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

References are 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, as well as the supplemental announcement of the Company dated 2 May 2019 (the "**Supplemental Announcement**"). Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Results and the Supplemental Announcement.

The Company hereby supplements information contained in the 2018 Annual Results and the Supplemental Announcement as follows:

1. DISCLAIMER ON THE INTERESTS IN ASSOCIATES

Zhejiang Ocean

As disclosed in the Supplemental Announcement, the proposed disposal of the Company's interests in Zhejiang Ocean is still in process and it is expected to be completed by the end of July 2019. The Company will publish a supplemental announcement in relation to the extension of long stop date of the disposal as and when appropriate.

Nantong Xiangyu

Reference is made to the announcement dated 27 May 2019 in relation to forced transfer of equity interest in Nantong Xiangyu pursuant to the court enforcement order. Upon completion of the forced transfer, the Group will cease to hold any equity interest in Nantong Xiangyu and Nantong Xiangyu will cease to be accounted for as an associate company of the Company. In view of this forced transfer and upon discussion with the Auditor, the Group's investment in Nantong Xiangyu will still be qualified for the year ended 2019. However, the modification opinion will be removed for the year ended 31 December 2020.

The Board considered that the audit modifications in relation to associates for the 2018 Annual Results were mainly due to miscommunication. Change of staff/key personnel and their attitude of the associates was one of the major reasons. The communication of the schedule arrangement was also another cause. The staff of associates expressed that the tight schedule requested also caused the difficulties. The Management has identified the key miscommunication issues and regards that there are still rooms to improve the communication and time allocation with the associates to avoid the same issue happen in the next financial year. The Company believes that after the improvement of more frequent communication with the associates and audit schedule arrangement amongst the associates, the Company will ensure to provide sufficient time and information to the Auditor so the concerns of the Auditor will be addressed.

The Audit Committee also understands the incident as mentioned above and has discussed it with the Management and the Auditor. Upon discussion with the Auditor, obtaining and reviewing the audited reports and the complete audit questionnaires from the auditors of the associates with immaterial value to the Group may be one of the contingency plans to address the relevant audit qualifications. However, for the associates with material interest of the Group, necessary audit procedures shall be gone through. The Company will enhance the communication with the associates, and will streamline on the investment of the Group in order to remove the relevant audit qualification for the year ending 31 December 2019.

Other than the measures to be taken by the Company as disclosed in the Supplemental Announcement, the Management under the close monitor of the Audit Committee has started to liaise with the staff of the associates and agreed that financials of those companies will be sent to the Company quarterly. It is also agreed that meetings with the associates will be held about semi-annually to ensure the efficient communication and keep the Company update the details of relevant information. The Company believes that after the improvement of more frequent communication with the associates and audit schedule arrangement amongst the associates, the Company will ensure to provide sufficient time and information to the Auditor so the concerns of the Auditor will be addressed.

2. DISCLAIMER ON IMPAIRMENT ON (I) GOODWILL AND INTANGIBLE ASSETS OF CAR PARKING SEGMENT AND STEEL STRUCTURE SEGMENT, AND(II) PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

As disclosed in the Supplemental Announcement, the 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 and the property, plant and equipment and prepaid lease payments. Due to the 2018 Annual Results has already been published, even if the Auditor received the valuation report (which appeared to be relevant to the year ended 31 December 2018), the 2018 Annual Results will not be revised and removed the audit qualifications.

The Company will engage a valuer by the early of December 2019 and will use its best endeavor to ensure the draft valuation report for the property, plant and equipment and prepaid lease payments, and the goodwill and intangible assets will be available to the Auditor by the end of February 2020.

The Management will ensure the effective communication with the staff, the Auditor and the valuer when preparing the 2019 annual results. Also, the final valuation report for the property, plant and equipment and prepaid lease payments, and the goodwill and intangible assets will be available to the Auditor on or before the publication of the 2019 annual results.

Upon discussion with the Auditor, upon review the valuation reports with satisfactory results, it is likely that the qualifications in relation to the above will be addressed and removed for the year ending 31 December 2019.

3. DISCLAIMER ON THE ADOPTIONS OF HKFRS 9 AND HKFRS 15

HKFRS 9

The discrepancy between the required information by the auditors as stated in the 2018 Annual Results and Supplement Announcement was mainly due to HKFRS 9 was first applied in the latest fiscal year. This audit qualification is only due to the unfamiliarity of the Management in handling the relevant issues in the manner that is able to meet the requirements of the Auditor. For HKFRS 9, the Management regarded that there is 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 allowance. However, the Auditor requested Management to provide the impairment assessment workings according to the expected credit loss ("**ECL**") model, including but not limited to the internal and external credit rating analysis/past due analysis/credit impaired analysis/lifetime ECL or 12 months ECL analysis. The Management is of the view that and upon discussion with the Auditor, it is more appropriate to appoint a valuer to conduct a valuation to fulfill the requirement of HKFRS 9. Due to the Management has contacted certain valuers but in view of the tight schedule, and the miscommunication between the staff of the Group and the valuers, the Company was unable to provide the required requisite information for Auditor to review and thus the audit qualification (h) existed.

In order to address the issues of HKFRS 9, the Company will engage a valuer by the early of December 2019 and expect the draft valuation report in relation to the estimated credit loss of the Group will be available to the Auditor by the end of February 2020, and the final valuation report in relation to that will be available to the Auditor on or before the publication of 2019 annual results. The Management believes that the audit qualification would be addressed and removed for the year ending 31 December 2019.

HKFRS 15

As disclosed in the 2018 Annual Results, the Group has applied the required standard to assess the impact on the cumulative effect of the revenue from contracts with customers (HKFRS 15). For HKFRS 15, the Management has started working on the revenue classification model and required breakdowns/documents in order to fulfill the requirements of HKFRS 15 for the year ending 31 December 2019, and will communicate with the Auditor to ensure that model fulfills the requirements of HKFRS 15 for the year ending 31 December 2019 and the materials are well prepared for the Auditor to review by the end of February 2020.

The Management will provide a breakdown of each revenue transaction of each segment across the year-end date in order to fulfill the requirements of HKFRS 15 in this fiscal year. Upon the setting up of the model, the Management will educate the staff in the financial departments of relevant business segments to ensure the new standard will be properly in place in this fiscal year. The Management (including the Audit Committee) believes that the audit qualification would be addressed and removed for the year ending 31 December 2019.

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. Upon discussion with the Auditor, the Auditor believes that these audit qualifications in relation to HKFRS9 and HKFRS15 would be removed for the year ending 31 December 2019.

4. DISCLAIMER ON THE GOING CONCERN

Reference is made to the Supplemental Announcement. The Company would like to update the timeline of the following steps in relation to the going concern as disclosed in the Supplemental Announcement items (a) to (f) on pages 13 to 14:

For item (a), it is expected that the continue construction agreement of the Two Vessels will be signed by the end of June 2019.

For item (b), it is expected that the disposal of 20% equity interest of Zhejiang Ocean will be completed by the end of July 2019.

For item (c), 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) have entered into the Investment Agreement pursuant to which the parties agreed to, among other things, establish Mining Co, it is expected to be completed by the end of June 2019.

For item (d), the expected completion date of the loan restructuring for the outstanding loans of HK$1 billion hopefully can be extended by the end of December 2019.

For item (e), the Company has been continuing to negotiate with certain suppliers and creditors to extend payment due date, and hopefully will be completed by the end of December 2019.

For item (f), the Company expects the agreement of issue of convertible note of approximately HK$50,000,000 in the coming 12 months will be able to be entered into by the end of June 2019, and hopefully will be completed by the end of August 2019.

Reference is made to the Supplemental Announcement, the total borrowing of the Group was HK$3,385,253,000, there are no cross defaults to other borrowings and payables.

Further Updated Status of the Six Vessels

As disclosed in the Company's announcement dated 3 January 2019 in relation to the latest progress of the Four Vessels, Yangzi Xinfu Shipbuilding (which is an indirect subsidiary of Yangzijiang Shipbuilding) has entered into a Framework Agreement to participate in the auction and agrees to place a bid of the Rescinded Vessel. The entire auction process is dominated by the bank due to the Rescinded Vessel has been pledged to the bank. Therefore, the concrete date of the legal procedures of public auction and completion of the disposal of the Rescinded Vessel depend on the bank's arrangement and the Company will assist the bank during the whole process. The Company is negotiating with the bank on the concrete timetable, and hopefully it will be completed by the end of June 2019.

For the Three of the Four Vessels, the Company is currently negotiating with two potential buyers who are interested in the Three of the Four Vessels. One of the potential buyers of Three of the Four Vessels is the Yangzijiang Shipbuilding. Yangzijiang Shipbuilding has indicated that the concrete arrangement to bid for the Three of the Four Vessels will not process until the completion of the disposal of the Rescinded Vessel. In additions, the Company is also proactively negotiating with another potential buyer who is interested in the Three of the Four Vessels. Feasibilities of alternation the Three of the Four Vessels to crane ship, bulk carrier or container ship are being examined. The Management will fight for the terms which is in the best interests of the Company and its shareholders as a whole. As it takes time for the examination and to finalise the details of the terms of framework agreement, optimistically, it is expected that a framework agreement can be reached by the end of September 2019.

And for the Two Vessels, it is expected that the formal agreement in relation to the Two Vessels will be entered into by the end of June 2019. Terms and details of co-building of the Two Vessels will be specified in the relevant formal agreement and the construction works will start in due course with the German Customer.

The Board confirms that the above supplemental information does not affect other information contained in the 2018 Annual Results and the Supplemental Announcement which shall remain correct and unchanged.

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

Hong Kong, 29 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, one non-executive director, namely, Mr. Chau On Ta Yuen; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.