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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 2017**

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 2017 (the “**2017 Annual Results**”) published by the Company on 29 March 2018. Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2017 Annual Results.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to provide certain additional information in relation to the 2017 Annual Results, inter alia, the Disclaimer of Opinion of the Company’s auditor (the “**Auditor**”) in relation to (i) the revenue, cost of sales and amounts due to customers for contract work of shipbuilding business; and (ii) material fundamental uncertainties relating to going concern basis.

#### **THE SHIPBUILDING BUSINESS AND GOING CONCERN**

As disclosed in the Auditor’s report of the 2017 Annual Results, the Auditor’s Disclaimer of Opinion mainly concerns the shipbuilding business in particular issues surrounding the Six Vessels which have not been delivered to the Two Customers according to the schedule as set out in the respective shipbuilding contracts and the going concern of the Group.

According to Baltic Dry Index, a general shipping market bellwether, the international shipping industry in 2016 has the worst performance ever. The market revealed a downward sloping trend since 2008 and put pressure on the market price. Therefore, ship owners are now having business difficulties and may have the risk of bankruptcy. In the negotiation with the Two Customers, the Company understands the shipping market situation caused substantial difficulties to the Two Customers. In light of this, the Company has been negotiated with the Two Customers in order to reach an agreement of the prices of the vessels. Under the premise that the negotiations are in the best interest of the Company, the Board is trying its best to reach a reasonable price with the Two customers, and ensure that the terms and conditions are fair and reasonable.

In order to deal with the issues surrounding the Six Vessels, the Board has established a dedicated task force to proactively negotiate with the Two Customers, banks and potential customers in order to reach agreements among the relevant parties including but not limited to the delivery date and the price of the Six Vessels. It is expected that the solution of the Six Vessels can be reached in 2018. The Company will make further announcement(s) as and when appropriate pursuant to the Listing Rules if there is any updated situation.

One of the Two Customers expressed their little desire to accept delivery of four of the Six Vessels (the “**Four Vessels**”) according to the terms of the shipbuilding contracts. In view of the slow negotiation progress with this customer concerning the new contract prices, the Group has already started discussion with this customer’s finance bank regarding the repayment schedule of the progress payment and penalty interest while the Group has also kept negotiating with banks in the PRC for possible financing. On the other hand, a new potential customer shows his desire to take over the remaining two of the Six Vessels and willing to continue with the construction.

On the other hand, the Group has also commenced negotiation with another two shipbuilding companies (including a PRC shipbuilding company and a ship trading company), regarding the sale and purchase of the Four Vessels in the event the cancellation of shipbuilding contracts comes to effect. The parties are now negotiating on the technical details, and if any agreement could be reached, it is expected that the Group will be able to deliver one of the Four Vessels within this year.

Reference is made to the voluntary announcement of the Company dated 26 March 2018, the Company has entered into a strategic co-operation intention agreement with a Singapore listed company (the “**Singapore Listco**”), the Company and the Singapore Listco agreed to form a joint-venture company (the “**JV**”) to manage the shipbuilding business of Jiangxi Shipbuilding. The JV will act as the responsible company to manage four of the Six Vessels, and reassess the terms of contracts of the other two vessels.

However, if no agreement can be reached and if the Group is required to return all of the progress payment (approximately HK\$824.5 million) received from the Two Customers regarding the Six Vessels, the Group may also incur interests expenses according to the calculation as set out in the relevant shipbuilding contracts. As at the date hereof, the exact amount of the interest expenses could not be ascertained. On the other hand, the accumulated revenue recognised related to the Six Vessels of HK\$783,572,000 should be reversed, and the Six Vessels would be recognised as inventories of the Company based on its net realizable value and the cost of sales should be reversed as the same amount.

As mentioned in the 2017 Annual Results, the Group incurred a loss for the year attributable to owners of the Company of approximately HK\$611,790,000 for the year ended 31 December 2017 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$2,136,381,000 and the Group had net liabilities of approximately HK\$896,130,000. In addition to the abovementioned situation of the shipbuilding business of the Group, the Auditor expressed that these conditions indicate the existence of material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

## **THE BOARD AND THE AUDIT COMMITTEE’S VIEW AND THE PLAN TO ADDRESS THE DISCLAIMER OF OPINION**

The Board has provided all necessary information to the Auditor for preparing the 2017 Annual Results. The Audit Committee from time to time closely communicate with the Board and, the Auditor on the updated business situation and financial performance of the Group, in particular, the issues raised by the Auditor. At the pre-audit meetings, the Auditor has drawn the Audit Committee’s attention to the disclaimer of opinions in the previous financial year and circumstances under which the same disclaimer of opinions would be issued in respect of the current financial year. As such the Audit Committee is fully aware of the repeated disclaimer of opinions issued by the Auditor and the reasons for such disclaimer of opinions.

Nevertheless, the Audit Committee believes that the root cause for the repeated disclaimer of opinions is the prolonged global shipping market slow-down which resulted in the continued deteriorating operational situation of Group's shipbuilding business, the Company is no exception to all other ship builders in the PRC and abroad which have suffered from the weak market.

Over the years, the Audit Committee has maintained close communication with the management and the Auditor on the issues involving the Seven Vessels such as the delivery status, updated terms and conditions on the delivery, financial treatment of undelivered vessels according to applicable accounting standards, and consequently, the impact on the Group's financial position. In particular, deliberations were focused on the uncertainty and difficulty faced by the shipbuilding business as well as possibilities of debt financing plans. Notwithstanding this, the Audit Committee acknowledged the business development of the intelligent car parking and automotive device business and the steel structure engineering and installation business which have broadened the revenue stream of the Group and together with the Company's continued efforts in transforming its business, the Board, including the Audit Committee is of the view that the Group could continue as a going concern.

The Board, including the Audit Committee, has critically reviewed the major judgmental areas, *inter alias*, the shipbuilding business and cash flow forecast assumptions of the Group and understand the basis of the opinion put forward by the Auditor. The Audit Committee and Auditor held also various candid and productive discussions on the accounting treatment for areas that fair judgment were needed, in particular the disclaimer of opinions. No disagreement had been raised among the members of the Board including the Audit Committee, and the Audit Committee members have fully agreed with the Auditors' views and relevant accounting treatment about the annual disclosure.

In addition to tackling the issues surrounding the Six Vessels, the Board also spares no effort in enhancing the Group's working capital. The Board has adopted and considered different measures with different dimensions to further improve its cash flow, e.g. (i) diversifying its revenue stream of the Group by introducing more segments (finance leasing business was introduced in 2014, intelligent car parking and automotive device business was introduced in 2015, and steel structure engineering and installation was introduced in 2017); (ii) streamlining its operation by cutting staff to around 600 employees as at 31 December 2017 compared to around 1,200 employees as at 31 December 2015 which has successfully reduced staff costs to approximately HK\$60,655,000 (2015: approximately HK\$95,930,000);

(iii) revitalising shipbuilding assets of Jiangxi Shipbuilding by using its spare resources for production, storage and transportation; and (iv) negotiating with banks to delay the repayment of debt or to apply for additional instalment to decrease the Group's financial burden. After the preliminary discussion with the Auditor, the Board, including the Audit Committee, believe that the above measures, if materialised, will not only bring to the Group a significant improvement on the financial performance but also help to address the Disclaimer of Opinions of the Auditor.

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

Hong Kong, 24 April 2018

*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.*