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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
DISCLOSEABLE TRANSACTION
DISPOSAL OF SHARES IN A SUBSIDIARY
AND
THE DEBT RESTRUCTURING AGREEMENT**

Reference is made to the announcement of China Ocean Industry Group Limited (the “**Company**”) dated 5 July 2018 (the “**Announcement**”) in relation to the discloseable transaction regarding the disposal of shares in a subsidiary and the Debt Restructuring Agreement.

The Company would like to supplement further information about the Disposal Agreement and the Debt Restructuring Agreement, including but not limited to, (i) the basis for calculating the Consideration; (ii) the cooperation status of the Company with Zhejiang Ouhua; and (iii) the background, the principle business and the financial information of the Zhoushan Fund.

The Company also noted that the Announcement was not published in a timely manner in accordance with R14.34 of the Listing Rules and the Company has informed the Stock Exchange that it would take various measures and steps to ensure compliance with the Listing Rules in the future.

Reference is made to the Announcement of the Company in relation to the discloseable transaction regarding the disposal of shares in a subsidiary and the Debt Restructuring Agreement. Unless otherwise stated, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Company wishes to supplement the following information:–

DISPOSAL AGREEMENT AND DEBT RESTRUCTURING AGREEMENT

The Company was aware of the Agreements when they were entered into on 10 July 2017 (in respect of the Disposal Agreement) and 6 January 2018 (in respective of the Debt Restructuring Agreement). The Company has inadvertently delayed the publication of the Announcement due to the Company's belief:

1. the global shipbuilding industry market has been deteriorating and the Company had reservations in relation to the Purchaser's ability to pay the Consideration under the Disposal Agreement;
2. the parties to the Disposal Agreement had therefore agreed to suspend the completion of the Disposal Agreement until the market condition recovers which would also allow the Purchaser to find ways to raise the necessary funds to complete the Disposal Agreement;
3. the Company had inadvertently and mistakenly believed that as the parties to the Disposal Agreement had agreed to suspend the completion of the Disposal Agreement, an announcement was only required to be published only when completion of the Disposal Agreement was expected;
4. the Purchaser had also, in the meantime, been communicating with the Company in relation to the payment mechanism in relation to the Consideration under the Disposal Agreement and as an option for cash settlement of the Consideration, the Company proposed to set off the debts owed by Jiangxi Shipbuilding to Zhejiang Ouhua by entering into the Debt Restructuring Agreement. The Debt Restructuring Agreement also gave a right to the Company to suspend the implementation of the terms of the Debt Restructuring Agreement; and

5. as the Company did not receive any payment of the Consideration from the Purchaser under the Disposal Agreement, the Company served a notice to Zhejiang Ouhua and the Purchaser to enforce the terms of the Debt Restructuring Agreement on 2 May 2018 in which completion under the Debt Restructuring Agreement took place on the same date. This was also coupled by the fact that the Company learnt that bankruptcy proceedings had been initiated against Zhejiang Ouhua around May 2018 and in view of the potential adverse outcome, the Company decided to serve the said notice to enforce the Debt Restructuring Agreement to protect its interests.

The Company also wishes to supplement that China Ocean HK has contributed RMB400,000,000 in Zhoushan Fund on 6 August 2014 and there has not been any change since then. The basis of the Consideration was calculated by taking into account (i) the net asset value of China Ocean HK as disclosed in the Announcement (being HK\$519,742,502); and (ii) a marked-up premium of approximately RMB19,000,000 in relation to the return generated since 2014.

The Company also wishes to further supplement that the Debt Restructuring Agreement was entered into by the parties as an option for cash settlement of the Consideration which constituted a subsequent event following signing of the Disposal Agreement. As such, the Disposal Agreement and the Debt Restructuring Agreement were entered into on different dates.

Completion under the Disposal Agreement took place on 5 July 2018. The Debt Restructuring Agreement was completed on 2 May 2018 as advised by the PRC legal advisers of the Company.

INFORMATION OF ZHEJIANG OUHUA AND ZHOUSHAN FUND

As disclosed in the Announcement, Zhejiang Ouhua is a leading shipbuilding company in the PRC. The Company has also been in cooperation with Zhejiang Ouhua through Zhoushan Fund in which Zhoushan Fund formed a joint venture with Zhejiang Ouhua namely Zhoushan China Ocean Technology Development Company Limited* on 18 December 2014 as disclosed in an announcement of the Company dated 18 December 2014.

As disclosed in the Announcement and the announcement of the Company dated 6 August 2014, Zhoushan Fund is a foreign invested venture capital enterprise established in Zhoushan, Zhenjiang Province of the PRC which is formed amongst Zhoushan Zhouyi Investment Management Partnership Enterprise*, China Ocean HK and Zhoushan Marine Comprehensive Development and Investment Co., Ltd. The principal scope of business of Zhoushan Fund is engaging in (i) equity investment; and (ii) provision of management consultancy services.

Set out below is the financial information of Zhoushan Fund for the three years ended 31 December 2017:

	2015	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Net profit/(loss) before tax	(1,338,000)	90,884,000	453,000
Net profit/(loss) after tax	(1,338,000)	66,327,000	453,000

At as 31 December 2016, the audited total asset value and net asset value of Zhoushan Fund were approximately HK\$695,889,000 and HK\$669,505,000 respectively.

At as 31 December 2017, the audited total asset value and net asset value of Zhoushan Fund were approximately HK\$693,755,000 and HK\$609,600,000 respectively.

LISTING RULES IMPLICATIONS

The Company wishes to emphasize that it takes this non-compliance seriously and will make every effort to prevent it from happening again in the future.

The Company will engage external professionals to review the internal control procedures of the Company. In addition, the Company is considering to appoint external legal counsel to provide training in relation to the Listing Rules to the Directors.

Save as disclosed above, all information and contents set out in the Announcement remain unchanged.

By Order of the Board
China Ocean Industry Group Limited
Zhang Shi Hong
Chief Executive Officer

Hong Kong, 18 July 2018

The English translation of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

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.