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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)

INSIDE INFORMATION UPDATE ON STATUS OF THE SEVEN VESSELS

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

Reference is made to the announcement of the Company dated 18 May 2017 (“**Announcement**”) in relation to, among other things, the negotiation with the Three Customers regarding the delay in delivery of the Seven Vessels. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcement.

LATEST STATUS OF THE SEVEN VESSELS

Subsequent to the Announcement, the Group has delivered one of the Seven Vessels to Sloman Hestia, being one of the Three Customers, in 2017. Accordingly, as at the date of this announcement, six of the Seven Vessels which the Group has contracted to build for the other two of the Three Customers remain undelivered, namely Customer A and Customer B.

Based on the latest negotiation with Customer A in respect of the remaining four of the Seven Vessels (the “the Four Undelivered Vessels”), the parties have come to a preliminary consensus to discontinue with the relevant shipbuilding contracts for the Four Undelivered Vessels, such that the customer will cancel the order for the relevant vessel and the Group will be required to pay back all the payment received as well as interests thereunder. However, the parties have yet agreed on the repayment schedule and the amount of interest payable by the Group under the relevant shipbuilding contracts upon discontinuation. Accordingly, no formal agreement has been reached by the Group with the Customer A and Customer B in respect of the remaining six of the Seven Vessels and discontinuation of any of the shipbuilding contracts as at the date of this announcement.

Upon discontinuation of the shipbuilding contracts of the Four Undelivered Vessels, all the revenue and costs previously received and booked by the Group under the relevant shipbuilding contracts, which amounted to approximately HK\$870,957,000 and HK\$1,256,264,000 respectively, would be reversed and would therefore result in loss in the Company. The Group is required to return all of the payments received so far from Customer A, amounting to an aggregate amount of approximately USD98,188,000.

The Group will obtain financing from banks to support the Group’s payment obligation to the Customer A and Customer B in the event the shipbuilding contracts are discontinued.

THE MEMORANDUM

In view of the possible discontinuation of the shipbuilding contracts, the Group has been exploring other possible alternatives to deal with the cancelled vessels. As disclosed in the announcement of the Company dated 13 March 2018, the Company has entered into a cooperation framework agreement (“**Cooperation Framework Agreement**”) with the People’s Government of Ruichang City, People’s Republic of China* (瑞昌市人民政府) (“**Ruichang Government**”) and a shipbuilding company whose shares are listed on stock exchange market in Singapore (“**Singapore Listco**”) in respect of possible cooperation which involves, among other things, revitalising Jiangxi Jiangzhou Union Shipbuilding Co., Ltd* (江西江州聯合造船有限責任公司, “**Jiangzhou Shipbuilding**”), a wholly-owned subsidiary of the Company through which the shipbuilding business is conducted.

On 22 March 2018, the Company, Singapore Listco and Yangxin County Xingda Mining Co., Ltd. (a company established under the laws of the People's Republic of China, "**Xingda Mining**") entered into a memorandum ("**Memorandum**") to propel the possible cooperation contemplated under the Cooperation Framework Agreement pursuant to which, among other things:

- (1) The parties to the Memorandum shall establish a joint venture shipbuilding company ("**Shipbuilding JV**") in Ruichang City which shall be managed by Singapore Listco. The Shipbuilding JV shall lease the relevant production site and facilities from Jiangzhou Shipbuilding for developing its shipbuilding business with an annual capacity of 4 to 6 vessels of 20,000 tonnes.
- (2) Singapore Listco shall assist Jiangzhou Shipbuilding to seek for new purchasers for three of the Seven Vessels which may be cancelled by the Three Customers. Thereafter Jiangzhou Shipbuilding shall sell the three cancelled vessels to the Shipbuilding JV at a reasonable price so that Shipbuilding JV will continue with the construction work for onward sale of the completed cancelled vessels to the new purchasers.

The Directors consider that the Memorandum will enable Jiangzhou Shipbuilding to restructure its shipbuilding business and, through the network of Singapore Listco which is a leading shipbuilding company, identify new purchasers for the cancelled vessels which will help minimise the financial impact on the Group in the event the remaining shipbuilding contracts were discontinued, and is therefore in the interest of the Company and its shareholders as a whole.

The Company will continue to explore for other alternatives to deal with any cancelled vessels by the Three Customer to minimise the financial impact on the Group.

The Board wishes to emphasise that the matters contemplated under the Memorandum are subject to the execution of definitive agreement(s) by the relevant parties thereto and therefore may or may not proceed.

Further announcement(s) in relation to the material development of the status of the Seven Vessels and the matters contemplated under the Memorandum will be made by the Company as and when appropriate in accordance with the Listing Rules.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 26 March 2018

For the purpose of illustration only and unless otherwise stated, conversion of US\$ to HK\$ in this announcement is based on the exchange rate of US\$1.00 to HK\$7.78. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

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