CHINA OCEAN INDUSTRY GROUP LIMITED
中 海 重 工 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual results announcement of China Ocean Industry Group Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") for the year ended 31 December 2018 (the "**2018 Annual Results**") published by the Company on 1 April 2019. Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Results.

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide certain additional information in relation to the 2018 Annual Results, inter alia, (i) the disclaimer of opinion of the Company's financial statements for the year ended 31 December 2018 and 10 audit qualifications described in the auditors' opinion; and (ii) updated status of the six vessels that were rescinded by customers (the "**Six Vessels**").

THE DISCLAIMER OF OPINION, THE BOARD AND THE AUDIT COMMITTEE'S VIEW AND THE PLAN TO ADDRESS THE DISCLAIMER OF OPINION

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

The audit qualification (a) (i.e. opening balances, comparative figures and related disclosures (collectively, the "**Opening Balances Items**")) appeared since the prior financial year as stated in the annual report of the Company for the year ended 31 December 2017. As expressed by the auditor of the Company (the "**Auditor**"), this qualification was due to lack of sufficient evidence to assess the Company's revenue and cost of sales of the shipbuilding business and the balance of the amounts due to customers for contract work for the year ended 31 December 2017. Accordingly, the negative result of financial year 2017 has brought forward to financial year 2018 leading to the qualification on the Opening Balances Items.

The management of the Company (the "**Management**") is of the view that it is reasonable that the qualification related to the Opening Balances Items is appeared in the financial year 2018.

Reference is made to the announcement of the Company in relation to the latest progress of the four of the Six Vessels (the "**Four Vessels**") dated 3 January 2019 (the "**First Update Announcement**"). The issues surrounding the Four Vessels have been resolved following the handing down of the Arbitral Awards issued by the Arbitrators Association. The relevant figures of revenue, cost of sales, contract assets and contract liabilities of the Four Vessels have already been properly reflected in the 2018 Annual Results and these figures will be the opening balances and the relevant comparative figures for the financial year 2019 which are not a qualified ones.

It is expected that, if there is the finalised status of the Four Vessels (including but not limited to the Arbitral Awards) and the remaining two of the Six Vessels (the "**Two Vessels**"), the relevant qualifications would be addressed as there will be no uncertainty for the opening figures.

(b) Limitation of scope on revenue, cost of sales, contract assets, and contract liabilities of shipbuilding business

The relevant figures of revenue, cost of sales, contract assets and contract liabilities (collectively, the "**Revenue Related Items**") of the Four Vessels have already been properly reflected in the 2018 Annual Results. The existence of the audit qualification in relation to the Revenue Related Items is also due to the qualification of the same items in financial year 2017 which are about the Two Vessels.

As at 31 December 2018, the Auditor reflected in the audit qualification (b) (i.e. the Revenue Related Items) that due to lack of appropriate audit evidence, they could not assess whether the Vessel Customer had exercised its rights to issue the Rescission Notices to the Group and request for return of payments together with Interests from the Group, and thus the Revenue Related Items has been qualified.

The Management has from time to time negotiated with the Vessel Customer in relation the Two Vessels. However, no specific agreement and/or document was made available to the Auditor to justify the final result of the Two Vessels despite there is certain progress in the negotiation. In view of the prolonged delay in the delivery of the orders of the Two Vessels and no documents to ascertain if there is any possible contingent liabilities, there remains uncertainties in relation to the relevant figures.

The Management has spared no efforts in working out solutions for the Two Vessels during 2018 and approached a customer during the year. Both parties have been negotiating on the details of the agreement. It is expected that before the end of financial year 2019, all the Four Vessels and the Two Vessels will be disposed of. The qualification was mainly caused by the Four Vessels and the Two Vessels. The audit committee of the Company (the "**Audit Committee**") shared the same view as the Management. The Management (including the Audit Committee) believes that after settling all vessels, and the measures mentioned in the sub-paragraph heading "**Going Concerns**" below, if materialized and without exceptional case, it will definitely help to address qualifications (a) and (b) and they are likely to be removed in the year ending 31 December 2019 or 2020.

(c) Limitation of scope of net realisable values of four vessels

The Auditor expressed in the 2018 Annual Results in relation to the audit qualification of the net realisable value of the Four Vessels, i.e. whether the value of the Four Vessel classified as inventories as at 31 December 2018 was fairly state after the Arbitral Awards was obtained.

As disclosed in the First Update Announcement, the Arbitrators Association has made awards in favour of the customer under the Shipbuilding Contracts. The Shipbuilding Contracts had been rescinded and the accumulated revenue recognised and cost of sales incurred in previous year in relation to the Four Vessels of approximately HK$656,214,000 and HK$1,012,678,000 had been reversed during the year ended 31 December 2018 respectively.

The cost incurred previously in relation to the Four Vessels had been recognised as inventories of the Group of approximately HK$213,519,000, after the impairment of HK$799,159,000 recognised during the year ended 31 December 2018. As disclosed in the consolidated financial statements, the notes disclose that the loss for the year has been arrived at after charging on the written-down of inventories recognised as cost of sales of approximately HK$799,159,000 as at 31 December 2018.

During the preparation of the 2018 Annual Results and upon discussion with the Auditor, as no legally-binding agreement had been entered into in relation to the disposal of the Four Vessels despite the acknowledgment of the Arbitral Awards, no benchmark could be used as reference to ascertain the net realisable value of the Four Vessels. After discussion with certain independent valuers, the Management was advised that it was not a common practice to evaluate the vessels as inventories as each vessel is constructed under different specific requirements of each customer and there are the Arbitral Awards linked with the Four Vessels. As such, the Company was not able to engage a valuer to conduct the valuation.

The Management is of the view that fair value of the Four Vessels could be assessed with reference to the starting price of the auction stated in the Framework Agreement (as defined below), which is US$8 million for one of the Four Vessels. The Management believed that this could be the benchmark price to the net realisable value of one vessel and thus considered that the inventories have been fairly stated. However, the Auditors were of the view that there is uncertainties on the bid price of the auction and it was only related to one of the Four Vessels, therefore the net realisable value of the Four Vessels as at 31 December 2018 could not be ascertained.

The Company is actively negotiating with two potential purchasers for the remaining three of the Four Vessels (the "**Three of the Four Vessels**") (please refer to sub-paragraph heading "The Three of the Four Vessels" under "UPDATED STATUS OF THE SIX VESSELS" below for details). It will strive to enter into relevant acquisition contracts as soon as possible. The Management is of the view that and upon discussion with the Auditor, after entering into relevant acquisition contracts of the Four Vessels, the net realisable value of the Four Vessels could be reasonably estimated which will be the necessary evidence to the Auditor.

The Audit Committee has critically reviewed the qualification in relation to the Four Vessels expressed by the Auditor and has discussed it with the Management. No member has expressed any disagreement to the Management's view. The Audit Committee is of the view that concerns of the Auditor can be addressed after entering into relevant acquisition contracts as stated above.

(d) Limitation of scope on interests in associates

In the 2018 Annual Results, the audit qualifications in relation to interests in associates involved six associate companies under the two main associate groups, namely Nantong Xiangyu Ocean Equipment Company Limited ("**Nantong Xiangyu**") and Zhejiang Ocean Leasing Company Limited ("**Zhejiang Ocean**"). As at 31 December 2018, the carrying value of the Group's interest in Nantong Xiangyu was HK$8,152,000 and the carrying value of the Group's interest in Zhejian Ocean was HK$154,937,000.

As disclosed in the 2018 Annual Results, the Auditor was unable to obtain sufficient information and explanations from the management of the associates that were considered as necessary to prepare the consolidated financial statements of the Company. The main reasons were due to change of key personnel and the non-cooperation of the associates.

In the past years, the usual practice for the Company is to arrange the Auditor to site visit the associate companies to conduct field work for audit.

The staff of the Group, as usual, contacted the two major associate group companies in the first place to arrange the site visit. However, due to the change of key personnel of Nantong Xiangyu, there was miscommunications between Nantong Xiangyu and the Group which hindered the site visit arrangement of the Auditor.

For Zhejiang Ocean, due to the Company's intention to dispose the interest held in Zhejiang Ocean as disclosed in the announcement of the Company dated 28 February 2019, the staff of Zhejiang Ocean neither assist to arrange the site visit by the Auditor nor provide necessary information for the Auditor to audit despite the Management has repeatedly urged and chased many times.

The Management would like to emphasise that they had used their best endeavour to obtain the information for the Auditor to audit including but not limited to the audited accounts or the management accounts for the year ended 31 December 2018 of all the associated companies.

However, as no audit work could be performed in those associates companies, the audit qualification opinion in relation to these investments in associate were expressed in the 2018 Annual Results.

The Management considers that the qualification on interests in associates was due to miscommunications with the associate companies. The Management understands the view of the Auditor.

The Audit Committee also understand the incident as mentioned above and has discussed it with the Management and the Auditor. The Audit Committee also concur the view of the Management and the Auditor and has recommended certain measures to avoid the same issues.

The Company's measures to be taken to address the incident are as follows:

(a) delicate the staff in the finance department to have frequent communication with Nantong Xiangyu as soon as possible;

(b) improve the communication with the associates in the future, such as conduct regular meetings with the associates to understand their current status; and

(c) complete the disposal of Zhejiang Ocean as soon as possible.

(e) Limitation of scope on impairment on goodwill and intangible assets of intelligent car parking and automotive device business segment

(f) Limitation of scope on impairment on goodwill and intangible assets of steel structure engineering and installation business segment

The Group's goodwill and intangible assets consisted of two business segments – (i) the intelligent car parking and the automotive device business segment ("**Car Parking Segment**") and (ii) the steel structure engineering and installation business segment ("**Steel Structure Segment**").

According to the consolidated financial statements of the 2018 Annual Results, the Group's goodwill on non-current assets arising from the Car Parking Segment and the Steel Structure Segment were approximately HK$103,156,000 and HK$Nil respectively. For the intangible assets, it was also come from the Car Parking Segment and the Steel Structure Segment with approximately HK$100,506,000 and HK$16,360,000 respectively.

The Auditor requested the Company to provide the relevant valuation reports in which it is expected to contain the working on the methodology, calculation, assumption and all relevant information for each of the respective figures. Due to the miscommunication between the Company's staff and the valuer, the confirmation of the appointment of valuer was too close to the announcement date of the 2018 Annual Results. The Company was unable to provide the required valuation information and thus these two qualifications existed.

In order to ascertain the value, the Directors have reviewed the status of goodwill and intangible assets for the year ended 31 December 2018. The Directors carried out a full scope assessment of the recoverable amount of the cash generating unit of the Car Parking Segment to which goodwill and intangible assets have been impaired for HK$22,000,000 and HK$10,000,000 respectively. In financial year 2017, there was no impairment for the goodwill and impairment of intangible assets of HK$16,925,000. The Directors also carried out a full scope assessment of the recoverable amount of the cash generating unit of the Steel Structure Segment to which goodwill and intangible assets have been impaired for HK$47,740,000 and HK$16,000,000 respectively. In financial year 2017, there was impairment of the goodwill of HK$40,771,000 and no impairment for the intangible assets. The key assumptions for the value-in-use calculations are, inter alia, the discount rates, growth rate and projected sales volume, selling prices and direct costs used in the cash flow forecasts of the respective businesses.

The Management believes that the abovementioned are sufficient and appropriate to provide a basis for the consolidated financial statements.

The Management has closely communicated with the Audit Committee, among other matters, the planned scope, and timing of the audit and significant audit findings. The Audit Committee is fully aware of the qualification of opinions issued by the Auditor and the reasons for such qualification of opinions and is of the view that the impairment assessments on the Car Parking Segment and Steel Structure Segment can reflect the situation of the businesses of the two segments. The Company has used its best effort to address the auditor's concern to verify the goodwill and intangible assets for the Car Parking Segment and Steel Structure Segment, but the Auditor still regarded there were insufficient information in relation to the value-in-use calculations and then the Auditor has issued two qualifications on impairment on the goodwill and intangible assets of Car Parking Segment and Steel Structure Segment.

Due to the unforeseeable business environment, the Car Parking Segment and Steel Structure Segment changed from profit-making in financial year 2017 to loss-making in financial year 2018. During the preparation of the 2018 Annual Results, there were miscommunications between the staff of the Group and the valuers, thus the report could not be prepared in time. The two qualifications in relation to the goodwill and intangible assets occurred due to the unavailability of the valuation reports for the Car Parking Segment and Steel Structure Segment. With the efforts from all parties, the Management believes that these two qualifications will be addressed in the next financial year.

(g) Limitation of scope on impairment assessment on property, plant and equipment and prepaid lease payments

According to the consolidated financial statements in the 2018 Annual Results, the property, plant and equipment and prepaid lease payments amounted to HK$442,726,000 and HK$358,964,000 respectively.

Every year, the Group engages an independent professional valuer, to perform a valuation on the property, plant and equipment in relation to the shipbuilding segment.

During the period of preparing the 2018 Annual Results, upon discussion with the Auditor, in view of the downturn of the Car Parking Segment and the Steel Structure Segment, according to the Hong Kong Financial Reporting Standards, the valuation of the property, plant and equipment and prepaid lease payments of these two segments were also required to justify their respective recoverable amount. The Management then instructed the members of staff to contact the valuer to conduct relevant valuation.

Until less than two weeks before the publication of the 2018 Annual Results, the Management was told that the respective valuation reports were unable to be prepared due to the poor communication between the members of staff of the Group and the valuers.

The Audit Committee has also understood the impairment assessment on property, plant and equipment and prepaid lease payments. Notwithstanding this, the Audit Committee is fully aware of the qualifications of opinions issued by the Auditors, the Management and the Audit Committee believes that in the financial year 2019, the communication between the Company, the Auditor and the valuer will be improved and sufficient time will be allowed for the valuer to prepare relevant reports and the issues will be solved. The Board believes that it will help to address the qualification to the Auditor next year.

Nevertheless, the independent professional valuer still needed to take into account the Group's property, plant and equipment and prepaid lease payments to assess the reasonableness of the assumptions. As such, the Company will engage an independent professional valuer to prepare the valuation report to enable the Company to provide the sufficient information to its auditors' satisfaction.

The Board believes that the measures mentioned above in this sub-paragraph, if materialized and without exceptional case, will help to address this qualification and it is likely to be removed in the year ending 31 December 2019.

(h) Limitation of scope on adoption of Hong Kong Financial Reporting Standard 9 Financial Instruments ("HKFRS 9")

(i) Limitation of scope on Hong Kong Financial Reporting Standard 15 Revenue from Contracts with Customers and the related Amendments ("HKFRS 15")

HKFRS 9

According to the Hong Kong Financial Reporting Standards, from 1 January 2018, company is required to apply HKFRS 9 and HKFRS 15. As disclosed in the 2018 Annual Results, the Group has applied the required standard to assess the impact on the classification and measurement of financial assets and liabilities and expected credit loss for financial assets (HKFRS 9) and the cumulative effect of the revenue from contracts with customers and related amendments (HKFRS 15).

There were approximately HK$748,467,000 other receivables of the Group as at 31 December 2018 in which HK$120,000,000 had been impaired for the year ended 31 December 2018. Based on the spirit of forward looking element to consider the recoverability of the receivables under HKFRS 9, the Management regarded that there are uncertainty for recovering the receivables. As such, the respective amount was impaired. The Management regarded it is a prudent, fair and reasonable way to provide the estimated credit loss.

However, the Auditor requested Management to provide the impairment assessment working according to the expected credit loss model. Originally, the Management planned to engage valuer to assist the Company to conduct the expected credit loss assessment. The Management has contacted different valuers for such purpose. However, as noted in the aforesaid response, due to the miscommunication between the staff of the Group and the valuers, the report could not be prepared in time for review by the Auditor.

HKFRS 15

The Management understand that HKFRS 15 is about the recognition of the revenue. There are five operating segments of the Group and the basis of the revenue recognition of the Group are as follow:–

(a) Shipbuilding business – the revenue was recognised based on the progress of completion of each order for shipbuilding.

(b) Trading business – the revenue was recognised based on the invoice issued to the customers and the products delivered.

(c) Finance leasing business – the revenue was recognised based on the actual amount to be received according to each transaction.

(d) Intelligent car parking and automotive device business – (i) the revenue recognition of the intelligent car parking was based on the completion of a project for which a finalised report of each project would be issued; and (ii) the revenue was recognised based on the invoice issued to the customers and the products delivered.

(e) Steel structure engineering and installation – the revenue was recognised upon the completion of verification and authorisation procedures for each order of steel structure.

The Auditor regarded that these were still insufficient to justify the recognition of the revenue under the requirements of HKFRS 15. The Company was requested to provide a breakdown of each revenue stream of each segment across the year-end date and the allocation of the transaction price to the corresponding performance obligations during the year ended 31 December 2018. Due to the tight schedule, such comprehensive breakdown was unable to provide.

The HKFRS 9 and HKFRS 15 were first applied in the latest fiscal year. These two audit qualifications are merely due to the unfamiliarity of the Management or staff in the finance department in handling the relevant issues in the manner that is able to meet the requirements of the Auditor.

In order to address the issues of HKFRS 9, the Company will engage the valuer as soon as practical in the coming year so as to assist the Management to estimate the expected credit loss of the financial assets of the Group.

For HKFRS 15, the Management has started working on the revenue classification model and will communicate with the Auditor to ensure that model fulfills the requirements of HKFRS 15. Upon the setting up of the model, the Management will educate the staff in the finance departments of relevant business segments to ensure the new standard will be properly in place in this fiscal year.

The Audit Committee understood the issues in relation to HKFRS 9 and HKFRS 15 and concurred with the view of the Management and the proposed solutions.

The Management strongly believed that these audit qualifications could be removed in the coming year.

(j) Multiple fundamental uncertainties relating to going concern

Based on the 2018 Annual Results, the Group reported loss attributable to the owners of the Company of approximately HK$1,545,435,000 and had significant net cash used in operating activities for the year ended 31 December 2018. As of that date, the Group's current liabilities exceeded its current assets by approximately HK$3,376,522,000 and the Group had net liabilities of approximately HK$2,178,756,000, in which total borrowings amounted to approximately HK$3,385,253,000, while its bank balances and cash amounted to approximately HK$10,005,000 only. The Auditor was uncertain of the ability of the Group to maintain adequate future cash flow and qualified about the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis.

As disclosed in note 2 of the 2018 Annual Results, the Management has taken certain operating and financing measures into consideration and formed the view that the consolidated financial statements should be prepared on a going concern basis.

The Company has been taking positive steps to address the qualification in relation to going concern, including but not limited to:

(a) the Management and the management of the Jiangxi Shipbuilding has been negotiating with a new customer (the "**German Customer**") in relation to the continue construction agreement of the Two Vessels. The Directors have also communicated with the agent of the German Customer in the PRC, and that agent has recommended another shipbuilding company in the PRC (the "**PRC Shipbuilding Company**") to be the co-builder to resume the construction of the Two Vessels;

(b) reference is made to the announcement of the Company dated 28 February 2019 in relation to the disposal of 20% equity interest of Zhejian Ocean and it is expected that the maximum consideration will be approximately RMB170,000,000;

(c) as disclosed on page 44 in the 2018 Annual Results, on 23 November 2018, Yangzijiang Shipbuilding, the Company, Jiangxi Shipbuilding and Wuxi Tianshi Education Goods Co., Ltd. (無錫天石教育用品有限公司) entered into the Investment Agreement pursuant to which the parties agreed to, among other things, establish Mining Co. The Group is expected to receive a loan in the amount of RMB250,000,000 from one of the cooperating parties;

(d) negotiate with its bank creditors with the help of Jiangxi Government to extend the borrowings of the Group from short term to long term, which will reduce the net current outflow pressure of the Group and the current liabilities of the Group will be reduced, and the bank creditors promised that they won't reduce the facility amount, won't force to repay the loan and won't take legal actions. With the help of the Jiangxi Government and with the supports for real economy and private enterprises from all levels of governments, the Management is negotiating with lending banks in relation to loan restructuring to extend repayment date and reduce finance costs. It is expected that outstanding loans of approximately HK$1 billion will be extended and will be classified as non-current liabilities of the Group;

(e) negotiate with certain suppliers and creditors to extend payment due date; and

(f) to explore fund raising opportunities, either by way of equity or debt financing. The Group is considering raising funds by way of issue of convertible note of approximately HK$50,000,000 in the coming 12 months.

The Audit Committee understands the qualification in relation to going concern raised by the Auditor and has discussed it with the Management. The Audit Committee shared the same view with the Management. Especially, deliberations were focused on the uncertainty and difficulty faced by the shipbuilding business. Notwithstanding this, the Audit Committee acknowledged the potential business development of the intelligent car parking business and the steel structure engineering and installation business in the future. These two segments of business would enable to broaden the revenue stream of the Group and together with the Company's continued effort in transforming its business. Nevertheless, the Audit Committee believes that investing in the Mining Co will help to increase revenue so as to release the loan pressure on the Company. The Audit Committee is of the view that the Group could address the going concern qualification.

UPDATED STATUS OF THE SIX VESSELS

Since 15 January 2019, the Company has spared no effort in negotiating with relative parties for the Six Vessels.

After obtaining the Arbitral Awards, the banks have started their own procedures to dispose of the Four Vessels. One of the steps for bank to dispose one of the Four Vessels (the "**Rescinded Vessel**") is to go through public auction. The Rescinded Vessel is still undergoing the legal procedures of public auction.

For the Three of the Four Vessels, the Directors have continued the negotiation with the two potential purchasers.

And for the Two Vessels, as mentioned, after the release of the 2018 Annual Results, the Management and the management of the Jiangxi Shipbuilding has been negotiating with the German Customer in relation to the continue construction agreement of the Two Vessels. The agent of the German Customer has recommended the PRC Shipbuilding Company to be the co-builder and resume the construction of the Two Vessels.

In March 2019, the Company has arranged the site visit to the PRC Shipbuilding Company to discuss technical details for the potential cooperation of the ship building of the Two Vessels. As the date hereof, the negotiation on the terms of cooperation and technical details are still carrying on. It is expected that an agreement can be reached in the first half year of 2019.

The Two Vessels

The Company released a supplemental announcement dated 24 April 2018 in relation to the annual results of the Company for the year ended 31 December 2017 to inform the public on the Board's view on the disclaimer opinions of the auditor and the status of the Six Vessels (the "**Supplemental Announcement**").

According to the announcement of the Company dated 15 January 2019 (the "**Second Update Announcement**"). The German Customer has agreed to take over the Two Vessels and continued with the construction.

As mentioned in the Supplemental Announcement, the Management has established a dedicated task force to proactively negotiate with the original customer of the Two Vessels, banks and potential customers. As at the date hereof, the Company is still under negotiation with the German customer. The parties are now negotiating and finalising on the technical details such as method of the cooperation among the agent of the German customer in the PRC, the PRC Shipbuilding Company and the Group. Relevant acquisition agreements are expected to be entered into between the parties in the first half year of 2019, and the Company will make an announcement to update the public in due course.

The Rescinded Vessel

Reference is made to the Supplemental Announcement, the Company announced that since the international shipping industry were shrinking according to Baltic Dry Index, one customer (the "**Rescinded Customer**") showed little desire to accept delivery of the Four Vessels according to the terms of the shipbuilding contracts. Finally on 27 December 2018, the Arbitral Awards were obtained. Details of which were set out in the First Update Announcement.

With reference to the First Update Announcement, (i) the Rescinded Customer was entitled to rescind or cancel the Shipbuilding Contracts; (ii) the Rescinded Customer's respective claims for repayment of the contract price paid under the Shipbuilding Contracts succeed in full; (iii) the Group shall forthwith repay and refund to the Rescinded Customer the contract price paid under the Shipbuilding Contracts; and (iv) the Group shall bear the Rescinded Customer's costs on indemnity basis as well as the cost of the Arbitral Awards. The results of the arbitration showed that the Group should bear the penalty (i.e. approximately HK$800 million) to the Rescinded Customer under the Arbitral Awards.

As disclosed in the said announcement, the Rescinded Vessel shall be disposed of by way of public auction. Relevant framework agreement was entered into by the Company, Jiangxi Shipbuilding and Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd（江蘇揚子鑫福造船有限公司）, which is an indirect subsidiary of Yangzijiang Shipbuilding (the "**Framework Agreement**").

As at the date hereof, the Rescinded Vessel is still going through the legal procedures of public auction and is expected to be finished in the first half year of 2019. The Company will make relevant announcement in relation to the auction result as and when appropriate.

The Three of the Four Vessels

Reference is made to the Second Update Announcement. Since June 2018, the Company has been actively negotiating with prospective purchasers for the Three of the Four Vessels. In January 2019, the Company had finally reached two potential purchasers after its continued effort.

As at the date hereof, the Company has identified two potential purchasers who are interested in the Three of the Four Vessels. The Company will use its best endeavour to fight for the terms which is in the best interests of the Company and its shareholders as a whole. The negotiations are expected to close on or before the third quarter of 2019.

As it takes time for the purchasers and the Company to finalise the details of the terms of acquisition contracts, the Company will strive to enter into relevant acquisition contracts as soon as possible and will inform its shareholders as and when appropriate.

The Company will continue its negotiation with relevant parties to the Six Vessels. The Rescinded Vessels is expected to be disposed of in the first half year of 2019. The Three of the Four Vessels are expected to be disposed of on or before the third quarter of 2019; and the Two Vessels is also expected to be disposed of in the first half year of 2019.

The Board believes that the plan mentioned in the above, if materialized and barring any unforeseen circumstances, can resolve and address the audit qualification (b) and (c) for the year ending 31 December 2019.

The Company will make further announcement in relation to the Six Vessels as and when appropriate.

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

Hong Kong, 2 May 2019

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.