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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 60% EQUITY INTEREST IN  
NANTONG HUAKAI  
HEAVY INDUSTRY COMPANY LIMITED\***

**Financial Adviser**



**Draco Capital Limited**

**THE DISPOSAL**

The Board is pleased to announce that on 13 June 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 Interest at a Consideration of RMB20 million (equivalent to approximately HK22,579,000).

Upon the Completion, the Vendor will hold 40% equity interest in the Target Company. The Target Company will cease to be a subsidiary and will become an associate of the Company.

## **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.

## **GENERAL**

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve the Share Purchase Agreement and the transactions contemplated under it.

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 4 July 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.**

## **THE DISPOSAL**

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## **The Share Purchase Agreement**

Principle terms of the Share Purchase Agreement are as follows:

### **Date:**

13 June 2019 (after trading hours)

### **Parties:**

Vendor:

China Ocean Industry (Shenzhen) Company Limited\* (中海重工(深圳)有限公司), a wholly-owned subsidiary of the Company

Purchaser:

Nan Tong Hua Chuan Jiao Tong Zhuang Bei Company Limited\* (南通華川交通裝備有限責任公司)

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 Independent Third Parties.

### **Asset to be disposed of:**

The Sale Interest, which represent 60% of the equity interest in Target Company

### **Consideration and payment terms:**

The Consideration of RMB20,000,000 (equivalent to approximately HK22,579,000) shall be satisfied by way of cash by the Purchaser to the Vendor in following manners:

- 1) RMB10,000,000 (the “**Initial Deposit**”) shall be payable by the Purchaser within 5 Business Days upon signing of the Share Purchase Agreement; and
- 2) the remaining balance of RMB10,000,000 shall be payable by the Purchaser within 5 Business Days upon completion of the Registration.

**Conditions Precedent:**

Completion shall be conditional upon fulfilment of the following condition precedent:

- 1) the Company having obtained the Shareholder's approval in respect of the Share Purchase Agreement and the transactions contemplated thereunder in accordance with applicable laws and regulations (including but not limited to the Listing Rules).

In the event that the above condition cannot be fulfilled on or before 30 September 2019, the Purchaser shall have the discretion to terminate the Share Purchase Agreement without prejudice to any other rights which both Vendor and Purchaser may have under the Share Purchase Agreement and any applicable law.

**Basis of the consideration**

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser with reference to (i) the potential relocation plan, which the operating site of the Target Company is under the relocation plan, to be executed by the government of Nantong City; (ii) the financial effect of the Disposal; (iii) the net liability position of the Target Company; (iv) the Advancement provided by the Purchaser; and (v) the other factors set out in the paragraph headed "REASONS FOR THE DISPOSAL AND USE OF PROCEEDS" below. The Directors consider that the Consideration was fair and reasonable and in the interest of the Company and its Shareholders taken as a whole.

**Completion:**

Completion shall take place on the fifth Business Day upon the condition precedent having been fulfilled.

After Completion, the Vendor shall endeavour to complete the Registration on or before 30 September 2019.

Upon the completion of the Registration, the Vendor will hold 40% equity interest in the Target Company. The Target Company will cease to be a subsidiary and will become an associate of the Company.

**Purchaser's Undertaking:**

The Purchaser shall advance a loan in the amount of RMB30,000,000 to RMB50,000,000 to the Target Company at an interest rate of 24% per annum for the purpose of repayment of debts owed by the Target Company (“**Advancement**”).

**Termination of the Share Purchase Agreement:**

In the event the Registration could not be completed by 30 September 2019, the Purchaser may elect to terminate the Share Purchase Agreement whereupon the Vendor shall repay the Advancement together with interest accrued thereon to the Purchaser.

**Personal Guarantee:**

Each of the Guarantors shall provide a personal guarantee in favour of the Purchaser to secure the obligations of the Vendor to repay the Advancement to the Purchaser. Such personal guarantee shall survive the termination of the Share Purchase Agreement.

**INFORMATION OF THE TARGET COMPANY**

The Target Company was incorporated in the PRC on 12 April 2007 with limited liability and is principally engaged in manufacture and sales of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment and bridge and building steel structures. As at the date of this announcement, the Target Company is owned as to 100% by the Vendor.

Set out below is the consolidated financial information of Target Company for the two years ended 31 December 2017 and 31 December 2018 in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants:

	<b>For the year ended 31 December 2017 (audited) HK\$'000</b>	<b>For the year ended 31 December 2018 (audited) HK\$'000</b>
Revenue	281,019	21,213
Profit/(Loss) before taxation	3,779	(279,233)
Profit/(Loss) after taxation	(4,353)	(279,657)

The audited total assets, total liabilities and net (deficits) of Target Company as at 31 December 2018 were approximately HK\$807,200,000, HK\$1,064,382,000 and HK\$(257,182,000), respectively. The carrying amount of the 60% equity interest in the Target Company (being the subject of the Disposal) as at 31 December 2018 was approximately HK\$(154,309,000).

## **INFORMATION OF THE PARTIES**

### **The Vendor**

The Vendor is a company incorporated in PRC 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 PRC with limited liability and is principally engaging in manufacturing of special purpose machinery.

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 Independent Third Parties.

## **FINANCIAL EFFECTS OF THE DISPOSAL**

The Target Company has been accounted for as a wholly-owned subsidiary company of the Company, its financial results have been consolidated in the Group's financial statements since the acquisition of the 100% equity interest in the Target Company by the Group in April 2017. Upon completion of the Disposal, the Group would hold 40% equity interest in the Target Company. The Target Company will cease to be a subsidiary and will become an associate of the Company.

The Company is expected to record a gain on Disposal. For illustrative purpose, based on (i) the carrying amount of the Group's 60% interest Target Company (being the subject of the Disposal) as at 31 December 2018 was approximately HK\$(154,309,000); (ii) the Consideration of RMB20,000,000 (equivalent to approximately HK\$22,579,000; and (iii) the estimated professional fees attributable to the Disposal of approximately HK\$1,000,000, it is expected that the Company will record a gain (before considering any tax impact) of approximately HK\$175,888,000 from the Disposal, and the gain on Disposal would be recognised in the consolidated statement of profit or loss and other comprehensive income of the Group upon the completion of the Disposal. However, the actual amount of gain or loss as a result of the Disposal to be recorded by the Company will be subject to the final audit by the auditors of the Company.

## **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.

As disclosed in the annual report of the Company for the year ended 31 December 2018, the Group has been focusing on investment in the real economy for more than a decade, especially shipbuilding business. The continued downturn in the global shipping and shipbuilding industries, as well as the recent pressure on the real economy and private enterprises in the PRC, have brought tremendous pressure to the Group's shipbuilding business and affected other businesses of the Group. In 2018, the integration of the shipbuilding industry and the redeployment of resources were the major tasks of the Group. In addition to the acceleration of the disposal of vessels with delayed delivery, and partnering up with other shipbuilding companies to continue with the construction of incomplete vessels, the Group also handled the historical issues of the shipbuilding business by steps, to shake off the burden as soon as possible, which created a good environment for its business reorganization.

In light of the above, the Directors consider that the Disposal will enable the Company to reallocate its resources to other existing businesses of the Group. In addition, the Disposal will enable the Group to reduce its liabilities and alleviate its financial positions.

The gross proceeds and net proceeds of the Subscription will be approximately HK\$22,579,000 and HK\$21,579,000 respectively. The Company intends to apply the net proceeds as general working capital of the Group.

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, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday or Sunday) on which licensed banks in PRC are generally open for business throughout their normal business hours
“Company”	China Ocean Industry Group Limited (中海重工集團有限公司), a company incorporated in the Bermuda with limited liability, the Shares of which are listed on the Main Board (Stock Code: 0651)
“Completion”	completion of the Disposal pursuant to the terms of the Share Purchase Agreement
“connected person(s)”	has the meaning as ascribed thereto under the Main Board Listing Rules

“Consideration”	the consideration payable by the Purchaser to the Vendor for the Sale Interest under the Share Purchase Agreement
“Director(s)”	the 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
“Guarantors”	Mr. Li Ming, who is a Director of the Company, Mr. Zhang Shi Hong, who is a Director of the Company and Mr. Zhu Hong Bing
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan

“Purchaser”	Nan Tong Hua Chuan Jiao Tong Zhuang Bei Company Limited* (南通華川交通裝備有限責任公司), a limited liability company incorporated in the PRC
“Registration”	registration in respect of the change in shareholder of Target Company as a result of the Disposal with the relevant PRC governmental authority
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	Equity interest of RMB150 million, representing 60% of the registered capital of RMB90 million of Target Company
“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 13 June 2019 entered into among the Vendor and the Purchaser
“Shareholder(s)”	the holder(s) 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
“Target Company”	Nantong Huakai Heavy Industry Company Limited* (南通華凱重工有限公司), a company incorporated in the PRC with limited liability

“Vendor” China Ocean Industry (Shenzhen) Company Limited\*, (中海重工(深圳)有限公司) a limited liability company which incorporated in the PRC

“%” per cent.

In this announcement, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK1.12895. Such exchange rate has been used, where applicable, for the purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

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

Hong Kong, 13 June 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.*

\* *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*