

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the “Board”) of China Ocean 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 2016 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	168,463	67,253
Cost of sales		(227,554)	(218,907)
Gross loss		(59,091)	(151,654)
Other income		745	3,268
Other gains and losses		(3,484)	73
Change in fair value of investments held for trading		122	(977)
Selling and distribution expenses		(7,206)	(1,399)
Administrative expenses		(71,913)	(37,071)
Finance costs	4	(56,890)	(100,518)
Share of profit of associates		4,091	6,498
Share of losses of joint ventures		(492)	(336)
Loss before tax		(194,118)	(282,116)
Income tax credit (expense)	5	1,361	(366)
Loss for the period	6	(192,757)	(282,482)

	Six months ended 30 June	
<i>Notes</i>	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive income (expenses):		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	18,086	–
Share of translation reserve of associates	(3,941)	–
Share of statutory reserve of associates	455	–
Share of translation reserve of joint ventures	(7,990)	–
	<hr/>	<hr/>
Other comprehensive income for the period, net of income tax	6,610	–
	<hr/>	<hr/>
Total comprehensive expenses for the period	(186,147)	(282,482)
	<hr/> <hr/>	<hr/> <hr/>
Loss for the period attributable to:		
– Owners of the Company	(192,245)	(282,482)
– Non-controlling interests	(512)	–
	<hr/>	<hr/>
	(192,757)	(282,482)
	<hr/>	<hr/>
Total comprehensive expenses attributable to:		
– Owners of the Company	(185,673)	(282,482)
– Non-controlling interests	(474)	–
	<hr/>	<hr/>
	(186,147)	(282,482)
	<hr/> <hr/>	<hr/> <hr/>
Loss per share		
– Basic and diluted	7	
	HK(1.60)cents	HK(3.32)cents
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	<i>Notes</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		297,422	315,611
Prepaid lease payments – non-current portion		296,830	301,610
Goodwill		188,057	188,057
Intangible assets		225,760	245,680
Interests in associates		159,452	93,410
Interests in joint ventures		463,636	472,118
Trade receivables – non-current portion	9	348	622
Deposits – non-current portion	9	116	–
Finance lease receivables – non-current portion	10	6,585	13,028
Pledged bank deposits – non-current portion		–	6,962
		<u>1,638,206</u>	<u>1,637,098</u>
CURRENT ASSETS			
Inventories		144,048	101,571
Trade receivables	9	50,419	38,157
Other receivables	9	215,529	200,743
Prepayment for purchase of raw materials	9	244,404	174,930
Prepaid lease payments		7,169	7,231
Investments held for trading		2,074	1,952
Finance lease receivables	10	18,612	15,390
Pledged bank deposits		580	74,571
Bank balances and cash		49,715	70,181
		<u>732,550</u>	<u>684,726</u>
CURRENT LIABILITIES			
Trade, bills and other payables	11	419,600	499,258
Receipts in advance		17,188	–
Amounts due to customers for contract work		330,659	272,647
Amounts due to related parties		3,164	4,163
Amounts due to directors		540	597
Borrowings		1,134,937	953,153
Convertible bonds payable		301,800	248,609
Contingent consideration payable		315,740	–
Provision for warranty		3,509	–
Tax liabilities		2,043	112
		<u>2,529,180</u>	<u>1,978,539</u>
NET CURRENT LIABILITIES		<u>(1,796,630)</u>	<u>(1,293,813)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>(158,424)</u></u>	<u><u>343,285</u></u>

	30 June	31 December
	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
CAPITAL AND RESERVES		
Share capital	599,899	597,899
Reserves	(1,163,863)	(985,315)
	<hr/>	<hr/>
Equity attributable to owners of the Company	(563,964)	(387,416)
Non-controlling interests	11,085	644
	<hr/>	<hr/>
TOTAL DEFICITS	(552,879)	(386,772)
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Borrowings – non-current portion	287,549	253,986
Convertible bonds payable – non-current portion	–	45,123
Contingent consideration payable	–	315,740
Deferred tax liabilities	106,674	115,208
Deposit received – non-current portion	232	–
	<hr/>	<hr/>
	394,455	730,057
	<hr/>	<hr/>
	(158,424)	343,285
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements of China Ocean Industry Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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 consolidated loss before tax of approximately HK\$194 million for the six months ended 30 June 2016 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK\$1,797 million and HK\$553 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.

SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

- (i) On 4 January 2016, Merge Limited, a directly wholly-owned subsidiary of the Company, contributed 25% of the registered capital in 浙江千島融資租賃有限公司 (“千島融資租賃”), a company established in the PRC with registered capital of USD30 million, at the consideration of USD7.5 million, out of which approximately USD1.2 million was paid by Merge Limited during the six months ended 30 June 2016. The Group is able to exercise significant influence over 千島融資租賃 because it has appointed one out of the five directors of 千島融資租賃 under the shareholders’ agreement. 千島融資租賃 is principally engaged in the business of finance leasing services. As at 30 June 2016, the investment in associate, 千島融資租賃, is of approximately HK\$8,907,000.
- (ii) On 21 June 2016, 中海物貿(深圳)有限公司, an indirectly non-wholly owned subsidiary of the Company, entered into an investment agreement with two independent third parties to establish 北京中首智慧停車管理有限公司 (“北京中首智慧”), a company established in the PRC with registered capital of RMB45,000,000, in which 中海物貿(深圳)有限公司 contributed RMB20,650,000 which represented 45.89% of registered capital in 北京中首智慧. The Group is able to exercise significant influence over 北京中首智慧 because it has appointed two out of the five directors of 北京中首智慧 under the shareholders’ agreement. 北京中首智慧 is principally engaged in the business of intelligent parking management and value-added parking management services. As at 30 June 2016, the investment in associate, 北京中首智慧, is of approximately HK\$23,954,000.

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Annual Improvements Projects	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements 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 2015, "Intelligent car parking and automotive device 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 business – provision of shipbuilding services under shipbuilding construction contracts and operated in 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, advisory services and provision of factoring services in the PRC.
- d) Intelligent car parking and automotive device business – manufacturing and sales of car parking equipment, investment, operation and management of car parks and electronic automotive devices in the PRC.

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

Six months ended 30 June 2016 (Unaudited)

	Shipbuilding business HK\$'000	Trading business HK\$'000	Finance leasing business HK\$'000	Intelligent car parking and automotive device business HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue						
– External sales	70,992	–	580	96,891	–	168,463
– Inter-segment sales	–	14,885	1,620	–	(16,505)	–
Total segment revenue	70,992	14,885	2,200	96,891	(16,505)	168,463
Segment result	(146,954)	(274)	(3,340)	(3,923)		(154,491)
Unallocated other income						619
Unallocated other gains and losses						(3,457)
Change in fair value of investments held for trading						122
Impairment loss recognised in respect of other receivables						(9,942)
Finance costs						(17,686)
Share of profit of associates						4,091
Share of losses of joint ventures						(492)
Unallocated corporate expenses						(12,882)
Loss before tax						(194,118)

Six months ended 30 June 2015 (Unaudited)

	Shipbuilding business HK\$'000	Trading business HK\$'000	Finance leasing business HK\$'000	Elimination HK\$'000	Total HK\$'000
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	(232,345)	–	(2,365)		(234,710)
Unallocated other income					506
Unallocated other gains and losses					79
Change in fair value of investments held for trading					(977)
Finance costs					(42,892)
Share of profit of associates					6,498
Share of losses of joint ventures					(336)
Unallocated corporate expenses					(10,284)
Loss before tax					(282,116)

4. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interests on:		
Convertible bonds payable at effective interest rates	17,502	42,892
Bank borrowings and bill payables	15,240	18,928
Other borrowings	21,244	32,570
Guarantee fee and fund management fee incurred in connection with borrowings	2,904	6,049
Others	–	79
	<u>56,890</u>	<u>100,518</u>

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC tax	3,879	385
Deferred tax – current period	<u>(5,240)</u>	<u>(19)</u>
	<u>(1,361)</u>	<u>366</u>

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	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	2,937	2,897
Contributions to retirement benefits scheme	18	27
Other staff costs:		
Salaries and other benefits	23,534	19,157
Contributions to retirement benefits scheme	3,068	3,278
Total staff costs	<u>29,557</u>	<u>25,359</u>
Auditor's remuneration:		
Audit services	650	650
Non-audit services	350	300
	<u>1,000</u>	<u>950</u>
Depreciation of property, plant and equipment	25,394	29,873
Amortisation of prepaid lease payments	3,600	3,672
Amortisation of intangible assets	19,920	–
Loss on disposal of property, plant and equipment	17	4
Minimum lease payments paid under operating leases in respect of rented premises	3,777	2,478
Shipbuilding contract costs recognised as cost of sales	156,341	218,871
Impairment loss recognised in respect of other receivables	9,942	–
Reversal of impairment loss recognised in respect of finance lease receivables	<u>(28)</u>	<u>–</u>

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	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	<u>(192,245)</u>	<u>(282,482)</u>
	Six months ended 30 June	
	2016	2015
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share (<i>Note</i>)	<u>11,994,907</u>	<u>8,503,567</u>

Note:

For the six months ended 30 June 2016 and 30 June 2015, the computation of diluted loss per share does not assumed the conversion of the Company's outstanding convertible bonds and the exercise of the Company's share options since their conversion/exercise would result in a decrease in loss per share which is regarded as anti-dilutive.

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors have determined that no dividend will be paid in respect of the interim period (for the six months ended 30 June 2015: Nil).

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables – non-current portion	348	622
Trade receivables – current portion	<u>50,419</u>	<u>38,157</u>
Total trade receivables (<i>Note a</i>)	<u>50,767</u>	<u>38,779</u>
Deposits – non-current portion	<u>116</u>	<u>–</u>
Other receivables	82,764	39,301
<i>Less:</i> Allowance for doubtful debts	<u>(16,608)</u>	<u>(6,916)</u>
Other receivables, net	<u>66,156</u>	<u>32,385</u>
Value-added tax recoverable	142,982	161,767
Deposits placed with agents and a stakeholder	<u>6,391</u>	<u>6,591</u>
Total other receivables, net	<u>215,529</u>	<u>200,743</u>
Prepayment for purchase of raw materials	<u>244,404</u>	<u>174,930</u>

Notes:

- (a) At 30 June 2016, the Group's trade receivables included trade receivables from trading of automotive related products with average 90 days credit period and retention receivables for trading of automotive related products with range of one to two years under the respective terms of contract.

At 31 December 2015, the Group's trade receivables included trade receivables from the factoring services with one year credit period, trading of automotive related products with average 90 days credit period and retention receivables for trading of automotive related products with range of one to two years under the respective terms of contract.

At 31 December 2015, trade receivables are non-interest bearing, except for trade receivables from factoring services of approximately HK\$28,556,000 which bear interest rate of 12% per annum.

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

	30 June 2016 <i>HK\$'000</i> (Unaudited)	31 December 2015 <i>HK\$'000</i> (Audited)
0 – 90 days	43,008	38,779
91 – 180 days	5,041	–
More than 180 days but not exceeding one year	2,256	–
In more than one year	462	–
	<u>50,767</u>	<u>38,779</u>

The Directors considered that no impairment loss on trade receivables that were past due but not impaired as the balances are considered to be recoverable as at 30 June 2016 and 31 December 2015. 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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Finance lease receivables – current portion	18,612	15,390
Finance lease receivables – non-current portion	<u>6,585</u>	<u>13,028</u>
	<u>25,197</u>	<u>28,418</u>

Amounts receivable under finance leases

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Finance lease receivables	28,020	32,033
<i>Less:</i> Unearned finance income	<u>(2,568)</u>	<u>(3,328)</u>
Net finance lease receivables	25,452	28,705
<i>Less:</i> Accumulated impairment loss	<u>(255)</u>	<u>(287)</u>
	<u>25,197</u>	<u>28,418</u>

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	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Repayable (including interests)		
Within one year	21,080	17,915
One to two years	6,940	14,118
	28,020	32,033
Repayable (net of interests)		
Within one year	18,612	15,390
One to two years	6,585	13,028
	25,197	28,418
Impairment allowances		
At the beginning of the period/year	287	378
Exchange realignments	(4)	(21)
Reversal for the period/year	(28)	(70)
At the end of the period/year	255	287

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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade payables	80,289	54,192
Bills payables	<u>–</u>	<u>141,600</u>
	80,289	195,792
Consideration payable for acquisition of prepaid lease payments	43,751	44,505
Payable to guarantors	5,933	5,888
Contribution payables to labour union and education funds	12,759	12,491
Accrual of contractor fees	16,397	17,707
Accrual of government funds	30,160	30,680
Other payables and accruals	<u>230,311</u>	<u>192,195</u>
	<u>419,600</u>	<u>499,258</u>

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 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 – 30 days	12,294	56,526
31 – 60 days	12,329	25,156
61 – 90 days	16,225	72,634
Over 90 days	<u>39,441</u>	<u>41,476</u>
	<u>80,289</u>	<u>195,792</u>

As at 31 December 2015, bills payables are secured by pledged bank deposits.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

China Ocean Industry Group Limited is engaged in the production and operation of shipbuilding, trading, and providing financial services business and intelligent car-parking and automotive device business.

In the first half of 2016, the Group's shipbuilding business still faced tremendous pressure due to continuing downturn of the marine market. Since the second half of 2015, through continuously adjusting its shipbuilding business structure, optimizing the allocation of resources, improving the operation efficiency, the Group was able to sustain the current business scale of shipbuilding business and significantly reduce costs. At the same time, financial leasing business achieved steady progress in business development and, created synergies with the Group's other businesses. Following the acquisition of the intelligent car-parking project of Shandong Dereton at the end of 2015, the Group has been focusing on development of intelligent car-parking and automotive device business which achieved significant result during the period under review. In addition, by entering into cooperation agreements and establishing joint ventures with business partners in relevant areas, the Group has been able to utilize multiple resources and advantages to continuously expand the business scope and market share of car-parking business. In light with increasing domestic market demand coped with encouraging policies issued by government of the PRC, the Group is expecting rapid development in our intelligent car-parking and automotive device business with promising prospect.

For the six months ended 30 June 2016, the Group recorded a revenue of HK\$168.46 million (2015: HK\$67.25 million), representing a substantial increase of 150.50% as compared to the same period last year. This increase was mainly due to revenue of HK\$96.89 million contributed by intelligent car-parking and automotive device business (2015: Nil). The Group's shipbuilding business recorded a revenue of HK\$70.99 million (2015: HK\$65.48 million), representing an increase of 8.41% as compared to the same period last year. The Group's financial leasing business contributed a revenue of HK\$0.58 million (2015: HK\$1.78 million), representing a slight decrease as compared to the same period last year. During the period under review, the Group recorded a gross loss of HK\$59.09 million (2015: HK\$151.65 million), representing a significant decrease of 61.04% compared to last year. The gross loss was due to slumping market, increasing competition and, lower pricing of shipbuilding orders.

The Group's selling and administrative expenses increased from HK\$38.47 million to HK\$79.12 million, mainly due to increased sales and administrative activities associated with the expansion of intelligent car-parking and electronic automotive device business. The Group's financial cost decreased significantly by 43.40% from HK\$100.52 million to HK\$56.89 million, mainly due to the great effort in adjusting financing methods and negotiation with subscribers of convertible bonds and creditors to basically convert both convertible bonds and debts into shares by the Group in 2015, resulting a substantial decrease of financial cost.

In conclusion, the Group recorded a loss attributable to shareholders of HK\$192.25 million (in the first half of 2015: loss of HK\$282.48 million) for the six months ended 30 June 2016. The loss for the period under review decreased by approximately 31.94% as compared to the same period last year.

SHIPBUILDING BUSINESS

During the period under review, despite shipbuilding industry downturn, the Group's shipbuilding business achieved a slight growth compared to the same period last year by the joint effort of its management and staff. The revenue of the Group's shipbuilding segment amounted to HK\$70.99 million (2015: HK\$65.48 million), representing an increase of 8.41% as compared to the same period last year. The Group has commenced the construction of new shipbuilding orders and achieved good progress so far.

As of 30 June 2016, the Group received confirmed orders of 4 heavy lift vessels of 12,500 ton, 4 heavy lift vessels of 14,000 ton and 2 chemical tankers of 16,500 ton in total.

FINANCIAL LEASING

During the period under review, while expanding its business, the Group's financial leasing business has created synergies with the Group's shipbuilding business and supported our shipbuilding business to go through the sluggish period. As of 30 June 2016, the Group recorded a total revenue of HK\$0.58 million (2015: HK\$1.78 million) from its financial leasing segment. In addition, the Group also shared profits of HK\$4.09 million (2015: HK\$6.50 million) from Zhejiang Ocean Leasing Company Limited and Zhejiang Qiandao Leasing Company Limited (浙江千島融資租賃有限公司), in which the Group holds 20% and 25% equity interests respectively.

INTELLIGENT CAR-PARKING AND ELECTRONIC AUTOMOTIVE DEVICE BUSINESSES

During the period under review, the Group's intelligent car-parking and electronic automotive device business has made gratifying progress. As of 30 June 2016, this segment recorded a total revenue of HK\$96.89 million (in the first half of 2015: Nil).

During the period under review, the Group has entered various cooperative partnership with multiple enterprises including: jointly formed Shenzhen Zhonghai Saige Intelligent Carparking Development Limited* (深圳中海賽格智慧停車發展有限公司) with Shenzhen Electronics Group* (深圳賽格集團); signed JV agreements with investors such as Beijing Shougang Lujie Venture Investment Company Limited* (北京首鋼綠節創業投資有限公司) and jointly formed Beijing Zhongshou Intelligent Parking Management Company Limited* (北京中首智慧停車管理有限公司); and signed cooperative agreement with Jiangxi Nanchang Travel Group Limited* (江西南昌旅遊集團有限公司) to jointly manage car park and relevant military theme park. The Group believes that the cooperation with various business partners will enable us to jointly develop and expand intelligent car-parking business by utilising the resources and strengths of each party.

OTHERS

During the reporting period, the Group has jointly established Jiangxi River-side Industry Development and Venture Capital Investment Enterprise* (江西沿江產業發展創業投資企業) with affiliate enterprises of Jiujiang City in JiangXi Province and other investors which was established to acquire and make equity investment in related enterprises leveraging on the Group's strengths in clean energy development and support from local government on organic integration of natural resources of Jiujiang riverside and urban development.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had bank balances and cash (including pledged bank deposits) of approximately HK\$50.30 million (31 December 2015: HK\$151.71 million) of which HK\$0.58 million (31 December 2015: HK\$81.53 million) was pledged; short-term borrowings of HK\$1,134.94 million (31 December 2015: HK\$953.15 million); long-term borrowings of HK\$287.55 million (31 December 2015: HK\$253.99 million); convertible bonds payable amounted to approximately HK\$301.80 million (31 December 2015: HK\$293.73 million) represented the fair value of principal amount of HK\$252 million (31 December 2015: HK\$252 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.77) at 30 June 2016 (31 December 2015: (4.35)).

CHARGES ON GROUP ASSETS

As at 30 June 2016, HK\$0.58 million (31 December 2015: HK\$81.53 million) of deposits, HK\$274.00 million (31 December 2015: HK\$309.05 million) of property, plant and equipment and HK\$304.00 million (31 December 2015: HK\$308.84 million) of prepaid lease payments, were pledged to banks for borrowings, guarantees and facilities granted by them to the Group.

As at 30 June 2016, the Company has pledged the entire equity interest of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd to secure a bank borrowing amounted to RMB106,580,000 (31 December 2015: RMB107,000,000).

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 2016, 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

- (i) On 7 July 2016, the Company and the investor, Prosper Talent Limited, entered into the acknowledgement and confirmation which confirmed that the maturity date of the convertible bonds in principal amount of HK\$200,000,000 shall be extended from 8 July 2016 to 8 July 2017. No other terms and conditions of the convertible bonds have been amended.
- (ii) On 8 August 2016, Merge Limited, a wholly-owned subsidiary of the Company, and other shareholders of 中海物貿(深圳)有限公司 entered into the capital contribution agreement, pursuant to which all shareholders of 中海物貿(深圳)有限公司 agreed to increase the existing registered capital of 中海物貿(深圳)有限公司 from RMB50 million to RMB100 million by injecting an aggregate of RMB50 million in cash, in which registered capital of RMB15 million to be contributed by Merge Limited.

Upon the completion of the capital contribution, the shareholding of the Group in 中海物貿(深圳)有限公司 will be diluted from 80% to 55%.

LITIGATIONS AND CONTINGENT LIABILITIES

- (a) At 30 June 2016, 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 2016 of approximately HK\$40,560,000 (equivalent to RMB34,966,000) in aggregate, were recorded as “Trade, bills and other payables” in the condensed consolidated statement of financial position (31 December 2015: approximately HK\$39,681,000 (equivalent to RMB33,628,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., 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 2016, 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 2016 of approximately HK\$5,317,000 (equivalent to RMB4,584,000) in aggregate, were recorded as “Trade, bills and other payables” in the condensed consolidated statement of financial position (31 December 2015: approximately HK\$6,798,000(equivalent to RMB5,761,000)).

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) The Company had recognised the provision in relation to the litigations of approximately RMB10,381,000 (31 December 2015: RMB10,611,000) under “Trade, bills and other payables” in the condensed consolidated statement of financial position as at 30 June 2016, details are set out as follows:
- (i) In November 2015, a supplier filed its writ to 九江仲裁委員會 against Jiangxi Shipbuilding. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,164,000 and the relevant overdue interests to the plaintiff for payment of gas services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payment and the relevant interests accrued up to 30 June 2016 of approximately RMB4,059,000 in aggregate, were recorded under “Trade, bills and other payables” in the condensed consolidated statement of financial position.
- (ii) In November 2015, a contractor filed its writ to 上海市金山區人民法院 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay a principal of approximately RMB1,372,000 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 2016 of approximately RMB1,722,000 in aggregate, were recorded under “Trade, bills and other payables” in the condensed consolidated statement of financial position.

- (iii) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Shipbuilding. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payment and the relevant interests accrued up to 30 June 2016 of approximately RMB4,600,000 in aggregate was recorded under “Trade, bills and other payables” in the condensed consolidated statement of financial position.
- (iv) In January 2016, the deposit of RMB13.5 million was confiscated by a bank in the People’s Republic of China (the “PRC Bank”) resulted from the default payment of an independent third party (the “Borrower”) in which the Group has provided corporate guarantee to the PRC Bank for the Borrower. In March 2016, Jiangxi Shipbuilding filed its writ against the Borrower for the compensation.
- (d) On 3 December 2015, Merge Limited and other shareholders of Zhejiang Ocean Leasing Company Limited (“Zhejiang Ocean”) as counter guarantors (collectively referred to the “Counter Guarantors”) entered into the counter guarantee agreement with Zhoushan Marine Comprehensive Development and Investment Co., Ltd* (舟山海洋綜合開發投資有限公司) (the “Guarantor”), pursuant to which the Counter Guarantors shall, in proportion to their respective shareholding in Zhejiang Ocean and upon demand of the Guarantor, indemnify the Guarantor for all liabilities and expenses which may be incurred by the Guarantor under any guarantee given or to be given by the Guarantor in favour of Zhejiang Ocean during the period from 1 January 2015 to 31 December 2020 in respect of loan agreements and asset securitisation agreements entered into by Zhejiang Ocean (the “Guarantee”), up to an aggregate amount of RMB900,000,000 (equivalent to approximately HK\$1,107,000,000), together with any interests, penalty, compensation and related fees and expenses which may be payable by the Guarantor under the Guarantee. Accordingly, the maximum amount which Merge Limited shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000 (equivalent to approximately HK\$221,400,000).

* For identification purpose only

Details of the counter-guarantee are disclosed in the Company's announcement dated 3 December 2015.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 30 June 2016 and 31 December 2015.

HUMAN RESOURCES

The Group had around 600 employees as at 30 June 2016. 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 2016, the Group has the following capital commitments:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
Unpaid registered capital for the associates	95,403	77,500
Unpaid registered capital for the subsidiaries	580,464	161,896
Unpaid consideration payable for the acquisition of 23% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd. ("Jiangxi Gas") from Sanya Chengda Investment Limited	–	22,155
Unpaid consideration payable for the acquisition of 24% equity interest of Jiangxi Gas from Nanchang Fubang Pipeline Gas Company Limited	–	23,118
	<u>675,867</u>	<u>284,669</u>

PROSPECTS

Looking forward, the Group will devote vigorous effort in developing car-parking business segment. Through cooperation with government authority, technology partners and investment partners, the Group will focus on the integration of car parks planning and design, car parks investment and construction, intelligent car-parking equipment manufacturing and car parks operation and management. With the expansion of urbanization in the PRC, the demand for the development of smart city and intelligent car-parking will continue to increase. Therefore, the Group believes that there will be great potential and prospects in intelligent car-parking and electronic automotive device business.

Although the shipbuilding business of the Group is still facing challenges of overcapacity, low prices and fierce competition, our gross profit margin has been significantly improved by optimizing business structure and introducing experienced and talented management team. The Group believes that our business will continue to expand and generate greater return to our investors, by utilization of the complementary of car-parking equipment manufacturing and the financial support from financial leasing business.

The Group will continue to adopt diversified business strategies to cope with the risks of the PRC's domestic economy downturn, and allocate resources flexibly to seize any possible investment opportunities. Ultimately, the Group will continue to strengthen its overall financial position in preparation for any possible changes in the industry, and to grasp any feasible and profitable investment opportunities.

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 2016.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016.

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 this 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 2016 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2016 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/chinaoceanindustry/ in due course.

BOARD OF DIRECTORS

The Board of the Company as at the date of this report comprises four executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Wang San Long and Mr. Liu Jin; 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, 31 August 2016