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CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the “Board”) of China Ocean Shipbuilding Industry Group Limited (the “Company”) announced the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	83,122	387,530
Cost of sales		(99,741)	(375,259)
Gross (loss) profit		(16,619)	12,271
Other income		3,885	5,435
Other gains and losses		(1,878)	272
Gain on fair value change of convertible notes payable		2,110	–
Loss on modification of convertible notes payable		(26,591)	–
Share-based payments expenses		(42,163)	–
Change in fair value of investments held for trading		314	(458)
Selling and distribution expenses		(701)	(865)
Administrative expenses		(39,009)	(37,676)
Finance costs	4	(102,265)	(81,809)
Loss before tax		(222,917)	(102,830)
Income tax credit	5	670	–
Loss for the period attributable to owners of the Company	6	(222,247)	(102,830)

		Six months ended 30 June	
		2014	2013
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		<u>13,439</u>	<u>(1,857)</u>
Total comprehensive expenses for the period attributable to owners of the Company		<u>(208,808)</u>	<u>(104,687)</u>
Loss per share – basic	7	<u>HK(4.89) cents</u>	<u>HK(2.80) cents</u>
Loss per share – diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	<i>Notes</i>	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		506,255	551,084
Prepaid lease payments – non-current portion		316,966	322,549
Trade receivables – non-current portion	<i>9</i>	52,740	62,781
		875,961	936,414
CURRENT ASSETS			
Inventories		95,711	84,362
Trade receivables – current portion	<i>9</i>	31,294	21,185
Other receivables	<i>9</i>	223,041	187,453
Prepayment for purchase of raw materials	<i>9</i>	88,861	105,190
Prepaid lease payments – current portion		7,235	7,280
Investments held for trading		1,200	1,341
Pledged bank deposits		113,679	297,120
Bank balances and cash		1,005,660	13,549
		1,566,681	717,480
CURRENT LIABILITIES			
Trade, bills and other payables	<i>10</i>	810,313	841,949
Amounts due to customers for contract work		377,225	392,387
Amounts due to related parties		60,238	72,251
Amount due to a director		1,981	842
Borrowings – due within one year		594,817	610,822
Provision for warranty		7,524	7,705
Convertible bonds/notes payable		–	219,319
Promissory notes payable		85,638	79,842
		1,937,736	2,225,117
NET CURRENT LIABILITIES		(371,055)	(1,507,637)
TOTAL ASSETS LESS CURRENT LIABILITIES		504,906	(571,223)

	30 June 2014	31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
CAPITAL AND RESERVES		
Share capital	306,036	198,593
Reserves	(899,017)	(1,235,795)
	<u>(592,981)</u>	<u>(1,037,202)</u>
NON-CURRENT LIABILITIES		
Borrowings – due after one year	229,725	292,326
Convertible bonds/notes payable	776,520	76,400
Deferred tax liabilities	91,642	97,253
	<u>1,097,887</u>	<u>465,979</u>
	<u>504,906</u>	<u>(571,223)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

In preparing the condensed consolidated financial statements of China Ocean Shipbuilding Industry Group Limited (the “Company”) and its subsidiaries (collectively referred to as 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\$222.92 million for the six months ended 30 June 2014 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK\$371.06 million and HK\$592.98 million, respectively. After considering the Group’s internal financial resources, present available facilities granted by banks and other parties, to be negotiated with the creditors to extend payment due date, actively pursuing new customers, imposing cost control measures, negotiating with the local government for providing assistance and issue new shares, the Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

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 2014 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*) – Interpretation 21	Levies

* *IFRIC represents the International Financial Reporting Interpretation Committee*

The application of the above new interpretation and amendments to HKFRSs and HKASs 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. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

- a) Shipbuilding – provision of shipbuilding services under shipbuilding construction contracts and operated in the People’s Republic of China (the “PRC”).
- b) Trading business – provision of trading and operated in Hong Kong.

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

Six months ended 30 June 2014

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

Six months ended 30 June 2013

	Shipbuilding <i>HK\$'000</i> (Unaudited)	Trading business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue	<u>387,530</u>	<u>–</u>	<u>387,530</u>
Segment result	<u>(14,959)</u>	<u>–</u>	(14,959)
Unallocated other income			2,399
Unallocated other gains and losses			272
Unallocated corporate expenses			(8,275)
Change in fair value of investments held for trading			(458)
Finance costs			<u>(81,809)</u>
Loss before tax			<u>(102,830)</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interests on borrowings wholly repayable within five years:		
Convertible bonds/notes payable at effective interest rates	29,803	24,624
Promissory notes payable at effective interest rates	7,164	6,395
Borrowings and others (including guarantee fees, overdue interests and bills payables)	<u>65,298</u>	<u>50,790</u>
	<u>102,265</u>	<u>81,809</u>

5. INCOME TAX CREDIT

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Deferred tax	(670)	–

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

Under the law of the PRC on Enterprise Income Tax (“EIT”) and Implementation Regulation of the PRC EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	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	2,398	2,358
Contributions to retirement benefits scheme	44	45
Share-based payments expenses	15,420	–
Other staff costs:		
Salaries and other benefits	20,518	32,309
Contributions to retirement benefits scheme	4,702	6,575
Share-based payments expenses	3,968	–
Total staff costs	47,050	41,287
Auditor's remuneration:		
Audit services	500	500
Non-audit services	210	190
	710	690
Minimum lease payments under operating leases in respect of rented premises	952	960
Depreciation of property, plant and equipment	41,549	41,122
Amortisation of prepaid lease payments	3,679	3,640
Shipbuilding contract costs recognised as expenses	99,741	375,259
Impairment loss recognised in respect of other receivables	–	208
Share-based payments expenses – consultants	22,775	–
Gain on disposal of property, plant and equipment	(4)	–

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	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><u>(222,247)</u></u>	<u><u>(102,830)</u></u>
	Six months ended 30 June	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u><u>4,548,672</u></u>	<u><u>3,667,995</u></u>

For the six months ended 30 June 2014 and 30 June 2013, diluted loss per share was not presented as the assumed exercise of share options and convertible bonds/notes during both periods has an anti-dilutive effect.

8. DIVIDEND

No dividend were paid, declared or proposed during the interim period, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2013: Nil).

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

	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables – non-current portion	105,478	125,562
<i>Less:</i> Allowance for doubtful debts	<u>(52,738)</u>	<u>(62,781)</u>
Trade receivables – non-current portion, net	<u>52,740</u>	<u>62,781</u>
Trade receivables – current portion	62,839	43,164
<i>Less:</i> Allowance for doubtful debts	<u>(31,545)</u>	<u>(21,979)</u>
Trade receivables – current portion, net	<u>31,294</u>	<u>21,185</u>
Total trade receivables, net of allowance for doubtful debts (<i>Note a</i>)	<u>84,034</u>	<u>83,966</u>
Other receivables	51,341	49,656
<i>Less:</i> Allowance for doubtful debts	<u>(6,596)</u>	<u>(6,596)</u>
Other receivables, net	<u>44,745</u>	43,060
Value-added tax recoverable	136,436	137,031
Deposits placed with a stakeholder	2,624	3,950
Deposits placed with agents	35,905	–
Deposit paid for acquisition of property, plant and equipment	<u>3,331</u>	<u>3,412</u>
Total other receivables, net	<u>223,041</u>	<u>187,453</u>
Prepayment for purchase of raw materials	<u>88,861</u>	<u>105,190</u>

Notes:

- (a) Trade receivables of approximately HK\$84,034,000 (equivalent to USD10,825,000) as at 30 June 2014 (31 December 2013: approximately HK\$83,966,000 (equivalent to USD10,825,000)) were gross trade receivables of approximately HK\$168,317,000 (equivalent to USD21,650,000) (31 December 2013: approximately of HK\$168,726,000 (equivalent to USD21,650,000)), net of the allowance for doubtful debt of approximately HK\$84,283,000 as at 30 June 2014 (31 December 2013: approximately HK\$84,760,000). It represents the deferral final receivables from a ship buyer, an independent third party of the Group, in relation to the final payment for the acquisition of eight (31 December 2013: eight) vessels from the Group, by five instalments in 5.5 years (31 December 2013: five instalments in 5.5 years) and one (31 December 2013: one) vessel acquired from the Group by four instalments in 4.5 years (31 December 2013: four instalments in 4.5 years).

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

	30 June 2014 <i>HK\$'000</i> (Unaudited)	31 December 2013 <i>HK\$'000</i> (Audited)
More than three months but not more than one year	–	14,931
More than one year	<u>84,034</u>	<u>69,035</u>
	<u>84,034</u>	<u>83,966</u>

The Group did not have trade receivables that were overdue but not impaired at 30 June 2014 and 31 December 2013. 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. TRADE, BILLS AND OTHER PAYABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade payables	120,012	130,162
Bills payables	225,000	301,568
	345,012	431,730
Consideration payable for acquisition of prepaid lease payments	47,145	48,277
Payable to guarantors	35,374	35,903
Contribution payables to labour union and education funds	11,581	11,261
Accrual of contractor fees	19,431	22,797
Accrual of government funds	121,239	84,851
Other payables and accruals	230,531	207,130
	810,313	841,949

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 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
0 – 30 days	58,360	108,919
31 – 60 days	98,750	107,031
61 – 90 days	2,452	8,722
Over 90 days	185,450	207,058
	345,012	431,730

Bills payables are secured by pledged bank deposits.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group was engaged in production and operation of shipbuilding. The shipbuilding industry in China was likely to reach its trough at last year. During the reporting period, it was on track of recovery. Even the excess capacity still exists, the orders on hand and the new building prices continued in an upward trend. In addition, a slew of measures to crack down the overcapacity-plagued shipbuilding industry and encourage upgrading mergers imposed by the Chinese authorities will have a positive impact on the market. However, the Group was still suffering from a lack of liquidity during the reporting period and the construction works on the new orders have not yet commenced. The Group has not yet benefited from the improvement in general market conditions during the first half of the year.

The Group's revenues decreased by 78.55%, from HK\$387.53 million to HK\$83.12 million and turned from gross profit of HK\$12.27 million to gross loss of HK\$16.62 million for the six months ended 30 June 2014 in comparing with the same period of last year. The total of other income and other gains of the Group decreased from HK\$5.71 million to HK\$2.01 million. The administrative expenses of the Group maintained at a similar level with 2013, slightly increased from HK\$37.68 million to HK\$39.01 million. The finance costs of the Group increased by 25.01% to HK\$102.27 million from HK\$81.81 million mainly due to the placing fees paid for issuance of one billion convertible bonds in June 2014. During the reporting period, save as the mentioned placing fees, the Group recorded certain one off non-recurring costs including loss on modification of convertible notes payable and share-based payments expenses amounting to HK\$68.75 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK\$222.25 million (2013: loss of HK\$102.83 million) for the six months ended 30 June 2014. The loss for the period under review was increased by approximately 116.13% in comparing with the same period of last year. It was mainly due to the declining in revenue and the mentioned one off non-recurring expenses.

Shipbuilding business

For the six months ended 30 June 2014, the shipbuilding segment generated revenue of approximately HK\$83.12 million representing a decrease of approximately 78.55% as compared to approximately HK\$387.53 million in the corresponding period last year. The decrease was mainly due to the failure of commencing the construction works on new orders which were in the stage of fine-tuning the final design. Since the shipyard did not run at full capacity and so recorded a gross loss of the shipbuilding section. The shipbuilding segment recorded a loss (before finance costs) of HK\$46.81 million (2013: restated to HK\$14.96 million).

As stated in the Company's 2013 annual report, a ship-owner has defaulted payment on settling the outstanding balances and the Group has already made provision for impairment of trade receivables at last year. The Group is currently in advanced negotiation with other ship-owners and banks for taking some measures to recover the receivables.

Since 2013 the PRC authorities have implemented a series of new policies to address the issue of over-capacity of the shipbuilding industry, the shipbuilding industry in PRC is experiencing a substantial consolidation which will lead the industry to a healthy development. One of the major policy implemented was the set-up of the *Regulatory Conditions for Shipbuilding Industry* 《船舶行業規範條件》, implied that the government policy will incline towards those shipbuilding enterprises fulfill the requirements such as encouraging financial institutions to provide more financial support. In June 2014, the Group has passed the review carried by The Office of Scientific Technological Industry of National Deference in Jiangxi Province, and then was recommended to the Ministry of Industry and Information Technology of the PRC for further experts review. The Group has confidence to pass the reviews and subsequently to enter the "white list".

As at 30 June 2014, the secured order book of the Group comprised five heavy lift vessels and four multi-purpose vessels. The newly 10 vessels contracts are expected to become effective in the fourth quarter of 2014.

Other business

For the six months ended 30 June 2014, the trading business is inactive and the Group did not record material loss.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had bank balances and cash (including pledged bank deposits) of approximately HK\$1,119.34 million (31 December 2013: HK\$310.67 million) of which HK\$113.68 million (31 December 2013: HK\$297.12 million) was pledged; short-term borrowings of HK\$594.82 million (31 December 2013: HK\$610.82 million); long-term borrowings of HK\$229.73 million (31 December 2013: HK\$292.33 million); short-term promissory notes payable amounted to approximately HK\$85.64 million (31 December 2013: HK\$79.84 million); convertible bonds/notes payable amounted to approximately HK\$776.52 million (31 December 2013: HK\$295.72 million) represented the fair value of principal amount of HK\$1,000.00 million (31 December 2013: HK\$314.42 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.85) at 30 June 2014 (31 December 2013: (1.04)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the period under review, 1,022,727,272 shares and 596,133,333 shares of HK\$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes at a conversion price of HK\$0.22 per share and HK\$0.15 per share respectively.

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, namely Qin Weijia, Wang Yongli, Wan Yong and Charmate Development Ltd, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 530,000,000 subscription shares at a price of HK\$0.107 per subscription share, representing of a 17.69% discount on the closing price (i.e. HK\$0.13) of the last trading day immediately before the announcement date. The gross proceeds from the subscription were approximately HK\$56.71 million and the net proceeds were approximately HK\$56.61 million. The subscription has been completed on 20 March 2014. As at the date of this announcement, the Group has fully utilized the net proceeds from the subscriptions for (i) approximately HK\$29.57 million was used to repay debts; and (ii) approximately HK\$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

On 14 May 2014, the Company entered into a placing agreement with Partner Capital Securities Limited, for placement of convertible bonds of the Company in an aggregate principal amount of HK\$1,000,000,000 on a best-efforts basis. The convertible bonds have an initial conversion price of HK\$0.20 per share (subject to adjustment) and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. On 27 June 2014, the issuance of the convertible bonds was completed, HK\$964,000,000 convertible bonds was issued to Kingwin Capital Group Ltd. and HK\$36,000,000 convertible bonds was issued to Partners Equity Investment Fund I, both parties were independent third parties to the Company. As at the date of this announcement, the Group has partly utilized the net proceeds as follows: (i) approximately HK\$120 million was used to repay debts; (ii) approximately HK\$52 million was used to repay loans from banks; (iii) approximately HK\$10 million was used as direct costs of production; and (iv) approximately HK\$3 million was used as daily operating costs of the Group. The remaining amount of approximately HK\$800 million is currently deposited with banks and of which approximately HK\$500 million will be used as the formation of a joint venture in Zhouzhan, PRC and approximately HK\$300 million will be used as entering financial services business.

CHARGES ON GROUP ASSETS

As at 30 June 2014, HK\$113.68 million (31 December 2013: HK\$297.12 million) of deposits, HK\$21.25 million (31 December 2013: HK\$23.04 million) of inventories, HK\$449.65 million (31 December 2013: HK\$511.18 million) of property, plant and equipment, HK\$324.20 million (31 December 2013: HK\$329.83 million) of prepaid lease payments and HK\$136.44 million (31 December 2013: HK\$137.03 million) of value-added tax recoverable, were pledged to banks or other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

On 26 December 2013, the Company has agreed to provide a joint and several guarantee to a bank in the PRC and executed a charge over the Company's 100% indirect interests in a subsidiary, namely Jiangxi Jiangzhou Union Shipbuilding Co Ltd (the "Shipyard") in favour of the bank as continuing security to secure the payment obligations by the Shipyard of the debts. For details, please refer to the Company's announcement dated 30 December 2013. By the end of May 2014, the bank agreed to extend the complete of the provision of guarantee and the registration of charge and reduced the guarantee amount from RMB149 million to RMB119 million. On 4 August 2014, the Company has provided a joint and several guarantee to the bank for the principal amount of up to RMB119 million and executed the mentioned charge. At the date of this announcement, the registration of charge is in the process.

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 2014, 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.

POST BALANCE SHEET EVENTS

On 30 July 2014, the Company entered into a placing agreement with a placing agent for the placement of 1,200,000,000 ordinary shares of HK\$0.05 each of the Company on a best-efforts basis at the price of HK\$0.23 per share to an independent third party. For details, please refer to the Company's announcement dated 30 July 2014.

On 6 August 2014, the Group entered into a joint venture agreement with two independent third parties for the formation of a joint venture entity to invest in shipbuilding and related ocean engineering business in Zhoushan, the PRC. Pursuant to the joint venture agreement, the initial investment amount in the joint venture entity will be RMB508 million (including RMB400 million to be contributed by the Group and RMB108 million to be contributed by the other parties). For details, please refer to the Company's announcement dated 6 August 2014. The joint venture company has obtained business licence on 15 August 2014.

LITIGATION

No member of the Group was engaged in any litigation of material importance.

HUMAN RESOURCES

The Group had around 820 employees as at 30 June 2014. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

The directors of the Company are of the opinion that the Group has no material contingent liabilities at 30 June 2014.

CAPITAL COMMITMENTS

At 30 June 2014, the Group has capital expenditure of approximately HK\$0.70 million (31 December 2013: Nil) contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

PROSPECTS

It is expected that the shipbuilding industry will resume its upward development trend after it experienced long-term downturn cycle starting from late 2008. The shipbuilding industry in PRC is experiencing a substantial consolidation which will lead the industry to a healthy status. As the Group has confidence to fulfil the requirements of *Regulatory Conditions for Shipbuilding Industry* 船舶行業規範條件 and is likely to benefit from the general improvements of the market conditions and the Chinese policy in the coming years.

The Group has successfully raised of approximately HK\$985 million on 27 June 2014. In order to enhance the overall performance of the Group, the Group intends to expand its existing business operations. The expansion plan includes the formation of a joint venture in ZhouShan and to enter to the financial services business.

The Group believes that the shipbuilding and the ocean engineering industry in Zhoushan holds potential, given that (a) the PRC government has started to adopt favourable national policies; (b) Zhoushan is situated in a favourable geographical location, being near to the coast and Shanghai; and (c) after Zhoushan has become the first new national strategic district in the PRC as a marine economic zone, various supporting facilities in the integration and upgrading of construction sites in the ocean engineering, shipbuilding and related industries will follow. In addition, the joint venture company can make use of the experience, expertise and connections of the other two joint venture partners to make appropriate investment and establish a platform in Zhoushan for engaging in the shipbuilding and the ocean engineering industry. The Group expects to share the investment income of the joint venture entity in the future and seize the opportunities to develop and expand its business in the shipbuilding and the ocean engineering industry in Zhoushan.

The Group also intends to expand into the business of provision of financial services, such as finance leases and factoring services to enterprises (especially for shipping related companies) in the PRC. The shipbuilding is a capital intensive industry and the ship owners and enterprises engaging in shipbuilding or coastal transportation thus have a strong demand for financing. Given the Group has established and developed network with ship owners and shipbuilding companies throughout the years, the Group is able to identify the funding needs of those ship owners and shipbuilding enterprises. The financial leasing business would include, among others, financing for newly built ships, sale and leaseback of ships and fixed assets, with target customers. Since the Group is familiar with corporations engaging in shipping, shipbuilding, marine engineering and the supply chain of special vessels and quality ships, the Group targets to provide financial leasing for those corporations at the initial stage. As at the date of this announcement, the Group has submitted registration materials to the relevant regulatory authorities in respect of the establishment of the business venture in financial leasing in Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen, the PRC and expected to obtain the business license in September 2014. The Group committed to apply RMB200 million (approximately HK\$251 million) as capital investment in financial leasing business. Further, the Group had commenced preliminary negotiation with an independent third party in respect of a potential acquisition by the Group of a minority stake in a company established in the PRC which principally engages in financial leasing business in Zhejiang Province in the PRC.

The directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2014.

CORPORATE GOVERNANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of report comprise Mr. Hu Bai He, Ms. Xiang Si Ying and Ms. Xiang Ying, all being independent non-executive directors. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The 2014 interim report will be dispatched to shareholders of the Company and available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company in due course.

BOARD OF DIRECTORS

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

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 29 August 2014