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 2017

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 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
	Notes	**2017**	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**182,339**	168,463
Cost of sales		**(289,828)**	(227,554)
Gross loss		**(107,489)**	(59,091)
Other income		**8,505**	745
Other gains and losses	*4*	**21,090**	(3,484)
Change in fair value of contingent consideration payable		**39,704**	–
Change in fair value of investments held for trading		**(232)**	122
Change in fair value of convertible bonds payable		**(576)**	–
Selling and distribution expenses		**(4,286)**	(7,206)
Administrative expenses		**(74,040)**	(71,913)
Finance costs	*5*	**(91,902)**	(56,890)
Share of profit of associates		**2,300**	4,091
Share of loss of joint ventures		**(2,847)**	(492)

		Six months ended 30 June	
	Notes	**2017**	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Loss before tax		**(209,773)**	(194,118)
Income tax credit	*6*	**4,768**	1,361
Loss for the period	*7*	**(205,005)**	(192,757)
Other comprehensive income (expenses):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(53,516)**	18,086
Share of translation reserve of associates		**(9,692)**	(3,941)
Share of statutory reserve of associates		**–**	455
Share of translation reserve of joint ventures		**(7,506)**	(7,990)
Other comprehensive (expenses) income for the period, net of income tax		**(70,714)**	6,610
Total comprehensive expenses for the period		**(275,719)**	(186,147)
Loss for the period attributable to:			
– Owners of the Company		**(200,110)**	(192,245)
– Non-controlling interests		**(4,895)**	(512)
		(205,005)	(192,757)
Total comprehensive expenses attributable to:			
– Owners of the Company		**(269,816)**	(185,673)
– Non-controlling interests		**(5,903)**	(474)
		(275,719)	(186,147)
Loss per share			
– Basic and diluted	*8*	**HK(1.59) cents**	HK(1.60) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**445,350**	195,022
Prepaid lease payments – non-current portion		**331,342**	283,724
Goodwill		**257,773**	123,574
Intangible assets		**250,747**	205,840
Interests in associates		**241,664**	192,706
Interests in joint ventures		**517,108**	527,461
Investment properties		**21,535**	15,745
Trade receivables – non-current portion	*10*	**1,727**	683
Deposits – non-current portion	*10*	**–**	66,711
Restricted cash		**62,957**	94,000
Available-for-sale investments		**14,950**	–
Amount due from an associate – non-current portion		**5,856**	2,775
Deferred tax assets		**27,781**	120
		2,178,790	1,708,361
CURRENT ASSETS			
Inventories		**277,264**	53,696
Trade receivables	*10*	**197,649**	58,793
Other receivables	*10*	**531,659**	299,260
Prepayment	*10*	**372,317**	426,389
Amount due from an associate		**–**	4,440
Prepaid lease payments		**8,169**	6,873
Investments held for trading		**1,945**	2,177
Finance lease receivables	*11*	**15,026**	17,833
Tax recoverable		**937**	–
Pledged bank deposits		**12,101**	–
Bank balances and cash		**25,625**	101,785
		1,442,692	971,246

	Notes	**30 June 2017** **HK$'000** **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
CURRENT LIABILITIES			
Trade and other payables	*12*	**826,293**	411,227
Receipts in advances		**9,512**	–
Amounts due to customers for contract work		**172,192**	17,177
Amounts due to related parties		**87**	425
Amounts due to directors		**16,128**	1,521
Amount due to an associate		**27,616**	877
Borrowings		**1,528,286**	1,049,146
Convertible bonds payable		**213,244**	256,032
Contingent consideration payable		**62,100**	317,628
Provision for financial guarantee		**44,652**	–
Provision for warranty		**2,063**	3,357
Tax liabilities		**6**	4,064
		2,902,179	2,061,454
NET CURRENT LIABILITIES		**(1,459,487)**	(1,090,208)
TOTAL ASSETS LESS CURRENT LIABILITIES		**719,303**	618,153
CAPITAL AND RESERVES			
Share capital		**681,842**	600,138
Reserves		**(1,287,087)**	(1,244,602)
Equity attributable to owners of the Company		**(605,245)**	(644,464)
Non-controlling interests		**33,809**	39,712
TOTAL DEFICITS		**(571,436)**	(604,752)
NON-CURRENT LIABILITIES			
Other payables – non-current portion	*12*	**5,115**	4,937
Borrowings – non-current portion		**939,269**	1,039,050
Convertible bonds payable – non-current portion		**66,999**	92,847
Contingent consideration payable – non-current portion		**155,250**	–
Deferred tax liabilities		**124,106**	86,071
		1,290,739	1,222,905
		719,303	618,153

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 2017 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$209,773,000 for the six months ended 30 June 2017 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,459,487,000 and HK$571,436,000, 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 10 April 2017, the board of directors have announced the acquisition of the entire registered capital of Nantong Huakai Heavy Industry Company Limited ("Huakai Heavy") was completed. Accordingly, Huakai Heavy has become an indirect wholly-owned subsidiary of the Company and the financial performance of Huakai Heavy had been consolidated into the financial statement of the Company after the completion of the acquisition of Huakai Heavy on 10 April 2017. Details of the acquisition has been disclosed in the Company's circular dated 24 February 2017.

(ii) On 27 April 2017, the board of directors have announced the profit guarantee in relation to the acquisition of the entire equity interests of Success Capture Limited was fulfilled. Accordingly, 1,470,500,000 consideration shares has been allotted and issued to the relevant nominees instructed by the vendor. The fair value of the contingent consideration is remeasured on 27 April 2017 and the change in fair value of contingent consideration of approximately HK$39,704,000 has been recognised in the condensed consolidated statement of profit or loss and other comprehensive income as a result of the decrease in share price of the Company.

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 2017 are the same as with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied for the first time the following 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.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 Cycle: Amendments to HKFRS 12

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 six months ended 30 June 2017, "Steel structure engineering and installation" 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 of electronic appliance 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.

e) Steel structure engineering and installation – manufacturing and selling of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment, ship, bridge and building steel structure 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 2017 (Unaudited)

	Shipbuilding business *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Intelligent car parking and automotive device business *HK$'000*	Steel structure engineering and installation *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue							
– External sales	(27,590)	26,166	–	80,306	103,457	–	182,339
– Inter-segment sales	11,526	–	–	–	–	(11,526)	–
Total segment revenue	(16,064)	26,166	–	80,306	103,457	(11,526)	182,339
Segment result	(213,333)	131	(16,711)	(26,876)	12,026		(244,763)
Unallocated other income							8,505
Unallocated other gains and losses							21,324
Change in fair value of investments held for trading							(232)
Change in fair value of contingent consideration payable							39,704
Change in fair value of convertible bonds payable							(576)
Unallocated finance costs							(24,231)
Share of profit of associates							2,300
Share of loss of joint ventures							(2,847)
Unallocated corporate expenses							(8,957)
Loss before tax							(209,773)

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)
Share of profit of associates						4,091
Share of loss of joint ventures						(492)
Unallocated finance costs						(17,686)
Unallocated corporate expenses						(12,882)
Loss before tax						(194,118)

4. Other gains and losses

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss on written-off of property, plant and equipment	**(12)**	–
Loss on disposal of investment property	**(222)**	–
Foreign exchange gain (loss)	**21,493**	(3,415)
Others	**(169)**	(69)
	21,090	(3,484)

5. Finance costs

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interests on:		
Convertible bonds payable at effective interest rates	**24,231**	17,502
Bank borrowings and bill payables	**30,779**	15,240
Other borrowings	**34,445**	21,244
Guarantee fee and fund management fee incurred in connection with borrowings	**2,447**	2,904
	91,902	56,890

6. Income tax credit

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC tax	**255**	3,879
Deferred tax	**(5,023)**	(5,240)
	(4,768)	(1,361)

7. Loss for the period

	Six months ended 30 June	
	2017	2016
	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	**2,788**	2,937
Contributions to retirement benefits scheme	**27**	18
Other staff costs:		
Salaries and other benefits	**24,907**	23,534
Contributions to retirement benefits scheme	**3,211**	3,068
Total staff costs	**30,933**	29,557
Auditor's remuneration:		
Audit services	**572**	650
Non-audit services	**450**	350
	1,022	1,000
Depreciation of property, plant and equipment	**22,696**	25,394
Amortisation of prepaid lease payments	**4,010**	3,600
Amortisation of intangible assets	**19,748**	19,920
Loss on disposal of property, plant and equipment	**–**	17
Minimum lease payments paid under operating leases in respect of rented premises	**4,179**	3,777
Shipbuilding contract costs recognised as cost of sales	**136,969**	156,341
Impairment loss recognised in respect of other receivables	**2,666**	9,942
Reversal of impairment loss recognised in respect of finance lease receivables	**–**	(28)
Cost of inventories recognised as expenses	**129,304**	47,185

8. 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	
	2017	2016
	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	**(200,110)**	(192,245)

	Six months ended 30 June	
	2017	2016
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,593,451**	11,994,907

For the six months ended 30 June 2017 and 30 June 2016, 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 assumed conversion/exercise would result in a decrease in loss per share which is regarded as anti-dilutive.

9. 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 2016: Nil).

10. Trade receivables/deposits/other receivables/prepayment

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables – non-current portion	**1,727**	683
Trade receivables – current portion	**202,245**	59,594
Less: Allowance for doubtful debts	**(4,596)**	(801)
Trade receivables – current portion, net	**197,649**	58,793
Total trade receivables, net of allowance for doubtful debts *(Note)*	**199,376**	59,476
Deposits – non-current portion	**–**	66,711
Other receivables	**327,720**	88,427
Less: Allowance for doubtful debts	**(22,494)**	(15,622)
Other receivables, net	**305,226**	72,805
Value-added tax recoverable	**163,771**	149,453
Deposit paid for the construction	**14,724**	–
Deposits placed to agents and a stakeholder	**47,938**	77,002
Total other receivables, net	**531,659**	299,260
Prepayment	**372,317**	426,389

Note:

At 30 June 2017 and 31 December 2016, the Group's trade receivables included (1) trade receivables from factoring services with one year credit period; (2) trade receivables from intelligent car parking and automotive related products with average 90 days credit period; (3) retention receivables for intelligent car parking with range from one to two years under the respective terms of contract; and (4) trade receivables from steel structure engineering and installation with 30 days credit period.

At 30 June 2017, trade receivables are non-interest bearing, except for trade receivables from factoring services with aggregated amount of approximately HK$4,715,000 (31 December 2016: HK$2,331,000) which bear interest rate of 12% (2016: 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 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 90 days	**124,085**	56,643
More than 90 days but not exceeding one year	**60,566**	1,320
In more than one year	**14,725**	1,513
	199,376	59,476

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral over these balances.

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

11. Finance lease receivables

Amounts receivable under finance leases

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Finance lease receivables	**17,631**	20,348
Less: Unearned finance income	**(2,325)**	(2,245)
Present value of minimum lease payment receivables	**15,306**	18,103
Less: Accumulated impairment loss	**(280)**	(270)
	15,026	17,833

The maturity profile of these finance lease receivables from customers at the end of the reporting period are within one year to their contracted maturity.

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.

The finance lease receivables bear interest rate at 12% (31 December 2016: 12%) per annum.

12. Trade and other payables

	30 June 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Consideration payable for acquisition of property, plant and equipment – non-current portion	**5,115**	4,937
Trade payables	**183,348**	70,860
Consideration payable for acquisition of prepaid lease payments	**43,374**	41,865
Consideration payable for acquisition of Huakai Heavy	**59,800**	–
Payable to guarantors	**1,712**	1,652
Contribution payables to labour union and education funds	**13,474**	12,668
Accrual of contractor fees	**5,127**	7,135
Accrual of government funds	**29,900**	28,860
Other payables and accruals	**489,558**	248,187
	826,293	411,227

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 30 days	**10,488**	9,315
31 – 60 days	**2,894**	7,439
61 – 90 days	**8,795**	3,730
Over 90 days	**161,171**	50,376
	183,348	70,860

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

13. Acquisition of subsidiaries

During the six months ended 30 June 2017

On 16 November 2016 and 18 January 2017, China Ocean Industry (Shenzhen) Company Limited, an indirect wholly-owned subsidiary of the Company (the "Purchaser"), entered into the sale and purchase agreement and supplemental agreement (collectively known as the "Sale and Purchase Agreements") with Nantong Xinda Shipping Technology Development Company Limited and Mr. Huo Qi (collectively referred to as the "Vendors"), in relation to the acquisition of the entire registered capital of Huakai Heavy (the "Acquisition") at an initial consideration of RMB81,000,000, which shall be adjusted upward to a maximum of RMB270,000,000 if the audited consolidated net profit after tax of Huakai Heavy for the year ended 31 December 2016 (the "First Relevant Period") and the year ending 31 December 2017 (the "Second Relevant Period") shall not be less than RMB15,000,000 (the "2016 Guarantee Profit") and RMB50,000,000 (the "2017 Guarantee Profit"), respectively. The maximum consideration for the Acquisition is RMB270,000,000 (subject to the adjustment of the 2016 Guarantee Profit and 2017 Guarantee Profit), which shall be satisfied by way of cash by the Purchaser to the Vendors in following manners:

i) as to RMB81,000,000 (equivalent to approximately HK$93,150,000) payable to the Vendors within 90 days after completion; ii) as to a maximum of RMB54,000,000 (if the 2016 Guarantee Profit for the First Relevant Period is attained) is payable to the Vendors within 5 business days upon the 2016 audited consolidated financial statements of Huakai Heavy is issued or completion of the registration (whichever is later); and iii) as to a maximum of RMB135,000,000 (if the 2017 Guarantee Profit for the Second Relevant Period is attained) is payable to the Vendors within 5 business days upon the 2017 audited consolidated financial statements of Huakai Heavy is issued or completion of the Registration (whichever is later).

The Acquisition has been accounted for using the purchase method. The Directors considered that Huakai Heavy became one of its indirect wholly-owned subsidiary of the Group and the financial performance of Huakai Heavy would be consolidated into the condensed consolidated financial statements of the Group after the completion of the Acquisition.

The Board of Directors consider that the Acquisition could diversify the existing business activities of the Group.

Huakai Heavy is engaged in the steel structure engineering and installation business.

Net cash flow arising on acquisition:

	HK$'000
Partial settlement of the initial consideration in cash	**(32,770)**
Bank balances and cash acquired	**194**
Cash outflow on the Acquisition	**(32,576)**

Consideration transferred	*HK$'000*
Partial settlement of the initial consideration in cash	**32,770**
Unpaid portion of the initial consideration (included in "Other payable")	**58,760**
Contingent consideration payable	**213,570**
Total consideration	**305,100**

The details of provisional fair value of net identifiable assets acquired and provisional goodwill are as follows:

	Provisional fair value at acquisition date
	HK$'000
Property, plant and equipment	237,300
Prepaid lease payments	49,720
Deferred tax assets	27,462
Intangible assets	65,804
Inventories	98,314
Trade receivables	25,516
Other receivables and prepayment	212,122
Tax recoverable	646
Available-for-sale investments	14,690
Pledged bank deposit	251
Bank balances and cash	194
Trade, bills and other payables	(211,296)
Receipts in advances	(9,663)
Bank borrowings	(205,095)
Other borrowings	(49,347)
Provision for financial guarantee	(43,876)
Deferred tax liabilities	(36,441)
Net identifiable assets acquired	176,301
Provisional goodwill	128,799
Purchase consideration	305,100

	HK$'000
Acquisition – related costs (included in administrative expenses in the condensed consolidated statement of profit or loss and other comprehensive income)	3,718

Impact of acquisition on the results of the Group

Included in the loss for the six months ended 30 June 2017 is a profit of approximately HK$13,862,000 attributable to the additional business generated by Huakai Heavy. Revenue for the six months ended includes approximately HK$103,457,000 generated from Huakai Heavy.

Had the acquisition been completed on 1 January 2017, total group revenue for the six months ended 30 June 2017 would have been approximately HK$202,451,000 and loss for the six months ended 30 June 2017 would have been approximately HK$214,468,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" loss of the Group had Huakai Heavy been acquired at the beginning of the current period, the Directors have calculated depreciation of property, plant and equipment, amortisation of intangible assets, prepaid lease payments and deferred tax liabilities acquired on the basis of the fair value arising in the initial accounting for the business combination rather than carrying amount recognised in the pre-acquisition financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China Ocean Industry Group Limited is engaged in the intelligent car parking and automotive electronics business, shipbuilding business, steel structure project and installation business, trading business, and financial leasing business.

In the first half of 2017, the shipbuilding industry remained sluggish. The Group continued to seek for strategic transformation, increased the investment in intelligent car parking and automotive electronics business and extended the industrial chain downward to develop intelligent parking lot investment and operation business. By completing the acquisition of Nantong Huakai Heavy Industry Company Limited in early April 2017, the Group expanded its business to engineering and installation of steel structures for projects such as large bridge building and shipbuilding and initially formed a production base covering steel structure and shipbuilding business in Nantong area, which laid a solid foundation for the Group's heavy industry business to transfer to the developed coastal areas. As for the delayed delivery of seven vessels at the end of 2016, one vessel was delivered to the shipowner within the reporting period after a settlement agreement was reached. The Group is still negotiating with the shipowners of the remaining six vessels and will try to reach an agreement by the end of 2017.

For the six months ended 30 June 2017, the Group recorded external revenue of HK$182.34 million (2016: HK$168.46 million), basically maintaining at the same level as compared with the same period last year. The intelligent car parking and automotive electronics business recorded external revenue of HK$80.31 million (2016: HK$96.89 million). The shipbuilding business recorded negative external revenue of HK$27.59 million (2016: external revenue of HK$70.99 million). This negative revenue is mainly attributable to the estimated price reduction of HK$109.23 million (2016: Nil) for ships due to the delayed delivery. The acquisition of steel structure project and installation business which the Group just completed in April 2017 recorded revenue of HK$103.46 million (2016: Nil). During the period under review, the gross loss of the Group amounted to HK$107.49 million (2016: HK$59.09 million), representing a sharp increase of 81.91% as compared with last year, which was mainly attributable to the estimated price reduction for ships due to delayed delivery.

The financial cost of the Group rose to HK$91.90 million from HK$56.89 million, mainly due to the additional financing in the car parking business and rising financial cost incurred from the financing of the newly-acquired steel structure project and installation business.

Overall, the Group recorded a loss attributable to shareholders of HK$200.11 million (in the first half of 2016: loss of HK$192.25 million) for the six months ended 30 June 2017, which was basically flat with the same period last year.

SHIPBUILDING BUSINESS

During the period under review, the shipbuilding business recorded negative external revenue of HK$27.59 million (2016: external revenue of HK$70.99 million), mainly by the reason of the Group's estimated price reduction of HK$109.23 million (2016: Nil) for the ships due to delayed delivery. The Group began negotiations with shipowners on the delayed delivery of seven vessels in June 2016. One vessel was delivered to the shipowner after a settlement agreement was reached; and according to the latest negotiation process, the Group estimated that the selling price of the four delayed vessels would be reduced. The Group has formed a special task team in this regard to actively negotiate and resolve the technical disputes with shipowners over the delayed vessels and to strive to resolve all the issues related to delayed delivery by the end of 2017.

To fundamentally solve the problem in heavy losses and limited development of the shipbuilding business, the Group had invested in a state-owned enterprise to establish a large shipbuilding factory in Nantong. With the advantageous geographical location of Nantong and the rich resources of state-owned enterprises, the Group will integrate its shipbuilding business and then transfer surplus production capacity to the manufacturing of parking equipment and special equipment. Moreover, it plans to revitalize surplus assets such as land and wharf to expand into logistics and ship repairing business.

INTELLIGENT CAR PARKING AND AUTOMOTIVE ELECTRONICS BUSINESS

As of 30 June 2017, intelligent car parking and automotive electronics business recorded a total revenue of HK$80.31 million (in the first half of 2016: HK$96.89 million), representing a reduction of 17.11% as compared with last year. As the focus of the car parking business has been shifted to car parking investment and operation and many investment projects were still under construction, the business has not achieved remarkable results yet. At the same time, the Group has rolled out its market strategies in the car parking operation business, which will become an important source of profit for the car parking business.

The automotive electronics business has strengthened the development of new products, introduced new Internet-related products and the upgrading of its products has achieved initial results.

STEEL STRUCTURE ENGINEERING AND INSTALLATION BUSINESS

The Group completed the acquisition of the target company Nantong Huakai Heavy Industry Company Limited at the beginning of April 2017, expanding its business scope to the steel structure engineering and installation. The segment recorded revenue of HK$103.46 million from April to June (in the first half of 2016: Nil). The segment mainly provides steel structure products for large bridge construction and shipbuilding. The development of the steel structure industry has been included into several planning documents of Chinese government. It is predicted by the Group that the business of this segment will sustain healthy development. On the other hand, upon completion of acquisition, the Group will integrate Huakai's business with its existing shipbuilding related machinery manufacturing & processing business and automotive equipment manufacturing business to further enhance production efficiency.

TRADING BUSINESS

During the period under review, the trading business recorded external revenue of HK$26.17 million (in the first half of 2016: Nil).

FINANCIAL LEASING BUSINESS

During the period under review, the financial leasing business didn't achieve any external revenue (in the first half of 2016: HK$0.58 million). The financial leasing business mainly provides funds for the shipbuilding business and intelligent car-parking business of the Group, with a slight decrease in the external revenue. The Group also shared profits of HK$10.34 million (in the first half of 2016: HK$4.09 million) from Zhejiang Ocean Leasing Company Limited and Zhejiang Qiandao Leasing Company Limited, in which the Group holds 20% and 25% equity interests, respectively.

OTHER BUSINESS

During the reporting period, the Group entered into an acquisition agreement, pursuant which to acquire a streamer transport company in Jiangxi Province. The Group is planning of entering into logistics business by making use of the existing riverbank and wharfs of the Yangtze River of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. ("Jiangxi Shipbuilding").

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$37.73 million (31 December 2016: HK$101.79 million) of which HK$12.10 million (31 December 2016: Nil) was pledged; short-term borrowings of HK$1,528.29 million (31 December 2016: HK$1,049.15 million); long-term borrowings of HK$939.27 million (31 December 2016: HK$1,039.05 million); convertible bonds payable amounted to approximately HK$280.24 million (31 December 2016: HK$348.88 million) represented the fair value of principal amount of HK$267 million (31 December 2016: HK$351 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (4.66) at 30 June 2017 (31 December 2016: (3.53)).

CHARGES ON GROUP ASSETS

As at 30 June 2017, HK$12.10 million (31 December 2016: Nil) of deposits, HK$225.11 million (31 December 2016: HK$148.84 million) of property, plant and equipment and HK$145.80 million (31 December 2016: HK$129.87 million) of prepaid lease payments, were pledged to banks for borrowings, guarantees and facilities granted by them to the Group.

As at 30 June 2017, the Company has pledged the entire equity interest of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd to secure a bank borrowing amounted to RMB108,874,000 (31 December 2016: RMB108,015,000).

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 2017, 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

Completion of very substantial acquisition took place on 10 April 2017 and the financial results of Nantong Huakai Heavy Industry Company Limited *（南通華凱重工有限公司）was consolidated into the financial statements of the Company. (For details refer to the Company's announcement dated 11 April 2017).

Save as disclosed above, there was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review.

EVENTS AFTER THE REPORTING PERIOD

(a) On 8 July 2017, being the extended maturity date of the convertible notes in principal amount of HK$200 million (the "2017 Convertible Notes"), the Company was required to redeem the 2017 Convertible Notes at the amount of HK$200 million, representing the outstanding principal amount of the 2017 Convertible Notes ("Redemption Amount"). However, after negotiating with the investor who was the only registered Noteholder (the "Investor"), on 7 July 2017 the Investor agreed to delay the payment of the Redemption Amount by the Company to 21 July 2017. On 17 July 2017, HK$100 million of the Redemption Amount was repaid by the Company to the Investor.

Up to the date of this interim report, the Company and the Investor has not reached any formal agreement as to the date and manner of repayment of the outstanding Redemption Amount of HK$100 million under the 2017 Convertible Notes. Details of the repayment of the 2017 Convertible Notes have been disclosed in the Company's announcement dated 19 July 2017, 27 July 2017 and 14 August 2017, respectively.

(b) On 26 July 2017, the Company received a Relevant Event Notice (as defined in the Company's announcement dated 27 July 2017) from the subscriber, being the sole noteholder of the 2018 Convertible Notes (as defined in the Company's announcement dated 27 July 2017), to require the Company to early redeem all the outstanding 2018 Convertible Notes at 94% of the total amount of such 2018 Convertible Notes held by the subscriber together with unpaid interest on or before 23 August 2017 in the approximate amount of HK$63 million.

Pursuant to the Relevant Event Notice, such amount will be set off against the cash held in the Cash Account in accordance with the relevant security documents executed by the Company in favour of the subscriber in relation to the 2018 Convertible Notes. Details of the redemption of the 2018 Convertible Notes have been disclosed in the Company's announcement dated 27 July 2017.

At the date of this interim report, the 2018 Convertible Notes had been fully repaid to the subscriber.

(c) On 10 August 2017, the Company entered into the subscription agreement with the subscriber pursuant to which the subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$189 million (the "CBX").

Assuming the conversion rights attaching to the CBX are exercised in full at the initial conversion price of HK$0.070, a maximum of 2,700,000,000 conversion shares will be allotted and issued. The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue.

The net proceeds from the issue of CBX are expected to be approximately HK$189 million. The Company intends to apply such net proceeds as follow:

(1) approximately HK$100 million is intended to be used for repayment of the outstanding redemption amount under the 2017 Convertible Notes payable to the relevant noteholder;

(2) approximately HK$70 million is intended to be used for repayment of other debts owed by the Group; and

(3) approximately HK$19 million is intended to be used as general working capital.

Details of the proposed issuance of the CBX have been disclosed in the Company's announcement dated 10 August 2017 and 14 August 2017, respectively.

LITIGATIONS AND CONTINGENT LIABILITIES

(a) At 30 June 2017, 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 2017 of approximately HK$42,964,000 (equivalent to RMB37,360,000) in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (2016: HK$40,206,000 (equivalent to RMB36,221,000)).

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

(b) At 30 June 2017, 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 2017 of approximately HK$6,517,000 (equivalent to RMB5,667,000) in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (2016: HK$5,483,000 (equivalent to RMB4,940,000)).

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 RMB13,886,000 (2016: RMB13,812,000) under "Trade and other payables" in the condensed consolidated statement of financial position as at 30 June 2017. The management are of the opinion that it is not probable that these claims would result in an out flow of economic benefits exceeding the provisions made by the Group. Details are set out as follows:

(i) In June 2016, a contractor filed its writ to Jiangxi Province Nanchang County People's Court against Jiangxi Shipbuilding for the failure to make payment of contracting services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB313,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(ii) In August 2016, a supplier filed its writ to Gaoyou City People's Court against Jiangxi Shipbuilding for the failure to make payment of the sale of cable. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB392,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(iii) In September 2015, a contractor filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB4,636,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(iv) In November 2015, a supplier filed its writ to Jiujiang Arbitration Commission against Jiangxi Shipbuilding for the failure to make payment of provided gas services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB3,532,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(v) In November 2015, a contractor filed its writ to Shanghai Jinshan District People's Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB762,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(vi) In December 2014, a contractor filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB4,251,000 in aggregate, were recognised under "Trade and other payables" in the condensed consolidated statement of financial position.

(d) On 3 December 2015, Merge Limited and other shareholders of Zhejiang Ocean as counter guarantors (collectively referred to the "Counter Guarantor") 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 securitization agreements entered into by Zhejiang Ocean (the "Guarantee"), up to an aggregate amount of RMB900,000,000, 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.

(e) Huakai Heavy had provided corporate guarantees (the ''Corporate Guarantee'') to two vessel agency companies (the ''Vessel Agency Companies'') in favour of Huatai Heavy Industry (Nantong) Company Limited ("Huatai Heavy Industry"), an independent third party. Due to the failure of two ship owners to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry had cancelled the relevant export and import cooperation agreements with the Vessel Agency Companies. Pursuant to the terms of the export and import co-operation agreements and the civil mediation agreements, Huatai Heavy Industry was liable to refund the prepaid amount received from the Vessel Agency Companies (the ''Prepaid Amounts'').

    Up to date of this interim report, the aggregated outstanding balances of the Prepaid Amounts are approximately RMB86,446,000.

    The Vendors undertake to use the consideration payable to indemnify Huakai Heavy for all loses and liabilities incurred by Huakai Heavy under the Corporate Guarantee.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 30 June 2017.

HUMAN RESOURCES

The Group had around 1,000 employees as at 30 June 2017. 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 2017, the Group has the following capital commitments:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
Unpaid registered capital for the associates	**77,309**	128,787
Unpaid registered capital for the subsidiaries	**506,230**	308,802
Unpaid registered capital for a joint venture	**120,428**	116,239
Capital expenditure in respect of the acquisition of property, plant and equipment	**10,103**	78,977
	714,070	632,805

PROSPECTS

Looking forward, the Group will strive to develop the intelligent car parking and automotive electronics business, increase the investment in the intelligent car-parking, electronic automotive device, and cooperate with partners to provide the package services including car park equipment design & manufacturing, car parks investment, car parks operation and management, and car owner value-added services. With the continuous increase in the number of automobiles and severer difficulty in urban parking in China, the Group expects the business of the segment has great potential and good prospects.

Upon completion of the acquisition of Nantong Huakai Heavy Industry Company Limited, the Group formally enters the steel structure processing industry, which expanded its customer base and source of revenue, and further dispersed relevant risks in the shipbuilding business. The Group will integrate part of Huakai's existing business with its shipbuilding business and car parking business by exploiting the technology and excellent management team of Huakai Heavy. In the meantime, the Group will be able to shift part of the shipbuilding business of Jiangxi Shipbuilding to the coastal area of Nantong which has lower cost, abundant talents and convenient logistics.

Currently, the Group's shipbuilding business is in the transformation stage. On one hand, we will try to solve the late delivery of the remaining six vessels as soon as possible. On the other hand, we will gradually redirect the order taking strategy. In consideration of the relevant geographical position of Jiangzhou Shipbuilding and qualities of the local workers, we will shift to the production of smaller scaled, river sized vessels, in order to cut the production capacity and lessen the production cost to survive through the low ebb of the shipbuilding industry.

Wuxue Yangtze River Bridge will be completed in 2018. Thanks to the advantageous geographical position, the riverbank of the Yangtze River, wharfs and land possessed by the adjacent Jiangxi Shipbuilding will become natural resources essential to the transport and warehouse business. The Group will seize this opportunity to develop relevant business to revitalize the assets of Jiangxi Shipbuilding and to create the maximum benefits for shareholders.

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 2017.

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 2017.

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 2017 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2017 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, 30 August 2017