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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 2019

References are made to the annual results announcement and the annual report of China Ocean Industry Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2019 (the "**2019 Annual Results**") published by the Company on 18 August 2020. Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2019 Annual Results.

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide certain additional information in relation to the 2019 Annual Results, inter alia, (i) the disclaimer of opinion of the Company's financial statements for the year ended 31 December 2019 and the audit qualifications described in the auditors' opinion (the "**Disclaimer of Opinion**"); (ii) material differences between the audited results (the "**Audited Results**") and the unaudited results (the "**Unaudited Results**") of the Company for the year ended 31 December 2019 (the "**Material Differences**"); and (iii) business operations of the Group.

THE DISCLAIMER OF OPINION, THE MANAGEMENT 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) is in relation to opening balances, comparative figures and related disclosures (collectively, the "**Opening Balances Items**"). The auditor of the Company (the "**Auditor**") expressed in the 2019 Annual Results that this qualification existed because of the significance of the possible effect of the limitations on the scope of its audit and the material uncertainties relating to the going concern basis.

In the view of the Auditor and as disclosed in the 2019 Annual Results, any adjustments found to be necessary to the Opening Balances Items as at 1 January 2019 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2019. Since the consolidated financial statements of the Company had not incorporated any of these adjustments in the 2019 Annual Results, the Auditor was of the view that there was limitation of scope on the Opening Balances Items.

After discussion with the Auditor, the management of the Group (the "**Management**") understood the views and concerns of the Auditor in relation to the Opening Balances Items. The Management had taken various measures and actions to address the concerns raised by the Auditor in relation to the Opening Balances Items which had been disclosed in the supplemental announcements of the Company dated 2 May 2019, 29 May 2019 and 8 August 2019 (the "**Supplemental Announcements**") in relation to the annual results of the Company for the year ended 31 December 2018 (the "**2018 Annual Results**").

The audit committee of the Company (the "**Audit Committee**") also understood the view of the Auditor and discussed it with the Management. The Audit Committee shared the same view with the Management, and suggested the Management to address the audit qualification in relation to Opening Balances Items as soon as possible so as to remove those qualifications in the 2019 Annual Results.

As discussed with the Auditor, the audit qualification (a) on certain Opening Balances Items may still have carry forward impact to the financial year 2020 if the underlying qualifications were not addressed during the financial year 2019. If the underlying qualifications were not addressed during the financial year 2019, the Opening Balances Items will still be qualified for the year ending 31 December 2020 and if there is no qualification of the relevant item for the period ending 31 December 2020, it will be removed in the year ending 31 December 2021. The Management is of the view that the audit qualification (a) could be removed for the year ending 31 December 2022.

(b) Limitation of scope of cost of sales and inventories of shipbuilding business

The Auditor expressed in the 2019 Annual Results in relation to the audit qualification of cost of sales and inventories of shipbuilding business. The Auditor had not been able to obtain sufficient information and explanation from the Management as to (i) whether inventories related to shipbuilding business as at 31 December 2019 were stated at the lower of cost and net realisable value; and (ii) whether cost of inventories recognised as expense, included in cost of sales in relation to shipbuilding business, were accurately measured.

As disclosed in the 2019 Annual Results, certain vessels were disassembled and some of the parts (the "**Reused Parts**") were used for the construction of other new vessels (the "**New Vessels**"). Some of the parts of those vessels were remained as inventories (the "**Unused Parts**") as at 31 December 2019. From the point of view of the Auditor, values of the Reused Parts were difficult to be identified and measured as there were different purchase time which would affect the accuracy of the cost of sales for the New Vessels during the year ended 31 December 2019. The Management was in the opinion that the figures in relation to cost of sales of the New Vessels and the Unused Parts as inventories were prepared with basis as all receipts of the Reused Parts were properly kept. However, in considering that the Reused Parts and the Unused Parts had been purchased and used for years and there was no basis to ascertain the written-down value, the Auditor considered there was limitation of scope on the cost of sales for the year ended 31 December 2019 and inventories as at 31 December 2019 of shipbuilding business.

The Management spared no efforts in working out solutions for the Two Vessels as disclosed in the Supplemental Announcements. The Management was from time to time looking for potential buyers for the Two Vessels. The Group approached a customer (the "**German Customer**") in 2019, but during the stage of negotiation, both parties could not compromise on the details of the acquisition contract. The Two Vessels were rescinded by the German Customer as notified by the agent of the Group (the "**Agent**") and the Group continued to approach different potential buyers through the Agent and by itself. In late 2019, the payment obligation of the Two Vessels was settled and in early 2020, the Group entered into a contract with the Agent and its guarantors in relation to, among other things, specifying payment obligations of the Company and locating new owner of the Two Vessels (the "**Contract**"). The Agent would procure potential customers to purchase the Two Vessels. As at the date hereof, no agreement has been reached in relation to the sale and purchase of the Two Vessels. The Auditor was of the view that if new sales contract with customers in relation to the Two Vessels is entered into, the values of the Two Vessels can be ascertained and the audit qualification in relation to the Two Vessels can be addressed accordingly.

On the other hand, as disclosed in the Supplemental Announcements, the Company reached another two potential purchasers during 2019 for the three of the Four Vessels. However, due to the then business environment, both parties could not compromise the terms of acquisition contracts. Therefore, this proposed transaction was not completed. As the banks have made advanced payment on behalf of the Group to the previous customer of the Four Vessels with the aggregate amount of approximately US$112.1 million (with the interest accrued up to 31 December 2019),the Group was informed by the banks that the Four Vessels would be subject to public auction. After discussion with the relevant creditor banks and financial institutions, the Four Vessels could be disassembled and some parts were contributed for the New Vessels. In light of this, the Unused Parts were remained as work-in-progress in the inventory of the Group. The Management have used their best endeavours to fight for the terms which is in the best interests of the Company and its shareholders as a whole in relation to the bidding and delivery terms from relevant creditor banks and financial institutions. On 11 December 2020, the Company was informed that two of the Four Vessels had been successfully sold by way of auction at a consideration of approximately RMB37 million and approximately RMB13 million respectively. However, there are still another two remaining vessels pending auction. The Group could not control the process of the auction, and therefore, the auction schedule of the remaining vessels was still uncertain at this moment. Once finalising the schedule and relevant agreements, the net realisable value of all of the vessels can be ascertained and can be reasonable estimated, and the audit qualification in relation to the Unused Parts can be addressed accordingly.

The Management were of the view that the main reason of not solving the audit qualification in relation to the Two Vessels and the Four Vessels was because of the failure of negotiation with previous potential buyers.

The Audit Committee understood this particular situation of the Company and concurred with the view of the Management and the Auditor viewed that once the Unused Parts are already used up for construction of other vessels, or values of those vessels are successfully sold out, or the net realisable value of the Unused Parts or vessels can be ascertained and would be reasonable estimated during the financial year 2020, this qualification can be addressed and removed. Per the discussion with the Auditor, once the net realisable value of the Unused Parts as at 31 December 2020 could be ascertained and could be reasonably estimated, the audit qualification of the Unused Parts would only have consequential effect on the cost of sales and opening and comparative figures for the year ending 31 December 2020, and this audit qualification could be addressed and removed in the year ending 31 December 2021.

(c) Limitation of scope on share of profit of associates and assets classified as held for sale

The audit qualification (c) in relation to the share of profit of associates and assets classified as held for sale was referring to the associates of the Company, Zhejiang Ocean Leasing Company Limited*（浙江海洋租賃股份有限公司）(“**Zhejiang Ocean**”). As at 31 December 2019, the 20% equity interest in the Zhejiang Ocean Group with carrying amount of approximately HK$160,000,000 was classified as assets held for sale as at 31 December 2019.

Since 28 February 2019, the Company announced a proposed disposal of 20% equity interest in Zhejiang Ocean, and until 31 December 2019, such share purchase agreement was lapsed. As the Company was from time to time searching for potential buyers, and due to the intention of disposing of the interest held in Zhejiang Ocean, the staff continued not to be cooperative to provide necessary information for the Auditor and assist to arrange for the site visit by the Auditor. Therefore the Auditor could not perform any audit work on Zhejiang Ocean for the 2019 Annual Results.

On 20 June 2020, the Company received a notice of conclusion of enforcement dated 16 June 2020 issued by the Intermediate People's Court of Zhoushan City, Zhejiang Province*（浙江省舟山市中級人民法院）(the "**Zhoushan Court**") pursuant to which the Zhoushan Court ordered the Group to transfer its 20% equity interest in Zhejiang Ocean in satisfaction of the outstanding sum owed to Zhoushan Ocean Leasing New Energy Limited*（舟山海租新能源有限公司）(the "**Zhoushan Ocean**").

Therefore, the Management and the Auditor were of the view that this audit qualification (c) would have carryforward effect on the opening balances in relation to the assets classified as held for sales and loss on disposal of associate for the year ending 31 December 2020 and would affect relative comparative figures for the year ending 31 December 2021 only. It could finally be resolved and removed in the year ending 31 December 2022.

The Audit Committee understood the view of the Auditor and discussed it with the Management and realised that this qualification was arose by court order and its carryforward effect for the year ending 31 December 2020.

(d) Limitation of scope on share of loss and gain on disposal of an associate

The audit qualification (d) in relation to the share of loss and gain on disposal of an associate was referring to the associate of the Company, Nantong Xiangyu Ocean Equipment Company Limited ("**Nantong Xiangyu**").

As disclosed in the announcement of the Company dated 27 May 2019 and the 2019 Annual Results, the Group received an enforcement order dated 24 May 2019 (the "**Enforcement Order**") issued by the People's Court of Rugao City, Jiangsu Province*（江蘇省如皋市人民法院）("**Rugao Court**") pursuant to which the Rugao Court ordered the Group to transfer its 24% equity interest in Nantong Xiangyu to its creditors in satisfaction of the outstanding sum owed to its creditors in an aggregate amount of RMB59,920,000. The Management regarded it as a forced transfer and had to follow the Enforcement Order.

Audit qualification in relation to Nantong Xiangyu has appeared since the financial year ended 31 December 2018. The Auditor expressed in the 2019 Annual Results that they had no sufficient information and explanations from the management of Nantong Xianyu and the Directors as to whether the Group's share of loss of Nantong Xianyu of approximately HK$8,480,000 included in share of loss of associates and share of other comprehensive income of approximately HK$328,000 included in share of other comprehensive expenses of associates for the year ended 31 December 2019 and thus the carrying amount of the interest in Nantong Xianyu as at the Disposal Date (i.e. 24 May 2019) were fairly stated. Consequently, the Auditor was not able to carry out procedures which it considered necessary as to whether the gain on disposal of Nantong Xianyu during the year ended 31 December 2019 of approximately HK$66,408,000 arising thereon was fairly stated.

In light of the above, the Company was unable to arrange audit in Nantong Xianyu. The Management could only provide to the Auditor the latest management accounts received from Nantong Xiangyu. The Auditor was concerned that it was an unaudited management accounts and the gap between 31 December 2017 and the Disposal Date which caused to this qualification.

The Auditor was of the view that the qualification in relation to the relative comparative figures may still appear in the annual results of the Company for the year ending 31 December 2020, and can be addressed and removed for the year ending 31 December 2021.

The Management and Audit Committee understood the situation in relation to Nantong Xiangyu and the view of the Auditor in this regard.

(e) Limitation of scope on loss on deconsolidation of Nantong Huakai Heavy Industries Limited Company ("Nantong Huakai") and its subsidiaries (collectively known as the "Nantong Huakai Group")

The Auditor expressed audit qualification in relation to the loss on deconsolidation of the Nantong Haukai Group in the 2019 Annual Results. The Auditor was not able to carry out procedures which it considered necessary on the books and records of the Nantong Huakai Group, to satisfy itself as to the existence, ownership, completeness, accuracy, valuation and classification of its total assets of approximately HK$873,859,000 and total liabilities of approximately HK$805,305,000 and the cumulative exchange reserve and investment revaluation reserve of approximately HK$5,181,000 (debit balance) and HK$9,240,000 as at the Deconsolidation Date (i.e. 17 July 2019) and of its loss of approximately HK$62,337,000 for the period from 1 January 2019 to the Deconsolidation Date. Consequently, the Auditor was not satisfied whether the loss on deconsolidation of approximately HK$142,513,000 arising thereon was fairly stated.

References are made to the announcement of the Company dated 19 July 2019 and the 2019 Annual Results in relation to, among other things, bankruptcy of Nantong Huakai. The creditors of Nantong Huakai had applied to the Rugao Court for the bankruptcy and liquidation of Nantong Huakai on the ground that Nantong Huakai was unable to pay its outstanding debt.

Nantong Huakai received the Judgment dated 17 July 2019 from the Rugao Court, in which the Rugao Court held that the application of the creditors of Nantong Huakai complied with the legal requirements and accepted the creditors' application for bankruptcy proceedings against Nantong Huakai. On 20 December 2019, the Rugao Court held, among other things, Nantong Huakai bankrupted. On 26 December 2019, the Rugao Court held, upon application made by the Bankruptcy Administrator of Nantong Huakai, the Nantong Huakai Group bankrupted in a consolidated manner.

The Management was of the view that upon the Bankruptcy Administrator took over Nantong Huakai to arrange allocation of resources in relation to the Bankruptcy, the directors of Nantong Huakai Group had totally lost control of the Nantong Huakai Group. As such, in accordance with Hong Kong Financial Standard 10 *Consolidated Financial Statements*, Nantong Huakai Group was no longer a subsidiary of the Company, and thus the Group had deconsolidated the Nantong Huakai Group in the Group's consolidated financial statements on 17 July 2019.

The Management has contacted the Bankruptcy Administrator for audit purpose but no response was received. The Auditor was unable to perform the audit of the financial statements of the Nantong Huakai Group from 1 January 2019 to the Deconsolidation Date, the Auditor had limitation of scope of the audit of the financial statements of the Nantong Huakai Group and to verify the financial performance from 1 January 2019 to the Deconsolidation Date and the financial position as at the Deconsolidation Date in this regard.

The Audit Committee understood the situation and discussed it with the Management. The Auditor was of the view that the qualification in relation to the relative comparative figures may still appear in the annual results of the Company for the year ending 31 December 2020, and can be addressed and removed for the year ending 31 December 2021.

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

(g) Limitation of scope on impairment and depreciation on property, plant and equipment and right-of-use assets

The Auditor expressed its audit qualifications on (i) impairment on goodwill and intangible assets, and amortisation of intangible assets of intelligent car parking and automotive device business segment; and (ii) impairment and depreciation on property, plant and equipment and right-of-use assets (collectively, the "**Relevant Assets**"). The negative results of the prior financial year have brought forward to this financial year leading to the qualifications on the Relevant Assets.

As disclosed in the 2019 Annual Results, the Auditor had not been able to obtain sufficient appropriate audit evidence as to whether the opening balances of goodwill and intangible assets of intelligent car parking and automotive device business segment as at 1 January 2019 of approximately HK$103,156,000 and HK$100,506,000, respectively, were free from material misstatements and hence whether the impairment loss on goodwill and intangible assets, and amortisation of intangible assets of intelligent car parking and automotive device business segment, amounting to approximately HK$104,733,000 and HK$65,500,000, and HK$36,862,000, respectively, were free from material misstatement for the year ended 31 December 2019.

Also, the Auditor had not been able to obtain sufficient appropriate audit evidence as to whether the opening balances of property, plant and equipment and right-of-use assets (which was reclassified from prepaid lease payments upon adoption of Hong Kong Financial Reporting Standard 16 *Leases* ("**HKFRS 16**") on 1 January 2019) as at 1 January 2019 of approximately HK$442,726,000 and HK$358,964,000, respectively, were free from material misstatement and hence whether the impairment loss on property, plant and equipment and right of-use assets, amounting to approximately HK$17,672,000 and HK$Nil, respectively, and depreciation of property, plant and equipment and right-of-use assets, amounting to approximately HK$41,022,000 and HK$16,576,000, were free from material misstatement for the year ended 31 December 2019.

The Management and the Audit Committee agreed with the Auditor and were of the view that it was reasonable that the audit qualifications related to the Relevant Assets appeared in this financial year.

As compared to the audit qualifications (e) and (g) in the 2018 Annual Results, the Auditor further qualified amortisation of intangible assets in audit qualification (f), and depreciation on property, plant and equipment and right-of-use assets in audit qualification (g) respectively in the 2019 Annual Results. It was because the amortisation and depreciation was determined based on their opening balances of financial year 2019, which closing balances had been qualified by the Auditor in the financial year 2018. In addition, the Management understood that the nature of prepaid lease payments is the same as right-of-use assets under HKFRS 16.

The Company had taken actions according to its planned time schedule as announced in the Supplemental Announcements. To prevent tight schedule like the previous year, it discussed with the independent professional valuers (the "**Valuers**") for evaluating the Relevant Assets in early 2020, and provided the Company's workings and assessments to the Valuers on the Relevant Assets.

The Audit Committee reviewed the Company's assessments on the impairment on the Relevant Assets and the valuations performed by the Valuers. They were of the view that the assessments and valuations were done on a reasonably basis which was suitable as reference for audit.

The Auditor also reviewed the Company's assessments or the valuations on the recoverable amounts of the Relevant Assets as at 31 December 2019, and was of the view that they were reasonable and free from material misstatement.

The Management provided relevant valuation reports containing working on the methodology, calculation, assumptions and other relevant information for each respective figure to the Auditor, and the Auditor was satisfied with the results. The Company plans to do the same in the financial year 2020. Upon discussion with the Auditor, they were of the view that the audit qualifications (f) and (g) would be addressed and removed for the year ending 31 December 2020, except for the qualification on the comparative figures of impairment loss, amortisation and depreciation of the Relevant Assets which would be addressed and removed for the year ending 31 December 2021, if the Auditor are satisfied with the results of the valuation reports in relation to the Relevant Assets in the coming financial year.

(h) Limitation of scope on expected credit loss ("ECL") for financial assets

The Auditor expressed its limited scope on ECL for financial assets. The Company continued to adopt HKFRS 9 *Financial Instruments* in the 2019 Annual Results as if last year. However, as similar audit qualification was appeared in the prior year, the negative results of the prior financial year has brought forward to this financial year leading to this qualification.

As disclosed in the 2019 Annual Results, the Auditor had not been able to obtain sufficient appropriate audit evidence as to whether the opening balances of the allowance for credit losses of trade receivables, other receivables, amounts due from associates, and finance lease receivables as at 1 January 2019 of approximately HK$4,135,000, HK$143,690,000, HK$Nil, and HK$292,000, respectively, were free from material misstatement and hence whether the impairment loss on trade receivables, other receivables, amounts due from associates and finance lease receivables amounting to approximately HK$6,505,000, HK$41,846,000, HK$99,000 and HK$3,625,000, respectively, were free from material misstatement for the year ended 31 December 2019.

The Company followed its planned time schedule as announced in the Supplemental Announcements. In order to avoid tight schedule and enable flexibility for the Group in case of any accident, the Company discussed with the Valuers on ECL for financial assets in early 2020. The Management provided the Company's workings and assessments to the Valuers on relevant financial assets.

The Audit Committee reviewed the Company's assessments on the allowance for credit loss. They were of the view that the assessments were done on a reasonably basis which was suitable as reference for audit.

The Auditor also reviewed the assessments done by the Valuers on the allowance for credit loss as at 31 December 2019, and was of the view that they were reasonable and free from material misstatement.

The Management provided relevant ECL report containing working on the methodology, calculation, assumptions and other relevant information for each respective figure to the Auditor, and the Auditor was satisfied with the results. The Company will do the same in the next financial year. Upon discussion with the Auditor, it is believed that this audit qualifications (h) will be addressed and removed for the year ending 31 December 2020, except for the comparative figures of impairment losses under expected credit loss model which will be addressed and removed for the year ending 31 December 2021, if the Auditor are satisfied with the results of the ECL assessment for financial assets in the coming financial year.

(i) Material fundamental uncertainties relating to going concern

Based on the 2019 Annual Results, the Group reported loss attributable to the owners of the Company of approximately HK$1,088,011,000 for the year ended 31 December 2019. As of that date, the Group's current liabilities exceeded its current assets by approximately HK$3,585,009,000 and the Group had net liabilities of approximately HK$3,229,631,000, of which total borrowings amounted to approximately HK$3,235,678,000, while its bank balances and cash amounted to approximately HK$9,349,000 only. The Auditor was uncertain about the ability of the Group to maintain adequate future cash flow and the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis were proper and appropriate.

In addition, the Group defaulted on the repayment of certain borrowings and payables on their respective due dates as at 31 December 2019. Those creditors including banks had taken legal actions against the Group to recover the debts and applied for the winding up petition against the Company.

MEASURES TAKEN BY THE GROUP TO ADDRESS THE QUALIFICATION IN RELATION TO GOING CONCERN

References are made to the Supplemental Announcements in relation to, among other things, the proposed measures to be taken to address the qualification in relation to going concern (the "**2019 Planned Measures**"). During the year ended 31 December 2019, the Company used its best endeavour to implement each of the 2019 Planned Measures as follows:

(i) *The Management and the management of the Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("**Jiangxi Shipbuilding**") had been negotiating with the German Customer in relation to the continue construction agreement of the Two Vessels. The Directors had also communicated with the agent of the German Customer in the PRC, and that agent had recommended another shipbuilding company in the PRC (the "**PRC Shipbuilding Company**") to be the co-builder to resume the construction of the Two Vessels. It was expected that the continue construction agreement of the Two Vessels would be signed by the end of June 2019.*

Although the German Customer rescinded the Two Vessels in 2019, the German Customer would still like to purchase the Two Vessels with a new purchase price. The Management is negotiating with the Agent and the German Customer. The negotiation process is interrupted by the outbreak of COVID-19 as there are travel restrictions in country boarder. Further negotiation process and the entering into of relevant contracts are subject to the German Customer coming to the PRC. In order to reduce losses as much as possible, the Management has been using its best effort to negotiate with the other parties. The Management once again negotiated with the Agent in the PRC in November 2020. The Management will as soon as possible strive to reach an agreement among the parties to come up with a solution for the Two Vessels.

(ii) *Reference was made to the announcement of the Company dated 28 February 2019 in relation to the disposal of 20% equity interest of Zhejiang Ocean and it was expected that the maximum consideration would be approximately RMB170,000,000 and the disposal of 20% equity interest of Zhejiang Ocean was expected to be completed by the end of July 2019.*

Disposal of equity interests in associate company

References are made to the announcements of the Company dated 28 February 2019, 6 March 2019, 30 May 2019, 30 July 2019, 31 August 2019, 30 October 2019, 21 November 2019, 17 December 2019, 31 December 2019 and 9 January 2020, and the circular of the Company dated 14 August 2019 in relation to, among other things, the disposal of 20% equity interest in Zhejiang Ocean. The Company had tried hard to dispose of Zhejiang Ocean during the year ended 31 December 2019. However, as certain conditions precedent under the share purchase agreement dated 28 February 2019 (as amended and supplemented by the first supplemental agreement dated 30 May 2019, the second supplemental agreement dated 30 July 2019, the third supplemental agreement dated 31 August 2019, the fourth supplemental agreement dated 30 October 2019 and the fifth supplemental agreement dated 20 November 2019) had not been fulfilled or waived (where applicable) on or before the long stop date, the Company and the purchaser thereof had not agreed on any further extension of the long stop date, such share purchase agreement had lapsed on 31 December 2019 pursuant to the terms thereof.

As disclosed in the 2019 Annual Results, on 20 June 2020, the Company received a notice of conclusion of enforcement dated 16 June 2020 issued by the Zhoushan Court pursuant to which the Zhoushan Court had ordered the Group to transfer its 20% equity interest in Zhejiang Ocean in satisfaction of the outstanding sum owed to Zhoushan Ocean. The Group had no choice but to follow the court order.

The outstanding sum in the amount of approximately RMB132.30 million owed to Zhoushan Ocean by Merge Limited and taxes, court charges, service charges and other related expenses had been settled. Upon completion of the Forced Transfer, the Group had ceased to hold any equity interest in Zhejiang Ocean and Zhejiang Ocean had ceased to be accounted for as an associate company of the Company.

Disposal of equity interests in subsidiary

In addition to the disposal of 20% equity interest of Zhejiang Ocean, the Group also tried to dispose of a subsidiary of the Company, Nantong Huakai, to improve its financial position. References are made to the announcements of the Company dated 13 June 2019, 12 July 2019, 19 July 2019, 30 September 2019 and 27 December 2019. The Group entered into a share purchase agreement dated 13 June 2019 (as supplemented and amended by the supplemental agreement dated 30 September 2019) with a purchaser in relation to the disposal of 60% equity interest in Nantong Huakai by the Group at a consideration of RMB20 million. On 19 July 2019, Nantong Huakai received a judgement dated 17 July 2019 from the Rugao Court which the creditors of Nantong Huakai had applied to the Rugao Court for the bankruptcy and liquidation of Nantong Huakai on the ground that Nantong Huakai is unable to pay its outstanding debt. On 26 December 2019, the Rugao Court held, upon application made by the Bankruptcy Administrator of Nantong Huakai, the subsidiaries of Nantong Huakai and Nantong Huakai bankrupted in a consolidated manner. In light of such bankruptcy, the Company expected that the share purchase agreement dated 13 June 2019 (as supplemented and amended by the supplemental agreement dated 30 September 2019) lapsed on 31 December 2019 and as a result the Company would not proceed any further with such disposal.

During the past financial year, the Group had proactively disposed of its associated company and subsidiary to increase cash flow of the Group. However, different issues have been raised which led to failure to complete those disposals. Although surrounded by abovementioned unpleasant experiences, the Group will not give up in the future and continue to explore other potential opportunities to improve the financial position of the Group.

*(iii) As disclosed on page 44 in the 2018 Annual Results, on 23 November 2018, Yangzijiang Shipbuilding (Holdings) Ltd. ("**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 a company in the PRC ("**Mining Co**"). The Group was expected to receive a loan in the amount of RMB250,000,000 from one of the cooperating parties. The parties had entered into the investment agreement abovementioned and it was expected to be completed by the end of June 2019.*

Due to the adjustment on strategic development of Yangzijiang Shipbuilding, the cooperation had also been modified accordingly. According to the latest development, there will be another state-owned enterprise replacing Yangzijiang Shipbuilding to cooperate with the Group. It is expected that such cooperation will be finalised and relevant agreement will be executed very soon.

(iv) 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 would reduce the net current outflow pressure of the Group and the current liabilities of the Group would 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 was negotiating with lending banks in relation to loan restructuring to extend repayment date and reduce finance costs. It was expected that outstanding loans of approximately HK$1 billion would be extended and would be classified as non-current liabilities of the Group. The expected completion date of the loan restructuring for the outstanding loans of HK$1 billion hopefully could be extended by the end of December 2019.

The negotiations regarding loan restructuring with creditors in the PRC are always in the progress. The Group negotiated with one creditor successfully and the loan amount and repayment period were adjusted. Negotiations with other bank creditors are still ongoing. The progress of the loan restructuring is related to the business revitalisation of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("**Jiangxi Shipbuilding**") and the abovementioned cooperation between the Group and the state-owned enterprise. Most of the bank and financial institution creditors support the business and loan restructuring of the Group and do not prefer winding-up of the Group. According to the supporting policies imposed by the PRC government, disposing of non-preforming assets through assets management companies to reorganise the loans is expected to proceed steadily. This will greatly reduce the Group's level of outstanding loans and extend their payment due dates.

(v) *Negotiate with certain suppliers and creditors to extend payment due date. The Company had been continuing to negotiate with certain suppliers and creditors to extend payment due date, and hopefully would be completed by the end of December 2019.*

Most of the negotiations are still ongoing and they mainly depend on the progress of the cooperation between the Group and the state-owned enterprise as mentioned above. The main creditors will not propose any extreme measures such as bankruptcy or liquidation of the Group. They prefer to wait until the success of the Group's loan restructuring plan.

(vi) *To explore fund raising opportunities, either by way of equity or debt financing. The Group was considering raising funds by way of issue of convertible note of approximately HK$50,000,000 in the coming 12 months. The Company expected the agreement of issue of convertible note of approximately HK$50,000,000 in the coming 12 months would be able to be entered into by the end of June 2019, and hopefully would be completed by the end of August 2019.*

References are made to the announcements of the Company dated 19 July 2019, 27 September 2019, 25 October 2019, 20 November 2019, 30 November 2019, 4 December 2019, 11 December 2019, 9 January 2020, 12 January 2020, 31 January 2020, 29 February 2020, and the circular of the Company dated 3 October 2019 in relation to, among other things, subscription of convertible bonds under specific mandate. Pursuant to the two subscription agreements, each of the subscribers (the "**Subscriber I**" and "**Subscriber II**") would subscribe for convertible bonds with principal amount of HK$50,000,000 and HK$60,000,000 each due 3 years from the date of issue of the convertible bonds at conversion price of HK$0.64 per conversion share. The subscription for the first tranche of convertible bonds according to one subscription agreement by the Subscriber II in principal amount of approximately HK$11.1 million was held on 11 December 2019, but the Subscriber II had failed to proceed with completion to subscribe for the remaining three tranches of the convertible bonds in aggregate amount of HK$48.9 million as announced by the Company on 12 January 2020. Another subscription agreement in relation to the subscription of convertible bonds by the Subscriber I was lapsed on 29 February 2020 due to the then uncertain political environment and the potential impact to the financial market in Hong Kong which was concerned by the Subscriber I.

Although the abovementioned measures are taken by the Group during the financial year 2019, most of them were lapsed and forced to settle by other parties. The Company was of the view that it had no ground to control the results due to these external factors which cause failure in addressing the audit qualification in relation to going concern.

MEASURES AND PLANS TO IMPROVE OPERATION AND FINANCIAL POSITION OF THE GROUP

As disclosed in the 2019 Annual Results, the Company has been undertaking a number of measures to improve the Group's operation and financial position, including but not limited to:

(i) Asset revitalisation and new business development

The Group actively reorganised the shipbuilding business, introduced large enterprises to integrate the shipbuilding business, and revitalised the shipbuilding assets. The reorganisation plan, which began in March 2018, has been promoted around the business integration of Jiangxi Shipbuilding and the cooperation with large enterprises. Although unpredictable factors have been encountered, the overall work is now being carried out in an orderly manner. At the same time, the revitalisation of spare resources of Jiangxi Shipbuilding such as wharfs and lands are also under way and the storage and logistics business along Yangtze River is expected to commence operation in the future. In addition, the Group also expect to carry out new activities related to logistics through business diversification or merge and acquisition to contribute stable long-term cash flows to the Group. The Group believes that the asset revitalisation of Jiangxi Shipbuilding and develop a new business would help to broaden the revenue stream of the Group.

Future co-operation

On 20 March 2020, the Company has entered into a memorandum of understanding on cooperation (the "**MOU**") with Dragon Star Shipping Sdn Bhd (龍星航運有限公司) ("**Dragon Star**"), a company incorporated in Malaysia with the major business sectors of ferry, tour and transportation and Jiangxi Jingniu Hovercraft Manufacturing Co., Ltd.* (江西鯨牛氣墊船製造有限公司), a shipbuilding company incorporated in PRC, to set out the parties' intention in respect of future co-operation. Pursuant to the MOU, Dragon Star intends to order ships and hovercrafts from the Company. The Board believes that this co-operation would bring long term value to the Group. The Company will make further announcement(s) as and when appropriate according to the Listing Rules to update its shareholders.

(ii) Disposal

The Group will dispose of part of its assets and investment to obtain funds so as to improve its financial position.

As at the date of this announcement, the Group is still searching for potential customers to realise its assets and investments. The Company will make further announcement(s) as and when appropriate according to the Listing Rules to update its shareholders.

(iii) Extension of loan repayment

Under the government's instruction and with the supports for real economy and private enterprises from all levels of government, the Group is negotiating with lending banks and asset management companies in relation to loan restructuring to extend repayment date such that the borrowings of the Group will be changed from short term to long term and reduce the Group's gearing level.

(iv) Fund raising activities

The Group is in contact with a number of investors to issue new shares or convertible bonds in order to explore fund-raising opportunities, either by way of equity or debt financing. The Group is considering different fund-raising exercises to improve the cashflow of the Group.

Subscription of new shares under general mandate

References are made to the announcements of the Company dated 10 March 2020, 17 March 2020, 9 April 2020, 15 May 2020, 5 June 2020, 19 June 2020, 10 July 2020, 31 July 2020, 31 August 2020, 30 September 2020, 30 October 2020 and 30 November 2020 in relation to, among other things, subscription of new shares under general mandate. On 10 March 2020, the Company had entered into the subscription agreements with six individual subscribers (the "**Subscribers**"), pursuant to which the Subscribers had conditionally agreed to subscriber for, and the Company had conditionally agreed to allot and issue, 68,000,000 subscription shares at the subscription price of HK$0.105 per subscription share. The total consideration payable by the Subscribers under the subscription agreements amounted to HK$7,140,000. As at the date of this announcement, the Company has entered into tenth supplemental agreements with the respective Subscribers on 30 November 2020, to extend the long stop date of the subscription agreements to 15 January 2021.

Subscription of convertible bond under specific mandate

References are also made to the announcements of the Company dated 18 September 2020 and 5 October 2020 in relation to, among other things, the subscription of convertible bond under specific mandate. Pursuant to the subscription agreement, the Company would issue a convertible bond with an aggregate principal amount of HK$30,000,000 due 2 years from the date of issue of the convertible bond at the conversion price of HK$0.1 per conversion share to a subscriber. As at the date of this announcement, the subscription is subject to the despatch of circular by the Company.

The Company will use its best endeavours to complete such subscriptions to improve the cash flow of the Group.

(v) Reduction of loan amount

The Group is in negotiation with certain suppliers and creditors to extend payment due date and reduce the amount of payment.

In view of the above, the Board has conducted and considered different measures with different ways to further improve its cash flow, including but not limited to, (i) revitalising shipbuilding assets of Jiangxi Shipbuilding by using its spare resources such as wharfs and lands for production, storage and transportation and by introduced leading shipbuilding companies to integrate and recognise the shipbuilding business; (ii) negotiating with banks and creditors to delay the repayment of debt or to apply for additional instalment to decrease the Group's financial burden; (iii) considering to conduct fund raising exercises; (iv) negotiating with its suppliers and creditors to extend payment due date; and (v) disposing its assets and investment to enable the Group to restructure its core business and to obtain funds to improve its financial position.

The Company will continue to seek potential investments in companies or projects to bring synergy to the Group and improve the financial position of the Group. In addition, the Group will make best efforts to implement abovementioned measures to improve the operation performance and profitability of the Group. The Company may also invest in new business projects only if such investment is in favourable to the future development of the Group.

MATERIAL DIFFERENCES BETWEEN THE AUDITED RESULTS AND THE UNAUDITED RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2019

As disclosed in the 2019 Audited Results, the Material Differences between the Audited Results and the Unaudited Results are mainly from (i) revenue, cost of sales, impairment losses, (ii) non-current assets including investment properties and interests in associates, (iii) current assets including inventories, other receivables and assets classified as held for sale and (iv) current liabilities including financial guarantee contracts.

Most of the businesses of the Group are engaged in the People's Republic of China (the "**PRC**"). According to the Group's usual practice, the Auditor would perform the site visit every year to audit the financial information and the Group would discuss with the Valuers to evaluate assets/financial instruments of its subsidiaries of the Company and the Company before the publication of the Unaudited Results. The Management had originally arranged for site visit for the Auditor in March 2020. However, due to the outbreak of the COVID-19 pandemic, lockdown measures and travel restriction were imposed in Hong Kong and the PRC, and the Auditor was unable to visit the PRC as scheduled. Also, the Company discussed for with the Valuers in early 2020 for preparing relevant valuation reports for the 2019 Annual Results. Due to the COVID-19 pandemic, the timetable was delayed. As such, the financial information in the Unaudited Results prepared by the staff of the Company's accounting department were only based on the management accounts of the subsidiaries of the Company as at 31 December 2019 prepared by the staff in the PRC without the review of the Auditor and valuation reports from the Valuers. Such management accounts were prepared pursuant to the accounting standard in the PRC.

Normally relative adjustments would be made during the audit process to reflect the financial situation of the Group pursuant to the Hong Kong Financial Reporting Standard. The staff of the accounting department in the PRC started to prepare the management accounts in subsidiary level in late January 2020. However due to the pandemic situation in first half 2020, certain members of staff of the accounting department were unable to go back to the office in the PRC after the Chinese New Year holidays. Some were even unable to be reached after going to their home town. In view of the timeline to publish the Unaudited Results, those management accounts prepared by the staff of the accounting department in the PRC were submitted to the Company's accounting department for preparation of unaudited consolidation financial statements of the Company in early March 2020, and provided for the Management's revision. The Management together with the accounting department of the Group have used their best endeavours to ensure the accuracy of the Unaudited Results prior to its publication with the most available resources and information.

The shipbuilding business

The Management firstly became aware of the Material Differences in relation to the items in the consolidated statement of profit or loss and other comprehensive income were after the field work performed by the Auditor in July 2020. The differences of revenue in relation to the shipbuilding business of the Group of approximately HK$75.8 million were caused by the Two Vessels. As notified by the agent, the payment obligation to the original ship owner of the Two Vessels had been fully settled in late 2019, the Management was of the view that relevant adjustment in relation to the Two Vessels would be made. In preparing the Unaudited Results, although the payment obligation to the original ship owner of the Two Vessels was settled in late 2019, the schedule for signing the Contract was delayed due to the outbreak of COVID-19 and the Chinese New Year holidays. Relevant parties signed the Contract in turn until February 2020. Therefore, the local accounting staff, based on the execution date of the Contract, no reversal was made in the Unaudited Results until it was aware in June 2020.

In addition to the Two Vessels caused a part of the Material Differences in the revenue, differences of approximately HK$47.3 million were also related to the shipbuilding business of the Group. In 2019, the Group completed the construction of one vessel. After revisiting the performance obligation satisfies over time as to the stage of completion of the contract activity at the end of the reporting period in relation to this vessel by the Auditor, it was in the opinion that the adjustment of approximately HK$39.3 million would be made in accordance with the HKFRS 15 *Revenue from Contracts with Customers*. There were also HK$10.3 million reclassified from revenue to "Other gain and losses" in relation to the sales of the scrap materials, and the remaining HK$3.1 million adjustment was due to the understatement in the Unaudited Results of shipbuilding maintenance services fee.

The intelligent car parking and automotive device business

Besides, the differences of revenue in relation to the intelligent car parking and automotive device business of the Group of approximately HK$10.3 million involved in two items, including approximately HK$7.8 million regarding the sales of intelligent carking devices (the "**Car Parking Devices**") and approximately HK$2.5 million for the adjustment of carparking fee (the "**Carparking Fee**").

According to the Group's accounting policy, the revenue of the Car Parking Devices could only be recognised upon the Car Parking Devices passed the safety inspection by the relevant PRC government authority. As at 31 December 2019, approximately HK$7.8 million of the Car Parking Devices were delivered to the designated area of the client and relevant invoices had been issued but pending for the inspection by the relevant PRC government authority. Due to the prolonged Chinese New Year holidays and pandemic in early 2020 which caused communication issues amongst the engineering department and accounting department of both the Group and the client, it was finally discovered that the Car Parking Devices was pending for inspection by the authorities concerned of the government. The Auditor was of the view that relevant adjustment had to be made in the 2019Annual Results as the inspection by the government had not been completed. The said revenue was reversed and it expected to be reflected in the financial result of the Group in 2020.

Also, the Group has been instructed by the owner of the carpark in Shaanxi Province to start receiving the Carparking Fee with the system of the Group in advance. Due to the change of responsible staff, approximately HK$2.5 million was misinterpreted that the Carparking Fee was the income of the Group. During the audit, it was reversed and reclassified as other payables.

After discussion with the Auditor in July 2020, the Management understood their point of view and relevant adjustment in relation to revenue, costs of sales and inventories were decided to be made in the Audited Results. Since the financial information of the Group was yet to be finalised during July to August 2020 and other items might also needed to be adjusted, the Company decided to announce after finalising all financial information. After receiving the draft valuation reports from the Valuers in August 2020, Material Differences other than revenue, costs of sales and inventories were also subject to adjustment accordingly. Therefore, the Company gathered all the Material Differences and made adjustments in the Audited Results at the same time.

The Auditor has discussed with the Board and the Audit Committee in relation to the Material Differences. After ascertaining the final amount of the Material Differences, the Company disclosed the Material Difference in the Audited Results on timely basis. The Board and Audit Committee understood the cause of the Material Differences and concurred with the view of the Auditor.

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

Hong Kong, 14 December 2020

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 Chuanjun; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.

* *For identification purpose only*