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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 FOUR 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 announcements of the Company dated 18 May 2017, 26 March 2018, 24 April 2018 and 2 August 2018 in relation to, among other things, the negotiation with the Three Customers regarding the delay in delivery of the seven vessels (collectively the “**Announcements**” and each an “**Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcements.

### **RESULTS OF ARBITRATION**

As disclosed in the Announcement dated 2 August 2018, in view of the slow negotiation progress and the failure to reach consensus with one of the Two Customers (“**Customer**”) in respect of the Four Vessels, the Group resorted to settle the matter by arbitration pursuant to the relevant shipbuilding contracts.

The Board wishes to update shareholders and potential investors of the Company that pursuant to the arbitral awards dated 27 December 2018 (“**Arbitral Awards**”) issued by the London Maritime Arbitrators Association (“**Arbitrators Association**”), the Arbitration Association has made awards in favour of the Customer under the relevant shipbuilding contracts in relation to the Four Vessels (“**Shipbuilding Contracts**”), that among other things:

- (1) the Customer was entitled to rescind or cancel the Shipbuilding Contracts and the rescission or cancellation of the Shipbuilding Contracts was justified and exercised in accordance with the terms thereunder;
- (2) the Customer’s respective claims for repayment of the contract price paid under the Shipbuilding Contracts succeed in full;
- (3) the Group shall forthwith repay and refund to the Customer the contract price paid under the Shipbuilding Contracts in an aggregate amount of US\$98,187,970, together with interest in an aggregate amount of approximately US\$13,928,201; and
- (4) the Group shall bear the Customer’s costs on indemnity basis as well as the cost of the Arbitral Awards, which in an aggregate amounted to approximately GBP577,885.

As at the date of this announcement, the total amount payable by the Group to the Customer under the Arbitral Award is approximately US\$112,116,171 and GBP577,885, which in aggregate is equivalent to approximately HK\$882,769,893. The Group will settle the payment under the Arbitral Award by financing from banks.

In view of the Arbitral Awards, the relevant accounting entries would be reversed for the year ended 31 December 2018, in particular the accumulated revenue recognised in relation to the Four Vessels of approximately HK\$633.16 million would be reversed, the Four Vessels would be recognised as inventories of the Company based on its net realizable value and the cost of sales would also be reversed at the same amount.

## **TRANSFER AND CONSTRUCTION OF THE RESCINDED VESSEL**

On 3 January 2019, the Company, Jiangxi Shipbuilding and Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd. (江蘇揚子鑫福造船有限公司), a company established under the laws of the People's Republic of China (“**Yangzi Xinfu Shipbuilding**”), entered into a framework agreement (“**Framework Agreement**”) for the acquisition, construction and onward transfer of one of the Four Vessels which has been rescinded by the Customer (“**Rescinded Vessel**”).

Pursuant to the Framework Agreement, among other things:

- (1) The Group shall put the Rescinded Vessel on sale on an as-is basis by way of public auction with a starting price of US\$8 million.
- (2) Yangzi Xinfu Shipbuilding agrees to participate in the auction and agrees to place a bid at US\$8 million. In the event the bid price exceeds US\$8 million, Yangzi Xinfu Shipbuilding shall not be obliged to place any additional bid.
- (3) Should Yangzi Xinfu Shipbuilding succeed in the bid and upon completion of the construction of the Rescinded Vessel, the Group shall enjoy a first right to repurchase the Rescinded Vessel from Yangzi Xinfu Shipbuilding at US\$16 million together with interest at 12% per annum.

Yangzi Xinfu Shipbuilding is an indirect subsidiary of Yangzijiang Shipbuilding (Holdings) Ltd., a company incorporated and domiciled in Singapore the issued shares of which are listed on the Singapore Stock Exchange (stock code: BS6) (“**Yangzijiang Shipbuilding**”).

The arrangement under the Framework Agreement is in line with the cooperation framework between the Group and Yangzijiang Shipbuilding as disclosed in the Company's announcement dated 23 November 2018, which will enable Jiangzhou Shipbuilding to reorganise its shipbuilding business and to deal with the vessels under the Shipbuilding Contracts which have been cancelled or rescinded by the customers to minimise the financial impact on the Group.

Accordingly, the Directors consider that the Framework Agreement and the transactions contemplated thereunder have been agreed under normal commercial terms and after arm's length negotiations, and accordingly are in the interests of the Company and its shareholders as a whole.

The remaining three of the Four Vessels are expected to be dealt with in similar manner as that of the Rescinded Vessel. As at the date of this announcement, the Group is negotiating with other prospective independent third party purchasers and no definitive agreement has been entered into in respect of the remaining three of the Four Vessel.

Further announcement(s) in relation to the material development of the aforesaid matter 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, 3 January 2019

*For the purpose of this announcement, the exchange rates of GBP 1 = HK\$9.88625 and US\$1 = HK\$7.82275 have been used which is an approximate and for illustration only. It does not constitute any representation that any amount has been, could have been or may be exchanged at those rates or at 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, two non-executive directors, namely, Mr. Chau On Ta Yuen and Mr. Lin Lie; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.*