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 Report 2018

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The functional currency of the Group was Renminbi ("RMB") and the Condensed Consolidated Financial Statements are presented in Hong Kong dollars ("HK$")

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Revenue	3	**85,791**	182,339
Cost of sales		**(73,847)**	(289,828)
Gross profit (loss)		**11,944**	(107,489)
Other income		**6,890**	8,505
Other gains and losses	4	**(3,468)**	21,090
Change in fair value of contingent consideration payable		**–**	39,704
Change in fair value of investments held for trading		**(21)**	(232)
Change in fair value of convertible bonds payable		**–**	(576)
Selling and distribution expenses		**(3,231)**	(4,286)
Administrative expenses		**(98,718)**	(74,040)
Finance costs	5	**(123,379)**	(91,902)
Share of (loss) profit of associates		**(14,363)**	2,300
Share of loss of joint ventures		**(249,919)**	(2,847)
Loss before tax		**(474,265)**	(209,773)
Income tax credit	6	**6,747**	4,768
Loss for the period	7	**(467,518)**	(205,005)
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		**33,482**	(53,516)
Share of translation reserve of associates		**(4,590)**	(9,692)
Share of translation reserve of joint ventures		**(3,512)**	(7,506)
Other comprehensive income (expenses) for the period, net of income tax		**25,380**	(70,714)
Total comprehensive expenses for the period		**(442,138)**	(275,719)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Loss for the period attributable to:			
– Owners of the Company		**(464,158)**	(200,110)
– Non-controlling interests		**(3,360)**	(4,895)
		(467,518)	(205,005)
Total comprehensive expenses attributable to:			
– Owners of the Company		**(439,121)**	(269,816)
– Non-controlling interests		**(3,017)**	(5,903)
		(442,138)	(275,719)
Loss per share			
– Basic and diluted	8	**HK(3.40) cents**	HK(1.59) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**523,380**	562,258
Prepaid lease payments – non-current portion		**352,544**	362,093
Goodwill		**179,110**	182,145
Intangible assets		**159,648**	183,410
Interests in associates		**230,966**	249,919
Interests in joint ventures		**232,549**	485,980
Investment properties		**19,356**	25,104
Trade receivables – non-current portion	11	**1,268**	1,391
Equity instruments at fair value through other comprehensive income		**24,426**	–
Available-for-sale investments		**–**	24,840
Amount due from an associate – non-current portion		**6,009**	6,110
Deferred tax assets		**128**	130
		1,729,384	2,083,380
CURRENT ASSETS			
Inventories		**162,032**	134,988
Trade and bills receivables	11	**259,868**	212,226
Other receivables	11	**892,168**	709,003
Prepayment	11	**345,048**	271,458
Amount due from an associate		**4,720**	4,800
Prepaid lease payments		**9,148**	9,243
Investments held for trading		**33**	54
Finance lease receivables	12	**–**	9,353
Tax recoverable		**5,812**	5,725
Pledged bank deposits		**–**	248
Bank balances and cash		**11,663**	15,276
		1,690,492	1,372,374

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2018

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	13	**1,549,385**	815,509
Amounts due to customers for contract work		**347,991**	336,169
Amounts due to related parties	17	**828**	811
Amounts due to directors	17	**17,315**	10,034
Amount due to an associate		**31,398**	15,159
Borrowings	14	**1,956,046**	1,932,324
Contingent consideration payable		**–**	170,552
Provision for financial guarantee		**214,212**	217,843
Provision for warranty		**4,177**	4,171
Tax liabilities		**4,168**	6,183
		4,125,520	3,508,755
NET CURRENT LIABILITIES		**(2,435,028)**	(2,136,381)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(705,644)**	(53,001)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2018

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	16	**681,842**	681,842
Reserves		**(2,074,720)**	(1,629,046)
Equity attributable to owners of the Company		**(1,392,878)**	(947,204)
Non-controlling interests		**48,057**	51,074
TOTAL DEFICITS		**(1,344,821)**	(896,130)
NON-CURRENT LIABILITIES			
Other payables – non-current portion	13	**5,248**	5,337
Borrowings – non-current portion	14	**379,432**	581,856
Convertible bonds payable – non-current portion		**157,785**	148,965
Deferred tax liabilities		**96,712**	106,971
		639,177	843,129
		(705,644)	(53,001)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owner of the Company												
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Other reserve HK$000	Translation reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2017 (audited)	681,842	1,869,321	3,368,411	42,594	7,685	132,292	129,910	42,127	9,240	(7,230,626)	(947,204)	51,074	(896,130)
Adjustments (Note c)	–	–	–	–	–	–	–	–	–	(6,553)	(6,553)	–	(6,553)
At 1 January 2018 (restated)	681,842	1,869,321	3,368,411	42,594	7,685	132,292	129,910	42,127	9,240	(7,237,179)	(953,757)	51,074	(902,683)
Loss for the period	–	–	–	–	–	–	–	–	–	(464,158)	(464,158)	(3,360)	(467,518)
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	–	–	–	–	–	33,139	–	–	–	–	33,139	343	33,482
Share of translation reserve of associates	–	–	–	–	–	(4,590)	–	–	–	–	(4,590)	–	(4,590)
Share of translation reserve of joint ventures	–	–	–	–	–	(3,512)	–	–	–	–	(3,512)	–	(3,512)
Other comprehensive income for the period, net of income tax	–	–	–	–	–	25,037	–	–	–	–	25,037	343	25,380
Total comprehensive income (expenses) for the period	–	–	–	–	–	25,037	–	–	–	(464,158)	(439,121)	(3,017)	(442,138)
Lapse of share options	–	–	–	–	–	–	(43,693)	–	–	43,693	–	–	–
At 30 June 2018 (Unaudited)	681,842	1,869,321	3,368,411	42,594	7,685	157,329	86,217	42,127	9,240	(7,657,644)	(1,392,878)	48,057	(1,344,821)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

	Attributable to owner of the Company											
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Other reserve HK$000	Translation reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (Audited)	600,138	1,641,990	3,368,411	42,363	13,244	183,644	129,910	11,343	(6,635,507)	(644,464)	39,712	(604,752)
Loss for the period	–	–	–	–	–	–	–	–	(200,110)	(200,110)	(4,895)	(205,005)
Other comprehensive expenses:												
Items that may be reclassified subsequently to profit or loss												
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(52,508)	–	–	–	(52,508)	(1,008)	(53,516)
Share of translation reserve of associates	–	–	–	–	–	(9,692)	–	–	–	(9,692)	–	(9,692)
Share of translation reserve of joint ventures	–	–	–	–	–	(7,506)	–	–	–	(7,506)	–	(7,506)
Other comprehensive expenses for the period, net of income tax	–	–	–	–	–	(69,706)	–	–	–	(69,706)	(1,008)	(70,714)
Total comprehensive expenses for the period	–	–	–	–	–	(69,706)	–	–	(200,110)	(269,816)	(5,903)	(275,719)
Redemption of convertible bonds upon maturity	–	–	–	–	–	–	–	(11,343)	11,343	–	–	–
Issuance of shares upon conversion of convertible bonds	8,179	22,932	–	–	–	–	–	–	–	31,111	–	31,111
Issuance of shares for settlement of contingent consideration payable	73,525	204,399	–	–	–	–	–	–	–	277,924	–	277,924
At 30 June 2017 (Unaudited)	681,842	1,869,321	3,368,411	42,363	13,244	113,938	129,910	–	(6,824,274)	(605,245)	33,809	(571,436)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

Notes:

(a) There was a group reorganisation in 2001 and share consolidation in 2005 and 2006, the aggregate amount of approximately HK$3,368,411,000 was recorded in contributed surplus.

(b) According to the relevant laws in the People's Republic of China (the "PRC"), the companies established in the PRC are required to transfer 10% of their net profit after taxation, as determined under the relevant accounting principles and financial regulations, to statutory reserve balance reaches 50% of their registered capital. The transfer to this statutory reserve must be made before the distribution of dividend to equity owners. Statutory reserve can be used to offset previous years' losses, if any, and is non-distributable other than upon liquidation. The companies established in the PRC are also required to maintain a staff welfare and incentive bonus fund, while the amount and allocation basis are decided by the enterprise.

(c) On 1 January 2018, the Group has been impacted by the requirements of HKFRS 9 relating to the measurement of credit losses on financial assets. As a result, a credit loss allowance was recognised against accumulated losses. As permitted by the HKFRS 9, comparatives have not been restated.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(49,399)**	47,190
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(34,628)**	(14,127)
Purchase of prepaid lease payments	**(1,939)**	–
Proceeds from disposal of investment property	**–**	1,408
Decrease (increase) in pledged bank deposits	**244**	(11,850)
Net cash outflow on acquisition of subsidiaries	**–**	(32,576)
Net cash outflow on capital injection of associates	**–**	(56,350)
NET CASH USED IN INVESTING ACTIVITIES	**(36,323)**	(113,495)
FINANCING ACTIVITIES		
Increase in amount due from an associate	**–**	1,619
Borrowings raised	**105,135**	341,388
Repayment of borrowings	**(41,234)**	(255,934)
Interest paid	**(12,102)**	(66,468)
Decrease in restricted cash	**–**	31,043
NET CASH FROM FINANCING ACTIVITIES	**51,799**	51,648
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(33,923)**	(14,657)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**30,310**	(61,503)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**15,276**	101,785
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	**11,663**	25,625

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 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$474,265,000 for the six months ended 30 June 2018 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$2,435,028,000 and HK$1,344,821,000, 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, in negotiation with banks to allow revolving of loans upon their due dates and to borrow new loans, actively pursuing new customers, imposing cost control measures, negotiating with the local government for providing assistance, issue new shares and issue new convertible bonds, 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.

Other than changes in accounting polices resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied for the first time in the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycles
Amendments to HKAS 40	Transfer of Investment Property

Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated loss and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated losses.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed as follows.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, finance lease receivables and amount due from an associate). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the items to which the ECL model applies. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For trade and bills receivables, other receivables and finance lease receivables, the Group has measured the loss allowance as an amount equal to lifetime ECL. The Group has established a provision for doubtful debts based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed as follows.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale investments HK$'000	Equity instruments at FVTOCI HK$'000	Amortised cost (previously classified as loans and receivables) HK$'000	Accumulated losses HK$'000
Closing balance at 31 December 2017 – HKAS 39		24,840	–	792,340	(7,230,626)
Effect arising from initial application of HKFRS 9:					
Reclassification		(24,840)	24,840	–	–
From available-for-sale investments					
Remeasurement					
Impairment under ECL model	*(a)*	–	–	(6,553)	(6,553)
Opening balance at 1 January 2018		**–**	**24,840**	**785,787**	**(7,237,179)**

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables, other receivables and finance lease receivables. To measure the ECL, trade and bills receivables and other receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of amount due from an associate, pledged bank deposits and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of approximately HK$6,553,000 has been recognised against accumulated losses. The additional loss allowance is charged against the respective assets.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(a) Impairment under ECL model *(Continued)*

All loss allowances for financial assets including trade and bills receivables, other receivables and finance lease receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade and bills receivables and other receivables HK$'000	Finance lease receivables HK$'000
At 31 December 2017 – HKAS 39	782,987	9,353
Amounts remeasured through opening accumulated losses	(1,537)	(5,016)
At 1 January 2018	**781,450**	**4,337**

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.

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.

3. REVENUE AND SEGMENT INFORMATION (Continued)

Six months ended 30 June 2018 (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$'000	Total HK$'000
Segment revenue						
– External sales	16,432	–	–	46,537	22,822	85,791
Segment result	(52,605)	(892)	(24,996)	(35,602)	(53,009)	(167,104)
Unallocated other income						17
Unallocated other gains and losses						(2,929)
Change in fair value of investments held for trading						(21)
Unallocated finance costs						(18,270)
Share of loss of associates						(14,363)
Share of loss of joint ventures						(249,919)
Unallocated corporate expenses						(21,676)
Loss before tax						(474,265)

3. REVENUE AND SEGMENT INFORMATION (Continued)

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)	(26,654)	12,026		(244,541)
Unallocated other income							8,505
Unallocated other gains and losses							21,102
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)

3. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Assets		
Segment assets		
– Shipbuilding business	**686,492**	614,424
– Trading business	**16,945**	17,837
– Finance leasing business	**167,256**	180,246
– Intelligent car parking and automotive device business	**728,670**	756,908
– Steel structure engineering and installation	**1,285,392**	1,019,399
Total segment assets	**2,884,755**	2,588,814
Pledged bank deposits, bank balances and cash	**11,663**	15,524
Interests in associates	**230,966**	249,919
Interests in joint ventures	**232,549**	485,980
Investment properties	**19,356**	25,104
Amount due from an associate	**10,729**	10,910
Unallocated corporate assets	**29,858**	79,503
Consolidated assets	**3,419,876**	3,455,754
Liabilities		
Segment liabilities		
– Shipbuilding business	**1,893,864**	2,098,246
– Trading business	**17,748**	17,748
– Finance leasing business	**611,281**	574,063
– Intelligent car parking and automotive device business	**370,757**	374,419
– Steel structure engineering and installation	**1,027,277**	711,663
Total segment liabilities	**3,920,927**	3,776,139
Convertible bonds payable	**157,785**	148,965
Contingent consideration payable	**–**	170,552
Deferred tax liabilities	**96,712**	106,971
Amount due to an associate	**31,398**	15,159
Unallocated corporate liabilities	**557,875**	134,098
Consolidated liabilities	**4,764,697**	4,351,884

4. OTHER GAINS AND LOSSES

	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Loss on written-off of property, plant and equipment	**–**	(12)
Loss on disposal of investment property	**(825)**	(222)
Foreign exchange (loss) gain	**(2,102)**	21,493
Others	**(541)**	(169)
	(3,468)	21,090

5. FINANCE COSTS

	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Interests on:		
Convertible bonds payable	**18,270**	24,231
Bank borrowings	**60,230**	30,779
Other borrowings	**44,520**	34,445
Guarantee fee and fund management fee incurred in connection with borrowings	**346**	2,447
Others	**13**	–
	123,379	91,902

6. INCOME TAX CREDIT

	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Current tax – PRC tax	**413**	255
Deferred tax	**(7,160)**	(5,023)
	(6,747)	(4,768)

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging:		
Directors' and chief executives' emoluments:		
Fees, salaries and other benefits	**2,340**	2,788
Contributions to retirement benefits scheme	**36**	27
Other staff costs:		
Salaries and other benefits	**24,137**	24,907
Contributions to retirement benefits scheme	**3,759**	3,211
Total staff costs	**30,272**	30,933
Auditor's remuneration:		
Audit services	**53**	572
Non-audit services	**500**	450
	553	1,022
Depreciation of property, plant and equipment	**29,680**	22,696
Amortisation of prepaid lease payments	**5,542**	4,010
Amortisation of intangible assets	**21,582**	19,748
Minimum lease payments paid under operating leases in respect of rented premises	**6,074**	4,179
Shipbuilding contract costs recognised as cost of sales	**9,943**	136,969
Impairment loss recognised in respect of other receivables	**10,652**	2,666
Impairment loss recognised in respect of finance lease receivables	**4,543**	–
Impairment loss recognised in respect of trade receivables	**1,601**	–
Cost of inventories recognised as expenses	**59,216**	129,304

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	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**(464,158)**	(200,110)

	Six months ended 30 June	
	2018 '000 (Unaudited)	2017 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**13,636,839**	12,593,451

For the six months ended 30 June 2018 and 30 June 2017, the computation of diluted loss per share does not assumed the conversion of the Company's outstanding convertible bond 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.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group paid approximately HK$34,628,000 (for the six months ended 30 June 2017: HK$14,127,000) for acquisition of property, plant and equipment which located in the PRC.

11. TRADE AND BILLS RECEIVABLES/DEPOSITS/OTHER RECEIVABLES/PREPAYMENT

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade receivables – non-current portion	**1,335**	1,391
Less: Allowance for doubtful debts	**(67)**	–
Trade receivables – non-current portion, net of allowance for doubtful debts	**1,268**	1,391
Trade receivables – current portion	**266,042**	215,147
Less: Allowance for doubtful debts	**(6,174)**	(4,135)
Trade receivables – current portion, net of allowance for doubtful debts	**259,868**	211,012
Bills receivables	**–**	1,214
Trade and bills receivables – current portion	**259,868**	212,226
Total trade and bills receivables, net of allowance for doubtful debts *(Note a)*	**261,136**	213,617
Other receivables *(Note b)*	**481,539**	280,047
Value-added tax recoverable	**145,696**	139,633
Amounts due from the former shareholders of a subsidiary *(Note c)*	**259,701**	264,102
Deposit paid for the construction	**22,206**	22,581
Deposits placed to agents and a stakeholder *(Note d)*	**17,850**	26,330
	926,992	732,693
Less: Allowance for doubtful debts	**(34,824)**	(23,690)
Other receivables, net of allowance for doubtful debts	**892,168**	709,003
Prepayment *(Note e)*	**345,048**	271,458

11. TRADE AND BILLS RECEIVABLES/DEPOSITS/OTHER RECEIVABLES/PREPAYMENT (Continued)

Note:

(a) At 30 June 2018 and 31 December 2017, 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 and (5) trade receivables from a ship buyer, an independent third party of the Group, in relation to the delivered vessel.

At 30 June 2018, trade receivables are non-interest bearing, except for trade receivables from factoring services with aggregated amount of approximately HK$4,838,000 (31 December 2017: HK$4,920,000) which bear interest rate of 12% (2017: 12%) per annum.

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
0 – 90 days	**93,351**	156,508
More than 90 days but not exceeding one year	**131,524**	42,227
In more than one year	**36,261**	14,882
	261,136	213,617

The Group did not hold any collateral over these balances.

(b) The other receivables mainly represented:

(i) At 30 June 2018, the amount mainly represents the non-refundable deposit paid to a property developer for acquisition of property, plant and equipment of approximately RMB60,000,000 which located in the PRC with the total consideration of approximately RMB131,150,000. The acquisition was still in progress.

(ii) At 31 December 2017, dividend receivable of approximately HK$57,579,000 (approximately RMB50,069,000) attributed from the Group's joint venture, Zhoushan Investment Fund. During the six months period ended 30 June 2018, the dividend receivable was settled by offsetting the other borrowing from an independent third party to the Group.

11. TRADE AND BILLS RECEIVABLES/DEPOSITS/OTHER RECEIVABLES/PREPAYMENT (Continued)

Note: (Continued)

(c) As at 30 June 2018, approximately HK$214,200,000 (31 December 2017: approximately HK$217,800,000) included in the amounts due from the former shareholders of a wholly-owned subsidiary, Nantong Huakai Heavy Industry Limited ("Huakai Heavy"), of approximately HK$259,701,000 (31 December 2017: approximately HK$264,102,000) represented the amount under the counter guarantee which were to be provided by the vendors of Huakai Heavy in favour of the Group under the acquisition of Huakai Heavy to indemnify the Group for all losses arising from the corporate guarantee.

(d) During the six months ended 30 June 2018, certain vessel buyers have made progress payments for shipbuilding contracts to three agents and one stakeholder (31 December 2017: three agents and one stakeholder) rather than directly to the Group. The Group has the entitlement to these progress payments in accordance with the contracts but the balances are in custody of the agents/stakeholder to ensure the progress payments are used to pay for the costs to relevant shipbuilding contracts. The progress payments held in custody will be paid over to the Group based on the shipbuilding progress.

(e) Prepayment represents amount paid for purchase of raw materials, steel plates and vessel components for shipbuilding during the six months ended 30 June 2018 and the year ended 31 December 2017.

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

12. FINANCE LEASE RECEIVABLES

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Finance lease receivables	**10,199**	10,570
Less: Unearned finance income	**(909)**	(925)
Present value of minimum lease payment receivables	**9,290**	9,645
Less: Accumulated impairment loss	**(9,290)**	(292)
	–	9,353

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 7.6% (31 December 2017: 7.6%) per annum.

13. TRADE AND OTHER PAYABLES

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Consideration payable for acquisition of property, plant and equipment – non-current portion	**5,248**	5,337
Trade payables	**181,674**	165,939
Consideration payable for acquisition of prepaid lease payments	**44,505**	45,260
Consideration payable for acquisition of subsidiaries	**167,798**	–
Deposit receipts	**236,000**	–
Payable to guarantors	**734**	746
Contribution payables to labour union and education funds	**14,041**	14,278
Accrual of contractor fees	**18,340**	16,204
Accrual of government funds	**32,908**	33,466
Other payables and accruals	**853,385**	539,616
	1,549,385	815,509

13. TRADE AND OTHER PAYABLES (Continued)

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 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
0 – 30 days	**1,823**	22,843
31 – 60 days	**4**	6,173
61 – 90 days	**33,876**	17,304
Over 90 days	**145,971**	119,619
	181,674	165,939

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

14. BORROWINGS

During the current interim period, the Group obtained new bank borrowings and other borrowings amounting to approximately HK$5,546,000 and HK$99,589,000 respectively (31 December 2017: HK$105,590,000 and HK$47,581,000 respectively).

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

	30 June 2018	31 December 2017
Effective interest rates:		
Fixed-rate borrowings (bank and other borrowings)	**0.35% to 36%**	0.35% to 36%
Variable-rate borrowings (bank and other borrowings)	**4.75% to 5.66%**	4.75% to 5.66%

At 30 June 2018 and 31 December 2017, there was no repayment on demand clause on both Group's bank borrowings and other borrowings.

15. 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 ended 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 subsidiaries 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.

15. ACQUISITION OF SUBSIDIARIES (Continued)

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

	HK$'000
Consideration transferred:	
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

15. ACQUISITION OF SUBSIDIARIES (Continued)

	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, the Group's total 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.

16. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1 January 2017 (Audited), 31 December 2017 (Audited) and 1 January 2018 (Audited)	20,000,000,000	1,000,000
Increase during the period *(Note a)*	30,000,000,000	1,500,000
At 30 June 2018 (Unaudited)	**50,000,000,000**	**2,500,000**
Issued and fully paid:		
At 1 January 2017 (Audited)	12,002,758,840	600,138
Issue of shares upon conversion of 2018 Convertible Notes *(Note b)*	163,580,000	8,179
Issue of shares for settlement of contingent consideration payable *(Note c)*	1,470,500,000	73,525
At 31 December 2017 (Audited),1 January 2018 (Audited) and **30 June 2018 (Unaudited)**	13,636,838,840	681,842

Notes:

(a) Pursant to the ordinary resolution by the shareholders at the annual general meeting on 22 June 2018, the Company's authorised share capital was increased from HK$1,000,000,000 divided into 20,000,000,000 of HK$0.05 each to HK$2,500,000,000 divided into 50,000,000,000 ordinary shares by creation of 30,000,000,000 new shares.

(b) During the year ended 31 December 2017, the holder of 2018 Convertible Notes (as defined in the Company's announcement dated 27 July 2017) converted HK$32,000,000 of 2018 Convertible Notes for 163,580,000 new ordinary shares at their specific conversion prices varying from HK$0.1884 to HK$0.2121.

(c) On 27 April 2017, the Company has allotted and issued 1,470,500,000 new ordinary shares to the vendor upon the fulfilment of profit guarantee relating to the acquisition of the entire equity interests of Success Capture Limited at the market price of HK$0.189.

All new shares issued during the six months ended 30 June 2018 and year ended 31 December 2017 ranked pari passu with the existing shares in all respects.

17. RELATED PARTY DISCLOSURES

Saved as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions and balances with related parties during the year/period as follows:

(a) Amounts due to related parties

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Mr. Wang San Long ("Mr. Wang") *(Note i)* – consideration payable for the acquisition of Jiujiang Jinhu Equipment Manufacturing Company Limited ("Jiujiang Jinhu") and accrued salaries	**499**	508
Mr. Wu Ge ("Mr. Wu") *(Note ii)* – consideration payable for the acquisition of Jiujiang Jinhu and accrued salaries	**329**	303
	828	811

(b) Amounts due to directors

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Mr. Li Ming ("Mr. Li") *(Note iii)*	**7,200**	455
Mr. Zhang Shi Hong ("Mr. Zhang") *(Note iv)*	**9,615**	9,579
Mr. Zhang Weibing *(Note v)*	**500**	–
	17,315	10,034

17. RELATED PARTY DISCLOSURES (Continued)

(b) Amounts due to directors (Continued)

Notes:

(i) Mr. Wang is the senior management of the Group. The amount is unsecured, interest free and repayable on demand.

Mr. Wang also had provided a personal guarantee in favour of the Group to guarantee a facility of RMB158,015,000 (31 December 2017: RMB158,015,000) granted by banks in the PRC as at 30 June 2018.

(ii) Mr. Wu is the senior management of the Group. The amount is unsecured, interest free and repayable on demand.

(iii) Mr. Li is the executive director of the Company. The amount is unsecured, interest free and repayable on demand.

Mr. Li has provided a personal guarantee in favour of the Group to guarantee a facility of RMB691,300,000 (31 December 2017: RMB701,300,000) granted by banks in the PRC as at 30 June 2018.

Mr. Li also had provided a personal guarantee to secure the payment obligations of the borrowings of RMB200,000,000 (31 December 2017: RMB200,000,000) from one of the shareholders of the Group associate, Zhejiang Ocean Leasing Company Limited, as at 30 June 2018.

(iv) Mr. Zhang is the executive director of the Company. The amount is unsecured, interest free and repayable on demand.

Mr. Zhang has provided a personal guarantee in favour of the Group to guarantee a facility of RMB430,000,000 (31 December 2017: RMB430,000,000) granted by banks in the PRC as at 30 June 2018.

(v) Mr. Zhang Weibing is the executive director of the Company. The amount is unsecured, interest free and repayable on demand.

(c) The key management of the Group comprises all Directors and chief executives, their remuneration for the six months ended 30 June 2018 and 30 June 2017 have been disclosed in Note 7 to the condensed consolidated financial statements. The remuneration of Directors and chief executives were recommended by the remuneration committee and with reference to the market trends.

17. RELATED PARTY DISCLOSURES (Continued)

(d) During the six months ended 30 June 2018 and 30 June 2017, the Group entered into the following transactions with several associates.

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Rental income	**556**	44
Interest expenses	**992**	2,777
Service income	**1,496**	499

(e) The Directors are of the view that the terms of the above related party transactions are fair and reasonable, based on normal commercial terms where no charge over the assets of the Group is created in respect of the above transactions.

18. LITIGATIONS AND CONTINGENT LIABILITIES

(a) At 30 June 2018, 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 2018 of approximately RMB41,482,000 in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (31 December 2017: RMB40,835,000).

A repayment agreement was signed between Jiangxi Shipbuilding 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 2018, 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 2018 of approximately RMB7,538,000 in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (31 December 2017: RMB7,270,000).

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 RMB14,971,000 (31 December 2017: RMB14,971,000) under "Trade and other payables" in the condensed consolidated statement of financial position as at 30 June 2018. The management are of the opinion that it is not probable that these claims would result in an outflow of economic benefits exceeding the provisions made by the Group. Details of the material litigations are set out as follows:

(i) In August 2017, an insurance company filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of shipbuilding insurance premium. 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 RMB1,241,000 in aggregate.

18. LITIGATIONS AND CONTINGENT LIABILITIES (Continued)

(c) (Continued)

(ii) 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.

(iii) 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 RMB3,525,000 in aggregate.

(iv) 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 RMB4,101,000 in aggregate.

(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 shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000.

18. LITIGATIONS AND CONTINGENT LIABILITIES (Continued)

(e) As disclosed in the Company's circular dated 24 February 2017 (the "VSA Circular"), the financial guarantee of approximately HK$217,800,000 represent the back-to-back corporate guarantees provided by Huakai Heavy (which became the Company's subsidiary on 11 April 2017 upon completion of the Acquisition of Huakai Heavy Group) in favour of Huatai Heavy Industry Limited in 2014 (the "Corporate Guarantee") which remained outstanding as at 31 December 2017. The relevant information including the details of the relevant guarantee agreements are disclosed in the VSA Circular. Due to the failure of two ship owners to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry Limited 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 Limited was liable to refund the prepaid amount received from the vessel agency companies (the "Prepaid Amounts").

As at 31 December 2017, the aggregated outstanding balances of the Prepaid Amounts are RMB76,446,000.

The Vendors of Huakai Heavy undertake to use the consideration payable to indemnify Huakai Heavy for all losses 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 2018.

19. CAPITAL COMMITMENTS

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
Unpaid registered capital for the associates	**110,785**	103,260
Unpaid registered capital for the subsidiaries	**632,716**	636,240
Unpaid registered capital for a joint venture	**118,000**	120,000
Capital expenditure in respect of the acquisition of property, plant and equipment	**29,006**	29,498
	890,507	888,998

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

Financial assets/ financial liabilities	Fair value as at 30 June 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Held-for-trading non-derivative financial assets classified as investments held for trading in the consolidated statement of financial position	**Listed equity securities in Hong Kong – approximately 33**	Listed equity securities in Hong Kong – approximately 54	Level 1	Quoted prices in an active market	N/A
Equity instruments at FVTOCI	**Listed equity securities in the PRC – approximately 24,426**	N/A	Level 1	Quoted prices in an active market	N/A
Listed available-for-sale investments	**N/A**	Listed equity securities in the PRC – approximately 24,840	Level 1	Quoted prices in an active market	N/A
Contingent consideration payable in a business combination *(Note)*	**N/A**	Liability – approximately 170,552	Level 2	Reference to the profit for the year ended 31 December 2017	N/A
Provision for financial guarantee	**Liability – approximately 214,212**	Liability – approximately 217,843	Level 3	Probabilities of occurrence of default incidents and the potential losses upon the occurrence of such incidents	Default rate, recovery rate and risk free rate

Note: The Directors consider the contingent consideration was stated at amortised cost as at 30 June 2018 approximate their fair values and reclassified as trade and other payable to the condensed consolidated financial statements (Note 13).

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

	Level 1		Level 2		Level 3		Total	
	30 June 2018 HK$'000	31 December 2017 HK$'000	**30 June 2018 HK$'000**	31 December 2017 HK$'000	**30 June 2018 HK$'000**	31 December 2017 HK$'000	**30 June 2018 HK$'000**	31 December 2017 HK$'000
Financial assets								
Investments held for trading	**33**	54	**–**	–	**–**	–	**33**	54
Available-for-sale investments	**–**	24,840	**–**	–	**–**	–	**–**	24,840
Equity instruments at FVTOCI	**24,426**	–	**–**	–	**–**	–	**24,426**	–
	24,459	24,894	**–**	–	**–**	–	**24,459**	24,894
Financial liabilities								
Contingent consideration payable	**–**	–	**–**	170,552	**–**	–	**–**	170,552
Provision for financial guarantee	**–**	–	**–**	–	**214,212**	217,843	**214,212**	217,843
	–	–	**–**	170,552	**214,212**	217,843	**214,212**	388,395

Note: As at 30 June 2018, a decrease in default rate used in isolation would result in a decrease in fair value measurement of the provision for financial guarantee and vice versa. A 5% decrease in default rate and holding all other variables constant would decrease the carrying amount of the provision for financial guarantee by approximately HK$10,711,000 (31 December 2017: approximately HK$10,892,000).

As at 30 June 2018, an increase in recovery rate used in isolation would result in a decrease in fair value measurement of the provision for financial guarantee and vice versa. A 5% increase in recovery rate and holding all other variables constant would decrease the carrying amount of the provision for financial guarantee by approximately HK$10,711,000 (31 December 2017: approximately HK$10,892,000).

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements:

	Provision for financial guarantee	
	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
At beginning of period/year	**217,843**	–
Exchange realignment	**(3,631)**	12,776
Acquired on acquisition of subsidiaries	**–**	208,981
Settlement	**–**	(3,914)
At end of period/year	**214,212**	217,843

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

Fair value measurement and valuation processes

The Director is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers and is based on management's best estimate to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

21. EVENTS AFTER THE END OF REPORTING PERIOD

(a) Partial disposal of a subsidiary

On 10 July 2017, China Ocean Shipbuilding Holdings Limited ("COS Holdings"), a wholly-owned subsidiary of the Company, and NIBO Trading Company Limited ("Purchaser"), an independent third party, entered into a disposal agreement (the "Disposal Agreement"). Pursuant to the Disposal Agreement, COS Holdings agreed to sell and the Purchaser agreed to purchase the shares of China Ocean Shipbuilding (Hong Kong) Limited ("China Ocean HK"), representing 40% of the total number of issued shares of China Ocean HK ("Sale Shares"), at a consideration of RMB200,000,000.

21. EVENTS AFTER THE END OF REPORTING PERIOD (Continued)

(a) Partial disposal of a subsidiary (Continued)

On 6 January 2018, Zhejiang Ouhua Shipbuilding Company Limited ("Zhejiang Ouhua"), the Purchaser, China Ocean HK, COS Holdings and Jiangxi Jiangzhou Union Shipbuildng Co., Ltd ("Jiangxi Shipbuilding"), an indirect wholly owned subsidiary of the Company, entered into the debt restructuring agreement (the "Debt Restructuring Agreement"). The parties to the Debt Restructuring Agreement acknowledged and agreed that, among other things:

(i) During the period from 19 December 2014 to 12 October 2015, Zhejiang Ouhua, an independent third party, has advanced loans in an aggregate amount of RMB200,000,000 to Jiangxi Shipbuilding and such amount remained outstanding;

(ii) Jiangxi Shipbuilding and COS Holdings are subsidiaries of the Company, and the Sale Shares are held by the Purchaser as nominee on behalf of Zhejiang Ouhua; and

(iii) With effect from the date of the Debt Restructuring Agreement, the consideration in the amount of RMB200,000,000 to be paid by the Purchaser to COS Holdings pursuant to the Disposal Agreement shall be set off against the outstanding amount of RMB200,000,000 owed by Jiangxi Shipbuilding to Zhejiang Ouhua, whereupon Jiangxi Shipbuilding shall be released from all obligations under such outstanding amount.

Completion under the Disposal Agreement took place on 5 July 2018. The Debt Restructuring Agreement was completed on 2 May 2018 as advised by the PRC legal advisers of the Company.

(b) Undelivered vessels

Detailed information disclosed in the announcement dated 2 August 2018 (the "Announcement"), in view of the slow negotiation progress and the failure to reach a consensus with one of the Two Customers (as defined in the Company's announcement dated 26 March 2018), the Group was of the view that settling the matter by arbitration as stated under the shipbuilding contracts might be more cost-effective and could allow the Group to devote more time to discuss with the customer's finance bank as disclosed in the Announcement. The Group is now in the course of arbitration process while negotiation with the customer is still ongoing.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China Ocean Industry Group Limited (hereinafter referred to as "Group") is engaged in the intelligent car-parking and automotive electronics, shipbuilding, manufacture and sales of steel structure, trading and finance lease business.

Under the double pressure of global economic slowdown and domestic sluggish economic situation, the Group's overall business remains under enormous pressure. In particular, the shipbuilding business still showed no obvious improvement. The focus of the shipbuilding business in the first half of 2018 was to deliver vessels under construction, and continue to negotiate on the delayed delivery of vessels with a view to shedding historical baggage and carrying out industrial integration and asset reorganization in a new posture. Also subject to the overall downturn of the shipbuilding industry, there occurred risks of capital invested in shipbuilding business by the joint venture established by the government-guided fund which was jointly set up by the Group and a platform company of Zhejiang Zhoushan Municipal Government in 2014. The Group shall share the large losses of the joint venture in the first half of 2018, which caused the losses of the Group increased substantially. In view of this, the Group has made greater efforts to reduce the losses.

The integration of the shipbuilding business has been the main task of the Group in recent years, and we are pleased to see its substantial progress and our cooperation with superior shipbuilding enterprises will soon enter the implementation stage.

Affected by the depression of the domestic real economy, the business of the intelligent car parking and automotive device, steel structure engineering and installation invested by the Group during its business transformation remained in a ramp-up period under the influence of financing difficulties, high financing costs and rising cost. Although the volume of business orders for steel structure business was large, the slow recovery of receivables from customers and the rapid increase of labor cost affected the normal development of business. The Group is exploring the change of business mode to reduce the risk and enhance the sustainable capability.

Generally speaking, the development of China's real economy has been affected by many unfavorable factors in the previous period. At present, with the changes of national policies, the environment is expected to be further improved for the real economy to develop, which will have a positive effect on the Group's business.

For the six months ended 30 June 2018, the Group recorded an external revenue of HK$85.79 million (2017: HK$182.34 million), representing a decrease as compared to the same period of last year, which was mainly attributed to the reduction of intelligent car parking and automotive device business and steel structure engineering and installation business. Shipbuilding business recorded external revenue of HK$16.43 million (2017: credit balance of HK$27.59 million). The intelligent car parking and automotive device business recorded external revenue of HK$46.54 million (2017: HK$80.31 million), which was mainly due to the adjustment for parking equipment sales strategy. However, many projects are under construction and subject to the local policies and financial constraints on parking construction, therefore the intelligent car parking business fails to achieve the expected goal. The steel structure engineering and installation business recorded revenue of HK$22.82 million (2017: HK$103.46 million). The main reason for the sharp decline of the business revenue lies in the slow recovery of accounts receivable of customers, and the business model that is gradually changing from procurement processing to processing with supplied materials.

During the period under review, the Group recorded a gross profit of HK$11.94 million (2017: gross loss of HK$107.49 million), while the Group recorded gross loss in last year.

The Group's financing cost increased from HK$91.90 million to HK$123.38 million, mainly due to the rising financial costs.

During the period under review, the share of loss of joint ventures amounted to HK$249.92 million, which was mainly due to provision for risk of investment in shipbuilding business by an joint venture established in Zhejiang province.

In conclusion, the Group recorded a loss attributable to shareholders of HK$439.12 million for the six months ended 30 June 2018 (2017: loss of HK$269.82 million), increased substantially as compared to the same period of last year, mainly due to share of loss of joint ventures increasing substantially, together with adjustment for steel structure business and rising financial costs have an adverse effect on the Group's performance.

SHIPBUILDING BUSINESS

The shipbuilding business recorded external revenue of HK$16.43 million (2017: credit balance of HK$27.59 million) during the period under review. The Group delivered 1 vessel in the first half of the year.

The Group continues to make various efforts to dispose of delayed delivery vessels due to changes in the market. One of the new potential customers has indicated the desire to take over two of the six vessels and has been willing to continue with the construction and negotiations have made positive progress. The remaining four vessels are now in the course of arbitration process, while other solutions are still ongoing negotiated.

In order to completely remove the constraints on the Group's shipbuilding business, the Group continued to promote cooperation with leading enterprises in shipbuilding industry, and thereby to restructure the shipbuilding assets of Jiangzhou Shipbuilding, related work is in progress.

INTELLIGENT CAR-PARKING AND AUTOMOTIVE DEVICE BUSINESS

For the six months ended 30 June 2018, the intelligent car-parking and automotive device business recorded a total revenue of HK$46.54 million (2017: HK$80.31 million), representing a decrease of 42.05% over the previous year. In face of the fierce market competition and the instability of domestic car-parking business policy, the car-parking business of the Group is also in a period of adjustment. The sales of car-parking equipment are still the focus and the delivery quantity is steadily rising. Projects under construction will gradually contribute earnings to the Group successively. Meanwhile, the pace of parking investment business has slowed down. After relevant domestic policies have gradually become clear, we will continue to promote the parking investment business in key cities.

STEEL STRUCTURE ENGINEERING AND INSTALLATION BUSINESS

For the six months ended 30 June 2018, the steel structure bridge business recorded an external revenue of HK$22.82 million (2017: HK$103.46 million), representing a decrease of 77.94% over the previous year. Steel structure engineering business is the Group's new focus business with large volume for development. However, the capital pressure is large because the project payment settlement is not timely. In order to alleviate the capital pressure, we adjusted the business model and mainly adopted the model of processing with supplied materials, resulting in the decrease of the revenue.

Benefiting from the prosperity of the domestic infrastructure construction, the steel structure engineering business will still have much room for development. As the Group's steel structure engineering business is at the main channel of the lower reaches of the Yangtze River, there are plans for construction of new Yangtze River bridge passing through the factory, which affected the Company's business and development to some extent. At present, we will try our best to eliminate all interferences, further strengthen cooperation with the state-owned enterprises in the industry, and coordinate the relationship with the local government to ensure the stable operation of business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$11.66 million (31 December 2017: HK$15.52 million); short-term borrowings of HK$1,956.05 million (31 December 2017: HK$1,932.32 million); long-term borrowings of HK$379.43 million (31 December 2017: HK$581.86 million); convertible bonds payable amounted to approximately HK$157.79 million (31 December 2017: HK$148.97 million) represented the fair value of principal amount of HK$189.00 million (31 December 2017: HK$189.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (1.93) at 30 June 2018 (31 December 2017: (3.10)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

On 6 December 2016, the Company and Macquarie Bank Limited ("Macquarie") entered into a subscription agreement pursuant to which Macquarie has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, convertible notes in aggregate principal amount of up to HK$400 million, which is to be issued in 4 tranches with each trance in principal amount of HK$100 million and with interest rate at 2% per annum ("2016 Convertible Notes"). As at the date of this announcement, the first tranche of 2016 Convertible Notes was all redeemed and under the subscription agreement, the remaining 3 tranches in aggregate principle amount of HK$300 million is yet to be issued by the Company.

CHARGES ON GROUP ASSETS

As at 30 June 2018, HK$305.47 million (31 December 2017: HK$327.91 million) of property, plant and equipment, HK$217.08 million (31 December 2017: HK$221.80 million) of prepaid lease payments and HK$8.76 million (31 December 2017: 8.90 million) of inventories were pledged to banks or other parties to secure borrowings, bills payable and facilities granted to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and borrowings.

As at 30 June 2018, the Company pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure a bank borrowing amounting to RMB107.41 million (31 December 2017: RMB107.41 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 30 June 2018, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable instrument to manage this exposure. The Board will continue to consider the appropriate hedging measures.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed elsewhere under the section headed "Management Discussion and Analysis", there was no new business, material acquisitions and disposals of subsidiaries and associated companies during the period under review.

HUMAN RESOURCES

The Group had around 550 employees as at 30 June 2018. 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 in Hong Kong. Shares options may also be granted to eligible persons of the Group.

LITIGATION AND CONTINGENT LIABILITIES

As at 30 June 2018, the material pending litigations and contingent liabilities are set out as follows:

(a) At 30 June 2018, 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 2018 of approximately RMB41,482,000 in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (31 December 2017: RMB40,835,000).

A repayment agreement was signed between Jiangxi Shipbuilding 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 2018, 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 2018 of approximately RMB7,538,000 in aggregate, were recorded as "Trade and other payables" in the condensed consolidated statement of financial position (31 December 2017: RMB7,270,000).

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 under "Trade and other payables" in the condensed consolidated statement of financial position as at 30 June 2018. The management are of the opinion that it is not probable that these claims would result in an outflow of economic benefits exceeding the provisions made by the Group. Details of the material litigations are set out as follows:

(i) In August 2017, an insurance company filed its writ to Wuhan Marine Court against Jiangxi Shipbuilding for the failure to make payment of shipbuilding insurance premium. 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 RMB1,241,000 in aggregate.

(ii) 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.

(iii) 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 RMB3,525,000 in aggregate.

(iv) 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 RMB4,101,000 in aggregate.

(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 shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000.

(e) As disclosed in the Company's circular dated 24 February 2017 (the "VSA Circular"), the financial guarantee of approximately HK$217,800,000 represent the back-to-back corporate guarantees provided by Huakai Heavy (which became the Company's subsidiary on 11 April 2017 upon completion of the Acquisition of Huakai Heavy Group) in favour of Huatai Heavy Industry Limited in 2014 (the "Corporate Guarantee") which remained outstanding as at 30 June 2018. The relevant information including the details of the relevant guarantee agreements are disclosed in the VSA Circular. Due to the failure of two ship owners to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry Limited 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 Limited was liable to refund the prepaid amount received from the vessel agency companies (the "Prepaid Amounts").

The Vendors of Huakai Heavy undertake to use the consideration payable to indemnify Huakai Heavy for all losses 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 pending litigations and contingent liabilities at 30 June 2018.

CAPITAL COMMITMENTS

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
Unpaid registered capital for the associates	**110,785**	103,260
Unpaid registered capital for the subsidiaries	**632,716**	636,240
Unpaid registered capital for a joint venture	**118,000**	120,000
Capital expenditure in respect of the acquisition of property, plant and equipment	**29,006**	29,498
	890,507	888,998

EVENTS AFTER THE REPORTING PERIOD

PARTIAL DISPOSAL OF SUBSIDIARY

On 10 July 2017, China Ocean Shipbuilding Holdings Limited ("COS Holdings"), a wholly-owned subsidiary of the Company, and NIBO Trading Company Limited ("Purchaser"), an independent third party, entered into a disposal agreement (the "Disposal Agreement"). Pursuant to the Disposal Agreement, COS Holdings agreed to sell and the Purchaser agreed to purchase the shares of China Ocean Shipbuilding (Hong Kong) Limited ("China Ocean HK"), representing 40% of the total number of issued shares of China Ocean HK ("Sale Shares"), at a consideration of RMB200,000,000.

On 6 January 2018, Zhejiang Ouhua Shipbuilding Company Limited ("Zhejiang Ouhua"), the Purchaser, China Ocean HK, COS Holdings and Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("Jiangxi Shipbuilding") entered into the debt restructuring agreement (the "Debt Restructuring Agreement"). The parties to the Debt Restructuring Agreement acknowledged and agreed that, among other things:

(i) During the period from 19 December 2014 to 12 October 2015, Zhejiang Ouhua, an independent third party, has advanced loans in an aggregate amount of RMB200,000,000 to Jiangxi Shipbuilding and such amount remained outstanding;

(ii) Jiangxi Shipbuilding and COS Holdings are subsidiaries of the Company, and the Sale Shares are held by the Purchaser as nominee on behalf of Zhejiang Ouhua; and

(iii) With effect from the date of the Debt Restructuring Agreement, the consideration in the amount of RMB200,000,000 to be paid by the Purchaser to COS Holdings pursuant to the Disposal Agreement shall be set off against the outstanding amount of RMB200,000,000 owed by Jiangxi Shipbuilding to Zhejiang Ouhua, whereupon Jiangxi Shipbuilding shall be released from all obligations under such outstanding amount.

Completion under the Disposal Agreement took place on 5 July 2018. The Debt Restructuring Agreement was completed on 2 May 2018 as advised by the PRC legal advisers of the Company.

UNDELIVERED VESSELS

Detailed information disclosed in the announcement dated 2 August 2018, in view of the slow negotiation progress and the failure to reach a consensus with one of the Two Customers, the Board was of the view that settling the matter by arbitration as stated under the shipbuilding contracts might be more cost-effective and could allow the Group to devote more time to discuss with the customer's finance bank as disclosed in the Announcements. The Group is now in the course of arbitration process while negotiation with the customer is still ongoing.

PROSPECTS

In the second half of 2018, the Group will make efforts to make a substantial breakthrough in the business integration of Jiangzhou Shipbuilding, properly handle the disposal of delay delivery of vessels, effectively utilize the wharf, onshore line, land and other resources, and create conditions for cooperation with advantageous shipbuilding enterprises.

For the risks faced by the Group's investment in Zhoushan, Zhejiang Province, we will make efforts to actively and properly seek solutions to minimize the risks.

In conclusion, although there are problems and difficulties in the development of the real economy, the state is intensifying her support, and the overall policy will be beneficial to the existence and development of the real economy. The Group will seize the opportunity to expand its business base and enhance its sustainable business capability on the basis of effective integration of existing resources. As a result, new business focused on limestone mining is expected to make progress.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests and/or short position of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of share options held	Approximate percentage of the issued shares held
Li Ming	Long position	Beneficial owner	1,207,577,954	70,000,000	9.37%
	Long position	Interest of controlled Corporation	542,005,000 *(note 1)*	–	3.97%
Chau On Ta Yuen	Long position	Beneficial owner	–	45,000,000	0.33%
Zhang Shi Hong	Long position	Beneficial owner	227,600,000	106,000,000	2.45%
Liu Jin	Long position	Beneficial owner	–	110,000,000	0.81%
Hu Bai He	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Siying	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Ying	Long position	Beneficial owner	–	1,000,000	0.01%
Zhang Weibing	Long position	Beneficial owner	30,000,000	–	0.22%

Note 1: Mr. Li Ming is deemed to be interested in the 542,005,000 shares held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is wholly and beneficially owned by Mr. Li Ming.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests and/or short position in the equity or debt securities of the Company or any of its associated corporations at 30 June 2018.

SHARE OPTION SCHEME

Particulars of the Company's share option schemes adopted on 27 May 2002 (the "Scheme 2002") and 27 June 2012 (the "Scheme 2012") are set out in Note 42 to the consolidated financial statements of the Company's 2017 annual report. The purpose of the Scheme 2002 and Scheme 2012 is to recognise and motivate the contribution of the any employee, adviser, consultant, agent, contractor, client and supplier and/or such other person who in the sole discretion of the Board has contributed or may contribute to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

The following table discloses details of the options held by directors, employees and other persons and movements in such holdings during the six months ended 30 June 2018:

Name	As at 1 January 2018	Exercised during the period	Lapsed during the period	As at 30 June 2018	Date of grant	Exercisable period	Exercise price per share
Directors							
Chau On Ta Yuen	4,743,000	–	4,743,000	–	5 Mar 2008	up to 4 Mar 2018	HK$5.693
	45,000,000	–	–	45,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
Zhang Shi Hong	1,581,000	–	1,581,000	–	5 Mar 2008	up to 4 Mar 2018	HK$5.693
	16,000,000	–	–	16,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
	90,000,000	–	–	90,000,000	4 Nov 2015	4 Nov 2015 to 3 Nov 2018	HK$0.280
Li Ming	70,000,000	–	–	70,000,000	4 Nov 2015	4 Nov 2015 to 3 Nov 2018	HK$0.280
Liu Jin	110,000,000	–	–	110,000,000	4 Nov 2015	4 Nov 2015 to 3 Nov 2018	HK$0.280
Xiang Siying	1,000,000	–	–	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
Hu Bai He	1,000,000	–	–	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
Xiang Ying	1,000,000	–	–	1,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
Sub-total	340,324,000	–	6,324,000	334,000,000			
Employees (In aggregate)	6,450,480	–	6,450,480	–	7 May 2008	up to 6 May 2018	HK$4.523
	66,000,000	–	–	66,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
	280,000,000	–	–	280,000,000	4 Nov 2015	4 Nov 2015 to 3 Nov 2018	HK$0.280
Sub-total	352,450,480	–	6,450,480	346,000,000			
Others (In aggregate)	33,675,300	–	33,675,300	33,675,300	7 May 2008	up to 6 May 2018	HK$4.523
	196,000,000	–	–	196,000,000	7 May 2014	7 May 2014 to 6 May 2024	HK$0.211
Sub-total	229,675,300	–	33,675,300	196,000,000			
Total	922,449,780	–	46,449,780	876,000,000			

No share options were exercised, cancelled and 46,449,780 share options were lapsed during the six months ended 30 June 2018.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the information disclosed in Note 17 (Related party disclosure) to the unaudited condensed consolidated interim financial statements, no contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, save as disclosed below, no persons, not being a Director or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO. Other than as disclosed below, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 30 June 2018.

Name	Long/ Short position	Nature of Interests	Number of shares/ underlying share held	Approximate percentage of the issued shares held at 30 June 2017
Macquarie Group Limited	Long	Beneficial owner	1,666,666,666	12.22%
Forward Fund SPC – Double Management Fund SP	Long	Beneficial owner	1,842,857,143	13.51%
Full House Asset Management Company Limited *(Note 1)*	Long	Asset Manager	1,842,857,143	13.51%
Pacific Ocean Marine Limited	Long	Beneficial owner	857,142,857	6.29%

Notes

(1): Full House Asset Management Company Limited is the investment manager of Forward Fund SPC – Double Management Fund SP.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rule regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Group has recognized the importance of transparency and accountability, and the Board believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance. During the six months ended 30 June 2018, the Company has complied with the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), except for deviations from Code Provision A.6.7, E.1.2 and C.1.3.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders; while code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting, and should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

The chairman of the Board and the three independent non-executive Directors were unable to attend the annual general meeting of the Company held on 22 June 2018 due to their other business commitments. An executive Director chaired the meetings whereas other attended Board members were already of sufficient calibre and number for answering questions raised by the shareholders.

As disclosed in the section "Management Discussion and Analysis" under the paragraph headed "DISCLAIMER OF OPINION" set out in P.11 to P.15. of 2017 annual report, the auditors of the Company issued a disclaimer of opinion over the Group's ability to continue as a going concern due to the issues surrounding the Six Vessels which have not been delivered to the Two Customers according to the schedule as set out in the respective shipbuilding contracts. While the Board, including the Audit Committee of the Company was of the view that the Group could continue as a going concern.

During the six months ended 30 June 2018, the negotiation with the Two Customers made little progress. And as disclosed in the announcement of the Company dated 2 August 2018, in view of the slow negotiation progress and the failure to reach a consensus with one of the Two Customers (as defined in the Company's announcement dated 26 March 2018), the Group was of the view that settling the matter by arbitration as stated under the shipbuilding contracts might be more cost-effective and could allow the Group to devote more time to discuss with the customer's finance bank. The Group is now in the course of arbitration process while negotiation with the customer is still ongoing.

However, if the Group is required to return all of the progress payment (approximately USD105.57 million) received from the Two Customers regarding the Six Vessels, the Group may also incur interests expenses. As at the date of this report, the exact amount of the interest expenses could not be ascertained. On the other hand, the accumulated revenue recognised related to the Six Vessels of approximately HK$760.49 million should be reversed, and the Six Vessels would be recognised as inventories of the Company based on its net realizable value and the cost of sales should be reversed as the same amount.

The Group incurred a loss attributable to owners of the Company of approximately HK$464.16 million for the six months ended 30 June 2018 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$2,435.03 million and the Group had net liabilities of approximately HK$1,344.82 million. Also, in addition to the abovementioned situation of the shipbuilding business of the Group, these conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

However, the Board has implemented measures to tackle with the issues surrounding the Six Vessels, the Board also spares no effort in enhancing the Group's working capital. The Board has adopted and considered different measures with different dimensions to further improve its cash flow, e.g. (i) diversifying its revenue stream of the Group by introducing more segments; (ii) streamlining its operation by cutting staff; (iii) revitalising shipbuilding assets of Jiangxi Shipbuilding by using its spare resources for production, storage and transportation; and (iv) negotiating with banks to delay the repayment of debt or to apply for additional instalment to decrease the Group's financial burden. In view of the aforesaid, the Board, including the Audit Committee, believes that the above measures, if materialised, will not only bring to the Group a significant improvement on the financial performance but also help to address the Disclaimer of Opinions of the Auditor, and accordingly is of the view that the Group could continue as a going concern.

CHANGE IN INFORMATION OF DIRECTORS

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

- Ms. Xiang Siying was not re-elected as an independent non-executive director of Titan Petrochemicals Group Limited (a company listed on Hong Kong Stock Exchange, Stock Code: 1192) at its annual general meeting held on 26 July 2018. Accordingly, Ms. Xiang ceased to be an independent non-executive director of Titan Petrochemicals Group Limited upon her retirement from office by rotation at the conclusion of the said annual general meeting on 26 July 2018.

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

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

PRE-EMPTIVE RIGHTS

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at the date of 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 of the Group for the six months ended 30 June 2018 have been reviewed by the audit committee of the Company.

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. Zhang Weibing 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 2018