CHINA OCEAN INDUSTRY GROUP LIMITED
中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	4	**417,313**	157,635
Cost of sales		**(447,796)**	(315,493)
Gross loss		**(30,483)**	(157,858)
Other income	5	**15,429**	4,643
Other gains and losses	6	**(25,102)**	(15,564)
Change in fair value of contingent consideration payable		**(1,888)**	25,478
Change in fair value of investments held for trading		**225**	(1,684)
Change in fair value of convertible bonds payables		**55,989**	(35,990)
Change in fair value of investment properties		**211**	–
Loss on settlement of loan by issuance of shares		**–**	(10,755)
Selling and distribution expenses		**(11,019)**	(3,163)
Administrative expenses		**(299,920)**	(88,923)
Share-based payments expenses		**–**	(49,194)
Finance costs	7	**(136,324)**	(201,847)
Share of profit of associates		**14,277**	8,791
Share of profit (loss) of joint ventures		**52,206**	(1,054)
Loss before tax		**(366,399)**	(527,120)
Income tax credit	8	**7,173**	26,307
Loss for the year	9	**(359,226)**	(500,813)

	Notes	2016 *HK$'000*	2015 *HK$'000*
Other comprehensive income (expenses):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**77,471**	46,961
Share of translation reserve of associates		**(734)**	(5,998)
Share of translation reserve of joint ventures		**(2,677)**	(30,291)
Other comprehensive income for the year, net of income tax		**74,060**	10,672
Total comprehensive expenses for the year		**(285,166)**	(490,141)
Loss for the year attributable to:			
– Owners of the Company		**(353,156)**	(500,799)
– Non-controlling interests		**(6,070)**	(14)
		(359,226)	(500,813)
Total comprehensive expenses attributable to:			
– Owners of the Company		**(278,338)**	(490,111)
– Non-controlling interests		**(6,828)**	(30)
		(285,166)	(490,141)
Loss per share			
– Basic and diluted	*11*	**(HK$0.03)**	(HK$0.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**195,022**	315,611
Investment properties		**15,745**	–
Prepaid lease payments – non-current portion		**283,724**	301,610
Goodwill		**123,574**	188,057
Intangible assets		**205,840**	245,680
Interests in associates		**192,706**	93,410
Interests in joint ventures		**527,461**	472,118
Trade receivables – non-current portion	*12*	**683**	622
Deposits – non-current portion	*12*	**66,711**	–
Amount due from an associate – non-current portion		**2,775**	–
Finance lease receivables – non-current portion	*13*	**–**	13,028
Restricted cash		**94,000**	–
Pledged bank deposits – non-current portion		**–**	6,962
Deferred tax asset		**120**	–
		1,708,361	1,637,098
CURRENT ASSETS			
Inventories		**53,696**	101,571
Trade receivables	*12*	**58,793**	38,157
Other receivables	*12*	**299,260**	200,743
Prepayment	*12*	**426,389**	174,930
Amount due from an associate		**4,440**	–
Prepaid lease payments		**6,873**	7,231
Investments held for trading		**2,177**	1,952
Finance lease receivables	*13*	**17,833**	15,390
Pledged bank deposits		**–**	74,571
Bank balances and cash		**101,785**	70,181
		971,246	684,726
CURRENT LIABILITIES			
Trade, bills and other payables	*14*	**411,227**	499,258
Amounts due to customers for contract work		**17,177**	272,647
Amounts due to related parties		**425**	4,163
Amounts due to directors		**1,521**	597
Borrowings		**1,049,146**	953,153
Contingent consideration payable		**317,628**	–
Amount due to an associate		**877**	–
Provision for warranty		**3,357**	–
Convertible bonds payables		**256,032**	248,609
Tax liabilities		**4,064**	112
		2,061,454	1,978,539
NET CURRENT LIABILITIES		**(1,090,208)**	(1,293,813)
TOTAL ASSETS LESS CURRENT LIABILITIES		**618,153**	343,285

	Notes	**2016**	2015
		HK$'000	*HK$'000*
CAPITAL AND RESERVES			
Share capital		**600,138**	597,899
Reserves		**(1,244,602)**	(985,315)
Equity attributable to owners of the Company		**(644,464)**	(387,416)
Non-controlling interests		**39,712**	644
TOTAL DEFICITS		**(604,752)**	(386,772)
NON-CURRENT LIABILITIES			
Other payables – non-current portion	*14*	**4,937**	–
Borrowings – non-current portion		**1,039,050**	253,986
Convertible bonds payables – non-current portion		**92,847**	45,123
Contingent consideration payable		**–**	315,740
Deferred tax liabilities		**86,071**	115,208
		1,222,905	730,057
		618,153	343,285

1. GENERAL

China Ocean 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 directors of the Company (the "Directors") have given consideration to the future liquidity of the Group.

The Group incurred a loss for the year attributable to owners of the Company of approximately HK$353,156,000 for the year ended 31 December 2016 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK$1,090,208,000 and HK$604,752,000 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 diversifying into new cash generating business, i.e. intelligent car parking and automotive device business to reduce its business risk and improve its quality of seeking new bank facilities. At the same time, the Group has been improving its production efficiency and tightening cost control in shipbuilding business 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 to obtain new borrowings or issue of new convertible securities;

(d) the Group is seeking assistance from local government;

(e) the Group is in negotiation with its creditors to extend payment due date.

In addition, during the year ended 31 December 2016, the delay in production schedules (the "Delay") has impacted the Group's shipbuilding business. Penalties due to delay in delivery of vessels in accordance with the related shipbuilding contracts amounting to HK$49,719,000 were recognised and included in cost of sales for the year ended 31 December 2016. Also, due to the Delay, there were seven vessels (the "Seven Vessels"), which owned by three customers (collectively referred to as the "Three Customers"), in accordance with the relevant shipbuilding contracts, the Three Customers have the rights to issue rescission notices to the Group if the Three Customers cannot receive the vessels on or before the agreed vessels delivery dates (i.e. June 2016 to March 2017), in accordance with the relevant shipbuilding contracts. As a result, the Group may be required to return all of the payments received so far from the Three Customers, amounting to an aggregate amount of approximately USD109,466,000 (equivalent to HK$777,081,000) and to pay interests on such amounts calculated in accordance with the relevant shipbuilding contracts to the customers (the "Interests").

The management of the Group have not reached any formal agreement with the Three Customers as at the date when the consolidated financial statements are authorised for issue. However, the Directors are of the opinion that the Group could reach the agreement with the Three Customers and they would not exercise their rights to issue the rescission notices to the Group. Therefore, the Directors believe that it is not necessary to provide any Interests nor to reverse the related revenue and cost of sales.

If the Three Customers exercise their rights to issue the rescission notices to the Group, the Group might engage legal counsels to defend the Group through arbitration proceedings concerning about the validity of the rescission notices issued by the Three Customers. If the result of the arbitrations is unfavorable to the Group, the Group will be required to return the abovementioned payments together with the Interests to the Three Customers.

Also, 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 Directors believe that the consolidated financial statements should be prepared on a going concern basis. However, the eventual outcome is uncertain, should the going concern assumption be inappropriate, and/or the Group fails to reach agreement with the abovementioned Three customers and the Group is required to repay all the payments paid to the Group as well as the Interests, adjustments may have to be made to reverse related revenue and cost of sales, to recognise impairment on work in progress vessels, to provide for further foreseeable loss 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")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impacts of these amendments are described below.

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to Hong Kong Accounting Standard ("HKAS") 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the amendments to HKFRSs 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 disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets; b) impairment of financial assets; and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. 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 each of the subsequent accounting periods. Debt investments 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 that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, 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 nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

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 a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's 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 is presented in profit or loss.

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, 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 Group is still in the process of assessing the impact of HKFRS 9. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 15 Revenue from Contracts with Customers and the clarification to HKFRS 15

HKFRS 15 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, HKFRS 15 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 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 Group is still in the process of assessing the impact of HKFRS 15. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group is in the process of assessing the impact of HKFRS 16. The Directors believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a "net settlement feature", such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors do not anticipate that the application of the amendments in the future will have a significant 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

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, 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 re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value 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 Group did not enter into these transactions in the current year. The Directors anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors do not anticipate that the application of these amendments will have a material impact 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 ("CODM"), 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 CODM 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 People's Republic of China (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.

Segment revenue 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 2016

	Shipbuilding business *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Intelligent car parking and automotive device business *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue						
– External sales	154,220	51,124	1,420	210,549	–	417,313
– Inter-segment sales	2,640	14,885	7,850	54,373	(79,748)	–
Total segment revenue	156,860	66,009	9,270	264,922	(79,748)	417,313
Segment result	(321,284)	(15,359)	(14,548)	(49,960)		(401,151)
Unallocated other income						1,099
Unallocated other gains and losses						(25,066)
Change in fair value of contingent consideration payable						(1,888)
Change in fair value of investments held for trading						225
Change in fair value of convertible bonds payables						55,989
Finance costs						(37,156)
Share of profit of associates						14,277
Share of profit of joint ventures						52,206
Unallocated corporate expenses						(24,934)
Loss before tax						(366,399)

For the year ended 31 December 2015

	Shipbuilding business *HK$'000*	Trading business *HK$'000*	Finance leasing business *HK$'000*	Intelligent car parking and automotive device business *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue						
– External sales	143,187	–	3,442	11,006	–	157,635
– Inter-segment sales	–	–	9,315	–	(9,315)	–
Total segment revenue	143,187	–	12,757	11,006	(9,315)	157,635
Segment result	(350,647)	–	3,112	(4,936)		(352,471)
Unallocated other income						2,007
Unallocated other gains and losses						(14,968)
Change in fair value of contingent consideration payable						25,478
Change in fair value of investments held for trading						(1,684)
Change in fair value of convertible bonds payables						(35,990)
Loss on settlement of loan by issuance of shares						(10,755)
Share-based payments expenses						(49,194)
Finance costs						(71,171)
Share of profit of associates						8,791
Share of loss of joint ventures						(1,054)
Unallocated corporate expenses						(26,109)
Loss before tax						(527,120)

5. OTHER INCOME

	2016 *HK$'000*	2015 *HK$'000*
Government grant	**9,313**	–
Sales of scrap materials	**1,632**	–
Interests on bank deposits	**1,099**	2,007
Gain on disposal of property, plant and equipment	**463**	1,743
Others	**2,922**	893
	15,429	4,643

6. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Loss on written-off of property, plant and equipment	**(36)**	(9)
Foreign exchange loss	**(25,148)**	(14,968)
Others	**82**	(587)
	(25,102)	(15,564)

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years:		
Convertible bonds payable at effective interest rates	**37,081**	71,171
Interests on bank borrowings and bill payables	**35,598**	38,072
Interests on other borrowings	**52,206**	73,950
Guarantee fee and fund management fee incurred in connection with borrowings	**11,364**	18,400
Others	**75**	254
	136,324	201,847

8. INCOME TAX CREDIT

	2016	2015
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**–**	–
– PRC tax	**10,207**	395
Deferred tax	**(17,380)**	(26,702)
	(7,173)	(26,307)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. 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.

Certain subsidiaries of the Group has obtained the qualification of High and New Technology Enterprise from the relevant PRC government authorities and subject to a preferential tax of 15% from 2016 to 2018.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit 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

	2016	2015
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments	**5,799**	33,670
Other staff costs:		
Salaries and other benefits	**42,041**	34,569
Contributions to retirement benefits scheme	**7,538**	6,444
Share-based payments expenses – employees	**–**	21,247
Total staff costs	**55,378**	95,930
Auditor's remuneration		
– Audit service	**3,035**	1,555
– Non-audit service	**539**	923
Depreciation of property, plant and equipment	**52,933**	58,209
Amortisation of prepaid lease payments	**7,332**	7,231
Amortisation of intangible assets	**39,840**	3,320
Minimum lease payments paid under operating leases in respect of rented premises	**7,847**	5,437
Shipbuilding contract costs recognised as cost of sales	**268,260**	305,432
Foreseeable losses (included penalties due to delay in shipbuilding production schedules) recognised in respect of additional estimated costs (included in shipbuilding contract cost and recognised as cost of sales)	**52,061**	25,373
Impairment loss recognised in respect of trade receivables	**844**	–
Impairment loss recognised in respect of other receivables	**9,177**	–
Impairment loss recognised in respect of property, plant and equipment	**66,828**	–
Impairment loss recognised in respect of prepaid lease payments	**18,766**	–
Impairment loss recognised in respect of goodwill	**64,483**	–
Reversal of impairment loss recognised in respect of finance lease receivables	**–**	(70)

10. DIVIDEND

No dividends were paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period (2015: 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:

	2016	2015
	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	**(353,156)**	(500,799)

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**11,996,663**	9,912,342

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 does not assume i) the exercise of the Company's share options; and ii) the conversion of the Company's outstanding convertible bonds since their assumed exercise or conversion would result in a decrease in loss per share for the year which is regarded as anti-dilutive.

12. TRADE RECEIVABLES/DEPOSITS/OTHER RECEIVABLES/PREPAYMENT

	2016	2015
	HK$'000	*HK$'000*
Trade receivables – non-current portion	**683**	622
Trade receivables – current portion	**59,594**	38,157
Less: Allowance for doubtful debts	**(801)**	–
Trade receivables – current portion, net	**58,793**	38,157
Total trade receivables, net of allowance for doubtful debts *(Note a)*	**59,476**	38,779
Deposits – non-current portion	**66,711**	–
Other receivables	**88,427**	39,301
Less: Allowance for doubtful debts	**(15,622)**	(6,916)
Other receivables, net	**72,805**	32,385
Value-added tax recoverable	**149,453**	161,767
Deposits placed to agents and a stakeholder	**77,002**	6,591
Total other receivables, net	**299,260**	200,743
Prepayment	**426,389**	174,930

Note:

(a) At 31 December 2016 and 31 December 2015, the Group's trade receivables include (1) trade receivables from factoring services with one year credit period; (2) trading of automotive related products with average 90 days credit period; and (3) retention receivables for intelligent car parking with range of one to two years under the respective terms of contract.

At 31 December 2016, trade receivables are non-interest bearing, except for trade receivables from factoring services of with aggregated amount of HK$2,331,000 (2015: HK$28,556,000) which bear interest rate of 12% (2015: 12%) per annum.

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

	2016	2015
	HK$'000	*HK$'000*
0-90 days	**56,643**	38,225
More than 90 days but not exceeding one year	**1,320**	554
In more than one year	**1,513**	–
	59,476	38,779

The Directors considered impairment loss on trade receivables that were past due as at 31 December 2016 and 31 December 2015. The Group did not hold any collateral over these balances.

Movement in the allowance for doubtful debts for trade receivables:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**–**	92,344
Amounts written-off as uncollectible	**–**	(92,344)
Impairment recognised	**844**	–
Exchange realignment	**(43)**	–
At 31 December	**801**	–

13. FINANCE LEASE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Analysed as:		
Current	**17,833**	15,390
Non-current	**–**	13,028
	17,833	28,418

Amounts receivable under finance leases

	2016	2015
	HK$'000	*HK$'000*
Finance lease receivables	**20,348**	32,033
Less: Unearned finance income	**(2,245)**	(3,328)
Present value of minimum lease payment receivables	**18,103**	28,705
Less: Accumulated impairment loss	**(270)**	(287)
	17,833	28,418

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:

	2016	2015
	HK$'000	*HK$'000*
Repayable (including interests)		
Within one year	**20,348**	17,915
One to two years	**–**	14,118
	20,348	32,033
Repayable (net of interests)		
Within one year	**17,833**	15,390
One to two years	**–**	13,028
	17,833	28,418
Accumulated impairment loss		
At the beginning of year	**287**	378
Exchange realignments	**(17)**	(21)
Reversal for the year	**–**	(70)
At the end of year	**270**	287

14. TRADE, BILLS AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Consideration payable for acquisition of property, plant and equipment – non-current portion	**4,937**	–
Trade payables	**70,860**	54,192
Bills payables	**–**	141,600
Consideration payable for acquisition of prepaid lease payments	**41,865**	44,505
Payable to guarantors	**1,652**	5,888
Contribution payables to labour union and education funds	**12,668**	12,491
Accrual of contractor fees	**7,135**	17,707
Accrual of government funds	**28,860**	30,680
Other payables and accruals	**248,187**	192,195
	411,227	499,258

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:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**9,315**	56,526
31 – 60 days	**7,439**	25,156
61 – 90 days	**3,730**	72,634
Over 90 days	**50,376**	41,476
	70,860	195,792

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 2016 which has included a disclaimer of opinion:

"**DISCLAIMER OF OPINION**

We do not express the opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

(a) Limitation of scope on revenue, cost of sales and amounts due to customers for contract work of shipbuilding business

Included in the Group's revenue for the year ended 31 December 2016 was revenue of approximately HK$154,220,000 from shipbuilding business mainly in relation to building ten vessels for the Group's customers. Revenue had been recognised by the Group based on the percentage of completion. As set out in Notes 2 and 31 to the consolidated financial statements, due to delays in shipbuilding production schedules, three customers relating to seven vessels (collectively referred to as the "Three Customers"), in accordance with the relevant shipbuilding contracts, have the rights to issue rescission notices to the Group if the Three Customers cannot receive the vessels on or before the agreed vessels delivery dates (i.e. June 2016 to March 2017), in which approximately HK$68,518,000 and HK$155,226,000 of revenue and cost of sales respectively, related to these seven vessels, have been recognised for the year ended 31 December 2016. If the Three Customers issue such a notice to the Group, the Group is required to return all of the payments received so far from the Three Customers, amounting to an aggregate amount of approximately USD109,466,000 (equivalent to HK$848,362,000) and to pay interests on such amount calculated in accordance with the relevant shipbuilding contracts (the "Interests"). The management of the Group have been in negotiation with the Three Customers since June 2016. Up to the date when the consolidated financial statements are authorised for issue, the management of the Group have not yet reached any formal agreements with the Three Customers. Taking into account the specific facts and circumstances, it was uncertain whether or not the Three Customers will exercise their rights to issue the rescission notice to the Group and to require the Group to repay all the payments made to the Group. We were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether the related revenue and cost of sales should be reversed.

Similarly, if the abovementioned revenue and cost of sales were reversed, we were unable to obtain sufficient appropriate audit evidence we consider necessary as to what the net realisable value of the work in progress vessels would be. Further, the Group had not recognised any additional penalty to be incurred due to the late delivery after 31 December 2016 nor recognised any Interests as the management of the Group believes that these amounts cannot be reliably measured taking into account the fact that the management of the Group is still in negotiation with the Three Customers.

There were no other alternative audit procedures that we could carry out to determine whether the related revenue and cost of sales should be reversed and the balance of the amounts due to customers for contract work as at 31 December 2016 of approximately HK$17,177,000 were fairly stated, which could have consequential effect on net current liabilities and net liabilities of the Group as at 31 December 2016 and the loss for the year then ended.

Any adjustment to revenue, cost of sales, amounts due to customers for contracts work and additional provision for Interests and foreseeable loss found to be necessary would affect the Group's net liabilities as at 31 December 2016 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 a loss for the year attributable to owners of the Company of approximately HK$353,156,000 for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$1,090,208,000 and the Group had net liabilities of approximately HK$604,752,000. Also, as mentioned in point (a) above, it was highly uncertain whether the Three Customers will exercise their rights to require the Company to repay all the payments made to 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 and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As explained in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared by the directors of the Company (the "Directors") on a going concern basis, the validity of which is dependent on the Group's ability to obtain sufficient future funding. Due to the uncertainty of the Group's ability to maintain adequate future cash flows, we were unable to ascertain whether the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the going concern assumption be inappropriate, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities respectively, write-down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the Group's future cash flows raises significant doubt about the Group's ability to continue as a going concern. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but 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 this material uncertainty relating to going concern basis and their cumulative effect on the consolidated financial statements is so extreme that we have disclaimed our opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China Ocean Industry Group Limited is engaged in the intelligent car-parking and automotive electronics business, shipbuilding business, trading business, and financial services business.

In face of the continued sluggish global shipbuilding market, the Group sought for strategic transformation from three ways: transfer of manufacturing capacity, activation, adjustment and optimization of stock resources, and value-addition of new-type services. In 2015, the Group developed into the intelligent car-parking equipment manufacturing and automotive electronics business through acquisition, thus successfully shifting the mature shipbuilding capacity to the research & development of car-parking equipment; and the car parks industry has become the exact new hot spot of domestic market demands. Meanwhile, relying on the manufacturing of car-parking equipment and automotive electronic equipment, the Group extended the industrial chain downward to develop the business of investment and operation of intelligent car parks, and provide domestic car parks market with the integrated solution containing a full value chain from equipment manufacturing, upgrading & transformation, investment & operation, financial services, and car-owner value-added services.

In 2016, the Group's strategic transformation has shown positive results. The intelligent car-parking and automotive electronics business achieved significant breakthrough with the revenue from this business exceeding that of shipbuilding for the first time, making it become the primary source of revenue of the Group. The manufacturing and selling of intelligent car-parking equipment and automotive electronics have achieved the expected result, meanwhile we have made positive progress in investment in intelligent car parks and internet operation of car parks through cooperation with large state-owned enterprises and domestic listed companies.

While exploring new business, the Group also actively adjusted and reorganized the shipbuilding business, shifted toward the steel bridge structures and special equipment utilizing the existing spare capacity in shipbuilding, and transferred the shipbuilding capacity and ship-owner resources to the costal region such as Nantong in Jiangsu Province through cooperation with other advantageous enterprises. Meanwhile, we also endeavored to develop the logistics industry along the Yangtze River in an effort to expand new profitability by integrating the resources of Jiangxi Shipbuilding like the riverbanks, wharfs and lands along the Yangtze River.

During the year ended 31 December 2016, the Group recorded revenue of HK$417.31 million (2015: HK$157.64 million), representing an increase of approximately 164.72% as compared to 2015. This increase was mainly due to the contribution of the revenue of intelligent car-parking and automotive electronics business of HK$210.55 million (2015: HK$11.01 million). The shipbuilding business recorded external revenue of HK$154.22 million (2015: HK$143.19 million), basically maintaining at the same level as compared with the last year. During the year of 2016, the trading business recorded external revenue of HK$51.12 million (2015: Nil). During the year of 2016, the financial services business recorded external revenue of HK$1.42 million (2015: HK$3.44 million), a slight decrease compared to the last year. During the year under review, the Group recorded gross loss of HK$30.48 million (2015: gross loss of HK$157.86 million), substantially decreased by 80.69% as compared to 2015. The significant decrease in gross loss was due to the contribution of intelligent cark-parking and automotive electronics business.

During the year ended 31 December 2016, the Group's selling and administrative expenses sharply increased to HK$299.92 million (2015: HK$88.92 million), mainly due to the additional provision of HK$94.77 million (2015: Nil) under the effect of shipbuilding business, as well as the intangible assets amortization and goodwill impairment of HK$104.32 million (2015: HK$3.3 million) generated by the intelligent car-parking and automotive electronics business. In 2016, the Group's financial cost decreased significantly by 32.46% to HK$136.32 million (2015: HK$201.85 million), mainly due to the great effort in adjusting financing methods and negotiation with subscribers of convertible bonds and creditors to convert substantially all convertible bonds and debts into shares by the Group in 2015.

In conclusion, the Group recorded a loss attributable to shareholders of HK$353.16 million (2015: loss of HK$500.80 million) during the year ended 31 December 2016, decreased by approximately 29.48% as compared to the last year.

SHIPBUILDING BUSINESS

Affected by the financial crisis, the Group had 10 ships which were construction and 18 ships which were under design during the year ended 31 December 2016. Among which seven ships had reached the term of abandonment, the Group has therefore adopted measures to negotiate with existing ship-owners but no formal agreement has yet been reached. The Group has continued to cut overcapacity and speed up structure upgrading so as to help the shipbuilding business out of difficulties through various means including setting up joint venture with large state-owned enterprises, shifting shipbuilding capacity to other locations.

During the year ended 31 December 2016, the revenue of the shipbuilding segment amounted to HK$154.22 million (in 2015: HK$143.19 million), representing an increase of 7.70% as compared with the last year and the gross loss was HK$321.28 million (in 2015: HK$350.65 million), representing a reduction of 8.38% as compared with the last year.

TRADING BUSINESS

The trading business recorded insignificant losses in 2016 (2015: Nil).

FINANCIAL SERVICES BUSINESS

During the year under review, the financial services business mainly provided financial support to the Group's shipbuilding and intelligent car parking business through financing. During the year ended 31 December 2016, the external sales of financial services segment contributed revenue of HK$1.42 million (in 2015: HK$3.44 million) and the financial services segment recorded loss of HK$14.55 million (in 2015: profit of HK$3.11 million). In addition, the Group's shared profits from Zhejiang Ocean Leasing Company Limited in which the Group holds 20% stock rights increased by 58.02% to HK$13.89 million (in 2015: HK$8.79 million).

INTELLIGENT CAR PARKING AND AUTOMOTIVE ELECTRONICS BUSINESS

During the period under review, the Group's intelligent car-parking and automotive electronics business made significant breakthrough. As of 31 December 2016, the intelligent car parking and automotive electronics business recorded external revenue of HK$210.55 million (in 2015: HK$11.01 million), representing 50.45% of the Group's total revenue (2015: 6.98%). Following the acquisition of the entire issued share capital of Success Capture Limited (the "Target Company") by the Group at the end of 2015, the Group has successfully developed into the car parks related businesses. The Group has successively set up a series of wholly owned enterprises and joint ventures, and has fully carried out all businesses relating to the car-parking segment through cooperation with other cooperative partners like large state-owned enterprises and domestic listed companies and utilizing the resources and advantages of all these parties involved. Manufacturing and sales of 13 car park projects with a total of 6,520 parking spaces were completed during the year under review. The Target Company recorded a profit of RMB63.25 million (the Guarantee Profit as stated in the Acquisition Agreement is no less than RMB60 million), but the due to the fact that the car parks investment and operation business was still at the development stage where involved a large amount of prophase investment expenditure and the synergy effect it produced with car-parking equipment manufacturing has not fully displayed, the entire intelligent car-parking and automotive electronics business recorded a loss of HK$49.96 million (2015: loss of HK$4.94 million) during the year. The Group believes that this segment will gradually show positive results with the progressive development of the business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$101.79 million (31 December 2015: HK$151.71 million) of which no bank deposits (31 December 2015: HK$81.53 million) was pledged; short-term borrowings of HK$1,049.15 million (31 December 2015: HK$953.15 million); long-term borrowings of HK$1,039.05 million (31 December 2015: HK$253.99million); convertible bonds payable amounted to approximately HK$348.88 million (31 December 2015:HK$293.73 million) represented the principal amount of HK$351 million (31 December2015: HK$252 million). The gearing ratio defined as non-current liabilities and short-term borrowing divided by total shareholders' equity was (3.75) as at 31 December 2016 (31 December 2015: (4.35)).

FUND RAISING FROM ISSUE OF SHARES/CONVERTIBLE BONDS

During the year ended 31 December 2016, 40,000,000 shares of HK$0.05 each were issued pursuant to the exercise of share option granted under the Company's share option scheme adopted on 27 June 2012 at exercise price of HK$0.211 per share.

On 2 June 2015, the Company, Mr. Li Ming ("Mr. Li") and Prosper Talent Limited ("Prosper") which is indirectly and wholly-owned by CCB International (Holdings) Limited, entered into a subscription agreement. Pursuant to the subscription agreement, Prosper has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible notes in the aggregate principal amount of HK$200 million carrying an interest of 7.5% per annum ("2015 Convertible Notes"). The 2015 Convertible Notes were issued on 8 July 2015 with initial maturity date falling on 8 July 2016 ("Initial Maturity Date"). On 15 June 2016, the Company and Prosper reached an agreement to extend the Initial Maturity Date to the date falling on the 12th month after the Initial Maturity Date (i.e. 8 July 2017) pursuant to the terms and conditions of the 2015 Convertible Notes. The parties then entered into an acknowledgement and confirmation on 7 July 2016 to formalise and confirm their agreement in respect of the extension of the Initial Maturity Date. During the year ended 31 December 2016, no conversion rights attached to the 2015 Convertible Notes has been exercised. Upon the exercise of the conversion rights attached to the 2015 Convertible Notes in full at the initial conversion price of HK$0.2481 per conversion share, a maximum of 806,126,561 shares would be issued.

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, separated in 4 tranches with each trance in an aggregate principal amount of HK$100 million, with interest rate at 2% per annum ("2016 Convertible Notes"). The conversion price shall be 100% of the volume weighted average price of the shares of the Company as traded on the Stock Exchange on the trading day immediately preceding the date of delivery of the relevant conversion notice to the Company, but in any event shall not be lower than the minimum conversion price. The minimum conversion price of HK$0.18 per conversion share represented a discount of 23.72% to the closing price of HK$0.236 per share as quoted on the Stock Exchange on 6 December 2016. Upon exercise of the conversion rights attached to the 2016 Convertible Notes in full at the minimum conversion price of HK$0.18 per conversion share, a maximum of 2,222,220,000 shares would be issued. To secure the performance of the Company's obligations under, among others, the terms and conditions of the 2016 Convertible Notes, on 8 December 2015 the Company entered into a charge over its cash account opened with Macquarie for receiving and holding the net subscription moneys of the 2016 Convertible Notes in favour of Macquarie. On 15 December 2016, the Company issued the first tranche of the 2016 Convertible Notes in principle amount of HK$100 million to Macquarie. On the same day of the issuing of the convertible notes, Macquarie exercised the conversion rights attached to the 2016 Convertible Notes in principal amount of HK$1 million and the Company issued 4,775,000 shares to Macquarie at conversion price of HK$0.2095, representing a discount of 4.77% to the closing price of HK$0.22 per share as quoted on the Stock Exchange on 15 December 2016. As at the date of this report, 2016 Convertible Notes in total principle amount of HK$13 million have been converted, resulting in the issue of 62,935,000 shares in total and receipt of net proceeds of HK$12.22 million by the Company which were used for general working capital purpose.

CHARGES ON GROUP ASSETS

As at 31 December 2016, no (31 December 2015: HK$81.53 million) deposits, HK$148.84 million (31 December 2015: HK$309.05 million) of property, plant and equipment and HK$129.87 million (31 December 2015: HK$151.57 million) of prepaid lease payments 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 31 December 2016, the Company pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure an bank borrowing amounting to RMB108 million (31 December 2015: RMB107 million).

As at 31 December 2016, as security to the issue of HK$200 million convertible bond, the Company had pledged its shares in China Ocean Shipbuilding Holdings Limited, its wholly owned subsidiary in BVI, to Prosper Talent Limited; and China Ocean Shipbuilding Holdings Limited also pledged its shares in its Hong Kong subsidiary, China Ocean Shipbuilding (Hong Kong) Limited, to Prosper Talent Limited. For details please refer to the announcement of the Company dated 3 June 2015.

As at 31 December 2016, as security to the performance of the Company's obligations under, among others, the terms and conditions of the 2016 Convertible Notes, the Company had entered into a charge over its cash account opened with Macquarie for receiving and holding the net subscription moneys of the 2016 Convertible Notes in the amount of HK$94 million in favour of Macquarie. For details please refer to the announcement of the Company dated 6 December 2016.

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 2016, 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.

LITIGATION

As at 31 December 2016, details of the pending litigations of the Group are set out as follows:

(i) In June 2016, a contractor filed its writ to 江西省南昌縣人民法院 against Jiangxi Shipbuilding for the failed payment of contracting services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB313,000 in aggregate, were recognised under "Trade, bills and other payables" in the consolidated statement of financial position.

(ii) In August 2016, a supplier filed its writ to 高郵市人民法院 against Jiangxi Shipbuilding for the failed payment of the sale of cable. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB392,000 in aggregate, were recognised under "Trade, bills and other payables" in the consolidated statement of financial position.

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

(iv) In November 2015, a supplier filed its writ to 九江仲裁委員會 against Jiangxi Shipbuilding for the failed 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 RMB3,422,000 in aggregate, were recognised under "Trade, bills and other payables" in the consolidated statement of financial position.

(v) In November 2015, a contractor filed its writ to 上海市金山區人民法院 against Jiangxi Shipbuilding for the failed payment of provided vessel decoration services. At the end of the reporting period, the litigation was judged and the outstanding payable of the principal payment and the relevant interests accrued of approximately RMB762,000 in aggregate, were recognised under "Trade, bills and other payables" in the consolidated statement of financial position.

(vi) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Shipbuilding for the failed 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 RMB4,287,000 in aggregate, were recognised under "Trade, bills and other payables" in the consolidated statement of financial position.

Other than disclosed above, the members of the Group has no other material litigation as of 31 December 2016 and 31 December 2015.

HUMAN RESOURCES

The Group had around 600 employees as at 31 December 2016. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees in Hong Kong. Shares options may also be granted to eligible persons of the Group.

CONTINGENT LIABILITIES

(a) At 31 December 2016, the Group has not paid the social security fund for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2016 of approximately HK$40,206,000 (equivalent to RMB36,221,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2015: HK$39,681,000 (equivalent to RMB33,628,000)).

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

(b) At 31 December 2016, the Group has not paid the housing provident fund contributions for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2016 of approximately HK$5,483,000 (equivalent to RMB4,940,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2015: HK$6,798,000 (equivalent to RMB5,761,000)).

The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

(c) The Company had recognised the provision in relation to the litigations of approximately RMB13,812,000 (2015: RMB10,611,000) under "Trade, bill and other payables" in the consolidated statement of financial position as at 31 December 2016. On the basis of internal legal advice from the Group that it is not probable that these claims would result in an out flow of economic benefits exceeding the provisions made by the Group.

(d) On 3 December 2015, Merge 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 (equivalent to approximately HK$1,107,000,000), together with any interests, penalty, compensation and related fees and expenses which may be payable by the Guarantor under the Guarantee. Accordingly, the maximum amount which Merge shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000 (equivalent to approximately HK$221,400,000).

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

CAPITAL COMMITMENTS

As at 31 December 2016, the Group has capital commitments of approximately HK$128.79 million (31 December 2015: HK$77.5 million) for its associates, HK$308.80 million for its subsidiaries (31 December 2015: HK$161.90 million) and HK$116.24 million for a joint venture (31 December 2015: nil) as unpaid registered capital; capital expenditure in respect of the acquisition of property, plant and equipment of approximately HK$78.98 million (31 December 2015: nil). All these commitments are contracted but not provided in the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

1. As of 30 March 2017, aggregate principle amount of HK$12 million additional convertible notes under the subscription with Macquarie Bank Limited were converted and aggregate 58,160,000 additional shares were issued in year 2017.

2. On 14 March 2017, a special shareholder meeting was held and the acquisition agreement to acquire Nantong Huakai Heavy Industry Company Limited was approved.

DIVIDEND

No dividends were paid or proposed for the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil)

PROSPECTS

The Group adopted diversified business strategies to cope with the risks of the PRC's domestic economy downturn. The intelligent car-parking and automotive electronics business acquired by the Group at the end of 2015 achieved significant breakthrough in 2016, becoming the primary source of revenue of the Group. Looking forward, with PRC's continuous growth in car ownership and the worsening problem of urban car parking, the demands for investment and operation & management of intelligent car-parking, electronic automotive devices and car parks will expand continuously. Except the manufacturing, selling and installation of auto parking equipment, the Group will, together with cooperative partners, jointly provide supporting services like car parks investment and operation, barrier gate charge management system and new energy automotive charging, so as to realize the package services including car park equipment design & manufacturing, car parks investment, car parks operation and management, financial services and car owner value-added services.

To cope with the issue of continued losses of the shipbuilding business, the Group has signed a very substantial Acquisition Agreement to conditionally acquire the entire registered capital of Nantong Huakai Heavy Industry Company Limited. The Acquisition will bring in an excellent shipbuilding management and operation team with extensive experience to the Group and attract more talents to join in, which will improve the product quality and productivity of the Company's existing shipbuilding business.

The Group has set up a new joint venture with Xiamen Xiangyu in Nantong city of Jiangsu province, to engage in the manufacturing and investment of special-type ships by consolidating their original shipbuilding capacity and utilizing their respective competitive advantages, this cooperation is expected to bring about new opportunities to the Group's shipbuilding business.

The Wuxue Yangtze River Bridge located near the Yangtze River Wharf of Jiangxi Shipbuilding has already been approved for construction by the state, which is now under construction. After completion of construction, the Bridge will provide traffic convenience to Jiangxi Shipbuilding. The Group will, by making full use of the geographic advantage of bordering the Yangtze River, seize this opportunity to revitalize the assets of Jiangxi Shipbuilding and develop logistics business fully utilizing the resources of Yangtze River Wharf, in a bid to lay a foundation for transformation and development of Jiangxi Shipbuilding and bring new point of growth to the Group.

All in all, the Group will continue with the diversification strategy and be flexibly in deployment of resources, in a bid to grasp investment opportunities to generate greater return to our investors.

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 2016.

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 2016.

PUBLICATION OF ANNUAL REPORT

The Company’s 2016 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 the announcement comprises Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Wang San Long and Mr. Liu Jin as executive directors, Mr. Chau On Ta Yuen as non-executive director and Mr. Hu Bai He, Ms. Xiang Siying and Ms. Xiang Ying as independent non-executive directors.

By order of the Board
China Ocean Industry Group Limited
LI Ming
Chairman

Hong Kong, 30 March 2017