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CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

**MAJOR TRANSACTION
DISPOSAL OF 20% EQUITY INTEREST
IN ZHEJIANG OCEAN**

THE DISPOSAL

The Board is pleased to announce that on 28 February 2019 (after trading hours), the Vendor and the Purchaser entered into the Share Purchase Agreement pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interests at a maximum Consideration of RMB170 million.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transfer exceeds 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, among other things, (i) further information relating to the Disposal; (ii) a notice convening the SGM; and (iii) other information required to be disclosed under the Listing Rules, will be despatched to the Shareholders on or before 12 April 2019 as additional time is required to prepare and finalise the circular.

Completion of the Disposal is subject to the fulfilment (or waiver, where applicable) of the conditions precedent as set out in the Share Purchase Agreement and the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.

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The Share Purchase Agreement

Principle terms of the Share Purchase Agreement are as follows:

Date: 28 February 2019 (after trading hours)

Parties: (1) Merge Limited, a wholly-owned subsidiary of the Company, as vendor; and
(2) China Medical Services Holdings Limited, as purchaser.

Asset to be disposed of: The Sale Interests, which represent 20% of the equity interest in Zhejiang Ocean.

Consideration and
payment terms:

The Consideration shall be the lower of:

- (i) the value determined by the following formula:

$(20\% \times A)$ (“Part A Consideration”) + $(20\% \times B)$ (“Part B Consideration”)

where:

A = the net asset value of Zhejiang Ocean as at 31 December 2018 (net of non-recurring gains or loss) based on the valuation conducted by a qualified valuer in the PRC as agreed by the parties to the Share Purchase Agreement * 110% plus the amount of any unpaid capital in Zhejiang Ocean; and

B = the audited net profit of Zhejiang Ocean for the period from 1 January 2019 to the last day of the month immediately prior to Completion;

and

- (ii) RMB170 million.

The Consideration shall not exceed RMB170 million in any event and is payable by the Purchaser to the Vendor according to the following schedule:

- (a) 70% of the Part A Consideration shall be payable on the 5th Business Day from Completion; and
- (b) the remaining 30% of the Part A Consideration plus Part B Consideration shall be payable on the 5th Business Day upon completion of the registration in respect of the change in shareholder of Zhejiang Ocean with the relevant PRC governmental authority.

Conditions Precedent: Completion shall be conditional upon fulfilment of the following conditions precedent:

- (1) the Vendor having discharged the share charge created over the Sale Interests and the corresponding secured obligations and debts;
- (2) the Vendor having agreed to the Disposal and the Sale Interests are free from encumbrances otherwise acknowledged between the parties;
- (3) the Purchaser having completed its due diligence on Zhejiang Ocean to its reasonable satisfaction;
- (4) the parties having obtained all internal approvals and consents in respect of the Share Purchase Agreement;
- (5) all necessary governmental approvals, registration or filing (if needed) in relation to the Disposal having been obtained and Zhejiang Ocean shall have obtained copies of the relevant documentation;
- (6) all necessary third party consent (including but not limited consent from banks and creditors) in respect of the Disposal having been obtained;
- (7) there shall not be any circumstances which may affect the transaction;

- (8) the representations and warranties of each of the parties contained in the Share Purchase Agreement shall remain true, accurate, complete and not misleading;
- (9) the Vendor and Zhejiang Ocean shall have duly performed all obligations required to be performed prior to Completion under the Share Purchase Agreement and other relevant documentations and agreements, and there shall be no breach of the aforesaid documents; and
- (10) the Company shall have obtained the shareholders' approval for the Share Purchase Agreement and the transactions contemplated thereunder pursuant to applicable laws and regulations (including but not limited to the Listing Rules).

If the above conditions precedent have not been fulfilled or waived by the Purchaser (where applicable) on or before the Long Stop Date, then the Purchaser may, at its option, elect to proceed with the Completion, or not to proceed with the transactions contemplated thereunder and in such case the Share Purchase Agreement shall cease to be of any effect.

Completion:

Completion shall take place on the date on which all conditions precedent have been fulfilled (or waived, where applicable).

The Vendor shall, within 10 days from Completion, assist Zhejiang Ocean to complete the registration in respect of the change in shareholder of Zhejiang Ocean with the relevant PRC governmental authority and handover the relevant documents of Zhejiang Ocean to the Purchaser.

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser having regard to the value of Zhejiang Ocean as at 31 December 2018 and the latest audited net profit of Zhejiang Ocean. The Directors consider that the Consideration was fair and reasonable and in the interest of the Company and its shareholders taken as a whole.

FINANCIAL INFORMATION OF ZHEJIANG OCEAN

Set out below is the consolidated financial information of Zhejiang Ocean for the year ended 31 December 2017 and six months ended 30 June 2018 in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants:

	For the year ended 31 December 2017 (audited) <i>HK\$'000</i>	For the six months ended 30 June 2018 (unaudited) <i>HK\$'000</i>
Revenue	236,273	102,006
Profit/(Loss) before taxation	124,965	(28,340)
Profit/(Loss) after taxation	93,724	(28,340)

The unaudited net assets and unpaid registered capital of Zhejiang Ocean as at 30 June 2018 was approximately HK\$834,064,000 and HK\$157,804,000, respectively. The carrying amount of the Group's 20% interest in Zhejiang Ocean (being the subject of the Disposal) as at 30 June 2018 was approximately HK\$151,927,000 (including but not limited to net of Group's unpaid registered capital in the amount of US\$6,000,000, equivalent to approximately HK\$47,100,000).

INFORMATION OF THE PARTIES

The Vendor

The Vendor is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company. The Vendor is principally engaging in investment holding.

The Purchaser

The Purchaser is a company incorporated in Hong Kong with limited liability and is principally engaging in trading of medical equipment.

To the best of the knowledge, information and belief and having made all reasonable enquiries by the Directors, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Zhejiang Ocean

Zhejiang Ocean is a sino-foreign joint equity enterprise established under the laws of the PRC in October 2012 and is principally engaging in financial leasing business. As at the date of this announcement, Zhejiang Ocean is owned as to 20% by the Vendor and the remaining 80% is owned by 4 third parties independent of the Company and its connected persons (as defined in the Listing Rules).

FINANCIAL EFFECTS OF THE DISPOSAL

Zhejiang Ocean has been accounted for as an associate company using the equity method and its financial results have not been consolidated in the Group's financial statements since the acquisition of the 20% equity interest in Zhejiang Ocean by the Group in November 2014.

Upon completion of the Disposal, the Group would not hold any equity interest in Zhejiang Ocean. The Company is expected to record a gain on the Disposal, and the gain on disposal of the investment would be recognised in the consolidated statement of profit or loss and other comprehensive income.

REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Company is a company incorporated in Bermuda with limited liability and is an investment holding company. Its subsidiaries are principally engaging in the shipbuilding related business, trading business, finance leasing business, intelligent car-parking and automotive device business and steel structure engineering and installation business.

The Company has been focusing on manufacturing business and has adopted diversification strategy in the past years. Committing to focus on its core businesses and promote efficient use of its resources, the Company will gradually divest of its non-core businesses while exploiting and strengthening its wharf construction and related logistics business, at the same time, maintaining focus on its manufacturing and service business, in order to generate more cashflow for the Company. The Directors consider that the Disposal is a good opportunity for the Group to restructure its core business, and the entire net proceeds from the Disposal will be used to repay outstanding indebtedness owed by the Group, which will help improve the Group's financial position and working capital.

The Directors consider that the Share Purchase Agreement and the transactions contemplated thereunder have been agreed under normal commercial terms and after arm's length negotiations, and accordingly are in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transfer exceeds 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings when used herein:

“Board”	the board of Directors
“Business Day(s)”	any day which banks in the PRC are open for business
“Company”	China Ocean Industry Group Limited, a company incorporated in Bermuda and the issued shares of which are listed on the Stock Exchange (Stock code: 651)
“Completion”	completion of the Disposal pursuant to the terms of the Share Purchase Agreement

“Consideration”	the consideration payable by the Purchaser to the Vendor for the Sale Interests under the Share Purchase Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Interests by the Vendor to the Purchaser pursuant to the Share Purchase Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 May 2019 (or such other date as the parties to the Share Purchase Agreement may agree in writing)
“PRC”	the People’s Republic of China, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	China Medical Services Holdings Limited, a company incorporated in Hong Kong with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	Equity interest of US\$20 million, representing 20% of the registered capital of US\$100 million of Zhejiang Ocean
“SGM”	the special general meeting of the Company to be convened for, among others, considering and, if thought fit, approving, the Share Purchase Agreement and the transactions contemplated thereunder
“Share Purchase Agreement”	the share purchase agreement dated 28 February 2019 entered into among the Vendor and the Purchaser

“Shareholder(s)”	holders of ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Merge Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Zhejiang Ocean”	Zhejiang Ocean Leasing Company Limited* (浙江海洋租賃股份有限公司), a sino-foreign joint equity enterprise established under the laws of the PRC
“%”	per cent

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

Hong Kong, 28 February 2019

The English translation of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

As at the date of this announcement, the Board of the Company comprises four executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Zhang Weibing and Mr. Liu Jin, two non-executive directors, namely, Mr. Chau On Ta Yuen and Mr. Lin Lie; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.