CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中海船舶重工集團有限公司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the "Board") of China Ocean Shipbuilding Industry Group Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 together with comparative figures as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	4	**104,880**	491,144
Cost of sales		**(261,353)**	(482,797)
Gross (loss) profit		**(156,473)**	8,347
Other income	5	**6,729**	11,922
Other gains and losses	6	**1,136**	(1,268)
Loss on modification of convertible notes payable		**(26,591)**	–
Change in fair value of investments held for trading		**2,750**	(1,089)
Impairment loss recognised in respect of property, plant and equipment		**(65,706)**	–
Selling and distribution expenses		**(2,412)**	(1,752)
Administrative expenses		**(111,454)**	(179,993)
Gain (loss) on fair value change of convertible notes payable		**2,110**	(1,114)
Gain on early redemption of promissory notes payable		**2,927**	–
Finance costs	7	**(247,943)**	(173,832)
Share-based payments expenses		**(42,163)**	–
Share of profit of an associate		**1,586**	–
Share of profit of joint ventures		**1,206**	–
Loss before tax		**(634,298)**	(338,779)
Income tax credit	8	**1,121**	1,339
Loss for the year attributable to owners of the Company	9	**(633,177)**	(337,440)
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**14,207**	(10,177)
Total comprehensive expenses for the year attributable to owners of the Company		**(618,970)**	(347,617)
Loss per share			
– Basic and diluted	11	**(HK$0.12)**	(HK$0.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**417,500**	551,084
Prepaid lease payments – non-current portion		**313,171**	322,549
Intangible assets		**–**	–
Interest in an associate		**58,621**	–
Interests in joint ventures		**503,463**	–
Trade receivables – non-current portion	*12*	**35,843**	62,781
Finance lease receivables – non-current portion	*13*	**26,123**	–
		1,354,721	936,414
CURRENT ASSETS			
Inventories		**49,671**	84,362
Trade receivables – current portion	*12*	**40,142**	21,185
Other receivables	*12*	**192,730**	187,453
Prepayment for purchase of raw materials	*12*	**73,118**	105,190
Prepaid lease payments – current portion		**7,358**	7,280
Investments held for trading		**3,636**	1,341
Finance lease receivables – current portion	*13*	**11,280**	–
Pledged bank deposits		**113,154**	297,120
Bank balances and cash		**13,934**	13,549
		505,023	717,480
CURRENT LIABILITIES			
Trade, bills and other payables	*14*	**672,339**	841,949
Amounts due to customers for contract work		**341,881**	392,387
Amounts due to related parties		**26,287**	72,251
Amounts due to directors		**2,754**	842
Borrowings – due within one year		**711,254**	610,822
Provision for warranty		**142**	7,705
Convertible bonds/notes payable		**–**	219,319
Promissory notes payable		**–**	79,842
		1,754,657	2,225,117
NET CURRENT LIABILITIES		**(1,249,634)**	(1,507,637)
TOTAL ASSETS LESS CURRENT LIABILITIES		**105,087**	(571,223)

	2014	2013
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**376,536**	198,593
Reserves	**(1,154,814)**	(1,235,795)
	(778,278)	(1,037,202)
NON-CURRENT LIABILITIES		
Borrowings – due after one year	**219,238**	292,326
Convertible bonds/notes payable	**572,935**	76,400
Deferred tax liabilities	**91,192**	97,253
	883,365	465,979
	105,087	(571,223)

1. GENERAL

China Ocean Shipbuilding Industry Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are Units 1702-1703, China Merchants Tower, Shun Tak Centre, 168 - 200 Connaught Road, Central, Hong Kong

The functional currency of the Company and its subsidiaries (hereinafter collectively known as the "Group") was Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders as the Company's shares are listed in Hong Kong.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the director of the Company (the "Directors") have given consideration to the future liquidity of the Group.

The Group incurred a consolidated loss attributable to owners of the Company of approximately HK$633,177,000 for the year ended 31 December 2014 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,249,634,000 and HK$778,278,000 respectively.

In order to improve the Group's operating and financial position, the Directors have been implementing various operating and financing measures as follows:

a) The Group has been actively pursuing new customers so as to enlarge its customer base and new sales orders. At the same time, the Group has improved its production efficiency and tightened cost control so as to reduce unnecessary expenditure;
b) The Group is in negotiation with banks to allow revolving of loans upon their due dates when the same renewal conditions entitling the past renewal are met;
c) The Group is in negotiation with financial institutions such as finance leasing company to obtain new borrowings;
d) The Group is seeking assistance from local government;
e) The outstanding balance (after provision for impairment) due from a ship buyer is expected to be recovered;
f) The Group is in negotiation with its creditors to extend payment due date;
g) Subsequent to the year end date, the Company has raised net proceeds of approximately HK$59.90 million by issuing convertible bonds with principal amount of HK$60 million to three subscribers.

The Directors are of the opinion that, taking into account the measures as above, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from this consolidated financial statements were authorised to issue.

Accordingly, the consolidated financial statements have been prepared on a going concern basis. However, the eventual outcome is uncertain, should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs")

Application of new and revised HKFRSs and HKASs

The Group has applied the following new and revised HKFRSs and HKASs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*) – Interpretation 21	Levies

* *IFRIC represents the International Financial Reporting Interpretation Committee*

Expect as described below, the application of the new and revised HKFRSs and HKASs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) *Investment Entities*

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosure for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of these changes.

New and revised HKFRSs and HKASs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs and HKASs that have been issued but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Annual Improvements Project	Annual Improvements 2010-2012 Cycle[6]
Annual Improvements Project	Annual Improvements 2011-2013 Cycle[4]
Annual Improvements Project	Annual Improvements 2012-2014 Cycle[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities – Applying the Consolidation Exception[5]
Amendments to HKAS 1	Disclosure Initiative[5]

[1] *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

[2] *Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.*

[3] *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*

[4] *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*

[5] *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*

[6] *Effective for annual periods beginning on or after 1 July 2014, with limited exception. Early application is permitted*

HKFRS 9 ***Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described follows:

– All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

– In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

– The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

– At cost

– In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or

– Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKAS 28:

– The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

– A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

– A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

– An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

– New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of "vesting condition" and "market condition"; and (ii) add definitions for "performance condition" and "service condition" which were previously included within the definition of "vesting condition". The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, the Group acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for–distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKRFS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere with the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Information reported to the board of Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2014, “Finance leasing business” became a new operating activity of the Group and it is separately assessed by the chief operating decision maker. Therefore, it is reported as a new reportable and operating segment.

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

a) Shipbuilding – provision of shipbuilding services under shipbuilding construction contracts and operated in the People’s Republic of China (the “PRC”).

b) Trading business – provision of trading and operated in Hong Kong.

c) Finance leasing business – provision of direct finance leasing, sale and leaseback and advisory services in the PRC.

Segment revenues and results

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

For the year ended 31 December 2014

	Shipbuilding *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue					
– External sales	**104,078**	**–**	**802**	**–**	**104,880**
– Inter-segment sales	**–**	**–**	**1,605**	**(1,605)**	**–**
Total segment revenue	**104,078**	**–**	**2,407**	**(1,605)**	**104,880**
Segment result	**(317,101)**	**–**	**(1,824)**		**(318,925)**
Share of profit of an associate					**1,586**
Share of profit of joint ventures					**1,206**
Unallocated other income					**5,549**
Unallocated other gains and losses					**3,128**
Change in fair value of investments held for trading					**2,750**
Gain on fair value change of convertible notes payable					**2,110**
Gain on early redemption of promissory notes payable					**2,927**
Loss on modification of convertible notes payable					**(26,591)**
Share-based payments expenses					**(42,163)**
Finance costs					**(247,943)**
Unallocated corporate expenses					**(17,932)**
Loss before tax					**(634,298)**

For the year ended 31 December 2013

	Shipbuilding *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Segment revenue*	491,144	–	491,144
Segment result	(151,660)	–	(151,660)
Unallocated other income			5,580
Unallocated other gains and losses			(1,176)
Change in fair value of investments held for trading			(1,089)
Loss on fair value change of convertible notes payable			(1,114)
Finance costs			(173,832)
Unallocated corporate expenses			(15,488)
Loss before tax			(338,779)

* *Segment revenue report above represents revenue generated from external customers. There was no inter-segment sale for the year ended 31 December 2013.*

5. OTHER INCOME

	2014 ***HK$'000***	2013 *HK$'000*
Interests on bank deposits	**5,008**	5,580
Sales of scrap materials	**–**	2,967
Gain on disposal of investments held for trading	**541**	–
Gain on disposal of property, plant and equipment	**4**	–
Others	**1,176**	3,375
	6,729	11,922

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6. OTHER GAINS AND LOSSES

	2014	2013
	HK$'000	*HK$'000*
Written-off of inventories	**(124)**	(89)
Written-off of property, plant and equipment	**(117)**	(3)
Foreign exchange gain (loss)	**3,128**	(1,176)
Others	**(1,751)**	–
	1,136	(1,268)

7. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years:		
Convertible bonds/notes payable at effective interest rates	**88,517**	35,596
Promissory notes payable at effective interest rates	**10,586**	13,817
Interests on bank borrowings and bill payables	**54,523**	36,490
Interests on other borrowings	**66,147**	48,014
Guarantee fee and fund management fee incurred in connection with borrowings	**27,899**	35,502
Overdue interests	**192**	3,863
Others	**79**	550
	247,943	173,832

8. INCOME TAX CREDIT

	2014	2013
	HK$'000	*HK$'000*
Current tax	**–**	–
Deferred tax	**(1,121)**	(1,339)
	(1,121)	(1,339)

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

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

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% PRC Withholding Tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

9. LOSS FOR THE YEAR

	2014	2013
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' and chief executives' emoluments (included share-based payment expenses)	**21,115**	5,289
Other staff costs:		
Salaries and other benefits	**40,413**	67,745
Share-based payment expenses – employees	**3,968**	–
Contributions to retirement benefits scheme	**9,775**	11,596
Total staff costs	**75,271**	84,630
Auditor's remuneration		
– Audit service	**1,250**	1,000
– Non-audit service	**560**	190
Depreciation of property, plant and equipment	**60,195**	60,015
Amortisation of prepaid lease payments	**7,358**	7,280
Minimum lease payments under operating leases in respect of rented premises	**2,586**	2,089
Shipbuilding contract costs recognised as cost of sales	**261,330**	482,797
Foreseeable losses recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**96,274**	30,711
Impairment loss recognised in respect of trade receivables	**8,245**	83,966
Impairment loss recognised in respect of other receivables	**320**	5,506
Impairment loss recognised in respect of finance lease receivables	**378**	–
Share-based payment expenses – consultants	**22,775**	–

10. DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: Nil).

11. LOSS PER SHARE

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

	2014	2013
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(633,177)**	(337,440)

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**5,352,746**	3,803,600

The computation of diluted loss per share for the years ended 31 December 2014 and 2013 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible bonds/notes since their exercise would result in a decrease in loss per share.

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

	2014	2013
	HK$'000	*HK$'000*
Trade receivables – non-current portion	**89,607**	125,562
Less: Allowance for doubtful debts	**(53,764)**	(62,781)
Trade receivables – non-current portion, net	**35,843**	62,781
Trade receivables – current portion	**78,722**	43,164
Less: Allowance for doubtful debts	**(38,580)**	(21,979)
Trade receivables – current portion, net	**40,142**	21,185
Total trade receivables, net of allowance for doubtful debts *(Note a)*	**75,985**	83,966
Other receivables	**41,904**	49,656
Less: Allowance for doubtful debts	**(6,916)**	(6,596)
Other receivables, net	**34,988**	43,060
Value-added tax recoverable	**149,026**	137,031
Deposits placed with a stakeholder	**932**	3,950
Deposits placed to agents	**4,452**	–
Deposit paid for acquisition of property, plant and equipment	**3,332**	3,412
Total other receivables, net	**192,730**	187,453
Prepayment for purchase of raw materials	**73,118**	105,190

Notes:

(a) Trade receivables of approximately HK$75,985,000 (equivalent to USD9,773,000) as at 31 December 2014 (2013: approximately HK$83,966,000 (equivalent to USD10,825,000)) were gross trade receivables of approximately HK$168,329,000 (equivalent to USD21,650,000), net of accumulated impairment loss of approximately HK$92,344,000 (2013: HK$83,966,000) in which HK$8,245,000 (2013: HK$83,966,000) has been recognised during the year ended 31 December 2014 (2013: gross trade receivables of approximately HK$168,726,000 (equivalent to USD21,650,000). It represents the deferral final receivables from a ship buyer, an independent third party of the Group, in relation to the final payment for the acquisition of eight (2013: eight) vessels from the Group, by five instalments in 5.5 years (2013: five instalments in 5.5 years) and one (2013: one) vessel acquired from the Group by four instalments in 4.5 years (2013: 4.5 years).

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

	2014	2013
	HK$'000	*HK$'000*
More than three months but not more than one year	**–**	14,931
More than one year	**75,985**	69,035
	75,985	83,966

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

Movement in the allowance for doubtful debts for trade receivables:

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**84,760**	794
Impairment loss recognised	**8,245**	83,966
Exchange realignment	**146**	–
Amounts written-off as uncollectible	**(807)**	–
At 31 December	**92,344**	84,760

At the end of the reporting period, the Group's trade receivables were individually determined to be impaired.

The Group did not have trade receivables that were overdue but not impaired as at 31 December 2014 and 31 December 2013.

13. FINANCE LEASE RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Current finance lease receivables	**11,280**	–
Non-current finance lease receivables	**26,123**	–
	37,403	–

Amounts receivable under finance leases

	2014	2013
	HK$'000	*HK$'000*
Finance lease receivables	**45,149**	–
Less: Unearned finance income	**(7,368)**	–
Net finance lease receivables	**37,781**	–
Impairment for finance lease receivables	**(378)**	–
	37,403	–

The maturity profile of these finance lease receivables from customers at the end of the reporting period, analysed by the remaining periods to their contracted maturity, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Repayable (including interests)		
Within one year	**15,237**	–
One to two years	**14,956**	–
Two to three years	**14,956**	–
	45,149	–
Repayable (net of interests)		
Within one year	**11,016**	–
One to two years	**12,447**	–
Two to three years	**13,940**	–
	37,403	–
Impairment allowances		
At the beginning of year	**–**	–
Charge for the year	**378**	–
At end of year	**378**	–

Finance lease receivables balances are guaranteed by the holding company of finance lessee. There were no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

14. TRADE, BILLS AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**113,595**	130,162
Bills payables	**150,000**	301,568
	263,595	431,730
Consideration payable for acquisition of prepaid lease payments	**47,145**	48,277
Payable to guarantors	**37,812**	35,903
Contribution payables to labour union and education funds	**12,142**	11,261
Accrual of contractor fees	**33,632**	22,797
Accrual of government funds	**32,500**	84,851
Other payables and accruals	**245,513**	207,130
	672,339	841,949

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

	2014	2013
	HK$'000	*HK$'000*
0 – 30 days	**53,998**	108,919
31 – 60 days	**112,860**	107,031
61 – 90 days	**1,534**	8,722
Over 90 days	**95,203**	207,058
	263,595	431,730

Bills payables are secured by pledged bank deposits.

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

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2014 which has included a disclaimer of opinion:

"BASIS FOR DISCLAIMER OF OPINION

(a) Impairment of trade receivables

Limitation of scope on prior year's scope limitation affecting opening balances, comparative figures and related disclosures

As explained in our report dated 28 March 2014 on the Group's consolidated financial statements for the year ended 31 December 2013, we were not provided with sufficient evidence to enable us to assess as to the trade receivables could be recovered in full or to determine the amount of impairment, if any. We qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2013 in respect of this scope limitation accordingly.

Any adjustments found to be necessary to the opening balances as at 1 January 2014 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2014. The comparative figures for the year ended 31 December 2013 shown in these consolidated financial statements may not be comparable with the figures for the current year.

Limitation of scope on impairment assessment of trade receivables

Included in the Group's trade receivables of approximately HK$75,985,000 as at 31 December 2014 were gross trade receivables of approximately HK$168,329,000 (equivalent to USD21,650,000), net of accumulated impairment loss of approximately HK$92,344,000, in which HK$8,245,000 has been recognised during the year ended 31 December 2014. This trade receivable is due from a ship buyer in relation to the deferral final payments of several vessel contracts as stated in Note 23 to the consolidated financial statements. The Directors are of the view that the Group is able to recover the net outstanding balances, and therefore no further impairment should be provided. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such receivables could be recovered in full or to determine the amount of impairment, if any. There were no other alternative audit procedures that we could carry out to verify the valuation of this receivables as at 31 December 2014. Accordingly, we were unable to satisfy ourselves as to whether the impairment loss recognised during the year and the balance of the trade receivables as at 31 December 2014 were fairly stated, which could have consequential effect on net current liabilities and net liabilities of the Group as at 31 December 2014 and the loss for the year then ended.

Any adjustment to the amount of the above trade receivables found to be necessary would affect the Group's net liabilities as at 31 December 2014 and the Group's loss for the year then ended and related disclosures to the consolidated financial statements.

(b) Material fundamental uncertainties relating to going concern basis

As set out in the consolidated statement of profit or loss and other comprehensive income, the Group incurred loss for the year attributable to owners of the Company of approximately HK$633,177,000 for the year ended 31 December 2014. Besides, as set out in Note 2 to the consolidated financial statements, the Group's current liabilities exceeded its current assets by approximately HK$1,249,634,000 and the Group had net liabilities of approximately HK$778,278,000 as at 31 December 2014. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As set out in Note 2 to the consolidated financial statements, the Directors have been implementing various operating and financing measures to improve the Group's operating and financial position. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of those operating and financing measures being implemented by the Directors. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

However, we are unable to obtain adequate evidence concerning the Group's ability to meet any financial obligations as and when they fall due, and we consider that due to the potential interaction of the above material uncertainties and their possible cumulative effect on the consolidated financial statements is extreme, we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements for the year ended 31 December 2014. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China Ocean Shipbuilding Industry Group Limited is engaged in the production and operation of shipbuilding, securities trading and providing financial services business.

2014 was another challenging year for the Group and the shipbuilding industry in general. After a pick-up in new orders and rising newbuilding prices in second half of 2013 and early 2014, market momentum began to weaken again in the fourth quarter of the year. This downturn was a result of the fragile global recovery since 2009 and prolonged excess capacity in the PRC's shipbuilding industry. The plunging price of oil further lowered the incentive to invest in energy-saving ships and it also delayed the dismantling of outdated ships, and this had a negative impact on the demand for new ships as well as construction prices.

For the year ended 31 December 2014, the Group recorded revenues of HK$104.88 million (2013: HK$491.14 million), a decrease of approximately 78.65 % compared to 2013. This decrease was mainly the result of revenues from new shipbuilding orders commenced construction work in the last quarter of the year, which have not yet been recognized in the reporting period. In addition to the decrease in revenues, production capacity of the Group's shipyard has yet to be fully utilized amidst the current sluggish demand in the shipbuilding market, as well as the foreseeable losses incurred to secure the delivery of vessels that caused the Group's gross margin recorded a loss of HK$156.47 million in 2014 (2013: profit of HK$8.35 million).

In order to minimise the risks due to the current adverse operating environment in the shipbuilding sector, the Group sought to proactively explore and diversify into new businesses that may offer better prospects in order to improve overall operational efficiency. In June 2014, the Group announced its entry into the financial services business and the formation of a joint venture in Zhoushan. The joint venture began operations by forming a company with a shipbuilding enterprise in Zhoushan for the development of clean energy and shipping related business. In September 2014 the Group set up a subsidiary in Qianhai, Shenzhen, and obtained a business license to conduct financial leasing business, providing finance leases, especially for shipbuilding and related enterprises in the PRC enterprises. In November 2014 the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province.

For the year ended 31 December 2014, the Group recorded HK$6.73 million (2013: HK$11.92 million) in other income, gain of HK$1.14 million (2013: loss of HK$1.27 million) in other gains and losses, and HK$2.41 million (2013: HK$1.75 million) for selling and distribution expenses. These items did not record a significant change compared with last year.

Administrative expenses of HK$111.45 million (2013: HK$179.99 million) recorded a significant decrease and was primarily due to a decrease in the recognition of impairment of trade receivables from HK$83.97 million to HK$8.25 million.

During the year ended 31 December 2014, due to a lack of liquidity in recent years, the Group placed a great deal of effort on improving its financial position by fund raising activities. The Company issued one billion Hong Kong dollar convertible bonds in June 2014. These convertible bonds incurred significantly effective interest and resulted to a higher of 42.63% finance costs to HK$247.94 million (2013: HK$173.83 million) for the Group). In addition, the Group recorded isolated one-off, non-recurring costs that included impairment loss recognised in respect of property, plant and equipment, loss on the modification of convertible notes payable as well as share-based payment expenses amounting to HK$134.46 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK$633.18 million (2013: loss of HK$337.44 million) for the year ended 31 December 2014. The loss increased by approximately 87.64% compared to last year.

Shipbuilding business

The shipbuilding sector came under intense pressure due to a lack of liquidity and new orders in recent years, over production capacity and volatile shipbuilding market. The Group, however, was included in the "White List" that PRC authorities published based on the "Regulatory Conditions for Shipbuilding Industry"《船舶行業規範條件》, aimed at encouraging financial institutions to provide more capital support for shipyards. Despite this measure, financial institutions did not relax their credit policies and restrictions, and the availability of bank loans to shipbuilders remained limited during 2014.

During the year ended 31 December 2014, revenues from the shipbuilding segment amounted to HK$104.88 million, representing a drop of 78.65% compared with last year and the gross loss of HK$156.47 million. The operating performance of the shipbuilding segment of the Group was also affected by account receivables deferral from a ship buyer, which the Group has already made a provision for impairment of trade receivables in 2013 and 2014. The Group also has been in advanced negotiations with other shipowners and banks and is confident of achieving greater progress in recovering the net receivables in 2015.

As at 31 December 2014, the secured order book of the Group comprised totally 11 heavy lift vessels and multi-purpose vessels. Moreover, specific new orders, including totally 12 multi-purpose vessels, multi-purpose vessels and chemical tankers are expected to become effective in the near future. In addition, certain new orders are currently being actively negotiated.

Trading business

The trading business recorded insignificant losses in both 2014 and 2013.

Financial services business

During the year ended 31 December 2014, the Group expanded into the financial services business, specifically financial leasing services to enterprises in the PRC, especially targeting private shipyards. In September 2014, the Group obtained a business license for China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited, a wholly owned subsidiary company of the Group, established in Qianhai, Shenzhen. Besides, the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province. Since the financial services sector has begun to operate in late 2014, so only a small contribution was recorded to the Group during the year.

During the year ended 31 December 2014, the financial services segment began contributing revenues of HK$0.80 million and recorded a loss of HK$1.82 million. In addition, the Group also shared the profit of HK$1.59 million from the financial leasing company in Zhejiang province.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$127.09 million (31 December 2013: HK$310.67 million) of which HK$113.15 million (31 December 2013: HK$297.12 million) was pledged; short-term borrowings of HK$711.25 million (31 December 2013: HK$610.82 million); long-term borrowings of HK$219.24 million (31 December 2013: HK$292.33 million); short-term promissory notes payable amounted to approximately HK$nil (31 December 2013: HK$79.84 million); convertible bonds/notes payable amounted to approximately HK$572.94 million (31 December 2013: HK$295.72 million) represented the principal amount of HK$718 million (31 December 2013: HK$314.42 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.02) at 31 December 2014 (31 December 2013: (1.04)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the year ended 31 December 2014, 1,022,727,270 shares, 596,133,333 shares and 1,410,000,000 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes/bonds at a conversion price of HK$0.22 per share, HK$0.15 and HK$0.20 per share respectively.

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, namely Qin Weijia, Wang Yongli, Wan Yong and Charmate Development Ltd, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 530,000,000 subscription shares at a price of HK$0.107 per subscription share, representing of a 17.69% discount on the closing price (i.e. HK$0.13) of the last trading day immediately before the announcement date. The gross proceeds from the subscription were approximately HK$56.71 million and the net proceeds were approximately HK$56.61 million. The subscription has been completed on 20 March 2014. During the year ended 31 December 2014, the Group has fully utilized the net proceeds from the subscriptions for (i) approximately HK$29.57 million was used to repay debts; and (ii) approximately HK$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

On 14 May 2014, the Company entered into a placing agreement with Partner Capital Securities Limited, for placement of convertible bonds of the Company in an aggregate principal amount of HK$1,000,000,000 on a best-efforts basis. The convertible bonds have an initial conversion price of HK$0.20 per share (subject to adjustment) and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. On 27 June 2014, the issuance of the convertible bonds was completed, HK$964,000,000 convertible bonds was issued to Kingwin Capital Group Limited and HK$36,000,000 convertible bonds was issued to Partners Equity Investment Fund I, both parties were independent third parties to the Company. During the reporting period, the Group has fully utilized the net proceeds as follows:

(i) approximately HK$504 million was used as formation of a joint venture entity at Zhoushan, PRC;
(ii) approximately HK$126 million was used as first tranche of the initial capital requirement of a financial leasing company established in Shenzhen, PRC;
(iii) approximately HK$57 million was used to acquire a minority stake in a company which principally engages in financial leasing business in Zhejiang Province in the PRC;
(iv) approximately HK$220 million was used to repay debts and other borrowings (including partially settled loan from employees and promissory notes due on 31 December 2014);
(v) approximately HK$55 million was used to repay loans from banks;
(vi) approximately HK$10 million was used as direct costs of production; and
(vii) approximately HK$13 million was used as daily operating costs of the Group.

(For details of the variation of the use of proceeds, please refer to the announcement and circular of the Company dated 6 August 2014 and 3 October 2014 respectively.)

CHARGES ON GROUP ASSETS

As at 31 December 2014, HK$113.15 million (31 December 2013: HK$297.12 million) of deposits, HK$ nil (31 December 2013: HK$23.04 million) of inventories, HK$377.90 million (31 December 2013: HK$511.18 million) of property, plant and equipment, HK$320.53 million (31 December 2013: HK$329.83 million) of prepaid lease payments and HK$nil (31 December 2013: HK$137.03 million) of value-added tax recoverable, were pledged to banks or other parties for other borrowings, guarantees and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and other borrowings.

As at 31 December 2014, the Company were pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., ("Jiangxi Shipbuilding") to secure a bank borrowing amounted to RMB107 million. For details, please refer to the Company's announcement dated 30 December 2013 and the Company's interim report dated 29 August 2014.

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 31 December 2014, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

LITIGATION

As at 31 December 2014, the details of the outstanding litigations of the Group are set out as follows:

(i) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB4,220,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

(ii) In December 2014, a supplier filed its writ with 中國國際經濟貿易仲裁委員會 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay RMB3,812,000 for purchase of paint and delivery charges. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB3,812,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

Save as disclosed above, no member of the Group was engaged in any litigation of material importance.

HUMAN RESOURCES

The Group had around 700 employees as at 31 December 2014. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

(i) At 31 December 2014, 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 31 December 2014 of approximately HK$40,683,000 (equivalent to RMB32,546,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statements of financial position (2013: approximately HK$31,091,000 (equivalent to RMB24,290,000)).

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.

(ii) At 31 December 2014, 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 31 December 2014 of approximately HK$7,210,000 (equivalent to RMB5,768,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2013: approximately HK$5,491,000 (equivalent to RMB4,290,000)). The Director are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

Save as disclosed above, the directors of the Company are of the opinion that the Group has no material contingent liabilities at 31 December 2014.

CAPITAL COMMITMENTS

At 31 December 2014, the Group has capital commitment of approximately HK$125 million (31 December 2013: Nil) contracted but not provided in the condensed consolidated financial statements in respect of unpaid registered capital for China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited.

EVENTS AFTER THE REPORTING PERIOD

On 16 February 2015, the Company entered into the subscription agreements with three subscribers, namely Jiang Liqun, Ma Xingqiao and Wan Zhangqing, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate principal amount of HK$60,000,000 convertible bonds. The convertible bonds have an initial conversion price of HK$0.20 per share and bear interest at 7.5% per annum on the principal amount of convertible bonds outstanding. The gross proceeds from the subscription were approximately HK$60.00 million and the net proceeds were approximately HK$59.9 million.

The Company intends to apply the net proceeds from the subscriptions as funding the investment of the Group's financial leasing business and general working capital (including repayment of debts) of the Group. The issuance of the convertible bonds was completed on 6 March 2015.

On 20 March 2015, the Group and other shareholders of Zhejiang Ocean Leasing Company Limited ("Zhejiang Ocean") entered into the capital contribution agreement, pursuant to which all shareholders of Zhejiang Ocean agreed to make a capital contribution in proportion to their existing shareholding to increase the registered capital of Zhejiang Ocean from US$30,000,000 (equivalent to approximately HK$232,500,000) to US$100,000,000 (equivalent to approximately HK$775,000,000) in which US$14,000,000 (equivalent to approximately HK$108,500,000) is to be contributed by the Group. After the capital contribution, the percentage shareholding of the Group in Zhejiang Ocean will remain unchanged at 20%. For details, please refer to the Company's announcement dated 20 March 2015.

DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: Nil).

PROSPECTS

In 2014, The China New Shipbuilding Price Index once hit a near 3-year high of 960 points yet it failed to maintain steady growth. We expect that the newbuilding prices stay low in the coming year as over capacity remains a problem in the industry. In response to the deteriorating operational environment for the shipbuilding sector, the PRC Government introduced more beneficial national policies, including – "Notice of the State Council on Issuing the Implementation Plans on Accelerating Structural Adjustment and Promoting Transformation and Upgrading of the Shipbuilding Industry (2013-2015)", which aims to promote structural adjustments, continuous quality improvements and greater efficiency in the industry.

The State Council of the PRC published 'Opinions of the State Council concerning the Promotion of the Healthy Development of Maritime Industry'(《國務院關於促進海運業健康發展的若干意見》) on 3 September 2014. The 'Opinion' is the first policy document outlining at the national level the strategic development directions for the maritime industry in the PRC with emphasis on industry reform. The Central Government aims to build a modern maritime system with high energy and economic efficiency as well as one that is internationally competitive by 2020. The policy encourages the development of fleets for transporting crude oil, liquid natural gas, containers and other related cargo.

The Group believes that implementation of these policies will lead to a healthier operating environment and will benefit the industry as a whole over the long term despite today's instability in the market. With the government's supporting policies in place, the Group remains cautiously optimistic in the long term development of the industry.

Concerning financial leasing operations, the Group is optimistic about near-term prospects as financing and leasing have become key alternative financing channels for the industry behind direct bank loans. As a shipbuilding company with a long history and extensive client base, the Group has established and nurtured strong relationships with shipowners and shipbuilding companies and we fully understand the needs and difficulties related to raising capital as well as the unique challenges facing shipbuilding enterprises in the PRC. The Group believes that shipbuilding enterprises will face greater financial needs in order to support their operations after the change in the payment policy for new ships. We also expect that financial leasing will contribute more to revenues and also improve performance of the Group in future.

To overcome various adverse economic impacts to the Group and achieve a more balanced business model with an aim to broaden the income base and provide better returns to the shareholders, the Group has been taking steps to explore the possibility of developing operations in the more profitable LNG-related business in the PRC. China is one of the world's largest energy consumers and the government desire to increase the share of natural gas in China's energy mix as illustrated in the China's Action Plan for the Prevention and Control of Air Pollution issued by China's State Council in September 2013. The prospect of LNG-related business is promising.

The preliminary plan of the LNG project is to develop the industry chain along the Yangtze River basin, for liquefied natural gas ("LNG") used in vessels, in particular the development of storage and transport, and movable refuelling system of new energy with a focus on LNG, thereby transforming the middle reaches of Yangtze River as a production hub for LNG storage, ships and related facilities, in addition, providing logistics services industry to establish a logistics centre for energy by integrating the industry chain for LNG used in vessels along the Yangtze River basin and the construction of new-energy vessels.

The Group has pressed ahead with its strategic LNG-related business plans with the cooperation of JiuJiang government. A professional team with experienced experts in the field has already in place and is making great progress on in-depth investigations to unveil new LNG-related projects.

Looking forward, the Group will continue to reinforce its overall financial position in order to prepare for any possible changes in the industry, as well as taking advantage of all viable and profitable investment opportunities to achieve our goal of business diversification.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

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 year ended 31 December 2014.

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. 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").

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 year.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE REVIEW OF ACCOUNTS

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2014.

PUBLICATION OF ANNUAL REPORT

The Company's 2014 annual report which contains the information required by the Listing Rules will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited in due course.

BOARD OF DIRECTORS

The Board of the Company as at the date of report comprises Mr. Chau On Ta Yuen, Mr. Li Ming, Mr. Zhang Shi Hong and Mr. Wang San Long as executive directors, Mr. Hu Bai He, Ms. Xiang Siying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 30 March 2015