zhoushan Investment Fund") and Zhoushan China Ocean Technology Development Company Limited ("Zhoushan Technology Development") as joint ventures

The Group have 78.74% ownership interests in Zhoushan Investment Fund and 59.06% effective interests in Zhoushan Technology Development since their establishment during the year ended 31 December 2014. Zhoushan Investment Fund and Zhoushan Technology Development are limited liability whose legal form confers separation between the parties to the joint arrangements and the parties themselves. There are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangements have rights to the assets and obligations for the liabilities of the joint arrangements. Furthermore, under the joint venture agreement, the significant investment of Zhoushan Investment Fund are required the consent and approval by all joint venture parties. Accordingly, Zhoushan Investment Fund and Zhoushan Technology Development are classified as joint ventures of the Group. Details of the interests in Zhoushan Investment Fund and Zhoushan Technology Development has been stated in Note 21 to the consolidated financial statements.

A subsidiary controlled by the Group through contractual arrangement

Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. ("Jiangxi Shipbuilding"), an indirectly wholly-owned subsidiary of the Company, entered into the contractual arrangements with Jiujiang Jianglian Shipbuilding Heavy Industry Co., Ltd. ("Jiujiang Jianglian"), which enable Jiangxi Shipbuilding to:

– exercise effective financial and operational control over Jiujiang Jianglian;

– irrevocably exercise equity holders' voting rights of Jiujiang Jianglian;

– receive substantially all of the economic returns generated by Jiujiang Jianglian by way of business support, technical and consulting services provided by Jiangxi Shipbuilding;

– obtain an irrevocable and exclusive right to purchase the entire equity interest in Jiujiang Jianglian from the respective equity holders.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

A subsidiary controlled by the Group through contractual arrangement (Continued)

Even though the Group does not have any equity interest in Jiujiang Jianglian, however through a series of the contractual arrangements, the Group has rights to the variable returns from its involvement in Jiujiang Jianglian and has the ability to affect those returns through its power over Jiujiang Jianglian, and is considered to control Jiujiang Jianglian. Consequently, the Company regards Jiujiang Jianglian as the indirectly wholly-owned subsidiary of the Company. The Group has included the statement of financial position, results and cash flows of Jiujiang Jianglian in the consolidated financial statements during the current year.

Key sources of estimation uncertainty

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

Construction contracts

The Group recognises contract revenue and profit 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 according to 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 according to 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$96,274,000 (2013: HK$30,711,000) 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 written-off of inventories to net realisable value is recognised as an expense in the period the written-off occur. During the year ended 31 December 2014, an amount of HK$124,000 has been written-off and at 31 December 2014, the carrying amount of inventories amounted to approximately HK$49,671,000 (2013: HK$84,362,000).

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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 recognised impairment loss of approximately HK$65,706,000 (2013: HK$ Nil) in respect of property, plant and equipment. Details of the calculation on the recoverable amount for property, plant and equipment are disclosed in Note 17 to the consolidated financial statements.

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 2014 and 2013. Details of the calculation on the recoverable amount for prepaid lease payments are disclosed in Note 18 to the consolidated financial statements.

Estimated impairment of trade receivables

When there is objective evidence indicate that the trade receivables may not be recovered, 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. During the current year, the Group has recognised impairment loss of approximately HK$8,245,000 (2013: HK$83,966,000) in respect of trade receivables and at 31 December 2014, the carrying amount of trade receivables is HK$75,985,000 (net of allowance for doubtful debts of approximately HK$92,344,000) (31 December 2013: carrying amount of trade receivables is HK$83,966,000 (net of allowance for doubtful debts of approximately HK$84,760,000)).

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 judgements 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2014

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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 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. Note 7(c) provides 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 bonds/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

	2014 HK$'000	2013 HK$'000
Financial assets		
Fair value through profit or loss		
– Investments held for trading	3,636	1,341
Loans and receivables (including bank balances and cash)	280,848	578,679
	284,484	580,020
Financial liabilities		
Other financial liabilities measured at amortised cost	1,631,745	1,897,474
Convertible bonds/notes payable	572,935	295,719
	2,204,680	2,193,193

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, finance lease receivables, investments held for trading, pledged bank deposits, bank balances and cash, trade, bills and other payables, amounts due to related parties, amounts due to directors, borrowings, convertible bonds/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 in respect of United States dollars ("USD"), Euro ("EUR"), Great British Pound ("GBP") and HK$, arising from foreign currency denominated pledged bank deposits, bank balances and cash, trade receivables, other receivables, trade and other payables, borrowings, convertible bonds/notes payable and promissory notes payable. The Group's other operating subsidiaries established in Hong Kong whose functional currencies are HK$ and do not have significant foreign currency exposure.

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

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Market risk** (Continued)*

(i) Currency risk (Continued)

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

	Liabilities		Assets	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**–**	–	**113,782**	136,146
EUR	**–**	20,202	**35,596**	71,460
HK$	**616,664**	394,958	**5,970**	2,623
GBP	**15,701**	20,000	**–**	–

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB against the relevant foreign currencies. A 5% (2013: 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% (2013: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss where RMB strengthens 5% (2013: 5%) against the relevant currency. For a 5% (2013: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax loss and the balances below would be negative.

	2014	2013
	HK$'000	HK$'000
Decrease/(increase) in loss		
– USD Impact	**(5,689)**	(6,807)
– EUR Impact	**(1,780)**	(2,563)
– HK$ Impact	**30,535**	19,617
– GBP Impact	**785**	1,000

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Market risk** (Continued)*

(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 finance lease receivables, pledged bank deposits, amounts due to related parties, amounts due to directors, fixed-rate borrowings, the liability component of convertible bonds/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.

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 interest rate risk on other financial liabilities (other than variable-rate bank balances and borrowings) are limited. 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 (2013: 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 (2013: 50 basis points) higher/lower for borrowings and all other variables were held constant, the post-tax loss for the year ended 31 December 2014 would increase/decrease by approximately HK$2,712,000 (2013: HK$3,006,000).

If interest rate had been 5 basis points (2013: 5 basis points) higher/lower for bank balances, and all other variables were held constant, the post-tax loss for the year ended 31 December 2014 would decrease/increase by approximately HK$7,000 (2013: HK$7,000).

(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, post-tax loss for the year ended 31 December 2014 would decrease/increase by approximately HK$182,000 (2013: HK$67,000) 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 2014, 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 of shipbuilding segment as it represented 100% (2013: 100%) of the outstanding trade receivables at 31 December 2014 and significant concentration of credit risk by geographical location in Germany, in which 96.1% (2013: 98.5%) of total revenue is arisen from customer from 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 the largest debtor as it represented 100% (2013: Nil) of the outstanding finance lease receivables at 31 December 2014. The Directors consider that the risks will be mitigated by exploring new debtors in the PRC.

The Group has concentration of credit risk on bank deposits and balances as 73.5% (2013: 80.2%) of pledged bank deposits and bank balances and cash which were placed with four banks (2013: 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$100,758,000 (2013: HK$483,987,000) which accounted for approximately 96.1% (2013: 98.5%) of the Group's total turnover for the year ended 31 December 2014.

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 2014 as the Group had net current liabilities and net liabilities of approximately HK$1,249,634,000 and HK$778,278,000, 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 31 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 31.12.2014 HK$'000
2014								
Non-derivative financial liabilities								
Trade and other payables	–	474,114	2,588	45,510	–	–	522,212	522,212
Bills payables	–	–	–	150,000	–	–	150,000	150,000
Amounts due to related parties	14.47	4,669	638	24,808	–	–	30,115	26,287
Amounts due to directors	15.00	127	–	2,930	–	–	3,057	2,754
Convertible bonds payable (Note)	7.5	–	–	65,334	53,850	771,407	890,591	572,935
Borrowings								
– fixed rates	16.47	188,903	5,256	153,634	75,000	–	422,793	388,162
– variable rates	7.06	265,033	2,127	94,249	184,083	20,163	565,655	542,330
		932,846	10,609	536,465	312,933	791,570	2,584,423	2,204,680

	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
Amounts due to directors	15.00	–	–	957	–	–	957	842
Convertible notes payable (Note)	1.93	–	–	246,372	–	89,962	336,334	295,719
Promissory notes payable (Note)	3	–	–	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

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

7. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

***Liquidity risk** (Continued)*

At 31 December 2014 and 31 December 2013, there was no principal amount of the Group's bank borrowings with unconditional repayment on demand clause.

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 assets/ financial liabilities	Fair value as at 31 December 2014 HK$'000	Fair value as at 31 December 2013 HK$'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 3,636**	Asset- approximately 1,341	Level 1	Quoted prices in an active market
Convertible bonds/notes payable classified as liabilities in the consolidated statement of financial position	**Liability- approximately –**	Liability- approximately 219,319	Level 2	Binominal Model – volatility, time to maturity, applicable stock price, maturity redemption premium, discount rate

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2014 and 2013.

	Fair value hierarchy Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
2014				
Financial asset				
Investment held for trading	**3,636**	**–**	**–**	**3,636**

7. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurement of financial instruments (Continued)

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

	Fair value hierarchy			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
2013				
Financial asset				
Investment held for trading	1,341	–	–	1,341
Financial liability				
Convertible bonds/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 other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their 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. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2014, "Finance leasing business" became a new operating activity of the Group and it is separately assessed by the chief operating decision maker. Therefore, it is reported as a new reportable and operating segment.

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 People's Republic of China (the "PRC").

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

c) Finance leasing business – provision of direct finance leasing, sale and leaseback and advisory services in the PRC.

8. REVENUE AND SEGMENT INFORMATION (Continued)

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 2014

	Shipbuilding HK$'000	Trading business HK$'000	Finance leasing business HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue					
– External sales	104,078	–	802	–	104,880
– Inter-segment sales	–	–	1,605	(1,605)	–
Total segment revenue	104,078	–	2,407	(1,605)	104,880
Segment result	(317,101)	–	(1,824)		(318,925)
Share of profit of an associate					1,586
Share of profit of joint ventures					1,206
Unallocated other income					5,549
Unallocated other gains and losses					3,128
Change in fair value of investments held for trading					2,750
Gain on fair value change of convertible notes payable					2,110
Gain on early redemption of promissory notes payable					2,927
Loss on modification of convertible notes payable					(26,591)
Share-based payments expenses					(42,163)
Finance costs					(247,943)
Unallocated corporate expenses					(17,932)
Loss before tax					(634,298)

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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)

* Segment revenue report above represents revenue generated from external customers. There was no inter-segment sale for the year ended 31 December 2013.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment loss represents the loss from each segment without allocation of certain other income, certain other gains or losses, share of profit of an associate, share of profit of joint ventures, change in fair value of investments held for trading, gain (loss) on fair value change of convertible notes payable, loss on modification of convertible notes payable, gain on early redemption of promissory notes payable, share-based payments expenses, 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:

	2014 HK$'000	2013 HK$'000
Assets		
Segment assets		
– Shipbuilding	1,127,141	1,341,164
– Trading business	–	–
– Finance leasing business	38,552	–
Total segment assets	1,165,693	1,341,164
Pledged bank deposits and bank balances and cash	127,088	310,669
Interest in an associate	58,621	–
Interests in joint ventures	503,463	–
Unallocated corporate assets	4,879	2,061
Consolidated assets	1,859,744	1,653,894
Liabilities		
Segment liabilities		
– Shipbuilding	996,672	1,294,775
– Trading business	–	–
– Finance leasing business	3,000	–
Total segment liabilities	999,672	1,294,775
Borrowings	930,492	903,148
Convertible bonds/notes payable	572,935	295,719
Promissory notes payable	–	79,842
Deferred tax liabilities	91,192	97,253
Unallocated corporate liabilities	43,731	20,359
Consolidated liabilities	2,638,022	2,691,096

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

- all assets are allocated to operating segments other than interest in an associate, interests in joint ventures, 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 bonds/notes payable, promissory notes payable, deferred tax liabilities and certain other payables and accruals.

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31 December 2014

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

	Shipbuilding HK$'000	Finance leasing business HK$'000	Unallocated HK$'000	Total HK$'000
Additions to property, plant and equipment	14,994	601	732	16,327
Depreciation of property, plant and equipment	59,948	10	237	60,195
Amortisation of prepaid lease payments	7,358	–	–	7,358
Written-off of inventories	124	–	–	124
Written-off of property, plant and equipment	117	–	–	117
Additional provision for warranty	142	–	–	142
Gain on disposal of property, plant and equipment	(4)	–	–	(4)
Gain on disposal of investments held for trading	–	–	(541)	(541)
Foreseeable losses recognised in respect of additional estimated costs	96,274	–	–	96,274
Impairment loss recognised in respect of property, plant and equipment	65,706	–	–	65,706
Impairment loss recognised in respect of trade receivables	8,245	–	–	8,245
Impairment loss recognised in respect of finance lease receivables	–	378	–	378
Impairment loss recognised in respect of other receivables	320	–	–	320
Interest income	(2,885)	(37)	(2,086)	(5,008)
Change in fair value of investments held for trading	–	–	(2,750)	(2,750)

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

	Shipbuilding HK$'000	Finance leasing business HK$'000	Unallocated HK$'000	Total HK$'000
Share of profit of an associate	–	–	(1,586)	(1,586)
Share of profit of joint ventures	–	–	(1,206)	(1,206)
Foreign exchange gain	(3,128)	–	–	(3,128)
Finance costs	148,840	–	99,103	247,943

8. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

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
Interest income	(5,572)	–	(8)	(5,580)
Change in fair value of investments held for trading	–	–	1,089	1,089

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
Foreign exchange loss	1,176	–	–	1,176
Finance costs	124,419	–	49,413	173,832

8. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in the PRC, Hong Kong and Germany.

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) is presented based on the geographical locations of the assets.

	Revenue from external customers Year ended 31 December		Non-current assets at 31 December	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Germany	**100,758**	483,987	**–**	–
The PRC	**4,122**	7,157	**1,291,943**	873,317
Hong Kong	**–**	–	**812**	316
	104,880	491,144	**1,292,755**	873,633

Information about major customers

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

	2014 HK$'000	2013 HK$'000
Customer A[1]	**100,758**	483,987

[1] Revenue from shipbuilding

9. OTHER INCOME

	2014 HK$'000	2013 HK$'000
Interests on bank deposits	**5,008**	5,580
Sales of scrap materials	**–**	2,967
Gain on disposal of investments held for trading	**541**	–
Gain on disposal of property, plant and equipment	**4**	–
Others	**1,176**	3,375
	6,729	11,922

10. OTHER GAINS AND LOSSES

	2014 HK$'000	2013 HK$'000
Written-off of inventories	**(124)**	(89)
Written-off of property, plant and equipment	**(117)**	(3)
Foreign exchange gain (loss)	**3,128**	(1,176)
Others	**(1,751)**	–
	1,136	(1,268)

11. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interests on borrowings wholly repayable within five years:		
Convertible bonds/notes payable at effective interest rates (Note 34)	**88,517**	35,596
Promissory notes payable at effective interest rates (Note 35)	**10,586**	13,817
Interests on bank borrowings and bill payables	**54,523**	36,490
Interests on other borrowings	**66,147**	48,014
Guarantee fee and fund management fee incurred in connection with borrowings	**27,899**	35,502
Overdue interests	**192**	3,863
Others	**79**	550
	247,943	173,832

12. INCOME TAX CREDIT

	2014 HK$'000	2013 HK$'000
Current tax	**–**	–
Deferred tax (Note 36)	**(1,121)**	(1,339)
	(1,121)	(1,339)

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.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% PRC Withholding Tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

12. INCOME TAX CREDIT (Continued)

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:

	2014 HK$'000	2013 HK$'000
Loss before tax	**(634,298)**	(338,779)
Tax at applicable domestic income tax rate of 25% (2013: 25%)	**(158,574)**	(84,695)
Tax effect of expenses not deductible for tax purpose	**70,741**	37,996
Tax effect of income not taxable for tax purpose	**(8,429)**	(11)
Tax effect of tax loss not recognised	**85,652**	43,989
Effect of different tax rates of subsidiaries operating in other jurisdiction	**9,489**	1,382
Income tax credit for the year	**(1,121)**	(1,339)

13. LOSS FOR THE YEAR

	2014 HK$'000	2013 HK$'000
Loss for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (Note 14)	**21,115**	5,289
Other staff costs:		
Salaries and other benefits	**40,413**	67,745
Share-based payments expenses – employees	**3,968**	–
Contributions to retirement benefits scheme	**9,775**	11,596
Total staff costs	**75,271**	84,630
Auditor's remuneration		
– Audit service	**1,250**	1,000
– Non-audit service	**560**	190
Depreciation of property, plant and equipment	**60,195**	60,015
Amortisation of prepaid lease payments	**7,358**	7,280
Minimum lease payments paid under operating leases in respect of rented premises	**2,586**	2,089
Shipbuilding contract costs recognised as cost of sales	**261,330**	482,797
Foreseeable losses recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**96,274**	30,711
Impairment loss recognised in respect of trade receivables	**8,245**	83,966
Impairment loss recognised in respect of other receivables	**320**	5,506
Impairment loss recognised in respect of finance lease receivables	**378**	–
Share-based payments expenses – consultants	**22,775**	–

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the nine (2013: seven) Directors and the chief executive were as follows:

	Year ended 31 December 2014					Year ended 31 December 2013			
	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Share-based payments expenses HK$'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)*	–	1,451	–	5,781	7,232	–	1,443	–	1,443
Mr. Li Ming *(Deputy Chairman and Chief Executive Officer)*	–	1,409	17	5,140	6,566	–	1,333	15	1,348
Mr. Zhang Shi Hong	–	1,098	17	2,056	3,171	–	1,090	15	1,105
Mr. Wang San Long	–	649	2	2,056	2,707	–	1,091	2	1,093
Dr. Tse Kwing Chuen (Note a)	–	372	4	–	376	–	–	–	–
Mr. Chen Hong (Note b)	–	372	4	–	376	–	–	–	–
Independent non-executive directors:									
Mr. Hu Bai He	100	–	–	129	229	100	–	–	100
Ms. Xiang Siying	100	–	–	129	229	100	–	–	100
Ms. Xiang Ying	100	–	–	129	229	100	–	–	100
	300	5,351	44	15,420	21,115	300	4,957	32	5,289

Notes:

(a) Dr. Tse Kwing Chuen was appointed as executive director with effect from 11 August 2014 and resigned with effect from 23 March 2015.

(b) Mr. Chen Hong was appointed as executive director with effect from 11 August 2014 and resigned with effect from 17 March 2015.

No emoluments were paid by Group to any of the Directors or chief executive, as an inducement to join or joining the Group or as compensation for loss of office. Neither the Directors nor any of the chief executive waived any emoluments in both years. Apart from Directors, the Group has not classified any other person as chief executive during the years ended 31 December 2014 and 2013.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2013: four) were Directors whose emoluments are included in Note 14 above. The emoluments of the remaining one (2013: one) highest paid individuals were as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	910	918
Contributions to retirement benefits scheme	17	–
Share-based payments expenses	1,928	–
	2,855	918

15. EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments were within the following band:

	Number of employee 2014	Number of employee 2013
Nil to HK$1,000,000	**–**	1
HK$2,000,000 to HK$3,000,000	**1**	–

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:

	2014 HK$'000	2013 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(633,177)**	(337,440)

	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**5,352,746**	3,803,600

The computation of diluted loss per share for the years ended 31 December 2014 and 2013 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible bonds/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 2013	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
Acquisition of a subsidiary	–	3	–	–	–	3
Exchange adjustments	(38,871)	(119)	(600)	(5,111)	–	(44,701)
Additions	–	59	1,274	–	14,994	16,327
Transfer	14,585	–	–	409	(14,994)	–
Disposal	–	–	(567)	–	–	(567)
Written-off	–	–	(101)	(140)	–	(241)
At 31 December 2014	**1,151,496**	**5,220**	**27,292**	**213,096**	**–**	**1,397,104**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2013	717,457	2,424	15,399	57,457	–	792,737
Exchange adjustments	17,778	57	387	4,269	–	22,491
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
Exchange adjustments	(18,354)	(62)	(438)	(2,075)	–	(20,929)
Provided for the year	36,975	577	3,269	19,374	–	60,195
Eliminated on disposal	–	–	(443)	–	–	(443)
Impairment loss recognised	60,563	–	–	5,143	–	65,706
Written-off	–	–	(62)	(62)	–	(124)
At 31 December 2014	**850,314**	**3,183**	**21,749**	**104,358**	**–**	**979,604**
CARRYING VALUES						
At 31 December 2014	**301,182**	**2,037**	**5,543**	**108,738**	**–**	**417,500**
At 31 December 2013	404,652	2,609	7,863	135,960	–	551,084

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 2014 and 31 December 2013, the buildings of the Group are situated on land in the PRC under medium-term lease.

For the years ended 31 December 2014 and 2013, 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 ("BMI Appraisals"), an independent professional valuer not connected to the Group to perform a valuation on the property, plant and equipment as at 31 December 2014, impairment loss of HK$65,706,000 (2013: HK$Nil) was considered necessary as excess of the aggregate carrying amount of property, plant and equipment as at 31 December 2014 over the recoverable amount based on the valuation report issued by BMI Appraisals. The value-in-use calculation is based on a pre-tax discount rate of 19.89% (2013: 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 2014, certain plant and machinery with carrying values of approximately HK$76,376,000 (2013: HK$106,832,000) and buildings of approximately HK$301,182,000 (2013: HK$404,351,000) have been pledged to various banks and a financial institution in the PRC to secure the Group's borrowings (Note 39).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2014 HK$'000	2013 HK$'000
Leasehold land held under medium-term lease in the PRC	**320,529**	329,829
Analysed for reporting purposes as:		
Non-current asset	**313,171**	322,549
Current asset	**7,358**	7,280
	320,529	329,829

At 31 December 2014, the Group's prepaid lease payments with carrying value of approximately HK$320,529,000 (2013: HK$329,829,000) have been pledged to various banks to secure the Group's borrowings (Note 39).

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$163,223,000 (2013: HK$167,958,000) 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 2014. The Lake is amortised over its estimated useful life of 50 years (2013: 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 2014 and 2013, 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, to perform a valuation on the prepaid lease payments at 31 December 2014 and no impairment loss (2013: HK$Nil) was considered necessary as the market value of the prepaid lease payments was amounting to approximately HK$380,000,000 (equivalent to RMB304,000,000) (2013: HK$391,680,000 (equivalent to RMB306,000,000)) based on the valuation report issued by BMI Appraisals, which was exceed the carrying value of prepaid lease payments as at 31 December 2014. 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 2013	1,827,982
Exchange adjustments	43,872
At 31 December 2013	1,871,854
Exchange adjustments	(43,872)
At 31 December 2014	**1,827,982**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2013	1,827,982
Exchange adjustments	43,872
At 31 December 2013	1,871,854
Exchange adjustments	(43,872)
At 31 December 2014	**1,827,982**
CARRYING VALUES	
At 31 December 2014 and 31 December 2013	–

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. The balance had been fully impaired during the year ended 31 December 2010.

20. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	2014 HK$'000	2013 HK$'000
Unlisted cost of investment in an associate	**57,048**	–
Share of post-acquisition profit and other comprehensive income, net of dividends received	**1,586**	–
Exchange realignment	**(13)**	–
	58,621	–

20. INTEREST IN AN ASSOCIATE (Continued)

During the year ended 31 December 2014, the Group acquired 20% paid-up registered capital in Zhejiang Ocean Leasing Company Limited ("Zhejiang Ocean") at the consideration of RMB45,000,000. The acquisition has been completed on 30 November 2014.

Details of the Group's associate at the end of the reporting period is as follow:

Name of entity	Form of entity	Place of incorporation/ Principal place of operation	Nominal value of registered capital	Proportion of ownership interests held by the Group	Proportion of voting rights held by the Group	Principal activities
Zhejiang Ocean	Incorporated	PRC/PRC	USD6,000,000 paid-up registered capital	20%	20%	Finance leasing business

Summarised financial information of an associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Zhejiang Ocean

	2014 HK$'000
Current assets	1,023,668
Non-current assets	775,172
Current liabilities	(928,653)
Non-current liabilities	(580,345)

	1 December 2014 to 31 December 2014 HK$'000
Revenue	17,798
Profit for the period	7,932
Other comprehensive income for the period	–
Total comprehensive income for the period	7,932
Dividends received from an associate during the period	–

20. INTEREST IN AN ASSOCIATE (Continued)

Summarised financial information of an associate (Continued)

Zhejiang Ocean *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

	2014 HK$'000
Net assets of the associate	289,842
Proportion of the Group's ownership interest in Zhejiang Ocean	20%
Exchange realignment	13
Goodwill	640
Carrying amount of the Group's interest in Zhejiang Ocean	58,621

21. INTERESTS IN JOINT VENTURES

Details of the Group's interests in joint ventures are as follows:

	2014 HK$'000	2013 HK$000
Unlisted cost of investments in joint ventures	502,267	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,206	–
Exchange realignments	(10)	–
	503,463	–

Pursuant to a joint venture agreement entered into between an indirect wholly-owned subsidiary of the Company and two joint venture partners on 6 August 2014 in relation to the establishment of a joint venture company, Zhoushan Investment Fund, the Group contributed RMB400,000,000 to the Zhoushan Investment Fund, which represented 78.74% of the equity interests in the Zhoushan Investment Fund. Under the joint venture agreement, the significant investment of Zhoushan Investment Fund are required the consent and approval by all joint venture parties. The Directors are of the opinion that Zhoushan Investment Fund is therefore classified as joint venture of the Group.

Pursuant to the agreement entered into between Zhoushan Investment Fund and an independent third party on 11 December 2014 in relation to the establishment of a limited liability company in the PRC, Zhoushan Technology Development with the registered capital of RMB400,000,000, Zhoushan Investment Fund contributed RMB300,000,000, which represented 75% of the registered capital of Zhoushan Technology Development.

21. INTERESTS IN JOINT VENTURES (Continued)

Details of each of the Group's joint ventures at the end of the reporting period are as follow:

Name of entity	Form of entity	Place of incorporation/ Principal place of operation	Class of shares held	Proportion of ownership interests/ Group's effective interest held by the Group	Proportion of voting rights held by the Group	Principal activities
Zhoushan Investment Fund	Incorporated	PRC/PRC	RMB400,000,000 paid-up registered capital	78.74%	33.33%	Equity investment using its own capital fund and provision of management consultancy services and consultancy services for setting up enterprises
Zhoushan Technology Development	Incorporated	PRC/PRC	RMB300,000,000 paid-up registered capital	59.06%	26.66%	Development and application of energy saving technologies, research and development and production of clean energy facilities and equipment, development and consultancy services on ocean engineering related equipment technology

Summarised consolidated financial information of joint ventures

Summarised consolidated financial information in respect of each of the Group's joint ventures is set out below. The summarised consolidated financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Zhoushan Investment Fund

	2014 HK$'000
Current assets	762,466
Non-current assets	–
Current liabilities	(949)
Non-current liabilities	–
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	13,091
Current financial liabilities (excluding trade and other payables and provisions)	(509)
Non-current financial liabilities (excluding trade and other payables and provisions)	–

21. INTERESTS IN JOINT VENTURES (Continued)

Summarised consolidated financial information of joint ventures (Continued)

Zhoushan Investment Fund *(Continued)*

	15 August 2014 (date of incorporation) to 31 December 2014 HK$'000
Revenue	–
Profit for the period	1,529
Other comprehensive income for the period	–
Total comprehensive income for the period	1,529
Dividends received from the joint ventures during the period	–
The above profit for the period include the following:	
Depreciation and amortisation	–
Interest income	2,142
Interest expense	–
Income tax expense	–

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in Zhoushan Investment Fund recognised in the consolidated financial statements:

	2014 HK$'000
Net assets of Zhoushan Investment Fund	761,517
Non-controlling interests of Zhoushan Technology Development	(124,997)
Net assets attributable to owners of Zhoushan Investment Fund	636,520
Proportion of the Group's ownership interest in Zhoushan Investment Fund	78.74%
Exchange realignment	2,267
Carrying amount of the Group's interest in Zhoushan Investment Fund	503,463

21. INTERESTS IN JOINT VENTURES (Continued)

Summarised consolidated financial information of joint ventures (Continued)

Zhoushan Investment Fund *(Continued)*

On 7 January 2015, Zhoushan Investment Fund and other shareholders of Zhoushan Technology Development entered into the capital contribution agreement, pursuant to which all shareholders of Zhoushan Technology Development agreed to make a capital contribution to increase the registered capital of Zhoushan Technology Development from RMB400 million (equivalent to approximately HK$500 million) to RMB708 million (equivalent to approximately HK$885 million), in which RMB208 million (equivalent to approximately HK$260 million) is to be contributed by Zhoushan Investment Fund. After the capital contribution, the percentage shareholding of Zhoushan Investment Fund in Zhoushan Technology Development will changed from 75% to 71.75%.

22. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	49,671	84,362

The Group's inventories with carrying value of approximately HK$23,040,000 have been pledged to various banks to secure the Group's borrowings at 31 December 2013 (Note 39). The relevant pledge has been released during the year ended 31 December 2014.

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

	2014 HK$'000	2013 HK$'000
Trade receivables – non-current portion	89,607	125,562
Less: Allowance for doubtful debts	(53,764)	(62,781)
Trade receivables – non-current portion, net	35,843	62,781
Trade receivables – current portion	78,722	43,164
Less: Allowance for doubtful debts	(38,580)	(21,979)
Trade receivables – current portion, net	40,142	21,185
Total trade receivables, net of allowance for doubtful debts (Note a)	75,985	83,966
Other receivables	41,904	49,656
Less: Allowance for doubtful debts	(6,916)	(6,596)
Other receivables, net	34,988	43,060
Value-added tax recoverable (Note b)	149,026	137,031
Deposits placed with a stakeholder (Note c)	932	3,950
Deposits placed to agents (Note c)	4,452	–
Deposit paid for acquisition of property, plant and equipment (Note d)	3,332	3,412
Total other receivables, net	192,730	187,453
Prepayment for purchase of raw materials (Note e)	73,118	105,190

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

Notes:

(a) Trade receivables of approximately HK$75,985,000 (equivalent to USD9,773,000) as at 31 December 2014 (2013: approximately HK$83,966,000 (equivalent to USD10,825,000)) were gross trade receivables of approximately HK$168,329,000 (equivalent to USD21,650,000), net of accumulated impairment loss of approximately HK$92,344,000 (2013: HK$83,966,000) in which HK$8,245,000 (2013: HK$83,966,000) has been recognised during the year ended 31 December 2014 (2013: gross trade receivables of approximately HK$168,726,000 (equivalent to USD21,650,000)). 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 (2013: eight) vessels from the Group, by five instalments in 5.5 years (2013: five instalments in 5.5 years) and one (2013: one) vessel acquired from the Group by four instalments in 4.5 years (2013: 4.5 years).

(b) At 31 December 2013, the Group's value-added tax recoverable of approximately HK$137,031,000 (equivalent to RMB107,056,000) has been pledged to a bank to secure the Group's banking facilities (Note 39). The pledge has been fully released during the year ended 31 December 2014.

(c) During the year ended 31 December 2014, certain vessel buyers have made progress payments for ship construction contracts to two agents and one stakeholder (2013: one stakeholder) rather than directly to the Group. The Group has the entitlement to these progress payments in accordance with the contracts but the balances are placed under custody of the agents/stakeholder to ensure these progress payments are used to pay for the costs to relevant ship construction contracts. The progress payments in custody will be paid over to the Group based on the shipbuilding progress.

(d) At 31 December 2014, deposit paid for acquisition of property, plant and equipment of approximately HK$3,332,000 (equivalent to RMB2,665,700) was the purchase consideration paid for a property owned by a property developer in September 2008 (2013: approximately HK$3,412,000 (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 2014. 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 has been taken.

(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:

	2014 HK$'000	2013 HK$'000
More than three months but not more than one year	–	14,931
More than one year	75,985	69,035
	75,985	83,966

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

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

The Group did not have trade receivables that were overdue but not impaired as at 31 December 2014 and 31 December 2013.

Movement in the allowance for doubtful debts for trade receivables:

	2014 HK$'000	2013 HK$'000
At 1 January	84,760	794
Impairment loss recognised	8,245	83,966
Exchange realignment	146	–
Amounts written-off as uncollectible	(807)	–
At 31 December	92,344	84,760

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:

	2014 HK$'000	2013 HK$'000
At 1 January	6,596	1,090
Impairment loss recognised	320	5,506
At 31 December	6,916	6,596

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:

	2014 '000	2013 '000
USD	14,450	15,905
EUR	3,757	3,561

24. INVESTMENTS HELD FOR TRADING

	2014 HK$'000	2013 HK$'000
Listed securities:		
Equity securities listed in Hong Kong	3,636	1,341

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

25. FINANCE LEASE RECEIVABLES

	2014 HK$'000	2013 HK$'000
Current finance lease receivables	11,280	–
Non-current finance lease receivables	26,123	–
	37,403	–

Amounts receivable under finance leases

	2014 HK$'000	2013 HK$'000
Finance lease receivables	45,149	–
Less: Unearned finance income	(7,368)	–
Net finance lease receivables	37,781	–
Impairment for finance lease receivables	(378)	–
	37,403	–

The maturity profile of these finance lease receivables from customers at the end of the reporting period, analysed by the remaining periods to their contracted maturity, is as follows:

	2014 HK$'000	2013 HK$'000
Repayable (including interests)		
Within one year	15,237	–
One to two years	14,956	–
Two to three years	14,956	–
	45,149	–
Repayable (net of interests)		
Within one year	11,280	–
One to two years	12,447	–
Two to three years	13,676	–
	37,403	–
Impairment allowances		
At the beginning of year	–	–
Charge for the year	378	–
At end of year	378	–

25. FINANCE LEASE RECEIVABLES (Continued)

Finance lease receivables balances are guaranteed by the holding company of the finance lessee. There were no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.35% (2013: from 0.01% to 0.35%) per annum.

The pledged bank deposits carry fixed interest rate of 0.35% (2013: 2.60%) per annum and were pledged for secured bills payables as required by the relevant banks (Note 39).

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:

	2014 **'000**	2013 '000
USD	**203**	1,627
EUR	**11**	3,156

27. TRADE, BILLS AND OTHER PAYABLES

	2014 **HK$'000**	2013 HK$'000
Trade payables	**113,595**	130,162
Bills payables	**150,000**	301,568
	263,595	431,730
Consideration payable for acquisition of prepaid lease payments	**47,145**	48,277
Payable to guarantors (Note i)	**37,812**	35,903
Contribution payables to labour union and education funds	**12,142**	11,261
Accrual of contractor fees	**33,632**	22,797
Accrual of government funds	**32,500**	84,851
Other payables and accruals (Note ii)	**245,513**	207,130
	672,339	841,949

27. TRADE, BILLS AND OTHER PAYABLES (Continued)

Notes:

(i) The balances represented guarantee fee payable to several guarantors in relation to their guarantee on the banking facilities and borrowings obtained by the Group at 31 December 2014.

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

(a) The Group has accrued the land use tax of approximately HK$28,441,000 (equivalent to RMB22,753,000) at 31 December 2014 (2013: approximately HK$21,551,000 (equivalent to RMB16,837,000)).

(b) The Group has an accrued salaries of approximately HK$66,540,000 (equivalent to RMB53,232,000) at 31 December 2014 (2013: HK$63,717,000 (equivalent to RMB49,779,000)).

(c) The Group has accrued the social security fund for its employees of approximately HK$40,683,000 (equivalent to RMB32,546,000) at 31 December 2014 (2013: approximately HK$31,091,000 (equivalent to RMB24,290,000)). Pursuant to a repayment agreement signed between Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company and the relevant government authority on 26 January 2015, the amounts of accrued social security fund should be repaid before December 2019.

(d) At 31 December 2014, the Group has an outstanding legal costs for the shipbuilding contracts in judged arbitration of approximately HK$15,701,000 (2013: HK$20,000,000).

(e) During the year ended 31 December 2014, a promissory notes holder was early redeemed the promissory notes and the relevant accrual interests of promissory notes of approximately HK$3,504,000 was waived.

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:

	2014 **HK$'000**	2013 HK$'000
0 – 30 days	**53,998**	108,919
31 – 60 days	**112,860**	107,031
61 – 90 days	**1,534**	8,722
Over 90 days	**95,203**	207,058
	263,595	431,730

Bills payables are secured by pledged bank deposits (Note 39).

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

	2014 **'000**	2013 '000
GBP	**1,302**	1,565

28. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2014 HK$'000	2013 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	1,046,091	763,451
Recognised profits less recognised losses	(268,240)	(92,059)
	777,851	671,392
Less: progress payments and progress billings	(1,119,732)	(1,063,779)
Amounts due to customers for contract work	(341,881)	(392,387)

29. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, interest-bearing at the rate range from nil to 15% (2013: nil to 22.2%) per annum and repayable within one year.

30. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-bearing of 15% (2013: 15%) per annum and will be repayable within one year.

31. BORROWINGS

	2014 HK$'000	2013 HK$'000
Bank borrowings	356,250	547,431
Other borrowings	574,242	355,717
	930,492	903,148
Secured	396,372	444,153
Unsecured	534,120	458,995
	930,492	903,148

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

	2014 HK$'000	2013 HK$'000
Within one year	711,254	610,822
More than one year but not more than two years	199,075	–
More than two years but not more than five years	20,163	292,326
	930,492	903,148
Less: Amounts due within one year shown under current liabilities	(711,254)	(610,822)
Amounts due after one year shown under non-current liabilities	219,238	292,326

31. BORROWINGS (Continued)

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

	2014 HK$'000	2013 HK$'000
Fixed-rate borrowings:		
Within one year	313,162	301,850
More than one year but not more than two years	75,000	–
	388,162	301,850

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

	2014 HK$'000	2013 HK$'000
Variable-rate borrowings:		
Within one year	398,092	308,972
More than one year but not more than two years	124,075	–
More than two years but not more than five years	20,163	292,326
	542,330	601,298

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

	2014	2013
Effective interest rates:		
Fixed-rate borrowings (bank and other borrowings)	4.4% to 24%	1.27% to 54.75%
Variable-rate borrowings (bank and other borrowings)	5.54% to 24%	5.54% to 24%

The details of other borrowings are as follows:

(i) At 31 December 2014, the Group has loan advances from employees of approximately HK$19,422,000 (equivalent to approximately RMB15,538,000) (2013: approximately HK$40,212,000 (equivalent to RMB31,415,000)) which bears interest rate of 15% (2013: 15%) per annum and will be repayable within one year. The proceeds were used to finance the daily operation of the Group.

(ii) At 31 December 2014, the Group has loan advances from several independent third parties of approximately HK$479,661,000 (equivalent to approximately RMB383,728,000) (2013: approximately HK$315,505,000 (equivalent to RMB246,488,000)). The proceeds were used to finance the daily operation of the Group. The borrowings carry interest of a range from 5.54% to 24% (2013: 6.24% to 54.75%) per annum.

(iii) At 31 December 2014, the Group has loan advances from one of the shareholders of the Group's associate, Zhejiang Ocean, of approximately HK$75,159,000 (equivalent to approximately RMB60,128,000) (2013: Nil). The proceeds were used to finance the daily operation of the Group. The borrowing carries interest of 8.5% per annum. Mr. Li Ming, the executive director of the Company and an independent third party have provided a free guarantee to secure the payment obligations of the borrowing.

31. BORROWINGS (Continued)

At 31 December 2014 and 2013, there was no repayment on demand clause on the Group's bank borrowings and other borrowings.

At 31 December 2014, borrowings of approximately HK$396,372,000 (2013: HK$444,153,000) were secured by collaterals as details in Note 39.

At 31 December 2014, a bank borrowing of HK$133,750,000 (equivalent to RMB107,000,000), which bears interest at 7.38% as according to the base rate on The People's Bank of China per annum, will be repayable on 31 December 2016. The Company has pledged its entire equity interests in Jiangxi Shipbuilding as collateral of this borrowing.

Included in the borrowings is the following amount denominated in currency other than the functional currencies of the Group:

	2014	2013
	'000	'000
EUR	**–**	1,912

32. PROVISION FOR WARRANTY

	HK$'000
At 1 January 2013	35,530
Exchange adjustments	1,078
Additional provision for the year	7,705
Reversal of provision	(36,608)
At 31 December 2013	7,705
Exchange adjustments	(121)
Additional provision for the year	142
Reversal of provision	(7,584)
At 31 December 2014	**142**

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.

33. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2014	2013	**2014**	2013
			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	**3,971,861,552**	3,667,994,886	**198,593**	183,400
Issue of shares upon conversion of CBV (Note a)	**1,022,727,270**	–	**51,136**	–
Issue of shares upon conversion of CBIV (Notes a and c)	**596,133,333**	103,866,666	**29,807**	5,193
Issue of shares upon conversion of CBVI (Note a)	**1,410,000,000**	–	**70,500**	–
Subscription of shares (Notes b and d)	**530,000,000**	200,000,000	**26,500**	10,000
At 31 December	**7,530,722,155**	3,971,861,552	**376,536**	198,593

Notes:

(a) During the year ended 31 December 2014, the convertible notes holders converted of i) approximately HK$89.42 million of CBIV for 596,133,333 new ordinary shares at a conversion price of HK$0.15 per conversion share; and ii) approximately HK$225 million of CBV for 1,022,727,270 new ordinary shares at a conversion price of HK$0.22 per conversion share.

Certain holders of CBVI converted of HK$282 million of convertible bonds for 1,410,000,000 new ordinary shares at conversion price of HK$0.20 per conversion share.

Upon the conversions, in aggregate of 3,028,860,603 new ordinary shares (2013: 103,866,666) had been issued.

(b) On 6 March 2014, the Company entered into a subscription agreement with certain subscribers, in which the subscribers could subscribe 530,000,000 new ordinary shares at a price of HK$0.107 per subscription share. The subscription was completed on 20 March 2014. Net proceed of approximately HK$56.60 million were raised and used as repayment of debts and general working capital of the Group.

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

(d) 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$20.33 million were raised and used as daily operating of the Group. The subscription was completion on 31 July 2013.

All new shares issued during the years ended 31 December 2014 and 2013 ranked pari passu with the existing shares in all respects.

34. CONVERTIBLE BONDS/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 Shipbuilding (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.

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

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.

34. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

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

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%, being the effective interest rate of CBIII as at 31 December 2013. 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 2013
Share price	HK$0.086
Exercise price	HK$0.22
Contractual life	0.29 years
Risk-free rate	0.119%
Expected dividend yield	0%
Volatility	32.40%

On 25 March 2014, the Group entered into the amendment deed with the holders of CBIII, in which (i) the maturity date has been extended from 15 April 2014 to 15 April 2016; and (ii) the interest to be accrued on the outstanding principal of the CBIII for the period from 16 April 2014 to 15 April 2016 shall be payable annually (as opposed to semi-annually under the existing terms and conditions of CBIII). The extension and modification of CBIII (the "CBV") became effective upon the approval by the sharesholders of the Company at a special general meeting held on 9 May 2014 and obtaining of consents and approval by the Stock Exchange on 13 May 2014.

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

	CBV at 13 May 2014
Share price	HK$0.246
Exercise price	HK$0.22
Contractual life	1.93 years
Risk-free rate	0.418%
Expected dividend yield	0%
Volatility	74.273%

During May and June 2014, all of the holders of CBV had surrendered the CBV held by them of outstanding principal amount of HK$225,000,000 in consideration for conversion of 1,022,727,270 ordinary shares of the Company at a conversion price of HK$0.22 per conversion share.

34. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

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

On 28 February 2012, the Company's payment obligation of the deferred consideration for the acquisition of INPAX Group in April 2008 of HK$200,000,000 was settled by issuing convertible notes (the "CBIV") and promissory notes ("PN") to Million King Investments Limited ("Million King") and/or its nominees.

The aggregated principal amount of the CBIV is HK$105 million with 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%

During the year ended 31 December 2013, certain holders of CBIV to surrender the CBIV held by them of principal amount of HK$15.58 million in consideration for conversion of 103,866,666 ordinary shares of the Company having a par value of HK$0.05 each at a conversion price of HK$0.15 per conversion share.

During the year ended 31 December 2014, all of the holders of CBIV to surrender the CBIV held by them of outstanding principal amount of HK$89.42 million in consideration for conversion of 596,133,333 ordinary shares of the Company at a conversion price of HK$0.15 per conversion share.

(c) Issuance of convertible bonds

On 14 May 2014, the Company entered into the placing agreement in respect of the issue of the convertible bonds in the principal amount of not more than HK$1,000,000,000 (the "CBVI"). The interest rate is 7.5% per annum payable annually. The total principal and interest paid in arrear in RMB based a fixed exchange rate, the holder(s) of CBVI may convert the whole or part of the principal amount of the CBVI into ordinary shares of the Company from 27 June 2014 to 26 June 2017, the date of maturity, at an initial conversion price of HK$0.20 per share.

34. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

(c) Issuance of convertible bonds (Continued)

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

	CBVI at 27 June 2014
Share price	RMB0.337 (equivalent to HK$0.42)
Exercise price	RMB0.159 (equivalent to HK$0.20)
Contractual life	3 years
Risk-free rate	3.75%
Expected dividend yield	0%
Volatility	71.53%

During the year ended 31 December 2014, certains holders of CBVI to surrender the CBVI held by them of outstanding principal amount of HK$282 million in consideration for conversion of 1,410,000,000 ordinary shares of the Company at a conversion price of HK$0.20 per conversion share.

The movements of the liability, derivative and equity component of CBIV, CBV and CBVI were as follows:

	Derivative financial asset component HK$'000	Liability component HK$'000	Derivative component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2013	–	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
Issuance of CBVI, net of commission	–	766,865	–	218,135	985,000
Gain on fair value change	–	(2,110)	–	–	(2,110)
Loss on modification, CBV	(50,906)	(47,182)	124,679	–	26,591
Conversion of CBIV, CBV and CBVI	50,906	(487,222)	(124,679)	(84,484)	(645,479)
Interest charged (Note 11)	–	88,517	–	–	88,517
Interest paid	–	(41,652)	–	–	(41,652)
At 31 December 2014	**–**	**572,935**	**–**	**156,621**	**729,556**

34. CONVERTIBLE BONDS/NOTES PAYABLE (Continued)

	2014 HK$'000	2013 HK$'000
Convertible notes – liability component:		
Analysed for reporting purpose as:		
Non-current liabilities	**572,935**	76,400
Current liabilities	**–**	219,319
	572,935	295,719

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 2013	68,713
Interest charged (Note 11)	13,817
Interest paid	(2,688)
Liability component of PN at 31 December 2013	79,842
Interest charged (Note 11)	10,586
Interest paid	(2,965)
Loss of redemption	577
Settlement	(85,040)
Reclassified to other payables for unsettled maturity PN	(3,000)
Liability component of PN at 31 December 2014	–

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 prepaid lease payments and intangible assets	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2013	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
Exchange adjustments	–	(4,940)	(4,940)
Credit to profit and loss (Note 12)	218	(1,339)	(1,121)
At 31 December 2014	**30,980**	**60,212**	**91,192**

At the end of the reporting period, the Group had unused tax losses of approximately HK$203,390,000 (2013: HK$203,390,000) 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. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2014, the Group acquired 100% paid-up capital in Jiujiang Jianglian at the consideration of HK$444,000 (equivalent to approximately RMB356,000). Jiujiang Jianglian is principally engaged in shipbuilding and manufacturing of related metallic components and machines. The acquisition has been completed in April 2014.

	HK$'000
Consideration payable	444

Assets acquired and liabilities assumed at the date of acquisition:

Non-current asset	
Property, plant and equipment	3
Current assets	
Other receivables and prepayments	1,546
Bank balances and cash	27
	1,573
Current liability	
Other payables	1,132
Net current assets	441
Net assets	444

Net cash inflow arising on acquisition:

	HK$'000
Cash and cash equivalent balances acquired	27

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2014 is approximately HK$309,000 attributable to Jiujiang Jianglian. Revenue for the year ended 31 December 2014 includes approximately HK$3,320,000 attributable to Jiujiang Jianglian.

Had the acquisition of Jiujiang Jianlian been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2014 would have been HK$104.88 million, and the amount of the loss for the year would have been HK$633.18 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year ended 31 December 2014, nor is it intended to be a projection of future results.

38. CAPITAL COMMITMENTS

	2014 HK$'000	2013 HK$'000
Unpaid registered capital for China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited not provided in the consolidated financial statements	**125,000**	–

39. 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:

	2014 HK$'000	2013 HK$'000
Deposits (Note 26)	**113,154**	297,120
Inventories (Note 22)	**–**	23,040
Properties, plant and equipment (Note 17)	**377,558**	511,183
Prepaid lease payments (Note 18)	**320,529**	329,829
Value-added tax recoverable (Note 23(b))	**–**	137,031
	811,241	1,298,203

As at 31 December 2014, the Company were pledged the entire equity interest of Jiangxi Shipbuilding to secure a bank borrowing amounted to RMB107,000,000.

40. 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 recognise and motivate the contribution of any employee, adviser, consultant, agent, contractor, client and supplier and/or such other person who in the sole discretion of the Board, has contributed or may contribute to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

40. SHARE OPTION SCHEME (Continued)

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.

On 7 May 2014, 366,000,000 share options at the initial exercise price of HK$0.211 were granted under Scheme 2012.

At 31 December 2014, the number of outstanding share options under the Scheme 2012 and Scheme 2002 was 366,000,000 and 46,449,780 respectively, representing 5.48% (2013: 1.17%) 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 following table discloses details of the options held by Directors, employees and other persons and movements in such holdings during the years ended 31 December 2014 and 2013:

Scheme 2002

Name	Date of grant	Exercisable period	Exercise price per share (Note a)	Number of share options Outstanding at 31 December 2014 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

40. SHARE OPTION SCHEME (Continued)

Name	Date of grant	Exercisable period	Exercise price per share (Note a)	Number of share options Outstanding at 31 December 2014 and 31 December 2013
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
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 the outstanding share options under Scheme 2002 is approximately 3.4 years (2013: 4.4 years).

The weighted average exercise price of the share options under Scheme 2002 is HK$4.682 (2013: 4.682) per share.

Scheme 2012

Name	Date of grant	Exercisable period	Exercise price per share (Note a)	Number of share options Outstanding at 31 December 2014	Outstanding at 31 December 2013
Directors	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211	120,000,000	–
Employees	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211	50,000,000	–
Consultants (Note c)	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211	196,000,000	–
				366,000,000	–

40. SHARE OPTION SCHEME (Continued)

Note:

c. The consultants provided consultancy service with regard to the financing, restructuring and development of the Group.

The remaining contractual life of the outstanding share options under Scheme 2012 is approximately 9.35 years (2013: Nil).

The weighted average exercise price of the share options under Scheme 2012 is HK$0.211 (2013: HK$Nil) per share.

The share options under Scheme 2012 granted during the year ended 31 December 2014 vested immediately at the date of grant.

No share options have exercised during the year ended 31 December 2014 and no share options were granted or exercised during the year ended 31 December 2013.

The estimated fair values of the options granted on 5 March 2008, 7 May 2008 and 7 May 2014 are approximately HK$18,086,000, HK$30,502,000 and HK$42,163,000 respectively. The fair value of services was measured indirectly, by reference to the fair value of the options granted as the fair value of the services received could not be estimated reliably by the Company.

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

Scheme 2002

	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%

Scheme 2012

	7 May 2014
Grant date share price	HK$0.211
Exercise price	HK$0.211
Contractual life	10 years
Expected volatility	70.76%
Dividend yield	0%
Risk-free interest rate	2.073%

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

41. 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 prior to June 2014 or HK$1,500 since June 2014 in maximum of relevant payroll costs to the MPF Scheme, which is matched by employees.

The Company's subsidiaries in the PRC is members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the relevant 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 paid and payable to the scheme by the Group at rate specified in the rules of the scheme.

42. LITIGATIONS AND CONTINGENT LIABILITIES

(a) At 31 December 2014, the Group has not paid the social security fund for and on behalf of its employees which 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 2014 of approximately HK$40,683,000 (equivalent to RMB32,546,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statements of financial position (2013: approximately HK$31,091,000 (equivalent to RMB24,290,000)).

A repayment agreement was signed between Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Per the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(b) At 31 December 2014, the Group has not paid the housing provident fund contributions for and on behalf of its employees which 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 2014 of approximately HK$7,210,000 (equivalent to RMB5,768,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2013: approximately HK$5,491,000 (equivalent to RMB4,290,000)).

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

42. LITIGATIONS AND CONTINGENT LIABILITIES (Continued)

(c) Up to the date of this report, the Company had recognised the payables of the litigations with approximately RMB8,032,000 under "Trade, bills and other payables" in the consolidated statement of financial position as at 31 December 2014, details are set out as follows:

(i) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB4,220,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

(ii) In December 2014, a supplier filed its writ with 中國國際經濟貿易仲裁委員會 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay RMB3,812,000 for purchase of paint and delivery charges. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB3,812,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2014 and 31 December 2013.

43. 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:

	2014 **HK$'000**	2013 HK$'000
Within one year	**3,938**	1,014
In the second to fifth year inclusive	**4,497**	–
	8,435	1,014

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 3 years (2013: 2 years).

44. 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 year 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) 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 loan was unsecured, interest-bearing from 18% to 30% per annum. The borrowing were fully repaid during the year ended 31 December 2014.

44. RELATED PARTY TRANSACTIONS (Continued)

(b) During the year ended 31 December 2014, Mr. Zha Jiu Peng ("Mr. Zha") and Mr. Wu Ge ("Mr. Wu"), the senior management of the Group, have advanced loan of approximately HK$364,000 and HK$2,665,000 (equivalent to RMB291,000 and RMB2,132,000) (2013: HK$324,000 and HK$2,592,000 (equivalent to RMB253,000 and RMB2,025,000)) respectively to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable within one year. The interests paid and payable to Mr. Zha and Mr. Wu of approximately HK$47,000 and HK$387,000 (equivalent to approximately RMB37,000 and RMB307,000) for the year ended 31 December 2014.

The amount due to Mr. Zha and Mr. Wu of approximately HK$133,000 and HK$88,000 (equivalent to RMB107,000 and RMB71,000) respectively represented consideration payable for the acquisition of Jiujiang Jianglian (Note 37).

(c) During the year ended 31 December 2014, the Group borrowed of approximately HK$23,037,000 (approximately equivalent to RMB18,429,000) (2013: 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 is the legal representative of Haoli Energy. The loan is unsecured, interest-bearing at 14.4% per annum and repayable in December 2016. The interests paid and payable of approximately HK$4,363,000 (equivalent to approximately RMB3,463,000) for the year ended 31 December 2014.

The Group paid guarantee fees to Haoli Energy which provide guarantee to secure the bank borrowing of RMB107,000,000. The guarantee fee is charged on 1% of the bank borrowings.

(d) Mr. Wang San Long ("Mr. Wang"), the executive director of the Company, has provided a free counter-guarantee in favor of the Group to guarantee a facility of RMB277,000,000 (2013: RMB170,000,000) granted by banks in the PRC during the year ended 31 December 2014.

During the year ended 31 December 2014, Mr. Wang has advanced loan of approximately HK$2,404,000 (approximately equivalent to RMB1,923,000) (2013: approximately HK$842,000 (approximately equivalent to RMB658,000)) to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable within one year. The interests paid and payable of approximately HK$367,000 (equivalent to approximately RMB291,000) for the year ended 31 December 2014.

The amounts due to Mr. Wang of approximately HK$223,000 (equivalent to RMB178,000) represented consideration payable for the acquisition of Jiujiang Jianglian (Note 37).

(e) Mr. Li, 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 (2013: RMB60,000,000) granted by banks in the PRC.

Mr. Li also provided a free guarantee to secure the payment obligations of the borrowing of RMB60,000,000 from a party, one of the shareholders of the Group's associate, Zhejiang Ocean during the years ended 31 December 2014 (2013: RMB Nil).

The amount due to Mr. Li of approximately HK$127,000 (equivalent to RMB102,000) represented general business expenses paid on behalf of the Company.

(f) The remuneration of Directors and chief executives during the years ended 31 December 2014 and 2013 has been disclosed in Note 14 to the consolidated financial statements. The remuneration of Directors and chief executives 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.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		–	15
Investments in subsidiaries	(a)	300,000	1
		300,000	16
CURRENT ASSETS			
Other receivables		16	20
Loan to a subsidiary	(b)	248,400	15,000
Amounts due from subsidiaries	(a)	502,635	964
Investments held for trading		3,636	1,341
Bank balances and cash		1,071	377
		755,758	17,702
CURRENT LIABILITIES			
Convertible notes payable		–	219,319
Promissory notes payable		–	79,842
Amount due to a subsidiary	(a)	110,034	–
Other payables		43,677	20,297
		153,711	319,458
NET CURRENT ASSETS (LIABILITIES)		602,047	(301,756)
TOTAL ASSETS LESS CURRENT LIABILITIES		902,047	(301,740)
NON-CURRENT LIABILITIES			
Convertible notes payable		572,935	76,400
Financial guarantee		190,720	190,720
		763,655	267,120
NET ASSETS (LIABILITIES)		138,392	(568,860)
CAPITAL AND RESERVES			
Share capital		376,536	198,593
Reserves	(c)	(238,144)	(767,453)
		138,392	(568,860)

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

Notes:

(a) (i) Investments in subsidiaries

	2014 HK'000	2013 HK'000
Unlisted investment, at cost	3,367,687	3,067,687
Less: Accumulated provision for impairment	(3,067,687)	(3,067,686)
	300,000	1

(ii) Amounts due from subsidiaries

	2014 HK'000	2013 HK'000
Amounts due from subsidiaries	671,236	173,309
Less: Accumulated provision for impairment	(168,601)	(172,345)
	502,635	964

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

(iii) Amount due to a subsidiary

Amount due to a subsidiary is unsecured, interest free and repayable on demand.

(b) During the year ended 31 December 2014, a loan of HK$248,400,000 (equivalent to HK$80,000,000 and RMB134,000,000) (2013: HK$15,000,000) was granted to Jiangxi Shipbuilding by the Company, in which HK$20,000,000 is unsecured, interest free and repayable within one year and HK$228,400,000 (equivalent to HK$60,000,000 and RMB134,000,000) is unsecured, interest at range from 5% to 7.5% per annum and repayable within one year.

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

Notes: (Continued)

(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 2013	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 (Note 33)	11,966	–	(4,002)	–	–	7,964
Subscription of shares (Note 33)	10,332	–	–	–	–	10,332
At 31 December 2013	351,212	3,368,411	22,970	43,693	(4,553,739)	(767,453)
Loss for the year, representing total comprehensive expenses for the year	–	–	–	–	(170,642)	(170,642)
Recognition of equity component of convertible bonds payable	–	–	218,135	–	–	218,135
Issuance of shares upon conversion of CBV (Note 33)	204,900	–	–	–	–	204,900
Issuance of shares upon conversion of CBIV (Note 33)	73,249	–	(22,970)	–	–	50,279
Issuance of shares upon conversion of CBVI (Note 33)	215,887	–	(61,514)	–	–	154,373
Subscription of shares (Note 33)	30,210	–	–	–	–	30,210
Transaction costs attributable to issuance of shares	(109)	–	–	–	–	(109)
Recognition of equity-settled share-based payments	–	–	–	42,163	–	42,163
At 31 December 2014	875,349	3,368,411	156,621	85,856	(4,724,381)	(238,144)

46. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2014 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued share capital	Proportion of ownership interest held by the Company 2014 Directly %	2014 Indirectly %	2013 Directly %	2013 Indirectly %	Proportion of voting power held by the Group 2014 %	2013 %	Principal activities
INPAX Technology Limited	British Virgin Islands*	10,000 ordinary shares of USD1 each	100	–	100	–	100	100	Investment holding
Merge Limited	Hong Kong	300,000,000 ordinary shares of HK$1 each	100	–	100	–	100	100	Trading and investment holding
China Ocean Shipbuilding Holdings Limited	British Virgin Islands*	1 ordinary share of USD1 each	100	–	100	–	100	100	Investment holding

46. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ operation	Issued share capital	Proportion of ownership interest held by the Company 2014 Directly %	2014 Indirectly %	2013 Directly %	2013 Indirectly %	Proportion of voting power held by the Group 2014 %	2013 %	Principal activities
Smart Victor Holdings Limited	British Virgin Islands*	1 ordinary share of USD1 each	100	–	100	–	100	100	Investment holding
China Ocean Shipbuilding Services Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	–	100	100	100	Inactive
China Ocean Shipbuilding (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	–	100	100	100	Investment holding and sale agent for shipbuilding
China Ocean (LNG) Limited (Formerly known as Golden Device Limited)	Hong Kong	1 ordinary share of HK$1 each	–	100	–	100	100	100	Inactive
Jiangxi Jiangzhou Union Shipbuilding Co., Ltd**	PRC	USD59,000,000 paid-up registered capital	–	100	–	100	100	100	Manufacturing metal vessel, vessel ancillary products and reparation of vessels
Jiujiang Jianglian Shipbuilding Heavy Industry Co., Ltd# (Note a)	PRC	RMB3,000,000 paid-up registered capital	–	100	N/A	N/A	100	N/A	Shipbuilding and manufacturing of related metallic components and machines
China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited** (Note b)	PRC	RMB200,000,000 paid-up registered capital	–	100	N/A	N/A	100	N/A	Provision of financial leasing, acquisition and sale and leaseback of fixed assets and advisory services in the PRC
江西金巢新能源發展有限公司 (Note b)	PRC	RMB3,000,000 paid-up registered capital	–	100	–	100	100	100	Development of new energy technology and energy conservation facilities

* The companies are engaged in investment holding and have no specific principal place of operation.

** The companies are registered in the form of wholly foreign owned enterprises.

Jiujiang Jianglian is controlled by the Company through contractual agreements.

Note:

a) It was newly acquired company during the year ended 31 December 2014.

b) It was incorporated company during the year ended 31 December 2014.

None of the subsidiaries had any debt securities at 31 December 2014 and 2013 or at any time during both years.

47. EVENTS AFTER THE REPORTING PERIOD

1) On 16 February 2015, the Company entered into the subscription agreements with three subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue the convertible bonds in aggregate principal amount of HK$60 million, total of 300,000,000 conversion shares at a price of HK$0.2 per conversion share. The condition precedent under the subscription agreements has been fulfilled and completion of the subscriptions took place on 6 March 2015. The Company intends to apply the net proceeds from the subscriptions of HK$59.9 million for development and investment of the Group's financial leasing business in PRC as well as general working capital.

2) On 20 March 2015, Merge Limited ("Merge"), a direct wholly-owned subsidiary of the Company, and other shareholders of Zhejiang Ocean, an associate of the Group, entered into the capital contribution agreement, pursuant to which all shareholders of Zhejiang Ocean agreed to make a capital contribution in proportion to their existing shareholding to increase the registered capital of Zhejiang Ocean from USD30 million (equivalent to approximately HK$232.5 million) to USD100 million (equivalent to approximately HK$775 million), in which USD14 million (equivalent to approximately HK$108.5 million) is to be contributed by Merge. After the capital contribution, the percentage shareholding of Merge in Zhejiang Ocean will remain unchanged at 20%.

48. DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: Nil).

Financial Summary

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
LOSS FOR THE YEAR	**(633,177)**	(337,440)	(344,101)	(542,559)	(867,385)

	At 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**1,859,744**	1,653,894	2,188,314	3,169,282	3,530,272
TOTAL LIABILITIES	**(2,638,022)**	(2,691,096)	(2,911,388)	(3,570,677)	(3,638,627)
NET LIABILITIES	**(778,278)**	(1,037,202)	(723,074)	(401,395)	(108,355)