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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)

**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, as well as the supplemental announcements of the Company dated 2 May 2019 and 29 May 2019 (each a “**Supplemental Announcement**” and collectively the “**Supplemental Announcements**”). Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the Supplemental Announcements.

Further to the information disclosed in the Supplemental Announcements, the Board wishes to provide information on the latest status regarding the disclaimer of opinion in the 2018 Annual Results:

1. DISCLAIMER ON THE INTERESTS IN ASSOCIATES

Zhejiang Ocean

As disclosed in the announcement of the Company dated 30 July 2019 in relation to the disposal of Zhejiang Ocean, the circular in relation to the disposal of the Company’s interest in Zhejiang Ocean is expected to be despatched on or before 15 August 2019. On this basis, it is expected that completion of the registration of the change in shareholder of Zhejiang Ocean shall be completed by the end of September 2019.

Nantong Xiangyu

As disclosed in the Company's announcement dated 27 May 2019 ("**27 May Announcement**"), the forced transfer of the Group's 24% equity interest in Nantong Xiangyu shall take effect upon the Enforcement Order (as defined in the 27 May Announcement) being served on the relevant claimant and creditor.

Under applicable PRC law, the force transfer of 24% equity interest in Nantong Xiangyu shall be taken to have completed on the date of the Enforcement Order, i.e. 24 May 2019. Based on the records on the relevant State Administration for Industry and Commerce, the change in shareholder in respect of the 24% equity interest in Nantong Xiangyu is registered to have taken place on 24 May 2019. Accordingly, Nantong Xiangyu ceased to be an associate of the Company with effect from 24 May 2019.

2. DISCLAIMER ON THE GOING CONCERN

The Company would like to update the status of the following steps in relation to the going concern as disclosed in items (a) to (f) on pages 13 to 14 of the Supplemental Announcement dated 2 May 2019:

Further Update on Status of the Six Vessels

In respect of the Rescinded Vessel, the court has been processing the public auction of the Rescinded Vessel since March 2019, and has obtained a valuation on the Rescinded Vessel by a court-appointed valuer in about June 2019 for the purpose of setting the auction price. However, the creditor bank was of the view that the valuation had over-estimated the value of the Rescinded Vessel. As such, pursuant to the negotiation between the creditor bank and the Company in about July 2019, the court agreed to conduct the public auction based on the price agreed between the creditor bank and the Company. The public auction is expected to be completed by the end of November 2019.

As regards the Two Vessels, the Company has in principal reached agreement on the terms of the formal agreements with the new ship owners which are the potential purchaser of the Two Vessels. The Company is still negotiating with the shipping agent regarding the guarantee to be provided by the shipping agent in favour of the bank that offers advance payment guarantee to the Company. Based on the latest status, the formal agreements are expected to be entered into by end of November 2019.

Establishment of Mining Co

It was disclosed in the Supplemental Announcement dated 29 May 2019 that the establishment of Mining Co by 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) is expected to be completed by the end of June 2019.

The main objective of the Mining Co is to bid for the mining right in respect of the limestone are located in Ruichang City, the PRC. However, the relevant mining right has yet to be set up as the setting up procedure involves various governmental authorities which has lengthened the process. Accordingly, the relevant parties agreed that Mining Co will be established when the mining right is about to be set up, which is expected to be in the end of November 2019.

Fund raising opportunities

As disclosed in the Supplemental Announcement dated 29 May 2019, the Company had then intended to issue convertible note of approximately HK\$50,000,000 to improve the Company's financial position. Having approached various potential investors, the Company has received support from more investors than originally expected, and in the end two subscribers have conditionally agreed to subscribe for convertible bonds in an aggregate principal amount of HK\$110 million ("**Convertible Bonds**") as announced in the Company's announcement dated 19 July 2019.

Pursuant to the Company's announcement dated 2 August 2019, the Company is in the course of finalising certain information in the relevant circular, the circular is expected to be despatched on or before 23 August 2019. On this basis, it is expected that completion of the subscription of the Convertible Bonds will take place by the end of September 2019, whereupon the Convertible Bonds will be issued in five tranches within two months therefrom, i.e. by end of November 2019.

THE BOARD'S PLAN TO ADDRESS THE DISCLAIMER OF OPINION

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

This audit qualification (i.e. opening balances, comparative figures and related disclosures for the consolidated financial statements for the year ended 31 December 2018 (collectively, the “**2018 Opening Balances Items**”)) appeared due to the carrying forward effect from the audit qualifications on the Company's consolidated financial statements 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 in relation to the Six Vessels for the year ended 31 December 2017 which has consequential effect on the corresponding opening balances for the year ended 31 December 2018. As the arbitration of the Four vessels had been finalized during the year ended 31 December 2018, this kind of qualification of the Four Vessels are not expect to be appeared in the consolidated financial statements for the year ending 31 December 2019. However, as the negotiation with the ship owner relating to the Two Vessels had not been finalized before the year ended 31 December 2018 and audit qualification on revenue, cost of sales, contract assets, and contract liabilities of shipbuilding business (point (ii) below) was issued by the Auditor for the year ended 31 December 2018, therefore the similar audit qualifications on the opening balances, comparative figures and related disclosures in respect of the Two Vessels is expected to appear in the consolidated financial statements for the year ending 31 December 2019. If the measures as stated in point (ii) could be successfully achieved before the year ending 31 December 2019 and the audit qualification on revenue, cost of sales, contract assets, and contract liabilities of shipbuilding business could be removed for the year ending 31 December 2019, the audit qualification on opening balances, comparative figures and related disclosures in relation to the Two Vessels could be removed for the year ending 31 December 2020.

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

Upon discussion with the Auditor, if (a) the Shipbuilding Contracts will be rescinded and the penalty and repayment to ship owner could be finalized before 31 December 2019; or (b) the Two Vessels will be disposed of before the year ending 31 December 2019 with signed sales and purchase agreement, the relevant figures of revenue, cost of sales, contract assets and contract liabilities (collectively, the “**Revenue Related Items**”) of the Two Vessels would be properly reflected in the financial statements for the year ending 31 December 2019. This audit qualification would be removed for the year ending 31 December 2019.

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

Upon discussion with the Auditor, if legally-binding agreement will be entered into in relation to the disposal of the Four Vessels during the year ending 31 December 2019, the inventory would be stated at the lower of cost (including budgeted cost to complete the Four Vessels, if any) and net realizable values as at the year ending 31 December 2019. This audit qualification would be removed for the year ending 31 December 2019.

(iv) Limitation of scope on interests in associates

Upon discussion with the Auditor, if the Company has taken steps to complete the disposal of Zhejiang Ocean as soon as possible and improve the communication with the associates and the management could obtain the information for the Auditor to conduct the audit including but not limited to the audited accounts or the management accounts of the associated companies other than Zhejiang Ocean and Nantong Xiangyu for the year ending 31 December 2019, and assuming no unexpected circumstance appears, the audit qualification on the closing values of the interests in associates as at 31 December 2019 would be removed. However, as the consequential effect on the qualification on the opening balances of interests in associates at 1 January 2019, (a) the gain (loss) on disposal of Zhejiang Ocean and Nantong Xiangyu during the year ending 31 December 2019; and (b) the share of results of associates during the year ending 31 December 2019 will still be qualified but could be removed for the year ending 31 December 2020.

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

Further announcement(s) in relation to the material development of the aforesaid matter will be made by the Company as and when appropriate in accordance with the Listing Rules.

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

Hong Kong, 8 August 2019

As at the date of this announcement, the Board of the Company comprises three executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong and Mr. Zhang Weibing, 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.