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CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board of directors (the “Board”) of China Ocean Shipbuilding Industry Group Limited (the “Company”) announced the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
		2013	2012
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	387,530	833,004
Cost of sales		(375,259)	(802,851)
Gross profit		12,271	30,153
Other income		5,435	9,281
Other gains and losses		272	7,966
Gain on settlement of deferred consideration		–	52,936
Change in fair value of investments held for trading		(458)	(1,339)
Selling and distribution expenses		(865)	(792)
Administrative expenses		(37,676)	(43,362)
Finance costs	4	(81,809)	(89,661)
Loss before tax		(102,830)	(34,818)
Income tax credit	5	–	1
Loss for the period attributable to owners of the Company	6	(102,830)	(34,817)

	Six months ended 30 June	
	2013	2012
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	<u>(1,857)</u>	<u>678</u>
Total comprehensive expenses for the period attributable to owners of the Company	<u>(104,687)</u>	<u>(34,139)</u>
Loss per share – basic and diluted	7	7
	<u>HK(2.80) cents</u>	<u>HK(0.95) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	<i>Notes</i>	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		546,255	577,546
Prepaid lease payments – non-current portion		332,915	333,226
Trade receivables – non-current portion	<i>9</i>	162,682	134,200
Pledged deposits for other borrowings		33,264	33,000
		<u>1,075,116</u>	<u>1,077,972</u>
CURRENT ASSETS			
Inventories		63,188	122,018
Trade receivables – current portion	<i>9</i>	15,574	15,750
Bills and other receivables	<i>9</i>	267,735	322,780
Prepayment for purchase of raw materials	<i>9</i>	266,198	324,397
Prepaid lease payments – current portion		1,925	1,910
Tax recoverable		5,550	5,506
Investments held for trading		1,970	2,430
Available-for-sale investments		6,300	6,250
Pledged bank deposits		183,763	269,447
Bank balances and cash		37,826	39,854
		<u>850,029</u>	<u>1,110,342</u>
CURRENT LIABILITIES			
Trade, bills and other payables	<i>10</i>	1,048,488	1,160,722
Amounts due to customers for contract work		498,807	580,961
Amounts due to related parties		36,091	53,285
Amount due to a director		826	812
Borrowings – due within one year		662,339	608,004
Provision for warranty		26,797	35,530
Convertible notes payable		210,209	–
		<u>2,483,557</u>	<u>2,439,314</u>
NET CURRENT LIABILITIES		<u>(1,633,528)</u>	<u>(1,328,972)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(558,412)</u>	<u>(251,000)</u>

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
CAPITAL AND RESERVES		
Share capital	183,400	183,400
Reserves	(1,011,161)	(906,474)
	<u>(827,761)</u>	<u>(723,074)</u>
NON-CURRENT LIABILITIES		
Borrowings – due after one year	10,523	31,080
Convertible notes payable	89,783	278,632
Promissory notes payable	73,747	68,713
Deferred tax liabilities	95,296	93,649
	<u>269,349</u>	<u>472,074</u>
	<u>(558,412)</u>	<u>(251,000)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

In preparing the condensed consolidated financial statements of the China Ocean Shipbuilding Industry Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a consolidated loss before tax of approximately HK\$102.83 million for the six months ended 30 June 2013 and, as of that date, the Group’s had net current liabilities and net liabilities of approximately HK\$1,633.53 million and HK\$827.76 million, respectively. After considering the Group’s internal financial resources, present available facilities granted by banks and other parties, seeking leave to appeal to the court on the awards of the arbitration, to be negotiated with the creditors including convertible note holders to extend payment due date, actively pursuing new customers, imposing cost control measures and negotiating with the local government for providing assistance, the directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 cycle

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised HKFRSs and HKASs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

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

- a) Shipbuilding – provision of shipbuilding services under shipbuilding construction contracts and operated in the PRC.
- b) Trading business – provision of trading and operated in Hong Kong.

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

Six months ended 30 June 2013

	Shipbuilding <i>HK\$'000</i> (Unaudited)	Trading business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue	387,530	–	387,530
Segment result	(12,567)	–	(12,567)
Unallocated other income			8
Unallocated other gains and losses			272
Change in fair value of investments held for trading			(458)
Unallocated corporate expenses			(8,276)
Finance costs			(81,809)
Loss before tax			(102,830)

Six months ended 30 June 2012

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

4. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates	24,624	18,731
Promissory notes payable at effective interest rates	6,395	3,852
Imputed interest expense on deferred consideration	–	2,643
Borrowings and others (including guarantee fees, overdue interests and bills payables)	<u>50,790</u>	<u>64,435</u>
	<u>81,809</u>	<u>89,661</u>

5. INCOME TAX CREDIT

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

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

Income tax credit for the six months ended 30 June 2012 represented the reversal of deferred tax liabilities.

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

6. LOSS FOR THE PERIOD

Six months ended 30 June	
2013	2012
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Loss for the period has been arrived at after charging:

Minimum lease payments under operating leases in respect of rented premises	1,036	890
Depreciation of property, plant and equipment	41,122	36,824
Amortisation of prepaid lease payments	3,640	3,617
Loss on disposal of property, plant and equipment	–	589
Shipbuilding contract costs recognised as expenses	375,259	802,851
Impairment loss recognised in respect of other receivables	208	–
	<u>381,265</u>	<u>1,693,771</u>

7. LOSS PER SHARE

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

Six months ended 30 June	
2013	2012
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Loss

Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(102,830)</u>	<u>(34,817)</u>
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Six months ended 30 June	
2013	2012
'000	'000
(Unaudited)	(Unaudited)

Number of shares

Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>3,667,995</u>	<u>3,667,995</u>
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The computation of diluted loss per share for the periods ended 30 June 2013 and 2012 does not include the outstanding share options and convertible notes as the assumed exercise has an anti-dilutive effect.

8. DIVIDEND

No dividend were paid, declared or proposed during the interim period (six months ended 30 June 2012: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

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

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Trade receivables – non-current portion	<u>162,682</u>	<u>134,200</u>
Trade receivables – current portion	16,368	16,544
<i>Less: Allowance for doubtful debts</i>	<u>(794)</u>	<u>(794)</u>
Trade receivables – current portion, net	<u>15,574</u>	<u>15,750</u>
Total trade receivables, net of allowance for doubtful debts (<i>Note a</i>)	<u>178,256</u>	<u>149,950</u>
Value-added tax recoverable	147,607	148,225
Deposits placed with a stakeholder	1,091	1,085
Deposits placed to a guarantor (<i>Note b</i>)	18,335	75,000
Deposit paid for acquisition of property, plant and equipment	3,359	3,332
Others receivables (<i>Note c</i>)	<u>97,343</u>	<u>95,138</u>
Total bills and other receivables	<u>267,735</u>	<u>322,780</u>
Prepayment for purchase of raw materials	<u>266,198</u>	<u>324,397</u>

Notes:

- (a) At 30 June 2013, trade receivables of approximately HK\$178,256,000 (equivalent to USD22,850,000) represent the deferral final receivable from a ship buyer, an independent third party of the Group, in relation to the final payments for the acquisition of eight vessels from the Group, by five instalments in 5.5 years and one vessel acquired from the Group, by four instalments in 4.5 years (31 December 2012: HK\$149,950,000 (equivalent to USD19,000,000)).

- (b) Guarantees have been given by an independent third party in relation to the banking facilities granted to the Group. Guarantee deposits placed were approximately HK\$18,335,000 (equivalent to RMB14,551,000) as at 30 June 2013 (31 December 2012: approximately HK\$75,000,000 (equivalent to RMB60,000,000)).
- (c) The balances mainly include fund withheld by a stakeholder of approximately HK\$82,782,000 (equivalent to approximately RMB65,700,000) (31 December 2012: HK\$83,675,000 (equivalent to approximately RMB66,940,000)).

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

	30 June 2013 <i>HK\$'000</i> (Unaudited)	31 December 2012 HK\$'000 (Audited)
Within three months	14,406	23,625
More than three months but not more than one year	163,850	126,325
	<u>178,256</u>	<u>149,950</u>

The aging of trade receivables which are past due but not impaired at 30 June 2013 and 31 December 2012 as follows:

	30 June 2013 <i>HK\$'000</i> (Unaudited)	31 December 2012 HK\$'000 (Audited)
Within one year	3,104	–
More than one year but not more than two years	–	–
	<u>3,104</u>	<u>–</u>

The directors of the Company consider that the carrying amounts of trade, bills and other receivables approximated to their fair values.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Trade payables	102,208	140,535
Bills payables	219,357	339,721
	321,565	480,256
Refund to customers for unshaped vessels written-off	352,637	372,338
Interest payable	2,111	2,111
Consideration payable for acquisition of prepaid lease payments	47,523	47,145
Accrual of guarantee fee to a guarantor	15,474	12,671
Contribution payables to labour union and education funds	10,413	9,439
Accrual of contractor fees	31,371	27,642
Accrual of government funds	33,936	33,541
Other payables and accruals	233,458	175,579
	1,048,488	1,160,722

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

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
0 – 30 days	59,579	153,932
31 – 60 days	121,772	124,039
61 – 90 days	4,527	38,168
Over 90 days	135,687	164,117
	321,565	480,256

Bills payables are secured by pledged bank deposits.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is engaged in the production and operation of shipbuilding. During the period under review, the shipbuilding market in China has still plagued by the over capacity, a shortage of new orders, a persistent decrease in new building price and appreciation of Renminbi.

Affected by the downturn of the shipbuilding market, the Group's revenues decreased by 53.48%, from HK\$833.00 million to HK\$387.53 million and the gross profit decreased from HK\$30.15 million to HK\$12.27 million for the six months ended 30 June 2013 in comparing with the same period of last year. The total of other income and other gains and losses of the Group decreased from HK\$17.25 million to HK\$5.71 million, mainly due to the decrease in exchange gain. The administrative expenses of the Group were decreased from HK\$43.36 million to HK\$37.68 million, mainly due to the tight costs control exercised during the reporting period. The finance costs of the Group decreased by 8.76% to HK\$81.81 million from HK\$89.66 million mainly due to the decrease in costs for obtaining facilities.

In conclusion, the Group recorded a loss attributable to shareholders of HK\$102.83 million (2012: loss of HK\$34.82 million) for the six months ended 30 June 2013. The loss for the period under review was increased by approximately 195.32% in comparing with the same period of last year. It was mainly due to the declining in revenue, profit margins and the absence of gain on settlement of deferred consideration.

Shipbuilding business

For the six months ended 30 June 2013, the shipbuilding segment generated revenue of approximately HK\$387.53 million representing a decrease of approximately of 53.48% as compared to approximately HK\$833.00 million in the corresponding period last year. The decrease mainly due to the works on new orders has not yet commenced because the ship-owner still seeks financial supports from its banks. Since the shipyard did not run in its full capacity and the appreciation of Renminbi, the profit margin of the shipbuilding section has also declined. The shipbuilding segment recorded a loss (before finance costs) of HK\$12.57 million (2012: profit of HK\$7.42 million).

During the period under review, a debtor deferred payments to the Group that strain the cash position of the Group. However, the debtor still has ships being constructed in the Group. The Group expected to recover the outstanding balances by taking certain measures and making negotiation with the debtor. To face the difficult situation, the Group continued to impose tight costs control measures such as reducing the number of workers.

During the first half of the year, the Group had delivered two heavy lift vessels to a ship-owner and also signed contracts with German ship-buyers for constructing four heavy lift vessels with an option of additional four. As at 30 June 2013, the secured order book of the Group comprised five heavy lift vessels and one multi-purpose vessel. The contracts signed in 2012 for constructing six multi-purposes vessels would become effective if the ship-owner subsequently obtain financial support from its banks. In addition, the newly signed eight heavy lift vessels contracts would become effective after certain procedures, such as issuance of refund guarantee, have completed. On the other hand, certain new orders which are currently being negotiated.

Other business

For the six months ended 30 June 2013, the trading business is inactive and the Group did not record material loss.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

SHARE CAPITAL

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had bank balances and cash (including pledged bank deposits) of approximately HK\$221.59 million (31 December 2012: HK\$309.30 million) in which HK\$183.76 million (31 December 2012: HK\$269.45 million) was pledged; short-term borrowings of HK\$662.34 million (31 December 2012: HK\$608.00 million); long-term borrowings of HK\$10.52 million (31 December 2012: HK\$31.08 million); long-term promissory notes payable amounted to approximately HK\$73.75 million (31 December 2012: HK\$68.71 million); convertible notes payable amounted to approximately HK\$299.99 million (31 December 2012: HK\$278.63 million). The gearing ratio defined as non-current liabilities plus short term borrowings (including convertible notes payable) divided by total shareholders' equity was (1.38) at 30 June 2013 (31 December 2012: ((1.49))).

CHARGES ON GROUP ASSETS

As at 30 June 2013, HK\$217.03 million (31 December 2012: HK\$302.45 million) of deposits, HK\$28.85 million (31 December 2012: HK\$50.91 million) of inventories, HK\$521.99 million (31 December 2012: HK\$563.96 million) of property, plant and equipment, HK\$334.84 million (31 December 2012: 335.14 million) of prepaid lease payments and HK\$147.61 million (31 December 2012: 148.23 million) of value-added tax recoverable, were pledged to banks or other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and Euro. As at 30 June 2013, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

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

EVENTS AFTER THE REPORTING PERIOD

On 23 July 2013, the Company entered into the subscription agreements with two subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 200,000,000 subscription shares at a price of HK\$0.102 per subscription share. The gross proceeds from the subscriptions were approximately HK\$20.4 million and the net proceeds were approximately HK\$20.3 million (representing a net subscription price of approximately HK\$0.1015 per subscription share). The Company intended to apply the net proceeds from the subscriptions as general working capital of the Group. The condition precedent under the subscription agreements has been fulfilled and completion of the subscriptions took place on 31 July 2013.

LITIGATION AND ARBITRATION

With reference to an arbitration proceeding between the Company's wholly-owned subsidiary, Jiangxi Jiangzhou Union Shipbuilding Co. Ltd (the "Shipyard"), and Algoma Tankers International Inc. (the "Algoma") relating to the refunds of deposits on rescinded contracts to build three chemical tankers, on 1 May 2013, the awards (the "Awards") granted by the London Arbitration Tribunal (the "Tribunal") were received by Shipyard in which Shipyard is liable to (i) refund the instalments in aggregate of US\$35,370,000 (approximately HK\$274.47 million); (ii) interests up to 30 April 2013 amounting to US\$3,198,649 (approximately HK\$24.82 million); and (iii) interests accrued from 1 May 2013 until the date of refund at the daily rate of US\$1,552.35 (approximately HK\$12,046) (collectively the "Interests"). The Tribunal reserves the right to hear all questions of costs, including both parties' costs and Tribunal's costs (collectively the "Legal Costs"). The Shipyard is not satisfied with the result of the Awards and seek leave to appeal to the court on 23 May 2013. The result of application has not yet decided.

Given as security for performance of Shipyard under the shipbuilding contracts, refund guarantees covering the sum of instalments paid have been given to Algoma by two major Chinese banks (the “Original Guarantors”) in reliance of certain corporate guarantees provided by certain ultimate guarantors (the “Ultimate Guarantors”). The instalments to be refunded by Shipyard will be fully paid by the Original Guarantors pursuant to the refund guarantees and in return the Original Guarantors may have a recourse against Shipyard and/or the Ultimate Guarantors for the said refund and the Ultimate Guarantors shall have the right against Shipyard to compensate them for the refund paid. The Shipyard intends to settle the instalments, the Interests and the Legal Costs by way of obtaining bank facilities and set-off against the deposits withheld by the Ultimate Guarantors and a bank. As the liability in relation to the arbitration proceedings have been booked under the Company’s current liabilities in previous years’ annual consolidated statement of financial position, the Board is therefore of the view that, save for the Awards may cause strain to the Group’s future cashflow position, the effect of the Awards to the Group’s financial position has already been fully reflected in the Group’s financial statements.

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

HUMAN RESOURCES

The Group had around 930 employees as at 30 June 2013. It has been the Group’s policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group’s salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

As at 30 June 2013, the Group is required to return the principal payments for the shipbuilding contracts of the vessels in arbitration (details refer to Litigation and Arbitration section) and to pay interests for the principal payments calculated in accordance with the relevant shipbuilding contracts up to the settlement date. The aggregate of principal payments, costs and the interests accrued up to 30 June 2013 of approximately HK\$353 million (31 December 2012: HK\$372 million) were recorded as “Other Payables” in the condensed consolidated statement of financial position.

Other than disclosed above, the directors of the Company are of the opinion that the Group has no other material contingent liabilities at 30 June 2013.

CAPITAL COMMITMENTS

At 30 June 2013, the Group has capital expenditure of approximately HK\$3.85 million (31 December 2012: HK\$3.82 million) contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

PROSPECTS

Looking into the second half of 2013, the conditions of shipbuilding industry remain very challenging but it seems to reach its trough. There is limited room for further declines in the new building price and there are some signs that the new orders may increase. On 4 August 2013, the State Council of the People's Republic of China issued a three year plan to support shipbuilding industry in China. The policy urges local government to support shipbuilders' innovation, pursues high-end products, urges financial institutions to support shipbuilding industry, strictly control new capacity, encouraging mergers and acquisition and pooling of resources in the industry. It will be positive for the shipbuilders in China and in turn to the Group. Currently, the Group continues to strengthen its internal control, enhance efficiency, reduce costs and actively seek out and pursuing opportunities for new orders.

In order to enhance the overall performance of the Group, the Group is actively re-evaluating its existing business operations.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2013.

CORPORATE GOVERNANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2013 interim report will be dispatched to shareholders of the Company and available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company in due course.

BOARD OF DIRECTORS

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

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 30 August 2013