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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)**

**DISCLOSEABLE TRANSACTION  
DISPOSAL OF ASSETS  
AND  
LEASE OF ASSETS**

**THE ASSET TRANSFER AGREEMENT**

On 12 October 2018, the Vendor, the Purchaser and the Guarantor entered into the Asset Transfer Agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Assets at a Consideration of RMB100,000,000.

The Purchaser has granted the Call Option to the Vendor to repurchase all or any part of the Assets at the Consideration during the Call Option Period.

**THE LEASE AGREEMENT**

On 12 October 2018, the Purchaser as lessor and the Vendor as lessee entered into the Lease Agreement pursuant to which the Purchaser has agreed to lease the Assets to the Vendor for a period of 5 years commencing from 15 October 2018 at an annual rental of RMB4,350,000.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transfer exceeds 5% but all of them are less than 25%, the Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

The exercise of the Call Option is at the discretion of the Vendor. According to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. As no premium is payable for the grant of the Call Option to the Vendor, such grant will not constitute a notifiable transaction of the Company.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Lease exceeds 5% but all of them are less than 25%, the Lease constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## **THE TRANSFER**

On 12 October 2018, the Vendor, the Purchaser and the Guarantor entered into the Asset Transfer Agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Assets at a Consideration of RMB100,000,000.

### **The Asset Transfer Agreement**

Principle terms of the Asset Transfer Agreement are as follows:

- Date : 12 October 2018
- Parties : (i) The Vendor;
- (ii) The Purchaser; and
- (iii) The Guarantor.

- Asset to be disposed of : Pursuant to the Asset Transfer Agreement and consent of the Bank, the Vendor agreed to sell and the Purchaser agreed to purchase the Assets.
- Consideration : RMB100,000,000, which is payable by the Purchaser to the Vendor on Completion Date.
- Effective Date of Asset Transfer Agreement : The Asset Transfer Agreement shall become effective upon being duly executed by the parties.
- Completion : The Vendor shall, within 5 Working Days of the effective date of the Asset Transfer Agreement, transfer its title in the Assets to the Purchaser, and provide the Purchaser with all certificates and documentation relating thereto.

The date on which the title in the Assets are transferred to the Purchaser and the date of signing the Assets Transfer Agreement, whichever is later, is the completion date under the Asset Transfer Agreement (“**Completion Date**”) which shall be no later than 15 October 2018 unless otherwise agreed by the parties.

- Option to repurchase : The Purchaser has granted the Call Option to the Vendor, pursuant to which the Vendor has the right to repurchase from the Purchaser, and require the Purchaser to sell, all or any part of the Assets at the Consideration during the Call Option Period.

Should the Vendor decide to exercise the Call Option to repurchase all of the Assets, the Vendor may elect to either repurchase the Assets from the Purchaser, or acquire 100% of the interest in the Purchaser held by the Guarantor.

- Lease of Sale Assets : During the Call Option Period, the Vendor has the right to lease the Assets from the Purchaser on terms and conditions to be agreed by the parties.

Guarantee : The Guarantor agreed to provide a guarantee in favour of the Vendor in respect of the Purchaser's obligations under the Asset Transfer Agreement.

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser having regard to the fair value of the Assets. The Directors consider that the Consideration was fair and reasonable and in the interest of the Company and its shareholders taken as a whole.

## **THE LEASE AGREEMENT**

In order to provide for the use of the Assets by the Purchaser after the Transfer, on 12 October 2018, the Purchaser as the lessor and the Vendor as the lessee entered into the Lease Agreement, whereby the Purchaser has agreed to lease the Assets to the Vendor on terms and conditions thereof.

Principle terms of the Lease Agreement are as follows:

Date : 12 October 2018

Parties : (i) The Purchaser as lessor; and  
(ii) The Vendor as lessee.

Lease period : 5 years commencing from 15 October 2018 and ending on 14 October 2023.

Lease assets : The Assets

Rental and payment : RMB4,350,000 per annum which shall be paid by the Vendor to the Purchaser in twelve equal instalments on a monthly basis during the lease period.

The monthly rent was determined after arm's length negotiations between the parties with reference to the Consideration payable by the Purchaser for the purchase of the Assets and the prevailing benchmark lending rate of the People's Bank of China. The Directors consider that the monthly rent was fair and reasonable and in the interest of the Company and its shareholders taken as a whole.

## **FINANCIAL INFORMATION OF THE ASSETS**

The unaudited net book value of the Assets as at 30 June 2018 was HK\$212,418,000.

## **FINANCIAL EFFECTS OF THE TRANSFER AND PROPOSED USE OF PROCEEDS**

As a result of the Disposal, the Directors expect that the Group will record an unaudited loss before taxation on the Disposal of approximately HK\$98,708,000, being the difference between the consideration of approximately RMB100,000,000 (equivalent to approximately HK\$113,710,000) and the net book value of the Assets of approximately HK\$212,418,000 as at 30 June 2018. Such calculation is only an estimate provided for illustrative purposes and the accounting treatment of the Disposal will be subject to further review by the auditors of the Company.

The net proceeds from the Transfer of approximately RMB100,000,000 will be used to repay the outstanding indebtedness owed by the Group.

## **INFORMATION OF THE PARTIES**

### **The Vendor**

The Vendor is a company established under the laws of the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company. Jiangxi Shipbuilding is principally engaging in manufacturing metal vessel, vessel ancillary products and reparation of vessels.

## **The Purchaser**

The Purchaser is a company established under the laws of the PRC with limited liability and is principally engaging in investment and assets management. As at the date of this announcement, the Purchaser is wholly-owned by the Guarantor.

## **The Guarantor**

The Guarantor is a company established under the laws of the PRC with limited liability and is principally engaging in municipal engineering, municipal infrastructure, real estate investment and development, and operation and management of state-owned assets at municipal level). The Guarantor is wholly-owned by the State-owned Assets Supervision and Administration Bureau of Ruichang City, the PRC\* (瑞昌市國有資產監督管理局).

To the best of the knowledge, information and belief and having made all reasonable enquiries by the Directors, each of the Purchaser and the Guarantor and their respective ultimate beneficial owner(s) are third parties independent of the Company and connected persons (as defined in the Listing Rules).

## **REASONS FOR THE TRANSFER AND THE LEASE**

The Company is a company incorporated in Bermuda with limited liability and is an investment holding company. Its subsidiaries are principally engaging in the shipbuilding related business, trading business, finance leasing business, intelligent car-parking and automotive device business and steel structure engineering and installation business.

In view of the difficult operating environment faced by the Vendor, the Group has been negotiating with various stakeholders including the People's Government of Ruichang City, People's Republic of China\* (瑞昌市人民政府) for measures to improve the financial position and revive the shipbuilding business carried out by the Vendor.

The Transfer and the Lease are in effect a finance lease arrangement which will provide the Group with proceeds to discharge part of its indebtedness and at the same time enable the Group to continue to use the Assets. The Transfer and the Lease is a more cost effective means for the Group to obtain funds to improve its financial position as compared to obtaining new loans and borrowings from financial institutions. Further, should the financial position of the Group improve, the Group could repurchase the Assets by exercising the Call Option.

The Directors consider that each of the Assets Transfer Agreement, the Lease Agreement and the respective 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.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transfer exceeds 5% but all of them are less than 25%, the Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

The exercise of the Call Option is at the discretion of the Vendor. According to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. As no premium is payable for the grant of the Call Option to the Vendor, such grant will not constitute a notifiable transaction of the Company.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Lease exceeds 5% but all of them are less than 25%, the Lease constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings when used herein:

“Asset Transfer Agreement”	the asset transfer agreement dated 12 October 2018 entered into among the Vendor, the Purchaser and the Guarantor
“Assets”	certain land parcels, production plans, pier and properties located in Ruichang City, the PRC held by the Vendor which had been charged in favour of the Bank as more particularly listed out in the Asset Transfer Agreement
“Bank”	a licensed bank in the PRC
“Board”	the board of Directors
“Call Option”	the call option granted by the Purchaser to the Vendor to repurchase all or any part of the Assets at the Consideration during the Call Option Period pursuant to the Asset Transfer Agreement
“Call Option Period”	the period of 5 years upon Completion Date during which the Vendor may exercise the Call Option
“Company”	China Ocean Industry Group Limited, a company incorporated in Bermuda and the issued shares of which are listed on the Stock Exchange (Stock code: 651)
“Completion”	completion of the Transfer pursuant to the terms of the Asset Transfer Agreement
“Consideration”	the aggregate consideration of RMB100,000,000 payable by the Purchaser to the Vendor for the Transfer under the Assets Transfer Agreement



“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantor”	Ruichang City Investment Co., Ltd* (瑞昌市投資有限公司)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Lease”	the lease of the Assets from the Purchaser to the Vendor pursuant to the Lease Agreement
“Lease Agreement”	the lease agreement dated 12 October 2018 entered into between the Purchaser and the Vendor
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Ruichang City Ruilian Asset Management Co., Ltd* (瑞昌市瑞聯資產管理有限公司)
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly
“Transfer”	the transfer of the Assets by the Vendor to the Purchaser pursuant to the Asset Transfer Agreement

“Vendor”	Jiangxi Jiangzhou Union Shipbuilding Co., Ltd* (江西江州聯合造船有限責任公司), a wholly-owned subsidiary of the Company
“Working Day(s)”	any day which banks in the PRC are open for business, except Saturdays, Sundays and statutory holidays as announced by the PRC government
“%”	per cent

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

Hong Kong, 12 October 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, 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.*