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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 2015

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 2015 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**67,253**	83,122
Cost of sales		**(218,907)**	(99,741)
Gross loss		**(151,654)**	(16,619)
Other income		**3,268**	3,885
Other gains and losses		**73**	(1,878)
Gain on fair value change of convertible notes payable		**–**	2,110
Loss on modification of convertible notes payable		**–**	(26,591)
Share-based payments expenses		**–**	(42,163)
Change in fair value of investments held for trading		**(977)**	314
Selling and distribution expenses		**(1,399)**	(701)
Administrative expenses		**(37,071)**	(39,009)
Finance costs	*4*	**(100,518)**	(102,265)
Share of profit of an associate		**6,498**	–
Share of losses of joint ventures		**(336)**	–
Loss before tax		**(282,116)**	(222,917)
Income tax (expense) credit	*5*	**(366)**	670
Loss for the period attributable to owners of the Company	*6*	**(282,482)**	(222,247)

	Notes	Six months ended 30 June **2015** ***HK$'000*** **(Unaudited)**	 2014 *HK$'000* (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		**–**	13,439
Total comprehensive expenses for the period attributable to owners of the Company		**(282,482)**	(208,808)
Loss per share – basic	*7*	**HK(3.32) cents**	HK(4.89) cents
Loss per share – diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	30 June 2015 HK$'000 (Unaudited)	31 December 2014 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**389,794**	417,500
Prepaid lease payments – non-current portion		**309,499**	313,171
Interest in an associate		**96,136**	58,621
Interests in joint ventures		**503,127**	503,463
Trade receivables – non-current portion	*8*	**27,712**	35,843
Other receivables – non-current portion	*8*	**14,410**	–
Finance lease receivables – non-current portion	*9*	**20,136**	26,123
		1,360,814	1,354,721
CURRENT ASSETS			
Inventories		**56,253**	49,671
Trade receivables – current portion	*8*	**48,151**	40,142
Other receivables and deposits – current portion	*8*	**225,030**	192,730
Prepayment for purchase of raw materials	*8*	**129,710**	73,118
Prepaid lease payments – current portion		**7,358**	7,358
Investments held for trading		**2,659**	3,636
Finance lease receivables – current portion	*9*	**19,346**	11,280
Pledged bank deposits		**113,270**	113,154
Bank balances and cash		**9,757**	13,934
		611,534	505,023
CURRENT LIABILITIES			
Trade, bills and other payables	*10*	**674,624**	672,339
Amounts due to customers for contract work		**432,775**	341,881
Amounts due to related parties		**22,987**	26,287
Amounts due to directors		**2,365**	2,754
Borrowings – due within one year		**822,996**	711,254
Provision for warranty		**–**	142
Tax payable		**222**	–
		1,955,969	1,754,657
NET CURRENT LIABILITIES		**(1,344,435)**	(1,249,634)
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,379**	105,087

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
CAPITAL AND RESERVES		
Share capital	**538,786**	376,536
Reserves	**(1,052,530)**	(1,154,814)
	(513,744)	(778,278)
NON-CURRENT LIABILITIES		
Borrowings – due after one year	**331,737**	219,238
Convertible bonds payable	**107,214**	572,935
Deferred tax liabilities	**91,172**	91,192
	530,123	883,365
	16,379	105,087

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. BASIS OF PREPARATION

The condensed consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2015 have been prepared in accordance with the applicable disclosure provision of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

In preparing the condensed consolidated financial statements of the Group, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a condensed consolidated loss before tax of approximately HK$282 million for the six months ended 30 June 2015 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,344 million and HK$514 million, respectively. After considering the Group's internal financial resources, present available facilities granted by banks and other parties, to be negotiated with the creditors to extend payment due date, actively pursuing new customers, imposing cost control measures, negotiating with the local government for providing assistance and issue new shares, 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 fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2015 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2015.

Amendments to HKAS 19 (2011)	Defined Benefits Plans: Employee Contributions
Annual Improvements Project	Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements Project	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the new HKFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these condensed consolidated financial statements.

3. 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.

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

Six months ended 30 June 2015

	Shipbuilding *HK$'000* (Unaudited)	Trading business *HK$'000* (Unaudited)	Finance leasing business *HK$'000* (Unaudited)	Elimination *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue					
– External sales	65,476	–	1,777	–	67,253
– Inter-segment sales	–	–	3,587	(3,587)	–
Total segment revenue	65,476	–	5,364	(3,587)	67,253
Segment result	(174,719)	–	(2,365)		(177,084)
Share of profit of an associate					6,498
Share of losses of joint ventures					(336)
Unallocated other income					506
Unallocated other gains and losses					79
Change in fair value of investments held for trading					(977)
Finance costs					(100,518)
Unallocated corporate expenses					(10,284)
Loss before tax					(282,116)

Six months ended 30 June 2014

	Shipbuilding *HK$'000* (Unaudited)	Trading business *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue*	83,122	–	83,122
Segment result	(46,806)	–	(46,806)
Unallocated other income			2,985
Unallocated other gains and losses			(1,747)
Unallocated corporate expenses			(8,754)
Gain on fair value change of convertible notes payable			2,110
Loss on modification of convertible notes payable			(26,591)
Share-based payments expenses			(42,163)
Change in fair value of investments held for trading			314
Finance costs			(102,265)
Loss before tax			(222,917)

* *Segment revenue report above represents revenue generated from external customers. There was no inter-segment sale for the six months ended 30 June 2014.*

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 losses of joint ventures, change in fair value of investments held for trading, gain on fair value change of convertible notes payable, loss on modification of convertible 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.

4. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible bonds/notes payable at effective interest rates	**42,892**	29,803
Promissory notes payable at effective interest rates	**–**	7,164
Borrowings and others (including guarantee fees, overdue interests and bills payables)	**57,626**	65,298
	100,518	102,265

5. INCOME TAX EXPENSE (CREDIT)

The Group calculate the income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed consolidated statement of profit or loss and other comprehensive income are:

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax	**385**	–
Deferred tax	**(19)**	(670)
	366	(670)

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 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.

No profits tax have been provided for as no assessable profits were generated in the other jurisdictions in both periods.

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%.

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging (crediting):		
Directors' and chief executives' emoluments:		
Fees, salaries and other benefits	**2,897**	2,398
Contributions to retirement benefits scheme	**27**	44
Share-based payments expenses	**–**	15,420
Other staff costs:		
Salaries and other benefits	**19,157**	20,518
Contributions to retirement benefits scheme	**3,278**	4,702
Share-based payments expenses	**–**	3,968
Total staff costs	**25,359**	47,050
Auditor's remuneration:		
Audit services	**650**	500
Non-audit services	**300**	210
	950	710
Minimum lease payments paid under operating leases in respect of rented premises	**2,478**	952
Depreciation of property, plant and equipment	**29,873**	41,549
Amortisation of prepaid lease payments	**3,672**	3,679
Shipbuilding contract costs recognised as cost of sales	**218,871**	99,741
Share-based payments expenses – consultants	**–**	22,775
Loss (gain) on disposal of property, plant and equipment	**4**	(4)

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	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**(282,482)**	(222,247)

	Six months ended 30 June	
	2015	2014
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**8,503,567**	4,548,672

For the six months ended 30 June 2015 and 30 June 2014, diluted loss per share was not presented as the assumed exercise of share options and convertible bonds/notes during both periods has an anti-dilutive effect.

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

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables – non-current portion	**69,280**	89,607
Less: Allowance for doubtful debts	**(41,568)**	(53,764)
Trade receivables – non-current portion, net	**27,712**	35,843
Trade receivables – current portion	**98,778**	78,722
Less: Allowance for doubtful debts	**(50,627)**	(38,580)
Trade receivables – current portion, net	**48,151**	40,142
Total trade receivables, net of allowance for doubtful debts *(Note a)*	**75,863**	75,985
Other receivables – non-current portion		
Deposit paid for acquisition of long-term investment	**14,410**	–
Other receivables – current portion	**63,813**	41,904
Less: Allowance for doubtful debts	**(6,916)**	(6,916)
Other receivables – current portion, net	**56,897**	34,988
Value-added tax recoverable	**152,809**	149,026
Deposits placed with a stakeholder	**932**	932
Deposits placed with agents	**14,392**	4,452
Deposit paid for acquisition of property, plant and equipment	**–**	3,332
Total other receivables and deposits – current portion, net	**225,030**	192,730
Total other receivables and deposits, net	**239,440**	192,730
Prepayment for purchase of raw materials	**129,710**	73,118

Note:

(a) Trade receivables of approximately HK$75,863,000 (equivalent to USD9,773,000) as at 30 June 2015 (31 December 2014: approximately HK$75,985,000 (equivalent to USD9,773,000) were gross trade receivables of approximately HK$168,058,000 (equivalent to USD21,650,000)) (31 December 2014: approximately of HK$168,329,000 (equivalent to USD21,650,000)), net of the allowance for doubtful debt of approximately HK$92,195,000 as at 30 June 2015 (31 December 2014: approximately HK$92,344,000). 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 (31 December 2014: eight) vessels from the Group, by five instalments in 5.5 years (31 December 2014: five instalments in 5.5 years) and one (31 December 2014: one) vessel acquired from the Group by four instalments in 4.5 years (31 December 2014: four instalments in 4.5 years).

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

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
More than one year	**75,863**	75,985

The Group did not have trade receivables that were overdue but not impaired at 30 June 2015 and 31 December 2014. The Group did not hold any collateral over these balances.

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

9. FINANCE LEASE RECEIVABLES

	30 June 2015 *HK$'000* **(Unaudited)**	31 December 2014 *HK$'000* (Audited)
Finance lease receivables – current portion	**19,346**	11,280
Finance lease receivables – non-current portion	**20,136**	26,123
	39,482	37,403

Amounts receivable under finance leases

	30 June 2015 *HK$'000* **(Unaudited)**	31 December 2014 *HK$'000* (Audited)
Finance lease receivables	**45,149**	45,149
Less: Unearned finance income	**(5,289)**	(7,368)
Net finance lease receivables	**39,860**	37,781
Impairment for finance lease receivables	**(378)**	(378)
	39,482	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:

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Repayable (including interests)		
Within one year	**22,715**	15,237
One to two years	**14,956**	14,956
Two to three years	**7,478**	14,956
	45,149	45,149
Repayable (net of interests)		
Within one year	**19,346**	11,280
One to two years	**13,172**	12,447
Two to three years	**6,964**	13,676
	39,482	37,403
Impairment allowances		
At the beginning of the period/year	**378**	–
Charge for the period/year	**–**	378
At the end of the period/year	**378**	378

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.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**107,504**	113,595
Bills payables	**150,000**	150,000
	257,504	263,595
Consideration payable for acquisition of prepaid lease payments	**47,145**	47,145
Payable to guarantors	**25,624**	37,812
Contribution payables to labour union and education funds	**12,669**	12,142
Accrual of contractor fees	**29,245**	33,632
Accrual of government funds	**32,500**	32,500
Other payables and accruals	**269,937**	245,513
	674,624	672,339

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

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 30 days	**51,257**	53,998
31 – 60 days	**26,358**	112,860
61 – 90 days	**75,781**	1,534
Over 90 days	**104,108**	95,203
	257,504	263,595

Bills payables are secured by pledged bank deposits.

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

11. DIVIDENDS

No dividends were paid or proposed during the interim period, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

China Ocean Shipbuilding Industry Group is engaged in the production and operation of shipbuilding, trading and provision of financial services.

In the first half of 2015, the Group and the entire shipbuilding market faced challenging economic circumstances. Held down by slack market forces in 2015, new shipbuilding orders declined in China during the period under review, following last year's pick-up in the first half of the year. The lack of liquidity also remained a main concern for shipbuilding companies. In the first half of 2015, The PRC government issued a 'Made in China 2025' plan, which identified ocean engineering equipment and high-end vessels as priority industries with nine other key sectors to help spur restructuring of the manufacturing sector, promote service-oriented manufacturing and manufacturing-related service industries, and internationalize manufacturing. This policy so far has helped usher in healthier growth and more promising future development for the entire marine industry.

For the six months ended 30 June 2015, the Group recorded revenues of HK$67.25 million (2014: HK$83.12 million), representing a decrease of approximately 19.09% compared to the same period last year. The drop was principally due to a price adjustment on several ship orders in order to secure the delivery of these ships, which offset revenues from new shipbuilding projects. The Group's new financial leasing business has begun to contribute revenues of HK$1.78 million. The Group's gross loss amounted to HK$151.65 million (2014: HK$16.62 million) during the period under review. The gross loss was incurred as the results of the fixed production costs which cannot readily be reduced in response to a reduction in the outputs and the price reductions on certain ship orders.

During the reporting period, the Group actively developed its financial leasing and the business related to liquefied natural gas operations to help form a synergy with the company's principle operations while mitigating any possible risks brought about by today's volatile shipbuilding market. In June 2015, the Group announced to acquire 47% of Jiangxi Petrochina Kunlun Gas Company Limited to strengthen the company's presence in the LNG-market. The completion of the acquisition is subject to the approval from the relevant government authorities. The Group also announced a letter of intent in July 2015 for a cooperative venture with a company incorporated in Hong Kong that is principally engaged in investments in oil and natural gas as well as the supply of energy particularly city gas in the PRC.

The administrative expenses of the Group and the financing costs of the Group remained at a similar level with the same period last year. The administrative expenses of the Group, slightly decreased from HK$39.01 million to HK$37.07 million while the financing costs of the Group slightly decreased by 1.71% from HK$102.27 million to HK$100.52 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK$282.48 million (First half year of 2014: loss of HK$222.25 million) for the six months ended 30 June 2015. The loss for the period under review increased by approximately 27.10% compared with the same period last year. The increase in the loss was mainly due to the increase of gross loss which was partially offset by the absence of certain one-off expenses (i.e. loss on modification of convertible notes payable and share-based payments expenses) incurred in 2014.

Shipbuilding business

During the period under review, Chinas' ranking, in terms of market share in the world shipbuilding sector, fell for the first time; in fact, over production capacity and low contract prices continued to cast shadows over the entire industry. The Group's revenues from its shipbuilding segment amounted to HK$65.48 million, a decrease of 21.22% compared with the same period last year. The Group has started construction work on new ship orders obtained last year and, to date, has made considerable progress. However, these revenues were offset by a one-off price adjustment for a ship buyer.

In July 2015, the ship-buyer, who has defaulted payment on settling the outstanding balances (approximately USD9.77 million) due from the Group, has reached an agreement with a potential purchaser for the acquisition of the vessels held by it. Upon execution of the agreement, the ship buyer will be able to satisfy its payment obligations owing to the Group. (For details, please refer to the Company's announcement dated 15 May 2015). In view of the progress of the transaction, the directors believed that the outstanding balances would very likely be settled before the end of October 2015.

In order to solve the liquidity issue on the construction of ships, the Company provided counter-guarantees to Xiamen ITG Shipbuilding Imp. & Exp. Co. Ltd in 2015, in favour of the guarantor to guarantee due performance of the PRC subsidiary's obligations under and in connection with all relevant shipbuilding agreements and import and export agreements. (For details, please refer to the Company's announcements dated 1 April 2015 and 5 August 2015).

As of 30 June 2015, the secured order book of the Group is comprised completely of 4 heavy lift vessels, 4 multi-purpose vessels and a chemical tanker.

FINANCIAL LEASING

At the end of year 2014, the Group began its financial leasing business after obtaining an official business license for China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited. The Group has recorded total revenues of HK$1.78 million from its financial leasing segment during the reporting period.

In view of the increasing demand for financing from the maritime, shipbuilding and distant water fishery industries, the Group contributed proportionally to their existing shareholdings to increase the registered capital of Zhejiang Ocean Leasing Company Limited, of which the Group acquired 20% equity interest in 2014, rising from US$30 million to US$50 million in March 2015.The Group share the profit of approximately HK$6 million from the associate company.

OTHERS

For the six months ended 30 June 2015, the Group's trading business was inactive and did not record any material losses.

In August 2014, the Group formed the Zhoushan China Ocean Investment Fund joint venture with a state-owned enterprise funded by the Zhoushan prefectural government to jointly invest in shipbuilding and related ocean engineering operations in Zhoushan, China. The Group believes that the fund will generate satisfactory returns given the optimistic development potential of the ocean engineering industry in Zhoushan, a county that has benefited greatly from its strategic geographical location and favorable government policies.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$123.03 million (31 December 2014: HK$127.09 million) of which HK$113.27 million (31 December 2014: HK$113.15 million) was pledged; short-term borrowings of HK$823.00 million (31 December 2014: HK$711.25 million); long-term borrowings of HK$331.74 million (31 December 2014: HK$219.24 million); convertible bonds/notes payable amounted to approximately HK$107.21 million (31 December 2014: HK$572.94 million) represented the fair value of principal amount of HK$129.00 million (31 December 2014: HK$718.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.63) at 30 June 2015 (31 December 2014: (2.02)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the period under review, 2,945,000,000 shares and 300,000,000 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes at a conversion price of HK$0.20 per share issued on 27 June 2014 and 6 March 2015 respectively.

On 16 February 2015, the Company entered into the Subscription Agreements with each of the subscribers, namely Jiang Liqun, Ma Xingqiao and Wan Zhangqing, pursuant to which the subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$60 million. The convertible bonds have an initial conversion price of HK$0.20 per share, which equal to the closing price of HK$0.20 per share as quoted on the Stock Exchange on 16 February 2015, and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. Upon full conversion of the convertible bonds, a total of 300,000,000 shares would be issued. The gross proceeds from the subscriptions were HK$60.00 million and the net proceeds were approximately HK$59.9 million. The Company intends to apply such net proceeds for development and investment of the Group's financial leasing business in the PRC as well as general working capital. The subscriptions have been completed on 6 March 2015. As at the date of this announcement, approximately HK$31.1 million of the net proceeds used as capital contribution to Zhejiang Ocean Leasing Company Limited which engaged in financial leasing business in the PRC; and approximately HK$28.8 million of the net proceeds used for general working capital purposes (including repayment of debts).

On 2 June 2015, the Company, Mr. Li Ming ("Mr. Li") and Prosper Talent Limited ("Prosper") which is indirectly and wholly-owned by CCB International (Holdings) Limited, entered into the subscription agreement. Pursuant to the subscription agreement, Prosper has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$200 million. The convertible bonds have an initial conversion price of HK$0.2481 per share, representing a discount of 19.97% to the closing price of HK$0.31 per share as quoted on the Stock Exchange on 2 June 2015, and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. Upon full conversion of the convertible bonds, a total of 806,126,561 shares would be issued. The gross proceeds from the issue of the Convertible Notes was HK$200 million. The net proceeds from the issue of the Convertible Notes amounted to approximately HK$198.4 million. The intended use of the net proceeds from the issue of the convertible notes as general working capital of the Group (including honouring its investment obligation in relation to its financial leasing business in the PRC and repayment of debts). As at the date of this announcement, approximately HK$126 million of the net proceeds used to pay up the capital contribution to China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited which engaged in financial leasing business in the PRC; and approximately HK$48.8 million of the net proceeds used for general working capital purposes (including repayment of debts).

CHARGES ON GROUP ASSETS

As at 30 June 2015, HK$113.27 million (31 December 2014: HK$113.15 million) of deposits, HK$352.51 million (31 December 2014: HK$377.56 million) of property, plant and equipment and HK$316.86 million (31 December 2014: HK$320.53 million) of prepaid lease payments, were pledged to banks for 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.

As at 30 June 2015, the Company pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure a bank borrowing amounted to RMB107 million (31 December 2014: RMB107 million).

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 2015, 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 2 June 2015, the Company, Mr. Li Ming, the executive director of the Company, and Prosper Talent Limited (the "Investor"), entered into the subscription agreement pursuant to which the Investor has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible notes in the aggregate principal amount of HK$200 million, total of 806,126,561 conversion shares at a price of HK$0.2481 per conversion share. The condition precedent under the subscription agreement has been fulfilled and completion of the subscriptions took place on 8 July 2015. The Company intends to apply the net proceeds from the subscriptions of HK$198.2 million for investment of the Group's financial leasing business in PRC, repayment of debts and general working capital.(For details, please refer to the Company's announcements dated 3 June 2015, 12 June 2015 and 8 July 2015)

LITIGATIONS AND CONTINGENT LIABILITIES

(a) At 30 June 2015, 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 30 June 2015 of approximately HK$40,896,000 (equivalent to RMB32,717,000) in aggregate, were recorded as "Trade, bills and other payables" in the condensed consolidated statements of financial position (31 December 2014: approximately HK$40,683,000 (equivalent to RMB32,546,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Company Limited, 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 30 June 2015, 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 30 June 2015 of approximately HK$6,827,000 (equivalent to RMB5,462,000) in aggregate, were recorded as "Trade, bills and other payables" in the condensed consolidated statement of financial position (31 December 2014: approximately HK$7,210,000(equivalent to RMB5,768,000)).

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

(c) Up to the date of this report, the Company had recognised the payables of the litigations with approximately RMB4,220,000 under "Trade, bills and other payables" in the condensed consolidated statement of financial position as at 30 June 2015 (31 December 2014: approximately RMB8,032,000), details are set out as follows:

In June 2015, 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 (31 December 2014: 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 30 June 2015 of approximately RMB4,220,000 in aggregate (31 December 2014: approximately RMB4,220,000) were recorded under "Trade, bills and other payables" in the condensed 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 30 June 2015.

HUMAN RESOURCES

The Group had around 600 employees as at 30 June 2015. 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.

CAPITAL COMMITMENTS

At 30 June 2015, the Group has the following capital expenditure:

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
Unpaid consideration payable for the acquisition of 23% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd. ("Jiangxi Gas") from Sanya Chengda Investment Limited contracted under equity transfer agreement but not provided in the condensed consolidated financial statements	**16,418**	–
Unpaid consideration payable for the acquisition of 24% equity interest of Jiangxi Gas from Nancheong Fubon Pipeline Gas Company Limited contracted under equity transfer agreement but not provided in the condensed consolidated financial statements	**17,131**	–
Unpaid registered capital for Zhejiang Ocean Leasing Company Limited not provided in the condensed consolidated financial statements	**77,500**	–
Unpaid registered capital for China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited not provided in the condensed consolidated financial statements	**125,000**	125,000

PROSPECTS

Looking ahead, the entire shipbuilding industry remains mired in economic turmoil. Severe competition and over-production capacity is likely to continue. However, having survived the toughest years of the industry downturn and now fully poised to take advantage of favorable policies enacted by the China Government, the Group believes that the market has hit bottom and is now actively looking for signs of a rebound over the long term.

In response to the problem of cash flow strain faced by most of the local shipbuilders, the Government has been encouraging banks and financial institutions to provide greater financial support and credit loans to enterprises to help stimulate the domestic shipbuilding market. A "Guidance on provision of financial support to the ship industry to accelerate structural adjustment and transformation"（關於金融支持船舶工業加快結構調整促進轉型升級的指導意見）was jointly introduced by nine governmental departments. This guidance is in line with the Group's developmental strategy on financial leasing which caters to the huge capital demand now extant in the industry.

The Group has been actively developing its financial leasing business and is making great progress after obtaining a business license for China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited. The Group is also investigating the possibility of developing more profitable ways of leasing. The Group is studying the feasibility to construct and lease newly built ships to some clients that can better utilize the production capacity of shipbuilding segment on one hand, and generate concurrent income from the leasing on the other hand.

In view of the increasing demand for financing, the Group sees an essential need to expand its business scale by raising registered capital. To date, the registered capital of Zhejiang Ocean has been increased from US$30 million to US$50 million, and the Group will continue to monitor the market closely and inject more capital in due course.

The LNG-related development scheme is proceeding. In July 2015, the Group announced a letter of intent regarding a cooperative venture with a company incorporated in Hong Kong that is principally engaged in investments in oil and natural gas as well as the supply of energy, particularly city gas. The Group is now conducting due diligence and is confident that this venture will be beneficial due to the strengths and experience of the gas company within the energy business. This business partnership will also complement the Group's strategic diversification into the energy logistics business.

To provide stronger returns for shareholders, the Group is seeking out new profitable business options and intends to further utilise the excessive capacity of existing shipbuilding machinery to develop new production lines, for example, producing modular parts for multi-storey car parking equipment.

The Group completed a series of fund raising activities including issuance of a convertible note of aggregate principle of HK$200 million to a subsidiary of CCB International (Holdings) Limited, and a convertible bonds of HK$60 million to independent third parties. The financial position of the Group has been strengthened upon the abovementioned being exercised. It is expected that the Group will further improve its financial liquidity in the future.

The Group will continue to adopt prudent operational approaches to cope with an uncertain shipbuilding market while flexibly deploying its resources in order to capture any promising investment opportunities that may arise. Ultimately, the Group will continue to bolster its overall financial position in order to prepare for any possible changes in the industry, and will take advantage of all viable and profitable investment opportunities to achieve our goal of business diversification.

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 2015.

CORPORATE GOVERNANCE

The Company has complied the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the deviation from the Code Provision A.2.1 and the Board is committed to complying with the CG Code to the extent that the Directors consider it to be practical and applicable to the Company.

Code Provision A.2.1

The roles of the chairman and the chief executive officer should be segregated and not be exercised by the same individual. The chairman is responsible for the corporate strategic planning and formulation of corporate policies for the Group, while the chief executive officer is responsible for overseeing day-to-day management of the Group's business.

On 23 June 2015, Mr. Chau On Ta Yuen re-designated to non-executive director and honorary chairman from the position of the chairman of the Company. Following the re-designation, Mr. Li Ming, the chief executive officer of the Company, was appointed as the chairman of the Company. The board considered that this arrangement was temporary and was currently to select a suitable person to separate the same individual to perform the roles of the chairman and the chief executive officer and to comply with code provision A.2.1 of the Listing Rules of the Stock Exchange.

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 Siying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2015 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 at www.irasia.com/listco/hk/chinaoceanshipbuilding/ in due course.

BOARD OF DIRECTORS

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

By order of the Board
LI Ming
Chairman

Hong Kong, 28 August 2015