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The functional currency was presented in Renminbi (“RMB”) and the Condensed Consolidated Financial Statements are presented in Hong Kong dollars (“HK\$”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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)
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	8	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	9	27,712	35,843
Other receivables – non-current portion	9	14,410	–
Finance lease receivables – non-current portion	10	20,136	26,123
		1,360,814	1,354,721
CURRENT ASSETS			
Inventories		56,253	49,671
Trade receivables – current portion	9	48,151	40,142
Other receivables and deposits – current portion	9	225,030	192,730
Prepayment for purchase of raw materials	9	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	10	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	11	674,624	672,339
Amounts due to customers for contract work		432,775	341,881
Amounts due to related parties	18	22,987	26,287
Amounts due to directors	18	2,365	2,754
Borrowings – due within one year	12	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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	14	538,786	376,536
Reserves		(1,052,530)	(1,154,814)
		(513,744)	(778,278)
NON-CURRENT LIABILITIES			
Borrowings – due after one year	12	331,737	219,238
Convertible bonds payable	15	107,214	572,935
Deferred tax liabilities		91,172	91,192
		530,123	883,365
		16,379	105,087

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory reserve HK\$'000 (Note)	Translation reserve HK\$'000	Share option reserve HK\$'000	Convertible bonds/notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2015 (Audited)	376,536	875,349	3,368,411	34,824	98,138	85,856	156,621	(5,774,013)	(778,278)
Loss and total comprehensive expenses for the period	-	-	-	-	-	-	-	(282,482)	(282,482)
Issuance of shares upon conversion of convertible bonds	162,250	513,248	-	-	-	-	(128,482)	-	547,016
Transfer	-	-	-	117	-	-	-	(117)	-
At 30 June 2015 (Unaudited)	538,786	1,388,597	3,368,411	34,941	98,138	85,856	28,139	(6,056,612)	(513,744)
At 1 January 2014 (Audited)	198,593	351,212	3,368,411	34,824	83,931	43,693	22,970	(5,140,836)	(1,037,202)
Loss for the period	-	-	-	-	-	-	-	(222,247)	(222,247)
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	13,439	-	-	-	13,439
Total comprehensive expenses for the period	-	-	-	-	13,439	-	-	(222,247)	(208,808)
Issuance of shares upon conversion of convertible notes	80,943	278,148	-	-	-	-	(22,970)	-	336,121
Issuance of shares	26,500	30,110	-	-	-	-	-	-	56,610
Recognition of equity component of convertible bonds payable	-	-	-	-	-	-	218,135	-	218,135
Recognition of equity-settled share-based payments	-	-	-	-	-	42,163	-	-	42,163
At 30 June 2014 (Unaudited)	306,036	659,470	3,368,411	34,824	97,370	85,856	218,135	(5,363,083)	(592,981)

Note: According to the relevant rules and regulations in the People's Republic of China ("PRC"), subsidiaries of China Ocean Shipbuilding Industry Group Limited (the "Company") (together with the subsidiaries collectively referred to as the "Group") established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set-off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(164,483)	(137,460)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,174)	(9,266)
Proceeds from disposal of property, plant and equipment	3	127
(Increase) decrease in pledged bank deposits	(116)	183,441
Acquisition of a subsidiary	–	372
Capital contribution to an associate	(31,017)	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(33,304)	174,674
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings raised	379,803	306,655
Repayment of borrowings	(187,002)	(380,614)
Interest paid	(59,191)	(26,193)
Issuance of shares, net of issuance cost	–	56,610
Proceed from issuance of convertible bonds payable	60,000	985,000
NET CASH FROM FINANCING ACTIVITIES	193,610	941,458
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,177)	978,672
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	13,439
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	13,934	13,549
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD represented by bank balances and cash	9,757	1,005,660

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) Annual Improvements Project	Defined Benefits Plans: Employee Contributions 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)

3. REVENUE AND SEGMENT INFORMATION (Continued)

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.

3. 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:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Assets		
Segment assets		
– Shipbuilding	1,190,806	1,127,141
– Trading business	–	–
– Finance leasing business	41,124	38,552
Total segment assets	1,231,930	1,165,693
Pledged bank deposits and bank balances and cash	123,027	127,088
Interest in an associate	96,136	58,621
Interests in joint ventures	503,127	503,463
Unallocated corporate assets	18,128	4,879
Consolidated assets	1,972,348	1,859,744
Liabilities		
Segment liabilities		
– Shipbuilding	1,056,531	996,672
– Trading business	–	–
– Finance leasing business	3,423	3,000
Total segment liabilities	1,059,954	999,672
Borrowings	1,154,733	930,492
Convertible bonds payable	107,214	572,935
Deferred tax liabilities	91,172	91,192
Unallocated corporate liabilities	73,019	43,731
Consolidated liabilities	2,486,092	2,638,022

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, certain other receivables, 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 payable, deferred tax liabilities and certain other payables and accruals.

4. FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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 HK\$'000 (Unaudited)	2014 HK\$'000 (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 of other jurisdictions have been provided for as no assessable profits were generated in the other jurisdictions in both periods.

5. INCOME TAX EXPENSE (CREDIT) (Continued)

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 HK\$'000 (Unaudited)	2014 HK\$'000 (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 HK\$'000 (Unaudited)	2014 HK\$'000 (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 '000 (Unaudited)	2014 '000 (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. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$7,000 (for the six months ended 30 June 2014: HK\$123,000) for cash proceeds of approximately HK\$3,000 (for the six months ended 30 June 2014: HK\$127,000), resulting in a loss on disposal of approximately HK\$4,000 (gain on disposal for the six months ended 30 June 2014: HK\$4,000).

In addition, during the current interim period, the Group paid approximately HK\$2,174,000 (for the six months ended 30 June 2014: HK\$9,266,000) for acquisition of property, plant and equipment in the PRC.

At 30 June 2015, certain of the Group's buildings and plant and machinery with the aggregate carrying amount approximately HK\$351,510,000 (31 December 2014: HK\$377,558,000) were pledged as security for the Group's bank borrowings (Note 17).

9. TRADE RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS/PREPAYMENT FOR PURCHASE OF RAW MATERIALS

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

9. TRADE RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS/PREPAYMENT FOR PURCHASE OF RAW MATERIALS (Continued)

Notes:

- (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).
- (b) The Group has paid deposit of approximately HK\$7,358,000 for acquisition of 23% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd. ("Jiangxi Gas") from Sanya Chengda Investment Limited ("Sanya Chengda"), an independent third party, and paid deposit of approximately HK\$7,052,000 for acquisition of 24% equity interest of Jiangxi Gas from Nancheong Fubon Pipeline Gas Company Limited ("Nancheong Fubon"), an independent third party, during the six months period ended 30 June 2015 (31 December 2014: HK\$Nil).
- (c) Certain vessel buyers have made progress payments for ship construction contracts to two agents and one stakeholder (2014: two agents and one stakeholder) rather than directly to the Group. The Group has the entitlement to these progress payments in accordance with the contracts but they are placed under custody of the agents/stakeholder to ensure these progress payments are used to pay for the costs incurred by the Group relevant to shipbuilding construction contracts. The progress payments in custody will be paid over to the Group based on the shipbuilding contract.
- (d) Deposit paid for acquisition of property, plant and equipment was the purchase consideration paid for a property owned by a property developer in September 2008 at approximately HK\$3,332,000 (equivalent to RMB2,665,700) which located in Nanchang. The premises permit has not yet been obtained and the ownership of property has not been transferred to the Group as at 30 June 2015. During the six months ended 30 June 2015, the Group had reached the settlement arrangement with the property developer, HK\$1,500,000 (equivalent to RMB1,200,000) has been recovered from the property developer. The remaining balances would be settled within one year and reclassified as other receivables – current portion.
- (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.

9. TRADE RECEIVABLES/OTHER RECEIVABLES AND DEPOSITS/PREPAYMENT FOR PURCHASE OF RAW MATERIALS (Continued)

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 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (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.

10. 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

10. FINANCE LEASE RECEIVABLES (Continued)

Amounts receivable under finance leases (Continued)

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 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (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.

11. TRADE, BILLS AND OTHER PAYABLES

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (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 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (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 (Note 17).

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

12. BORROWINGS

During the current interim period, the Group obtained new bank borrowings and other borrowings amounting to approximately HK\$118,750,000 and HK\$261,053,000 respectively (31 December 2014: HK\$462,417,000 and HK\$423,155,000 respectively).

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Bank borrowings	387,500	356,250
Other borrowings	767,233	574,242
	1,154,733	930,492
Secured	310,003	396,372
Unsecured	844,730	534,120
	1,154,733	930,492

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Within one year	822,996	711,254
More than one year but not more than two years	331,737	199,075
More than two years but not more than five years	–	20,163
	1,154,733	930,492
Less: Amounts due within one year shown under current liabilities	(822,996)	(711,254)
Amounts due after one year shown under non-current liabilities	331,737	219,238

12. BORROWINGS (Continued)

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Fixed-rate borrowings:		
Within one year	421,278	313,162
More than one year but not more than two years	187,500	75,000
	608,778	388,162

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Variable-rate borrowings:		
Within one year	401,718	398,092
More than one year but not more than two years	144,237	124,075
More than two years but not more than five years	–	20,163
	545,955	542,330

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

	30 June 2015	31 December 2014
Effective interest rates:		
Fixed-rate borrowings (bank and other borrowings)	4.4% to 24%	4.4% to 24%
Variable-rate borrowings (bank and other borrowings)	5.6% to 22.5%	5.54% to 24%

At 30 June 2015 and 31 December 2014, there was no bank borrowings and other borrowings with repayment on demand clause.

13. 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).

14. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
At 1 January 2014 (Audited), 31 December 2014 (Audited), and 30 June 2015 (Unaudited)		
– Ordinary shares of HK\$0.05 each	20,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2014 (Audited)		
– Ordinary shares of HK\$0.05 each	3,971,861,552	198,593
Issue of shares upon conversion of convertible notes (Note a)	1,618,860,603	80,943
Issue of shares upon conversion of CBVI (Note a)	1,410,000,000	70,500
Subscription of shares (Note b)	530,000,000	26,500
At 31 December 2014 (Audited), 1 January 2015 (Audited)		
– Ordinary shares of HK\$0.05 each	7,530,722,155	376,536
Issue of shares upon conversion of CBVI (Note c)	2,945,000,000	147,250
Issue of shares upon conversion of CBVII (Note d)	300,000,000	15,000
At 30 June 2015 (Unaudited)		
– Ordinary shares of HK\$0.05 each	10,775,722,155	538,786

Notes:

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

Certain holders of CBVI (defined in Note 15) converted 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 had been issued.

14. SHARE CAPITAL (Continued)

Notes:

- (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) During the six months ended 30 June 2015, certain holders of CBVI converted HK\$589 million convertible bonds for 2,945,000,000 new ordinary shares at conversion price of HK\$0.20 per conversion share.
- (d) During the six months ended 30 June 2015, certain holders of CBVII (defined in Note 15) converted HK\$60 million convertible bonds for 300,000,000 new ordinary shares at conversion price of HK\$0.20 per conversion share.

All new shares issued during the six months period ended 30 June 2015 and year ended 31 December 2014 ranked *pari passu* with the existing shares in all respects.

15. CONVERTIBLE BONDS PAYABLE**Issuance of convertible bonds*****CBVI***

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 ("CBVI"). The interest rate is 7.5% per annum payable annually in arrear in RMB at 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.

During the six months ended 30 June 2015, certain holders of CBVI surrender the CBVI held by them of outstanding principal amount of HK\$589 million (during the year ended 31 December 2014: HK\$282 million) in consideration for conversion of 2,945,000,000 (during the year ended 31 December 2014: 1,410,000,000) ordinary shares of the Company at a conversion price of HK\$0.20 per conversion share.

CBVII

On 16 February 2015, the Company entered into the subscription agreements in respect of the issue of the convertible bonds in the principal amount of not more than HK\$60,000,000 ("CBVII"). The interest rate is 7.5% per annum payable annually in arrear in RMB at a fixed exchange rate, the holder(s) of CBVII may convert the CBVII into ordinary shares of the Company from 6 March 2015 to 4 March 2018, the date of maturity, at an initial conversion price of HK\$0.20 per share.

During the six months ended 30 June 2015, all holders of CBVII surrender the CBVII held by them of outstanding principal amount of HK\$60 million in consideration for conversion of 300,000,000 ordinary shares of the Company at a conversion price of HK\$0.20 per conversion share.

16. COMMITMENTS

(a) Operating lease commitments

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Within one year	4,374	3,938
In the second to fifth year inclusive	3,814	4,497
	8,188	8,435

(b) Capital commitments

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Unpaid consideration payable for the acquisition of 23% equity interest of Jiangxi Gas from Sanya Chengda 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 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
	236,049	125,000

17. 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:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Deposits	113,270	113,154
Property, plant and equipment	351,510	377,558
Prepaid lease payments	316,857	320,529
	781,637	811,241

As at 30 June 2015, the Company has 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 RMB107,000,000 (31 December 2014: RMB107,000,000).

18. RELATED PARTY DISCLOSURES

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

- (a) At 30 June 2015, Mr. Zha Jiu Peng ("Mr. Zha") and Mr. Wu Ge ("Mr. Wu"), the senior management of the Group, have advanced loan of approximately HK\$70,000 and HK\$2,829,000 (equivalent to approximately RMB56,000 and RMB2,263,000) (31 December 2014: approximately HK\$364,000 and HK\$2,665,000 (equivalent to approximately RMB291,000 and RMB2,132,000)) respectively to the Group. The loan is unsecured, interest-bearing at 15% per annum and repayable before 31 December 2015. The interests paid and payable to Mr. Zha and Mr. Wu of approximately HK\$19,000 and HK\$169,000 (equivalent to approximately RMB15,000 and RMB135,000) (31 December 2014: approximately HK\$47,000 and HK\$387,000 (equivalent to approximately RMB37,000 and RMB307,000)) for the six months ended 30 June 2015.

At 30 June 2015, the amount due to Mr. Zha and Mr. Wu of approximately HK\$133,000 and HK\$88,000 (equivalent to approximately RMB107,000 and RMB71,000) (31 December 2014: approximately HK\$133,000 and HK\$88,000 (equivalent to approximately RMB107,000 and RMB71,000)) respectively represented consideration payable for the acquisition of Jiujiang Jianglian Shipbuilding Heavy Industry Company Limited ("Jiujiang Jianglian"), the wholly-owned subsidiary of the Company.

- (b) At 30 June 2015, the Group borrowed of approximately HK\$9,867,000 (equivalent to approximately RMB7,893,000) (31 December 2014: approximately HK\$23,037,000 (equivalent to approximately RMB18,429,000)) 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\$580,000 (equivalent to approximately RMB464,000) (31 December 2014: approximately HK\$4,363,000 (equivalent to approximately RMB3,463,000)) for the six months ended 30 June 2015.

18. RELATED PARTY DISCLOSURES (Continued)

- (c) At 30 June 2015, the Group borrowed of HK\$10,000,000 (31 December 2014: HK\$Nil) from Lead Dragon Limited. The proceeds were used to finance the daily operation of the Group. The Company's executive director, Mr. Li Ming ("Mr. Li") is the director and shareholder of Lead Dragon Limited. The loan is unsecured, interest free and repayable on demand.
- (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 (31 December 2014: RMB277,000,000) granted by banks in the PRC during the six months ended 30 June 2015.

At 30 June 2015, Mr. Wang has advanced loan of approximately HK\$2,142,000 (equivalent to approximately RMB1,714,000) (31 December 2014: approximately HK\$2,404,000 (equivalent to approximately RMB1,923,000)) 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\$129,000 (equivalent to approximately RMB103,000) (31 December 2014: approximately HK\$367,000 (equivalent to approximately RMB291,000)) for the six months ended 30 June 2015.

At 30 June 2015, the amount due to Mr. Wang of approximately HK\$223,000 (equivalent to approximately RMB178,000) (31 December 2014: approximately HK\$223,000 (equivalent to approximately RMB178,000)) represented consideration payable for the acquisition of Jiujiang Jianglian, the wholly-owned subsidiary of the Company.

- (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 (31 December 2014: RMB170,000,000) granted by banks in the PRC during the six months ended 30 June 2015.

Mr. Li also provided a free guarantee to secure the payment obligations of the borrowing of RMB150,000,000 (31 December 2014: RMB60,000,000) from a party, being one of the shareholders of the Group's associate, Zhejiang Ocean Leasing Company Limited during the six months ended 30 June 2015.

The amount due to Mr. Li of approximately HK\$127,000 (equivalent to RMB102,000) as at 31 December 2014 represented general business expenses paid on behalf of the Company.

- (f) The remuneration of Directors and chief executives during the six months ended 30 June 2015 and 30 June 2014 has been disclosed in Note 6 to the condensed 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.

19. FAIR VALUE MEASUREMENTS OF THE FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets 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 are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2015 HK\$'000	31 December 2014 HK\$'000		
Listed equity securities classified as held-for-trading in the condensed consolidated statement of financial position	Asset- Approximately 2,659	Asset- Approximately 3,636	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1, 2 and 3 during the six months period/year ended 30 June 2015 and 31 December 2014.

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

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 report, 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 report, 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\$351.51 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 HK\$'000	31 December 2014 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.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, the interests and/or short position of the directors in the shares and underlying shares 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 Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Save as disclosed below, none of the directors or their associates had held any ordinary shares of the Company.

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of share options held	Approximate percentage of the issued shares held
Li Ming	Long position	Beneficial owner	359,817,500	40,000,000	3.71%
	Long position	Interest of controlled Corporation	295,100,000 <i>(note 1)</i>	–	2.74%
Chau On Ta Yuen	Long position	Beneficial owner	–	49,743,000	0.46%
Wang San Long	Long position	Beneficial owner	–	20,110,600	0.19%
Zhang Shi Hong	Long position	Beneficial owner	–	17,581,000	0.16%
Hu Bai He	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Siying	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Ying	Long position	Beneficial owner	–	1,000,000	0.01%

Note 1: Mr. Li Ming is deemed to be interested in the 295,100,000 shares held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is wholly and beneficially owned by Mr. Li Ming.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests and/or short position in the equity or debt securities of the Company or any of its associated corporations at 30 June 2015.

SHARE OPTION SCHEME

Particulars of the Company's share option schemes adopted on 27 May 2002 (the "Scheme 2002") and 27 June 2012 (the "Scheme 2012") are set out in Note 40 to the consolidated financial statements of the Company's 2014 annual report. The purpose of the Scheme 2002 and Scheme 2012 is to recognise and motivate the contribution of the 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.

The following table discloses details of the options held by directors, employees and other persons and movements in such holdings during the six months ended 30 June 2015:

Name	As at 1 January 2015 and 30 June 2015	Date of grant	Exercisable period	Exercise price per share
Directors				
Chau On Ta Yuen	4,743,000	5 Mar 2008	Up to 4 Mar 2018	HK\$5.693
	45,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Zhang Shi Hong	1,581,000	5 Mar 2008	4 Mar 2018	HK\$5.693
	16,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Wang San Long	4,110,600	7 May 2008	Up to 6 May 2018	HK\$4.523
	16,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Li Ming	40,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Xiang Siying	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Hu Bai He	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Xiang Ying	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Sub-total	130,434,600			
Employees (In aggregate)				
	2,339,880	7 May 2008	Up to 6 May 2018	HK\$4.523
	50,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Sub-total	52,339,880			
Others (In aggregate)				
	33,675,300	7 May 2008	Up to 6 May 2018	HK\$4.523
	196,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK\$0.211
Sub-total	229,675,300			
Total	412,449,780			

No share options were exercised, cancelled or lapsed during the six months ended 30 June 2015.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 18 (Related party transactions) to the condensed consolidated financial statements, no contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, save as disclosed below, no persons, not being a Director or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO. Other than as disclosed below, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 30 June 2015.

Name	Long/ Short position	Nature of Interests	Number of shares/ underlying share held	Approximate percentage of the issued shares held at 30 June 2015
Central Huijin Investment Ltd. (Note 1)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%
China Construction Bank Corporation (Note 1)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%
CCB International Group Holdings Limited (Note 1)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%

Name	Long/ Short position	Nature of Interests	Number of shares/ underlying share held	Approximate percentage of the issued shares held at 30 June 2015
CCB Financial Holdings Limited (<i>Note 1</i>)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%
CCB International (Holdings) Limited (<i>Note 1</i>)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%
CCBI Investments Limited (<i>Note 1</i>)	Long	Interest of controlled corporation	806,126,561	7.48%
	Short	Interest of controlled corporation	1,491,334,138	13.84%
Prosper Talent Limited (<i>Note 1</i>)	Long	Beneficial owner	806,126,561	7.48%
	Short	Beneficial owner	1,491,334,138	13.84%

Notes:

- (1) Prosper Talent Limited is wholly and beneficially owned by CCBI Investments Limited, which in turn is wholly and beneficially owned by CCB International (Holdings) Limited. CCB International (Holdings) Limited is wholly and beneficially owned by CCB International Group Holdings Limited, which is wholly and beneficially owned by China Construction Bank Corporation, which in turn is owned as to approximately 57.26% by Central Huijin Investment Ltd. Therefore, the aforesaid companies were deemed to be interested in the same 806,126,561 shares and 1,491,334,138 short position in shares of the Company directly held by Prosper Talent Limited pursuant to Part XV of the SFO.

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 ceased to be the chairman of the Company and was re-designated to non-executive director and was appointed as honourable chairman of the Company. Following the re-designation of Mr. Chau On Ta Yuen, Mr. Li Ming, the chief executive officer of the Company, was appointed as the chairman of the Company on the same date. Accordingly, the roles of the chairman and the chief executive officer of the Company were exercised by the same individual. The board considered that this was a temporary arrangement. Further, the Company is identifying a suitable candidate to perform the separate roles of the chairman and the chief executive officer and to comply with code provision A.2.1 of the CG Code.

CHANGE IN INFORMATION OF DIRECTORS

The following information is set out pursuant to the requirements of Rule 13.51B(1) of the Listing Rules:

Ms. Xiang Siying was appointed as an independent non-executive director of Titan Petrochemicals Group Ltd. (Stock Code: 1192) on 23 July 2015, a company listed on the Main Board 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.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The nomination committee of the Company as at the date of this report comprises three independent non-executive directors, Ms. Xiang Ying, Ms. Xiang Siying and Mr. Hu Bai He and one non-executive director, Mr. Chau On Ta Yuen. The Chairman of the Nomination Committee is Ms. Xiang Ying.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang 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.

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