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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)

DECISION OF THE LISTING COMMITTEE ON CANCELLATION OF LISTING

Financial adviser to the Company



This announcement is made by China Ocean Industry Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2) and 13.24A of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company (i) dated 30 March 2021, 30 April 2021, 31 May 2021, 18 June 2021, 30 June 2021, 30 July 2021, 31 August 2021, 30 September 2021, 29 October 2021, 30 November 2021, 31 December 2021, 31 January 2022, 28 February 2022, 31 March 2022, 3 May 2022, 31 May 2022, 6 July 2022, 8 July 2022, 29 July 2022, 2 September 2022 and 13 October 2022, in relation to, among others, the suspension of trading in the shares of the Company on the Stock Exchange; (ii) dated 13 June 2022 in relation to, among others, the judge ordered that the Petition be dismissed; (iii) dated 5 September 2022, 7 September 2022, 29 September 2022 and 30 September 2022 in relation to, among others, the publication of the audited annual results for the year ended 31 December 2020 and 2021 and the interim results for the six months ended 30 June 2021 and 2022 (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

DECISION OF THE LISTING COMMITTEE ON CANCELLATION OF LISTINGS

On 23 December 2022, the Company received a letter (the “**Letter**”) from the Stock Exchange stating that the Listing Committee of the Stock Exchange (the “**Listing Committee**”) has decided to cancel the Company’s listing under Rule 6.01A(1) of the Listing Rules as the Company failed to satisfy the Resumption Guidance imposed by the Stock Exchange and resume trading in the Shares by 30 September 2022 (the “**Delisting Decision**”).

The Listing Committee arrived at its decision for the following reasons:

1. The Listing Committee noted that the Company had the winding-up petition against it withdrawn and there was no ongoing winding up petition or order against the Company. Hence, it had complied with this resumption guidance of having the winding up petition (or winding up order, if made) against the Company withdrawn or dismissed. However, as explained below, the Listing Committee considered that the Company had failed to fulfill any of the other resumption guidance and, hence, the Stock Exchange was entitled to delist the Company under Rule 6.01A.

RG1 – publish all outstanding financial results required under the Listing Rules and address any audit modifications

2. The Listing Committee was not satisfied that this RG was met. The Company had published all outstanding financial results required under the Listing Rules. However, Asian Alliance (HK) CPA Limited, the Company’s auditors (the “**Auditors**”) issued a disclaimer of opinion on the Company’s annual results for the year ended 31 December 2021 (the 2021 Annual Results) with audit modifications on (i) limitation of scope of inventories of shipbuilding business and (ii) material fundamental uncertainties relating to going concern remained unresolved.
3. For the same reason, trading in the Company’s shares was also required to remain suspended under Rule 13.50A.

RG2 (Demonstrate its compliance with Rule 13.24)

4. The Committee was not satisfied that this RG was met. The Committee did not consider that the Company had a sufficient level of operations and assets of sufficient value to support its operations to meet Rule 13.24.
 - (i) The Company had for years maintained a very low level of operating activities and revenue which had been insufficient to cover its corporate expenses (including its administrative and finance costs). This current scale of operations did not represent a temporary downturn, particularly given the Company's failure to demonstrate to have solid business strategies or model that could continuously secure sufficient customers and generate sufficient revenue and profits to support the viability and sustainability of the business or the lack of a credible financial forecast to demonstrate its business prospect.
 - (ii) The Company did not have sufficient assets (including working capital) to support itself to operate a viable and sustainable business. In particular, it had for years recorded a net liability and a net current liability and failed to develop a clear plan to resolve the liquidity issue.

On operation

5. The Company had been operating at a small scale. For 2021 and the first half of 2022 ("**1H2022**"), the Company recorded total annual revenues of HK\$39 million (excluding HK\$76.5 million revenue from sales of rescinded vessels) and HK\$13 million respectively. These amounts were far from sufficient to cover the Group's administrative expenses and finance costs totalling over HK\$300 million per year, resulting in net losses of HK\$395.6 million and HK\$146 million for 2021 and 1H2022 respectively.
6. For the following reasons, the Listing Committee did not consider any of the Company's businesses to be a business which was of substance, viable and sustainable.

(I) *Shipbuilding Business*

7. Commenced in 2008, this business used to manufacture the entire vessels of medium to large size for its customers in the past. However, in or about 2017, this original business effectively ceased as the Company became no longer financially feasible to conduct large scale shipbuilding work due to its financial constraints. The Company had since changed its business model by deploying its land and factories as docks and storage facilities to earn docking and rental income. With the remaining available resources, the Company provided vessel modification and other processing (e.g. coating, painting and welding) services of much smaller scale.
8. Under the new business model,
 - (i) The Shipbuilding Business maintained a very low level of operation. From 2018 onwards, it generated annual revenues of not more than HK\$23 million (including the revenue of HK\$15.1 million for 2021 excluding HK\$76.5 million from the non-recurring sales of the rescinded vessels). For the six months ended 30 June 2022, this segment generated revenue of HK\$9.0 million. A business of this scale was not considered to be viable and sustainable.
 - (ii) In addition, it had recorded substantial segment loss per year since 2017, particularly taking account of the substantial finance costs allocated to this business segment. For 2020, 2021 and 1H2022, it incurred segment losses of HK\$370 million, HK\$204 million and HK\$91.1 million respectively. This reinforced the concern that the business was not viable and sustainable.
9. The Company claimed that in July and August 2022, this business recorded total sales of HK\$23.6 million, making the total (unaudited) revenue of the business for the eight months ended 31 August 2022 to be HK\$32.6 million and, together with other business segments, the Group's gross profit of HK\$9.3 million. The Listing Committee did not consider this sufficient to demonstrate the viability and sustainability of the business.
10. First, the Group's gross profit of HK\$9.3 million for the eight months ended 31 August 2022 was far from sufficient to cover its corporate expenses and/or finance costs which, in light of the figures for the past five years, amounted to over HK\$300 million per year (including both allocated and unallocated to each business segment). The Company had not demonstrated that such expenses and costs for 2022 were substantially reduced.

11. Second, the Company had not explained how it achieved the revenue growth, for instance how it solicited and secured the customers, in July and August 2022, and had not demonstrated that the revenue amount generated in these two months was sustainable going forward.
12. Third, the signed contracts mentioned in the Company's submission were insufficient to support a viable and sustainable business.
13. Fourth, going forward, the Company had not demonstrated to have a detailed business plan on how to expand or develop this business or a credible forecast supported by a concrete and credible business plan with projections based on signed contracts and support customer demand.
14. In these circumstances, the Listing Committee did not consider the Shipbuilding Business to be viable and sustainable.

(II) Steel Structure Business

15. The Company acquired the Steel Structure Business in 2017 and recorded revenue of HK\$281 million by providing steel structure products for large-scale construction projects. However, the business performance plunged in 2018 due to the lack of funds and other factors and recorded revenue of HK\$21.2 million only. Further in 2019, the subsidiary principally engaged in this business was held bankrupt by the PRC court, resulting in the Company losing control over the subsidiary. In view of the above, the Company had fully impaired the goodwill and intangible assets associated with this business by 2019. Subsequently, the scale of this business had remained low with annual income less than HK\$23 million since 2019. In particular, it only generated sales of HK\$2.0 million in the first half of 2022.
16. Based on the unaudited management account, this business only generated sales of HK\$12.7 million during the eight months ended 31 August 2022 (the annualized income was equivalent to approximately HK\$19.1 million). The business was only supported by three secured contracts with expected annual sales of HK\$17.6 million in total. This showed that the Company was no longer capable of taking up large-scale construction projects. Coupled with the lack of a concrete business plan or a credible forecast, the Listing Committee was not satisfied that this business was viable and sustainable.

(III) Intelligent Car Parking Business

17. In 2019, the Company scaled down this business by closing part of the production facilities and reducing the number of staff, and this business only recorded revenue of HK\$7.6 million as a result. Despite a temporary turnaround in 2020, the operation scale had remained low. In particular, it only generated revenue amounted to HK\$4.4 million for the eight months ended 31 August 2022. Further, the Company had only secured one contract in the amount of HK\$12.6 million. Coupled with the lack of a detailed plan on whether or how it would expand the scale, the Listing Committee did not consider this business was of substance, viable and sustainable.

On assets

18. The Listing Committee was not satisfied that the Company had a sufficient level of assets to support its operations to warrant a continued listing under Rule 13.24.

RG3 – inform the market of all material information for the Company’s shareholders and other investors to appraise the Company’s position

19. Fulfillment of this resumption guidance was to be assessed after the Company had met all the other resumption guidance. For the reasons mentioned above, this RG was not fulfilled.
20. In these circumstances, the Stock Exchange was entitled to delist the Company under Rule 6.01A.

RIGHT OF REVIEW AND POTENTIAL REVIEW REQUEST OF THE LC DECISION

Under Chapter 2B of the Listing Rules, the Company has the right to have the Delisting Decision referred to the Listing Review Committee of the Stock Exchange (the “**Listing Review Committee**”) for review within seven business days of the issue of the Delisting Decision (i.e. on or before 6 January 2023) (the “**LRC Review**”). It is indicated in the Letter that, if the Company decides not to request to have the LRC Review, the last day of the listing of the Shares will be on 11 January 2023 and the listing of the Shares will be cancelled with effect from 9:00 a.m. on 12 January 2023.

The Company is in the process of reviewing the Delisting Decision and is discussing the same internally and with the professional advisers, and will consider whether to lodge a request for the Delisting Decision to be referred to the Listing Review Committee for review. The Directors would like to remind the Shareholders and potential investors of the Company that (i) the Company may or may not proceed with the review by the Listing Review Committee; and (ii) the outcome of such review, if undertaken, is uncertain. Further announcement(s) will be made by the Company as and when appropriate and in accordance with the requirements of the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2021 and will remain suspended until the Company fulfills the Resumption Conditions.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares. When in doubt, shareholders and potential investors of the Company are advised to seek advice from professional or financial advisers.

By the Order of the Board
CHINA OCEAN INDUSTRY GROUP LIMITED
Zhang Shi Hong
Chairman

Hong Kong, 28 December 2022

As at the date of this announcement, the Board of the Company comprises two executive directors, namely, Mr. Zhang Shi Hong (Chairman) and Mr. Zhang Chuanjun; one non-executive director, namely, Mr. Ding Lei; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.