THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in China Ocean Industry Group Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

CHINA OCEAN INDUSTRY GROUP LIMITED
中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF ENTIRE REGISTERED CAPITAL OF THE TARGET COMPANY AND NOTICE OF SPECIAL GENERAL MEETING

A letter from the board of directors of the Company is set out on pages 5 to 50 of this circular.

A notice convening the special general meeting (the "SGM") to be held at Golden Restaurant, Macau Jockey Club, 1/F, East Wing Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong on Tuesday, 14 March 2017 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof (as the case may be) should you so wish.

24 February 2017

* *for identification purposes only*

CONTENTS

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"2015 Convertible Notes"	the 7.5% coupon convertible note(s) in the aggregate principal amount of HK$200,000,000 issued by the Company on 8 July 2015
"2016 Audited Accounts"	the audited financial statements of the Target Group for the year ending 31 December 2016 prepared and reported by the auditors nominated by the Purchaser with reference to the prevailing generally accepted accounting principles, standards and practices in Hong Kong
"2016 Convertible Notes"	the 2% convertible notes of a principal amount of up to HK$400,000,000 due 2018 issued by the Company pursuant to the subscription agreement dated 6 December 2016 entered into by the Company and Macquarie Bank Limited
"2016 Guaranteed Profit"	has the meaning ascribed thereto under the paragraph "2. THE ACQUISITION AGREEMENT – Profit Guarantee" in the section "Letter from the Board"
"2017 Audited Accounts"	the audited financial statements of the Target Group for the year ending 31 December 2017 prepared and reported by the auditors nominated by the Purchaser with reference to the prevailing generally accepted accounting principles, standards and practices in Hong Kong
"2017 Guaranteed Profit"	has the meaning ascribed thereto under the paragraph "2. THE ACQUISITION AGREEMENT – Profit Guarantee" in the section "Letter from the Board"
"Acquisition"	the sale and purchase of Sale Equity from the Vendors to the Purchaser
"Acquisition Agreement"	the conditional agreement dated 16 November 2016 entered into among the Purchaser, the Vendors and Mr. Ma in relation to the Acquisition (as amended and supplemented by the Supplemental Agreement)
"Announcement"	the announcement of the Company dated 16 November 2016 in relation to, among other matters, the Acquisition Agreement

"Asian Alliance"	Asian Alliance (HK) CPA Limited (Formerly known as ZHONGLEI (HK) CPA Company Limited), the Company's auditors and reporting accountant to the Target Group for the purpose of the Acquisition
"Board"	Board of Directors
"Business Day(s)"	a day(s) (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business
"Consideration"	the consideration payable for the Sale Equity under the Acquisition Agreement
"Company"	China Ocean Industry Group Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange (Stock code: 651)
"Completion"	Completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Chuanbo Tu Zhuang"	Nantong Huakai Ship Painting Company Limited*(南通華凱船舶塗裝有限公司), a company established under the Laws of the PRC on 27 December 2007 with limited liability
"Delay Announcements"	the announcements of the Company (i) dated 18 January 2017 in relation to, among others, the Supplemental Agreement and (ii) dated 25 January 2017 in relation to the delay in despatch of this circular
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Company and its subsidiaries upon completion of the Proposed Acquisition
"Fangzheng Ocean"	Nantong Fangzheng Ocean Engineering Technology Company Limited*(南通方正海洋工程科技有限公司), incorporated in the PRC on 22 April 2004 with limited liability
"First Relevant Period"	the period from 1 January 2016 to 31 December 2016
"Group"	the Company and its subsidiaries
"Guaranteed Profits"	The 2016 Guaranteed Profit and the 2017 Guaranteed Profit
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Huatai Heavy Industry"	Huatai Heavy Industry (Nantong) Company Limited*（華泰重工（南通）有限公司）, a company established under the laws of the PRC with limited liability
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and any of its connected persons
"Independent Valuer"	Roma Appraisals Limited
"Latest Practicable Date"	23 February 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March 2017 or such later date as the parties to the Acquisition Agreement may agree in writing
"Mr. Ma"	Mr. Ma Zhenqiang（馬貞強先生）
"Net Profit"	the audited consolidated net profit after taxation arising from ordinary course of business of the Target Group based on the 2016 Audited Accounts or 2017 Audited Accounts (as the case may be), excluding extraordinary items, one-off item, any amounts received or written back for debt or any other provisions
"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
"Purchaser"	China Ocean Industry (Shenzhen) Limited Company*（中海重工（深圳）有限公司）, a wholly-owned subsidiary of the Company established under the laws of the PRC with limited liability
"Registration"	the registration of the Purchaser as the registered shareholder of the Target Company at the relevant Administration for Industry and Commerce（工商行政管理局）in the PRC
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Equity"	entire registered capital of the Target Company

"Second Relevant Period"	the period from 1 January 2017 to 31 December 2017
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for the purpose of, among others, approving the Acquisition
"Share(s)"	the ordinary share(s) of nominal value HK$0.05 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement to the Acquisition Agreement dated 18 January 2017 entered into among the Purchaser, the Vendors and Mr. Ma
"Target Company"	Nantong Huakai Heavy Industry Company Limited*（南通華凱重工有限公司）, a company established under the laws of the PRC on 12 April 2007 with limited liability
"Target Group"	the Target Company, Chuanbo Tu Zhuang and Fangzheng Ocean
"Vendor A" or "Xinda Shipping"	Nantong Xinda Shipping Technology Development Company Limited, a company established under the Law of the PRC with limited liability
"Vendor B" or "Mr. Huo"	Mr. Huo Qi（霍起先生）
"Vendors"	Vendor A and Vendor B
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

Unless otherwise specified in this circular, translations of RMB into HK$ are made in this circular, for illustration only, at the rate of RMB1 to HK$1.123. No representation is made that any amounts in RMB or HK$ could have been or could be converted at that rate or at any other rate or at all.

In case of inconsistency, the English text of this circular shall prevail over its Chinese text.

* *The English translation of certain Chinese names, entities and addresses is included for information purpose only and should not be regarded as official English translation of such Chinese names, entities and addresses.*

CHINA OCEAN INDUSTRY GROUP LIMITED
中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

Executive Directors:
Mr. Li Ming *(Chairman)*
Mr. Zhang Shi Hong *(Chief Executive Officer)*
Mr. Wang San Long
Ms. Liu Jin

Non-executive Director:
Mr. Chau On Ta Yuen

Independent non-executive Directors:
Ms. Xiang Si Ying
Mr. Hu Bai He
Ms. Xiang Ying

Registered office:
Clarendon House 2
Church Street
Hamilton HM11
Bermuda

Principal place of business:
Units 1702-03, 17/F.
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

24 February 2017

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF ENTIRE REGISTERED CAPITAL OF THE TARGET COMPANY AND NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

Reference is made to the Announcement and the Delay Announcements.

The purpose of this circular is to provide you with, among other things, further details of (i) the Acquisition Agreement and the Acquisition contemplated thereunder; (ii) financial and other information of the Group and the Target Group; and (iii) unaudited pro forma financial information on the Enlarged Group.

2. THE ACQUISITION AGREEMENT

The Purchaser, the Vendors and Mr. Ma entered into the (i) Acquisition Agreement on 16 November 2016 and (ii) the Supplemental Agreement on 18 January 2017.

The principal terms of the Acquisition Agreement (as amended and supplemented by the Supplemental Agreement) are set out as follows:

Date : 16 November 2016

Parties :

(1) China Ocean Industry (Shenzhen) Limited Company*(中海重工(深圳)有限公司), a wholly-owned subsidiary of the Company (as the Purchaser);

(2) Nantong Xinda Shipping Technology Development Company Limited*(南通鑫達船舶科技發展有限公司)(as Vendor A);

(3) Mr. Huo Qi(霍起先生)(as Vendor B); and

(4) Mr. Ma Zhenqiang(馬貞強先生).

The Purchaser is a wholly-owned subsidiary of the Company established under the laws of the PRC with limited liability and is an investment holding company. As at the Latest Practicable Date, (i) the Target Company is owned as to 83.67% by Xinda Shipping and 16.33% by Mr. Huo; and (ii) Xinda Shipping is owned as to 4.39% by Mr. Huo and 95.61% by Mr. Ma. Xinda Shipping is principally engaged in (i) technology development and technical advisory in shipping building industry; and (ii) provision of project management services for ship and marine projects.

As at the Latest Practicable Date, Mr. Ma is the legal representative, director and general manager of the Target Company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, (i) Xinda Shipping is a company established under the laws of the PRC with limited liability and is an investment holding company; (ii) each of Mr. Huo, Xinda Shipping and its ultimate beneficial owners are Independent Third Parties.

Subject matter and assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Equity, being the entire registered capital of the Target Company, at the maximum Consideration of RMB270,000,000 (equivalent to approximately HK$307,800,000 (subject to downward adjustment as detailed in the "Profit guarantee" section below)). The Target Company, together with its wholly-owned subsidiaries, is principally engaged in (i) manufacture and sales of steel structures fittings for ship, marine equipment, mining equipment, ro-ro equipment, bridge and building steel structure, and (ii) provision of pretreatment and painting services of steel plate.

The Acquisition Agreement does not provide for any change in the composition of the Board after Completion. Among the composition of the Board of the Company, Mr. Wang San Long, being one of the executive Directors, has more than thirty years of experience in the shipbuilding industry.

Consideration

The maximum Consideration for the sale and purchase of the Sale Equity is RMB270,000,000 (equivalent to approximately HK$307,800,000) (subject to downward adjustment as detailed in the "Profit guarantee" section below), which shall be satisfied by way of cash by the Purchaser to the Vendors in following manners:

(i). as to RMB81 million (equivalent to approximately HK$92,340,000) (the "**1st Payment**") payable to the Vendors in proportion to their respective interest in the Target Company within 90 days after Completion;

(ii). subject to adjustment, as to a maximum of RMB54 million (equivalent to approximately HK$61,560,000) (the "**2nd Payment**") payable to the Vendors in proportion to their respective interest in the Target Company within 5 Business Days upon the 2016 Audited Account is issued or completion of the Registration (whichever is later); and

(iii). subject to adjustment, as to a maximum of RMB135 million (equivalent to approximately HK$153,900,000) (the "**Final Payment**") payable to the Vendors in proportion to their respective interest in the Target Company within 5 Business Days upon the 2017 Audited Account is issued or completion of the Registration (whichever is later).

The Purchaser and the Vendors have now mutually agreed that the issue date of the 2017 Audited Accounts under the Acquisition Agreement refers to the date on which the Shareholders approve the audited consolidated financial statements of the Company for the year ending 31 December 2017 at the relevant annual general meeting of the Company which is expected to be convened in or around late June 2018. As such, it is expected that the Final Payment shall be satisfied by the Company in or around July 2018.

The above Consideration is subject to adjustment if the Net Profit of the Target Group falls short of the Guaranteed Profits. Details of the profit guarantee and adjustment mechanism are described in the "Profit guarantee" section below.

References are made to the announcements of the Company dated 15 December 2016, 9 December 2016, 8 December 2016 and 6 December 2016, respectively in relation to the issue of the 2016 Convertible Notes of a principal amount of up to HK$400,000,000. The estimated net proceeds from the issue of the 2016 Convertible Notes of approximately HK$376 million was intended to be utilized as to (i) approximately HK$200 million to finance the Acquisition; (ii) approximately HK$150 million for the development of the Group's intelligent car-parking and automotive device business; and (iii) approximately HK$26 million for general working capital of the Group. As at the Latest Practicable Date, the first tranche of the 2016 Convertible Notes in an aggregate principal amount of HK$100 million had been issued.

Regarding the financing of the Acquisition, having assessed the Group's latest available internal resources taking into account the proceeds raised from the issue of the 2016 Convertible Notes, the Board is of the view that the Company is able to satisfy the 1st Payment and the 2nd Payment while may or may not have sufficient resources to finance the remaining Consideration in full. To ensure the Company will be capable to satisfy the Final Payment in full, the Company will consider using appropriate debt and/or equity financing (including but not limited to issue of convertible bonds, warrants, new Shares under general or specific mandate, rights issue and open offer) to finance the Final Payment. Given that if applicable, the Final Payment shall be obliged to be settled by the Company within 5 Business Days upon the later of the date when the 2017 Audited Account is issued or completion of the Registration, which is estimated to be in or around July 2018. As such, the Directors are of the view that there exist reasonable time for the Company to source and procure sufficient funds by way of appropriate debt and/or equity financing activities to meet the Final Payment.

As at the Latest Practicable Date, save for the issue of the 2016 Convertible Notes, the Company has yet to identify and/or conclude any terms for any other suitable fund raising opportunities with financial institution(s) and/or underwriters. The Company would exercise due and careful consideration when choosing the best fund raising method available to the Group.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendors after taking into consideration by the Company, among other things, (i) the Guaranteed Profits; (ii) the reasons and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition" in the announcement; (iii) the turnaround in performance of the Target Group to record an unaudited consolidated net profit of approximately RMB11.97 million for the year ended 31 December 2015 as compared to a net loss recorded of approximately RMB66.23 million and approximately RMB52.73 million, respectively for each of the two years ended 31 December 2014 and 31 December 2013; and (iv) the appraised value of 100% interest in the Target Group as at 31 October 2016 by the Independent Valuer of RMB272,000,000 (equivalent to approximately HK$311,000,000).

In determining the Consideration, the Board, apart from considering the above-mentioned factors, noted that the Target Group recorded net assets and net current liabilities of approximately RMB40,264,000 and RMB179,084,000 respectively as at 31 October 2016. The net current liabilities position of the Target Group as at 31 October 2016 of approximately RMB179,084,000 was mainly due to (i) short-term bank borrowings and other borrowings of approximately RMB164,800,000 and RMB39,570,000, respectively; (ii) amount due to related parties of approximately RMB18,025,000; and (iii) provision of financial guarantee of approximately RMB38,828,000.

The Board has enquired the Independent Valuer and was given to understand that in determining the appraised value of the Target Group, the Independent Valuer has taken into account the downward adjustments on debts (i.e. bank loans and other borrowings) and non-operating liabilities (i.e. other payables, amount due to related parties and provision of financial guarantees) of the Target Group. As such, the Board is of the view that the valuation, which has accounted for the impact on the debts and non-operating liabilities of the Target Group, is fair and reasonable in this regard.

A copy of the final valuation report (the "**Final Valuation**"), including details of the assumptions, basis and methodology of the valuation, have been included in Appendix V in this circular.

According to the Final Valuation performed by the Independent Valuer on 100% interest in the Target Group as at 31 October 2016, the appraised value was approximately RMB272,000,000 (equivalent to approximately HK$311,000,000). As such, the Directors consider that the maximum Consideration of approximately RMB270,000,000, which represents a discount of approximately 0.74% as compared with the Final Valuation, is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

In preparing the Final Valuation, the Independent Valuer has applied the discounted cash flow method under income approach and adopted certain assumptions, which constitutes a profit forecast under Rule 14.61 of the Listing Rules. Certain principal assumptions extracted from the Final Valuation that the Board would like to highlight are as follows:

- The Final Valuation was performed based on the discounted cash flow method under the income-based approach with financial forecasts provided by the management. Long-term growth rate of 3% was adopted based on the projected PRC's long term inflation as sourced from International Monetary Fund;

- The Final Valuation was mainly based on the projections of the future cash flows as provided by the management of the Target Group. The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- Compared to similar interest in public companies, ownership interest is not readily marketable for private companies. Hence, a marketability discount of 16.1% was applied to the Final Valuation result. The marketability discount was adopted by making reference to the study in the FMV Restricted Stock Study Companion Guide published by FMV Opinions, Inc. in 2016; and

- Discount rate of 17% was adopted in the Final Valuation, which was the estimated weighted average cost of capital of the Target Company with reference to comparable companies engaged in similar businesses.

  Board assessment:

  In relation to the discount rate applied to the forecast of the Target Group, the Board reviewed the calculations by the Independent Valuer and considered that such equation, calculations and assumptions are made in accordance with relevant rules and market practice. The Board understands from the Independent Valuer that in the course of identifying the comparable companies, the Independent Valuer has selected 5 suitable comparable companies base on following criteria:

  - the companies are principally engaged in the steel structure industry business in China;

  - the companies have sufficient listing and operating histories; and

  - the financial information of the companies is available to the public.

  The Board has reviewed the comparable companies and is of the view that (i) the selection criteria set by the Independent Valuer is reasonable; and (ii) the comparable companies selected are sufficient and in line with the above-mentioned selection criteria.

  Further, the Board understands from the Independent Valuer that, compared to similar interest in public companies, ownership interest is not readily marketable for privately held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the 2016 edition of the FMV Restricted Stock Study Companion Guide (the "**Guide**"), a marketability discount of 16.11% was adopted in arriving at the market value of the Target Group as at the date of the Final Valuation. The Board was given to understand that the Guide is a commonly use reference book by valuers to determine marketability discount.

The Board has reviewed the bases and assumptions adopted in the projection of the future cash flows of the Target Group including but not limited to revenue, costs of goods sold, other operating costs, depreciation expense, income tax expense, net profit, capital expenditure and change in net working capital. Set out below are certain bases and assumptions extracted from the valuation report dated 24 February 2017 issued by the Independent Valuer regarding the valuation of the Target Group as at 31 October 2016 that the Board considers significant and the assessment by the Board:

1. Revenue

- Steel structure projects included fabrication, delivery and installation of steel material and ro-ro equipment. The revenue from steel structure projects was estimated to be approximately RMB3,311,255 for the two months ended 31 December 2016 and RMB168,292,465, RMB118,055,556, RMB303,547,607 and RMB373,405,812 in 2017, 2018, 2019 and 2020 respectively.

- Bridge projects included manufacturing and sales of steel structures and fittings for bridge. The revenue from bridge projects was estimated to be approximately RMB22,379,915 for the two months ended 31 December 2016 and RMB185,333,333, RMB306,133,333, RMB301,538,462 and RMB301,538,462 in 2017, 2018, 2019 and 2020 respectively.

- Ship projects included manufacturing and sales of steel structures and fittings for ship. The revenue from ship projects was estimated to be approximately RMB19,230,769 for the two months ended 31 December 2016 and RMB379,912,821, RMB323,777,778, RMB189,111,111 and RMB177,264,957 in 2017, 2018, 2019 and 2020 respectively.

- The management of the Target Group estimated that revenue will grow at 3.0% from 2021 and onwards, with reference to long term projected inflation rate of China by International Monetary Fund as sourced from Bloomberg.

  Board assessment:

  The Board conducted site visit to the site of the Target Group; discussed the business activities, operation model, target client and financial status of the Target Group with the management and technical staff of the Target Group and enquired and reviewed business development plan of the Target Group and was given to understand that revenue of the Target Group is mainly generated from steel structure projects, bridge projects and ship projects. As at the date of the Final

Valuation, the Target Group has entered into 12 legally binding contracts with 7 clients (collectively, known as "Contracts") and 9 written documents from 7 long-term customers of the Target Group showing their respective intentions to place purchase order with the Target Group for their forthcoming years planned projects (collectively known as "**Written Documents**"). The Board has reviewed those Contracts and Written Documents provided by the management of the Target Company. According to the Contracts and Written Documents, the Target Company's cooperation with its clients would cover different periods from 2016 to 2020. Based on the terms of the Contracts and Written Documents, including the estimated contract sum under the Written Documents based on the expected budget reported from those long-term customers in the Written Documents and past pricing records of the Target Group to those long-term customers, the contracted and expected goods delivery date together with the estimated production progress of each of the Contracts and Written Documents assessed by the management of the Target Group based on their experiences, it is projected that revenue to be recognized for the year ending 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 would be approximately RMB734 million, RMB748 million, RMB794 million and RMB853 million, respectively.

As compared to the projected revenue in 2017, the revenue growth would be around 2.0%, 6.2% and 7.3% respectively in 2018, 2019 and 2020. According to 前瞻產業研究院 ("Qianzhan Industrial Research Institute") and the State Council of the People's Republic of China, the steel structure production in the PRC in recent years has increased by 16% compounded annually from around 32 million tonnes in 2012 to 50 million tonnes in 2015. Therefore, the Board is of the opinion that the expected revenue growth of the Target Company from 2018 to 2020 is in line with the general trend in the steel structure industry in the PRC. After 2020, the revenues for subsequent years were projected to grow at 3% per annum, which is consistent with the long-term inflation rate in the PRC as published by the International Monetary Fund. In view of the above, the Board considers that the revenue estimation and the estimated revenue growth rate is fair and reasonable in this regard.

2. Cost of goods sold

- The cost of goods sold of each of the aforementioned projects included material cost, labour cost, technical service fee, utility expense, equipment rental and repairment expense.

- The cost of goods sold from steel structure projects was estimated to be approximately RMB2,606,242 for the two months ended 31 December 2016 and RMB135,839,810, RMB95,271,588, RMB245,262,201 and RMB301,774,443 in 2017, 2018, 2019 and 2020 respectively.

- The cost of goods sold from bridge projects was estimated to be approximately RMB16,645,326 for the two months ended 31 December 2016 and RMB142,198,360, RMB234,662,398, RMB231,570,536 and RMB231,593,023 in 2017, 2018, 2019 and 2020 respectively.

- The cost of goods sold from shipbuilding projects was estimated to be approximately RMB15,385,894 for the two months ended 31 December 2016 and RMB311,418,214, RMB264,549,563, RMB154,699,099 and RMB145,247,452 in 2017, 2018, 2019 and 2020 respectively.

- The management of the Target Group estimated that cost of goods sold will grow at 3.0% per annum from 2021 and onwards, with reference to long term projected inflation rate of China by International Monetary Fund as sourced from Bloomberg.

  Board assessment:

  The Board enquired the management of the Target Group and reviewed the historical cost structures and cost figures of each of the product segments of the Target Group and was given to understand that the cost of goods sold was estimated with reference to historical cost to revenue ratio from each of the steel structure project, bridge project and shipbuilding project in year 2015 and the period from January 2016 to October 2016, where the Target Group commenced streamlining its existing group structure and production procedures in mid of 2015 and such streamlining campaign was continuing throughout the period from January 2016 to October 2016 and will remain stable throughout the forecast period. As such, the data from year 2015 and the period from January 2016 to October 2016 are able to better reflect the latest trend of the cost of goods sold of principal business of the Target Group. The estimated cost of goods sold are based on the average cost percentage level in 2015 and the period from January to October in 2016 and the forecast revenue of each of the steel structure project, bridge project and shipbuilding project to calculate the corresponding cost of goods sold. The Board is of the view that the assumptions and forecast on the cost of goods sold to be incurred by the Target Group would not differ substantially from the current basis in terms of cost to revenue ratio and considers that the cost of goods sold estimation is fair and reasonable in this regard.

3. *Administrative expenses*

- The administrative expenses were estimated to be approximately RMB2,980,900 for the two months ended 31 December 2016 and RMB21,679,185, RMB23,327,382, RMB25,128,273 and RMB27,083,898 in 2017, 2018, 2019 and 2020 respectively.

- The management of the Target Group estimated that administrative expenses will grow at 3.0% per annum from 2021 and onwards, with reference to long term projected inflation rate of the PRC by International Monetary Fund as sourced from Bloomberg.

  Board assessment:

  Administrative expenses mainly include staff remuneration, office expenses, advertising expenses, promotion expenses, leasing expenses, utility expenses, greenery conservation and cleaning expenses, depreciation and amortization.

  In relation to the assumptions and forecast made on staff remuneration, the Board enquired the management on the future staff plan of the Target Group and reviewed existing salaries, number of staff and growth rate of staff in the past years. The Board was given to understand that the cost streamlining campaign will not cover the cost associated with back office staff, as such, staff remuneration is estimated with reference to data from year 2015 and period from January 2016 to October 2016 plus a reasonable growth rate. In relation to depreciation, as some of the office assets and equipment had been depreciated in full in 2016 and thus it is expected there will be a decrease in depreciation expenses in 2017. The Target Company plans to renew certain office equipment such as computers to advance the overall efficiency of the supporting office in 2018 and expected that depreciation expenses will increase gradually from 2018. Other expenses are forecasted by the amount of the previous years plus a reasonable growth rate. Expenses which are non-recurring in nature will not be taken into consideration. When comparing the forecasted administrative expenses of approximately RMB21,679,185 in 2017 with (i) audited administrative expenses of approximately RMB37,899,000 in 2015; and (ii) the calculated administrative expenses of approximately RMB24,974,900 based on audited figures for the ten months ended 31 October 2016 plus forecasted figures for the two months ended 31 December 2016, the Board was aware that the 2017 forecast figures of approximately RMB21,679,185 represented (i) a reduction of approximately 42.80% as compared with the audited figures of approximately RMB37,899,000 in 2015; and (ii) a reduction of approximately 11.84% as compared with the calculated figures of approximately RMB24,974,900 in 2016. Upon enquiry, the management advised that approximately RMB9,203,000 related to non-recurring research and development expenses was recognized in 2015 due to the application of hi-tech certificate by the Target Group. As such, such non-recurring expenses have not been taken into account when preparing the financial forecast of the Target Group. In addition, the Board noted that depreciation and amortization expenses of approximately RMB3,031,000, RMB3,119,100 have been included in administrative expenses in 2015 and 2016, respectively while the Independent Valuer advised that to facilitate the presentation of the Final Valuation, they have adjusted the forecast administrative figures by deducting the depreciation and amortization initially and accounted for such impact in afterwards calculation. The forecast depreciation and amortization expenses in 2017 is approximately RMB2,519,000. Taking into account the above reasons, the adjusted administrative expense in the amount of approximately RMB25,665,000 and RMB21,855,800 in 2015 and 2016, respectively when compared with the forecast administrative figures of approximately RMB21,679,185 in 2017, is fair and reasonable in this regard.

4. Corporate income tax

- With reference to the Chinese high-tech enterprise certification of the Target Company provided by the management of the Target Group, corporate tax of 15% was adopted for years 2016, 2017 and 2018 as the Target Company enjoyed 3 years of taxation preference in accordance with the preferential taxation for hi-tech enterprises. China's corporate tax rate of 25% was adopted with reference to taxation law of China after the Chinese high-tech enterprise certification of the Target Company expired.

Board assessment:

The Board reviewed the hi-tech enterprise certificate of the Target Company and obtained legal advice from PRC legal adviser on the impact of relevant tax law in Nantong. The Board is of the view that the applied tax rate is fair and reasonable.

5. Capital expenditures and depreciation

- Capital expenditure in 2017 is expected to be high since the Target Company would be in developing stage, the capital expenditure would be relatively stable from 2018 and onwards.

- The depreciation expense in relation to the capital expenditure was estimated based on straight line depreciation with useful life of 10 years.

- The depreciation expense in relation to the land was estimated based on straight line depreciation with useful life of 40.6 years.

- The depreciation expense in relation to the existing property and construction in progress were estimated based on straight line depreciation with useful life of 20 years.

- The depreciation expenses in relation to the plant and equipment were estimated based on straight line depreciation with useful life of 8 years.

  Board assessment:

  The Board reviewed the historical figures of the Target Group; enquired the management of the Target Group and was given to understand that the forecasted capital expenditures was determined base on (i) the forecasted revenue growth of each of the product segments of the Target Group; (ii) the management experience to estimate the scale of fixed asset investment which might be required for expanding its business operation; and (iii) quotations from suppliers. The Board is of the view that the estimation is fair and reasonable.

  The Board has also reviewed depreciation policy of the Target Group and is of the view that the forecasted depreciation figures is in line with depreciation policy of the Target Group.

Asian Alliance, the auditors of the Company, have examined the calculations of the discounted future estimated cash flows of the Target Group on which the Final Valuation prepared by the Independent Valuer were based.

Chanceton Capital Partners Limited ("**Chanceton**"), the financial adviser to the Company, has reviewed the profit forecast of the Target Group and has discussed with the management of the Company and the Target Group the principal assumptions upon which the profit forecast of the Target Group were based. Chanceton has also considered the above report from Asian Alliance regarding the calculations of the discounted future estimated cash flows on which the Final Valuation in respect of the Target Group prepared by the Independent Valuer were based. On the basis of the foregoing, Chanceton is of the view that the profit forecast of the Target Group have been made by the Directors after due and careful enquiry.

The above-mentioned report from Asian Alliance and a letter from Chanceton regarding the profit forecast in the Final Valuation have been set out in Appendix V in this circular in compliance with Rule 14.62 of the Listing Rules. The Company has submitted the report from Asian Alliance and the letter from Chanceton to the Stock Exchange in compliance with Rules 14.62(2) and (3) of the Listing Rules.

Experts and Consents

The qualifications of the experts who have given their statements in the announcement are as follows:

Name	Qualifications
Asian Alliance	Certified Public Accountants
Chanceton	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Roma Appraisals Limited	Independent Valuer

As at the Latest Practicable Date, each of Asian Alliance, Chanceton and the Independent Valuer and their respective associates are an Independent Third Parties. As at Latest Practicable Date, neither Asian Alliance, Chanceton nor the Independent Valuer has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Asian Alliance, Chanceton and the Independent Valuer has given their respective written consents to the publication of this circular with the inclusion of their respective report and letter and all references to their respective names in the form and context in which they are included.

The Directors are of the view that the Consideration and the adjustment mechanism with reference to the Guaranteed Profits are fair and reasonable and on normal commercial terms and the entering into of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

Profit guarantee

Pursuant to the Acquisition Agreement, the Vendors have irrevocably and unconditionally guaranteed to the Purchaser that the Net Profit of the Target Group:

(i). for the First Relevant Period (i.e. the period from 1 January 2016 to 31 December 2016) shall be no less than RMB15 million (the "**2016 Guaranteed Profit**"); and

(ii). for the Second Relevant Period (i.e. the period from 1 January 2017 to 31 December 2017) shall be no less than RMB50 million (the "**2017 Guaranteed Profit**")

In the event the actual Net Profit of the Target Group for the First Relevant Period (the "**2016 Actual Profit**") shall be less than the 2016 Guaranteed Profit, then the 2nd Payment payable by the Purchaser to the Vendors in proportion to their respective interest in the Target Company shall be adjusted as follows:

$$\textbf{Actual payment} = \textbf{2nd Payment x} \quad \frac{\textbf{2016 Actual Profit}}{\textbf{2016 Guaranteed Profit}}$$

In the event the actual Net Profit of the Target Group for the Second Relevant Period (the "**2017 Actual Profit**") shall be less than the 2017 Guaranteed Profit, then the Final Payment payable by the Purchaser to the Vendors in proportion to their respective interest in the Target Company shall be adjusted as follows:

$$\textbf{Actual payment} = \textbf{Final Payment x} \quad \frac{\textbf{2017 Actual Profit}}{\textbf{2017 Guaranteed Profit}}$$

For avoidance of doubt, (i) no adjustment shall be made to the 2nd Payment and/or the Final Payment in the event the 2016 Actual Profit and/or the 2017 Actual Profit exceeded the respective guaranteed profit; and (ii) if either the 2016 Actual Profit or the 2017 Actual Profit shall be negative, the 2nd Payment and the Final Payment (as the case may be) shall be deemed to be zero.

Having discussed with the management of the Target Company during the negotiation of the Acquisition, the Board acknowledged (i) the current and potential business performance of the Target Group, including sale contracts and/or memoranda of understanding documents; and (ii) sales target for the year ended 31 December 2016 and the year ending 31 December 2017 comprised in the profit forecast of the Target Group which was applied for in the Valuation Report. As such, the Directors consider that the abovementioned profit guarantee was determined after arm's length negotiations between the parties of the Acquisition after taking into accounts the factors in those discussions.

Regarding the fulfillment status of the 2016 Guaranteed Profit, based on the accountants report of the Target Group as set out in Appendix III to this circular, audited net profit after taxation of the Target Group for the ten months ended 31 October 2016 was approximately RMB23,081,000. After having considered adjustments relating to extraordinary items on the audited net profit of the Target Group for the ten months ended 31 October 2016 including (i) gain of disposal of subsidiaries in the amount of approximately RMB22,239,000; and (ii) loss on change in fair value of financial guarantee in the amount of approximately RMB11,860,000, the Target Group would have adjusted net profit of approximately RMB12,702,000, representing approximately 84.68% of the 2016 Guaranteed Profit of RMB15,000,000. The Board is optimistic that the 2016 Guaranteed Profit could be achieved by the Target Group.

The 2016 Actual Profit and 2017 Actual Profit shall be determined according to the audited financial statements of the Target Group for the year ended 31 December 2016 and for the year ending 31 December 2017, which shall be prepared and reported by the auditors nominated by the Purchaser based on generally accepted accounting principles in Hong Kong within 3 months after the said period or any other date as agreed by the Vendors and the Purchaser.

The Company will by way of formal announcement and in the upcoming annual reports update the Shareholders and investors (i) whether the Guaranteed Profits has been met (ii) the performance of the Target Group; and (iii) where the Guaranteed Profits are not met, how the Company would enforce the obligations of the Vendors under the Acquisition Agreement.

Conditions Precedent

Completion of the Acquisition shall be conditional upon satisfaction (or where applicable, waiver by the Company) of, among other things, the following conditions:

		Current Status
i.	the warranties and representations given by the parties thereto under the Acquisition Agreement having remained true, accurate and not misleading between the date of Acquisition Agreement and the date of the Completion;	Pending Completion
ii.	board of directors of the Target Company, Purchaser and Vendors having passed the relevant resolutions to approve the Acquisition;	Fulfilled

iii.	the shareholders of the Purchaser (including immediate, intermediate and ultimate shareholder(s), other than those required by the Listing Rules or applicable laws and regulations not to vote or to abstain from voting) having approved the Acquisition Agreement and the transactions contemplated thereunder in accordance with applicable laws and regulations;	Pending
iv.	the shareholders of the Target Company (including immediate, intermediate and ultimate shareholder(s), other than those required by applicable laws and regulation not to vote or to abstain from voting) having passed the relevant resolutions pursuant to applicable laws and regulations to approve the Acquisition Agreement and the transactions contemplated thereunder;	Fulfilled
v.	the Purchaser having obtained a legal opinion (in such form and substance satisfactory to the Purchaser) from a qualified PRC legal adviser appointed by the Purchaser, confirming, among other things, the legality of the Acquisition pursuant to the Acquisition Agreement, the due incorporation, continual existence, operation and assets of the Target Group, the Sale Equity and Share Capital of each member of the Target Group is unencumbered under the PRC laws and regulations;	Fulfilled
vi.	the Purchaser having obtained a valuation report issued by a qualified valuer (in such form and substance satisfactory to the Purchaser), stating, among other things, the valuation of the Target Group being not less than RMB270,000,000;	Fulfilled

vii.	the Vendors and their associates (as defined under the Listing Rules) having obtained all necessary approvals, and consents (whether with or without any condition attached) in respect of the Acquisition and the transaction contemplated thereunder;	Fulfilled
viii.	there having been no material adverse change in the Target Group since 31 March 2016 up to the date of Completion;	Pending Completion
ix.	the Purchaser, its agent or professional advisers being satisfied with the results of the due diligence review (in relation to legal, accounting, finance, operation or any other matters, which, in the Purchaser's opinion, are important) of the Target Company; and the results of such review being satisfactory to the Purchaser (the financial adviser to the Purchaser having absolute discretion in this respect);	Due diligence exercises in progress and it is expected that the due diligence exercise will be completed in March 2017
x.	Vendors or the Target Company having obtained the consent (in such form and substance satisfactory the Purchaser) from those financial institutions, where applicable, which the Target Company has maintained banking facilities, stating their respective consent to the Acquisition Agreement and the transaction contemplated thereunder;	In progress
xi.	the Target Company having entered into loan renewal agreements, to renew the bank loan agreements as set out in the Acquisition Agreement ("**Loan Agreements**"), and having obtained a written consent from the relevant borrower agreeing not to withdraw the loan under the Loan Agreements as a result of the Acquisition or otherwise require the Target Company to make repayment;	The relevant borrower (i.e. financial institutions) have agreed in principle to renew the Loan Agreements

xii.	the Vendors having fully disclosed its external guarantees to the Purchaser; save for the guarantees provided by the Target Company and Fangzheng Ocean for the performance of Huatai Heavy Industry, no guarantees having been made by the Target Group for other third parties;	Fulfilled
xiii.	the Vendors having provided a counter-guarantee to the Target Company and Fangzheng Ocean's obligation under the guarantee as set out in xii above;	Arranging for the execution of the counter guarantees and it is expected that it will be completed in March 2017
xiv.	each of the shareholder of Huatai Heavy Industry having provided a personal guarantee to the Target Company in respect of Huatai Heavy Industry's obligations under the Hutai Accounts Receivable;	Arranging for the personal guarantee and it is expected it will be completed in March 2017
xv.	there having been no litigation or proceedings involving the Target Group pending decisions by the court or governmental authority, or any litigations or proceedings which may be threatened by a third party against the Target Group;	Certain litigations relating to suppliers and/or customers have yet to be settled. As at the Latest Practicable Date, outstanding compensation to be settled amounted to approximately RMB6.3 million and it is expected that the such amount could be settled in mid of March 2017
xvi.	there having been no outstanding labor disputes involving the Target Group including but not limited to the unpaid wages, labor disputes, arbitrations and litigations, which are pending decision by the court or governmental authority;	Certain labour despite has not been settled. As at the Latest Practicable Date, outstanding compensation to be settled amounted to approximately RMB12 million and it is expected that all labour disputes could be settled in late March 2017

xvii.	each member of the Target Group having prepared the environment impact report pursuant to the requirements of the applicable laws and regulations and having obtained the approval of environment assessment from the relevant governmental authorities;	Fanzheng Ocean and the Target Company has submitted the environmental impact assessment ("**EIA**") report, respectively and obtained approval from the relevant government authorities. Fanzheng Ocean and the Target Company are in the process of applying for completion of environmental protection facilities acceptance (the "**Completion Acceptance**"). Chuanbo Tu Zhuang is in the process of preparing the EIA report for approval. The management of the Target Group could not assess the expected time frame to complete the EIA and Completion Acceptance as the lead time for relevant government authorities to complete the approval process could not be estimated.
xviii.	the inspection charges of special equipment payable by each member of the Target Group under applicable laws and regulations having been settled in full;	The Target Group expected that the inspection pass report can be obtained in late February 2017
xix.	the transfer of the inventor patent "a type of trapped-rail running gear" (patent number: ZL 2011 1 0282208.3) from Huatai (Nantong) Shipping Company Limited* (華泰(南通)船務有限公司)("**Huatai Shipping**") to the Target Company and the registration procedures have been completed;	It is expected that the transfer will be completed in March 2017

xx.	the registered scope of business and the actual business carried out by the Target Group do not include any business restricted and/or prohibited under the Catalog of Industries for Foreign Investment (《外商投資產業指導目錄》);	It is expected that the change of business scope of Fangzheng Ocean to remove such restricted and/or prohibited business will be completed in March 2017
xxi.	each of the key personnel of the Target Group having entered into a management undertaking pursuant to which, among others, each of them shall remain and continue as an employee of the relevant member of the Target Group for a minimum of three years after completion of the Registration and that he/she shall not participate whether directly or indirectly, in any business or activities which will or may compete with the business of the Target Group during the two-year period upon his/her ceasing to be an employee of the relevant member of the Target Group;	It is expected that the relevant management undertakings will be executed in March 2017
xxii.	the property preservation measures on the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang held by the Target Company have been released by the maritime court of Xiamen unconditionally;	Please refer to the section paragraph headed "provision of performance guarantee in favour of Huatai Heavy Industry" in this circular
xxiii.	other than the aforesaid, all requisite approvals, consents and exemptions required to be obtained by the parties to the Acquisition Agreement in respect of the entering into of the Acquisition Agreement and the transactions contemplated thereunder having been obtained, and the parties have fully complied with all applicable laws and regulations (including but not limited to the Listing Rules).	Pending

As regards condition xi, the Loan Agreements represent 7 short-term loans in the aggregate amount of approximately RMB113.8 million obtained by the Target Company and Fangzheng Ocean from various financial institutions in the PRC. Such loans have loan periods ranging from 10 months to 1 year, with interest rates ranging from 4.35% to 7%, and are repayable on the respective repayment date.

As at the Latest Practicable Date, conditions ii, iv, v, vi, vii and xii have been fulfilled. If the above other conditions precedent have not been fulfilled or waived at the sole discretion of the Company and such waiver may be made subject to terms and conditions as determined by the Company (only conditions i (to the extent applicable to the Vendors), viii, xi and xvii may be waived) by the Purchaser and only condition i (to the extent applicable to the Purchaser) may be waived by the Vendors) on or before 31 March 2017 (or such later date as the Vendor and the Company may agree), the Acquisition Agreement shall cease to have any effect and the parties to the Acquisition Agreement shall have no further claims against the other under the Acquisition Agreement for costs, damages compensation or otherwise, save for antecedent breaches. The conditions which are capable of being waived are intended to provide flexibility for the Company in implementing commercial transactions of the type of the Acquisition. In relation to condition xvii, as at the Latest Practicable Date, (i) Fangzheng Ocean and the Target Company had completed the environmental impact report has yet obtained the environmental protection facilities acceptance（環境保護竣工驗收）; and (ii) Chuanbo Tu Zhuang has not yet completed the environmental impact report. Based on the information provided by the Vendors, while Chuanbo Tu Zhuang is in the process of preparing the environment impact report, as extensive time is required to compile the environmental impact report, this may result in a delay of Completion. Accordingly, the Board considers that allowing condition xvii to be waivable will provide flexibility for the Company to proceed with the Acquisition. Moreover, pursuant to the Acquisition Agreement, the Vendors have undertaken with the Purchaser to indemnify the Purchaser for all losses, damages, claims, liabilities, fine etc. arising from the breach of applicable environmental laws in the PRC in the event the Purchaser waived condition xvii. In view of the aforesaid, the Board is of the view that a waivable condition xvii is in the interest of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Purchaser has no present intention to waive any of the conditions and will only exercise its right to waive such conditions if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Completion

Completion shall take place on the fifth Business Day (or such other date as may be agreed by the parties to the Acquisition Agreement) after all the conditions precedent to the Acquisition Agreement have been fulfilled (or, if applicable, waived by the parties to the Acquisition Agreement) upon which the Vendors and the Purchaser will execute a PRC transfer instrument for registration with the relevant PRC governmental authority.

Upon completion of the Registration, the Target Company will become a wholly owned subsidiary of the Company and the financial results of which will be consolidated into the financial statements of the Company.

3. INFORMATION OF THE TARGET GROUP

The Target Company

The Target Company was established under the laws of the PRC on 12 April 2007 with limited liability and is principally engaged in manufacture and sales of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment and bridge and building steel structures. As at the Latest Practicable Date, the Target Company holds the entire registered capital of Fangzheng Ocean and Chuanbo Tu Zhuang, the Target Company has also invested in 0.77% equity interest in Jiangsu Rugao Rural Commercial Bank Company Limited* (江蘇如皋農村商業銀行股份有限公司) and is currently enjoying a stable annual dividend income. Save as disclosed above, the Target Company did not hold any other material investment as at the Latest Practicable Date.

On 1 October 2014, the Target Company entered into a patent licensing agreement with Huatai Shipping (a former 25% shareholder of Chuanbo Tu Zhuang and ceased to be a shareholder of Chuanbo Tu Zhuang on 27 October 2010) pursuant to which Huatai Shipping granted, without consideration, an exclusive right to the Target Company to use the inventor patent "a type of trapped-rail running gear" possessed by Huatai Shipping globally for a term from 1 October 2014 to 31 October 2019. As one of the conditions to Completion, the Target Company is in the process of negotiation with Huatai Shipping to transfer the above-mentioned patent to the Target Company.

Fangzheng Ocean

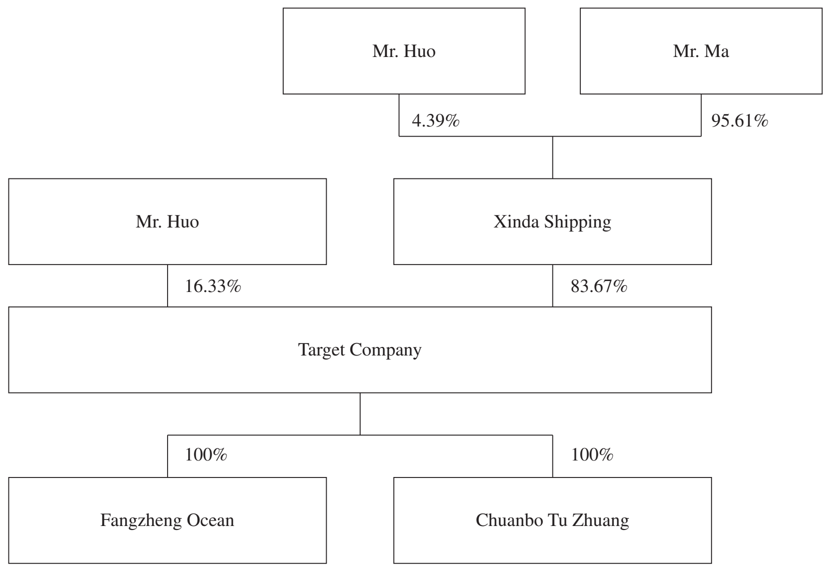
Fangzheng Ocean was established under the laws of the PRC on 22 April 2004 with limited liability. It was subsequently acquired by the Target Company on 11 February 2011. Fangzheng Ocean is principally engaged in manufacture and sales of steel structures. As at the Latest Practicable Date, Fangzheng Ocean did not hold any material investment.

Chuanbo Tu Zhuang

Chuanbo Tu Zhuang was established by the Target Company under the laws of the PRC on 27 December 2007 with limited liability and in principally engaged in the provision of pretreatment and painting services of steel plate. As at the Latest Practicable Date, Chuanbo Tu Zhuang did not hold any material investment.

Shareholding structures of the Target Group

The shareholding structure of the Target Company as at the Latest Practicable Date is set out below:



Business of the Target Group

Business model

Found in 2004, the Target Group is a diversified developer and manufacturer of steel structures for building, ship and bridge, mining heavy equipment and marine heavy equipment to technically demanding industries including but not limited to shipbuilding, construction engineering, mining and marine engineering industries. The Target Group's products are customised to meet the technical specifications and requirements of its customers, and span from fabrication to assembly of steel structure parts as well as value added processing and finishing services, at the Target Group's own workshops. The Target Group has participated in a wide range of steel structure projects, including bridges, stadiums, ships, mines and marine etc.

The Target Group supplies its products mainly to, *inter alia*, (i) global leading minerals and metal processing enterprise; (ii) foreign listed cargo and load handling solution service provider; (iii) local shipbuilding company; (iv) global one-stop living modules solution service provider for marine and offshore industries; and (v) state-owned infrastructures enterprise. The Target Group manufactures a wide variety of products to its customers, *inter alia*, Ro-Ro equipment, marine engineering crane, metallurgical mining machinery and equipment, bridge and building steel structures, ship steel structures and superstructure work. Products of the Target Group are exported to overseas such as Korea, Japan, Europe, Australia and America etc. as well as domestic sales. The Target Group also provides its customers with value added processing and finishing services.

Businesses of the Target Group can be divided into three product segments namely (i) steel structure projects which focus on the development, manufacturing and sale of steel structure in connection with other areas in the heavy industry including but not limited to mining, marine and offshore industry and car parking facilities; (ii) bridge projects which focus on the manufacturing and sale of steel structure of bridges; and (iii) shipbuilding projects which focus on the development, manufacturing and sale of steel structures of ship.

Steel structure project

Steel structure project has long been a core and stable product segments of the Target Group's business. Products of steel structure project usually comprise Ro-Ro equipment, marine engineering crane, metallurgical/mining machinery/equipment, superstructure and off-shore house module, crane and port machinery. The Target Group mainly provide its products to 2 main customers, one of which is a global leading minerals and metal processing enterprise in Sweden and the other one is a PRC leading minerals and metal processing enterprise listed in the United State of America (the "**PRC Steel Project Customer**").

For each of the year ended 31 December 2013 and 31 December 2014, revenue from steel structure project accounted for approximately 77.80% and 86.19% to the total revenue of the Target Group, respectively. Due to severe competition in the PRC heavy industry market, purchase orders from the PRC Steel Project Customer reduced from approximately RMB56.07 million in 2014 to approximately RMB22.14 million in 2015, representing a decrease of approximately 60.51%. Since then, the Target Group has put significant effort in exploring new business opportunities in steel structure project, streamlining cost structure of the Target Group's steel structure project to lower the selling price and improve the product quality, in order to improve competitiveness to attract new customers and regain purchaser orders from the PRC Steel Project Customer. For the ten months ended 31 October 2016, despite the fact that the Target Group has successfully captured new customers and recovered some of the purchase orders from the PRC Steel Project Customer, revenue from the Target Group's steel structure project accounted for approximately RMB 85.19 million, representing a decrease of approximately 33.22% as compared with the same period in 2015. Such decrease was mainly due to the business strategy to lower the selling price of the Target Group's products in order to gain market share.

Bridge project

Bridge project is a newly developed product segment of the Target Group in 2015. The bridge project targets infrastructure engineering company(ies) in the PRC and serves to provide its customers with the development, manufacturing and sale of steel structure of various kinds of infrastructure projects. In late 2015, the Target Group has successfully obtained two contracts from a state-owned infrastructures enterprise for purchase of steel structures of bridges with an aggregate total transaction value of approximately RMB150 million. This served as an important milestone for the Target Group to step into infrastructure engineering industry and explore network and business opportunities among the state-owned enterprises. Throughout the ten months ended

31 October 2016, revenue from bridge project accounted for approximately RMB27.71 million, representing approximately 14.25% of the total revenue of the Target Group. Going forward, the Target Group will leverage on the ample resources available from the newly explored state-owned infrastructures enterprise to strive for participation in different kinds of infrastructure projects. The Target Group sees the bridge project as an important revenue driver of the Target Group in future.

The shipbuilding project

The Company is aware that Huatai Heavy Industry, a long-term and stable customer of the Target Group, has become the single largest customer of the Target Group since year 2015. Revenue contributed from Huatai Heavy Industry accounted for approximately 38.66% and 41.71% of the total revenue of the Target Group for the year ended 31 December 2015 and for the ten months ended 31 October 2016, respectively, which means the reliance on Huatai Heavy Industry by the Target Group has been growing recently. Huatai Heavy Industry is principally engaged in shipbuilding and has contributed the majority of the revenue in connection with the shipbuilding project of the Target Group. To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Mr. Huo Qi, being Vendor B and a substantial shareholder of the Target Company, had indirectly held approximately 89.82% interest in Huatai Heavy Industry and thus had been a controlling shareholder of Huatai Heavy Industry until March 2016 when he disposed of his entire interest in Huatai Heavy Industry to an independent purchaser. Accordingly, Huatai Heavy Industry had been a connected person of the Target Group until March 2016. As the Target Company had been a commonly held entity of Huatai Heavy Industry and have been cooperating with Huatai Heavy Industry for a long time, majority of the most important ship steel structures works of Huatai Heavy Industry were outsourced to the Target Group to achieve time control. The Target Group is a major supplier of Huatai Heavy Industry. On the other hand, due to (i) the Target Company's connected relationship with Huatai Heavy Industry; (ii) the Target Group possesses land and buildings; and (iii) the Target Group has been supplying Huatai Heavy Industry with the most important ship steel structures works which if any problem arise will seriously hinder the progress of the overall ship building schedule of Huatai Heavy Industry, customers of Huatai Heavy Industry normally require Huatai Heavy Industry and the Target Company to jointly provide performance guarantee to them. Details of the arrangement of performance guarantee provided by Huatai Heavy Industry and the Target Company were disclosed in the paragraph headed "provision of performance guarantee in favour of Huatai Heavy Industry" below. In assessing the businesses of the Target Group, the Company was given to understand that with the recent downturn in the global shipping industry, shipbuilding industry in the PRC has been experiencing restructure, merger and bankruptcy tide. Under such environment, only those enterprises which have sufficient strain capacity and technical foundation can keep pace with the ever changing shipbuilding industry and stay in the market.

Since 2014, despite a number of long history shipbuilders in Nantong had been closed down, not only could Huatai Heavy Industry survive in such extreme economic downturn but also managed to absorb businesses from those closed down shipbuilders, which have explained the capability of Huatai Heavy Industry in the shipbuilding industry and the increasing reliance on Huatai Heavy Industry by the Target Group. The Company sees Huatai Heavy Industry as one of the very valuable customers of the Target Group and is of the view that the increasing reliance on Huatai Heavy Industry by the Target Group in recent years represents the strong ability of the Target Group's long-term and stable customer growth in such severe environment which have brought benefit to the businesses of the Target Group and consider that such increasing reliance is justifiable in this regard.

To gradually mitigate the heavy reliance on Huatai Heavy Industry by the Target Group, the Company was also given to understand that the Target Group has been putting significant effort in exploring business opportunities in other aspects of the heavy industry. In late 2015, the Target Group has successfully obtained certain contracts in relation to steel structures of bridges which are expected to generate significant revenue for the Target Group throughout late 2016 and 2017. Meanwhile, the Target Group has also explored certain new customer for the Group's steel structure project. Going forward, it is the intention of the Target Group to maintain the current level of business transaction in the shipbuilding project while investing more effort in exploring business opportunities in steel structure project and bridge project.

Provision of performance guarantee in favour of Huatai Heavy Industry

The Company is given to understand that majority of the customers (i.e. the ship owners) of Huatai Heavy Industry are engaged through referral from vessel agency company(ies) (the "**Vessel Agency Company(ies)**"). Upon successful negotiation with ship owner, Huatai Heavy Industry (as seller) together with the Vessel Agency Company (as joint seller and guarantor) will enter into shipbuilding contract with ship owner (as purchaser). At the same time, Huatai Heavy Industry and the Vessel Agency Company will enter into import and export co-operation agreement pursuant to which the Vessel Agency Company will be responsible for export of ships and import of facilities and materials required for construction of ships while Huatai Heavy Industry will be responsible for the construction of ship in accordance with the configurations requested by ship owner. Any funding gap in constructing the ship by Huatai Heavy Industry will be initially prepaid by the Vessel Agency Company on behalf of Huatai Heavy Industry and the prepaid amount together with interest and agent fees (the "**Prepaid Amount**") will be deducted from the purchase monies received from the ship owner by the Vessel Agency Company.

Based on the reasons as discussed above, apart from the performance guarantee provided by Huatai Heavy Industry, the Target Group (the then connected person of Huatai Heavy Industry and a major supplier of Huatai Heavy Industry) is also required to give the Vessel Agency Company a back-to-back guarantee to indemnify (the "**Indemnity**") the Vessel Agency Company for all liabilities and expenses which may be incurred by the Vessel Agency Company in the event that Huatai Heavy Industry is unable to perform its obligations under the shipbuilding contract and the import and export co-operation agreement and that Huatai Heavy Industry could not fulfill it obligation under its guarantee. As such, the Indemnity together with the Prepaid Amount, represent the total guaranteed amount (subject to a ceiling in each of the guarantee agreement) (the "**Guaranteed Amount**").

As at the Latest Practicable Date, the Target Group has given the back-to-back guarantee to two Vessel Agency Companies and was not in negotiation for any new guarantee agreements. Table below set out details of all outstanding guarantee agreements (the "**Guarantee Agreements**") entered into between the Target Group and the Vessel Agency Companies as at the Latest Practicable Date:

Guarantee Agreement	Date	Guarantor	Creditor	Guarantee Responsibilities	Guarantee Amount	Guarantee period	Status as at the Latest Practicable Date
Guarantee Agreement 1	20 March 2014	Target Company	Vessel Agency Company 1	Guaranteed Amount incurred during the fabrication of 38,500 tons bulk carrier by Huatai Heavy Industry	Up to US$22,250,000 incurred during the period from 20 March 2014 to date of delivery	2 years from the expiry of the final repayment date on the outstanding Guaranteed Amount	The guarantee obligation of the Target Company under Guarantee Agreement 1 had been legally enforced by Vessel Agency Company 1 *(Note)*
Guarantee Agreement 2	18 April 2014	Target Company	Vessel Agency Company 1	Guaranteed Amount incurred during the fabrication of 38,500 tons bulk carrier by Huatai Heavy Industry	Up to US$22,520,000 incurred during the period from 18 April 2014 to date of delivery	2 years from the expiry of the final repayment date on the outstanding Guaranteed Amount	The guarantee obligation of the Target Company under Guarantee Agreement 2 had been legally enforced by Vessel Agency Company 1 *(Note)*
Guarantee Agreement 3	30 April 2014	Target Company	Vessel Agency Company 2	Guaranteed paid Amount incurred during the fabrication of 38,500 tons bulk carrier by Huatai Heavy Industry	Up to US$22,520,000 incurred during the period from 30 April 2014 to end of May 2017	2 years from the expiry of the final repayment date on the outstanding Guaranteed Amount	Carrier under construction
Guarantee Agreement 4	30 April 2014	Target Company	Vessel Agency Company 2	Guaranteed paid Amount incurred during the fabrication of 38,500 tons bulk carrier by Huatai Heavy Industry	Up to US$22,520,000 incurred during the period from 30 April 2014 to end of January 2018	2 years from the expiry of the final repayment date on the outstanding Guaranteed Amount	Carrier under construction

Note(s):

Due to the failure of the ship owner to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry had cancelled the export and import co-operation agreements with Vessel Agency Company 1. Pursuant to the terms of the export and import co-operation agreements, Huatai Heavy Industry was liable to settle the Prepaid Amount with Vessel Agency Company 1 in the amount of approximately RMB85.93 million. As Huatai Heavy Industry was suffering from fund pressure at that time, Huatai Heavy Industry was unable to repay the said Prepaid Amount to Vessel Agency Company 1 and Vessel Agency Company 1 had enforced the Guarantee Agreement 1 and Guarantee Agreement 2 to recover the outstanding Prepaid Amount from both Huatai Heavy Industry and the Target Group. As such, certain assets of the Target Company and 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang held by the Target Company have been frozen by the maritime court of Xiamen. On 9 October 2016, Huatai Heavy Industry received a civil mediation agreement（民事調解書）(the "**Civil Mediation Agreement**") issued by the maritime court of Xiamen（廈門海事法院）, which acknowledged the settlement agreement entered into between Huatai Heavy Industry and Vessel Agency Company 1 regarding the settlement plan (the "**Settlement Plan**") towards the outstanding Prepaid Amount pursuant to which the outstanding Prepaid Amount of approximately RMB90.03 million as at 9 October 2016 shall be settled by nine installments as follows:

- as to approximately RMB3.47 million be settled on or before 12 October 2016 ("**1st Installment**");
- as to approximately RMB2.11 million be settled on or before 19 October 2016 ("**2nd Installment**");
- as to approximately RMB5.35 million be settled on or before 10 November 2016; ("**3rd Installment**")
- as to approximately RMB10.30 million be settled on or before 30 November 2016 ("**4th Installment**");
- as to approximately RMB10.40 million be settled on or before 31 December 2016;
- as to approximately RMB14.98 million be settled on or before 31 March 2017;
- as to approximately RMB14.74 million be settled on or before 30 June 2017;
- as to approximately RMB14.50 million be settled on or before 30 September 2017; and
- as to approximately RMB14.18 million be settled on or before 31 December 2017.

Pursuant to the Civil Mediation Agreement, Vessel Agency Company 1 agreed to (i) discharge the property preservation measures imposed on the assets of the Target Company by Vessel Agency Company 1 upon settlement of the 1st Installment; (ii) discharge the property preservation measures imposed on the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang held by the Target Company upon settlement of 2nd Installment to 4th Installment. As at the Latest Practicable Date, Huatai Heavy Industry has settled the 1st Installment and 2nd Installment in accordance with the Settlement Plan but has yet to settle the 3rd Installment and the 4th Installment. Therefore, the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang remained frozen as at the Latest Practicable Date. To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, the reason for the non-settlement of the 3rd Installment and the 4th Installment was because Huatai Heavy Industry has recently been contracted to construct ships for its customer. As such, Huatai Heavy Industry needs to retain sufficient financial resources to meet the construction time schedule and thereupon, temporarily lack of sufficient financial resources to satisfy the 3rd Installment and the 4th Installment on time.

Upon further enquiries with the Target Company, it was advised that (i) Huatai Heavy Industry has completed and delivered two ships to ship owner on 8 November 2016 in accordance with the terms and conditions of the relevant shipbuilding contracts and that the final payment has been received; (ii) in late 2015, Huatai Heavy Industry has successfully secured certain new shipbuilding contracts with certain reputable foreign marine transportation and shipping companies, it is expected that transactions under these new shipbuilding contracts will commence in the first quarter of year 2017 and deposits in an aggregate of approximately US$11,400,000 is expected to be received by mid of March 2017, which will provide further cash inflow to Huatai Heavy Industry; (iii) having assessed the construction progress of the ships under Guarantee Agreement 3 and Guarantee Agreement 4, it is expected that the delivery dates of ships under Guarantee Agreement 3 and Guarantee Agreement 4 will be in or around July 2017 and January 2018, respectively. Payment in the amount of approximately US$12,510,000 and US$12,010,000 will be received upon delivery of the ships; (iv) it is estimated that a further amount of approximately RMB35,000,000 would need to be retained by Huatai Heavy Industry to cope with working capital requirement from January 2017 to June 2017 and that Huatai Heavy Industry is in the process of negotiation with banks to obtain special financing for the construction of the new ship orders.

It was further advised that Huatai Heavy Industry has scheduled to repay the 3rd Installment, the 4th Installment and the 5th installment in an aggregate amount of approximately RMB26.05 million on or before 31 March 2017 and it is expected that the property preservation measures imposed on the entire equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang could be discharged on or before 31 March 2017. In addition, based on the estimated cash inflow to be received by Huatai Heavy Industry as stated above, it is expected that Huatai Heavy Industry will have sufficient financial resources to repay the remaining instalments in accordance with the settlement plan. The Board concur with the view of Huatai Heavy Industry in this regard.

In view of the above, Huatai Heavy Industry has been communicating with Vessel Agency Company 1 on the above situation and is in the process of negotiation with Vessel Agency Company 1 to substantiate the above mentioned Settlement Plan. In addition, as one of the conditions precedent of the Acquisition Agreement, the Vendors shall provide the counter guarantee to the Purchaser to indemnify the Purchaser for all losses and liabilities incurred by the Purchaser under the Guaranteed Agreements (see condition xiii under the section "2. ACQUISITION AGREEMENT – Conditions Precedent").

Given the above and having further considered (i) Huatai Heavy Industry is a major customer of the Target Group which has been contributing significant revenue to the Target Group; (ii) it would be difficult for Huatai Heavy Industry to secure new shipbuilding contracts if its performance thereunder is not guaranteed by a third party; (iii) it is not uncommon for a company to provide performance guarantee to its customers in the shipbuilding industry given that the transaction amount is huge; (iv) the Group has also been providing similar performance guarantee to its customers and the Guarantee Agreements are in line with the industry practice; and (v) the Target Group has been exploring business opportunities in the heavy industries to mitigate business risks associated with the shipbuilding projects, the Board is of the view that Huatai Heavy Industry would have sufficient financial resources to meet the payment obligations of the outstanding Prepaid Amount under the Settlement Plan and that there is no other foreseeable obstacle in relation to the discharge of the property preservation measures imposed on the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang and that the entering into of the Guaranteed Agreements is essential and justifiable in these regards. Save as disclosed above, none of the Guarantee Agreements have been enforced by the relevant Vessel Agency Company as at the Latest Practicable Date.

Going forward, in order to facilitate Huatai Heavy Industry in obtaining new shipbuilding orders which would also be beneficial to the Target Group's business performance, it is the Group's intention to continue to provide performance guarantee to Huatai Heavy Industry's customers, if necessary. However, the Group will implement a set of strict "know-your-client" procedures to have a full understanding on the background of the potential client and to assess the credit rating of the potential client prior to accepting and providing any performance guarantee in order to avoid the occurrence of the above-mentioned similar event. Such "know-your-client" procedures will include but not limited to (i) conducting litigation search on Huatai Heavy Industry and the potential customer to assess the integrity of the management and shareholder of the potential customer; (ii) enquiring and reviewing past transaction records between Huatai Heavy Industry, the potential Vessel Agency Company and the potential ship owner; (iii) conducting research to have a full understanding on the business and nature and operation history of the potential Vessel Agency Company and the potential ship owner; (iv) assessing Huatai Heavy Industry's transactions flow, human resources utilisation situation as well as financial conditions, prior to accepting any sales order from Huatai Heavy Industry and providing performance guarantee to its Vessel Agency Company.

The provision of any further guarantee by the Target Company after completion of the Acquisition may constitute transactions of the Company under Chapter 14 of the Listing Rules, the Company will comply with the applicable reporting, announcement and shareholders' approval requirements in accordance with Listing Rules.

Business operation

The Target Group has been accredited as a Grade Three Steel Structure Engineering Professional Contractor Qualification*（鋼結構工程專業承包三級資質）by the Administrative and Approval Bureau of Nangtong*（南通市行政審批局）since January 2016.

The Target Group runs its business operation along 1,200 meters northern Yangtze River coastal line at Rugao port shipyard, Jiangsu Province with a total area of approximately 300,000 square meters. Since the commencement of business operation of the Target Group, it has constructed several plants and equipment including but not limited to main production plant, pretreatment production workshop, closed workshop, painting workshop, machining workshop and product storage yard with a total building area of approximately 75,000 square meters. The Target Group is located in Nantong which is a prosperous coastal city with port industry and processing industry as the pillars of its economy and particularly the harbor front heavy industry which has grown rapidly in recent years. With a number of industrial parks and economic and technological development zones established, Nantong has plenty of heavy industrial products and accessories and attracted lots of talents to develop new technology. From the perspective of geographical location, Nantong is an important port in the downstream area of the Yangtze River and has forged a convenient three dimensional water-land-air transport network which can bring great advantages to the local heavy machinery manufacturers.

The Target Group has a management and operation team with extensive experience. In addition to over ten years' experience in manufacturing of steel structures and fittings for heavy industry, the Target Group also possesses excellent capability in the manufacture and R&D of Ro-Ro equipment, marine engineering crane, metallurgical/mining machinery/equipment, superstructure and off-shore house module, crane and port machinery, large bridge steel structure, hatch cover and other categories of large steel structure products and processing services. As such, the Target Group can supply a large variety of services and products.

Financial Information of the Target Group

The following is certain financial information of the Target Group as extracted from the accountant's report on the consolidated financial information of the Target Group for the three financial years ended 31 December 2015 and for each of the ten months ended 31 October 2016 and 2015 included in Appendix III to this circular:

	For the year ended 31 December			For the ten months ended 31 October	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	256,385	211,645	436,324	326,120	194,489
(Loss)/profit before tax	(51,893)	(69,274)	8,885	(6,542)	20,138
(Loss)/profit after tax	(52,731)	(66,230)	11,973	(6,635)	23,081

	As at 31 December			As at 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	664,777	506,229	489,436	464,268
Total liabilities	696,347	604,029	572,253	424,004
Net (liabilities)/assets	(31,570)	(97,800)	(82,817)	40,264

4. REASONS FOR AND BENEFIT OF THE ACQUISITION

The Company is an investment holding company and the Group is principally engaged in the production and operation of shipbuilding, securities trading, and providing financial services business and intelligent car-parking and automotive device business.

The continuous lack of growth momentum in the world economy and the downturn in the domestic economy have deteriorated the situation of entire shipbuilding industry. The Group's shipbuilding business faced great pressure due to lower prices of new ships, tightened credit facilities to shipbuilding companies by financial institutions and rising labor cost notwithstanding new ship orders have been obtained by the Group. It has been the Group's strategies to (i) broaden its source of revenue; (ii) improve productivity, technical know-how and diversify products mix to enhance competitiveness in the heavy industry market; and (iii) achieve economies of scale to reduce production cost and expand production capacity to improve profitability, by acquiring enterprises with such potential from the industry.

The Company became acquainted with the Vendors in August 2015, at a mass production meeting of the Group, where the general manager of the Target Company was introduced to Mr. Li Ming, the Chairman of the Company and Mr. Zhang Shi Hong, an executive Director, by the deputy general manager of a subsidiary the Company who was in charge of the Group's shipbuilding business. Upon several visits and discussions between the Company and the Target Group, the Company gained comprehensive understanding on the business operations of the Target Group and was impressed by the professionalism and technical skills of its management team and was of the opinion that its business composition could complement to the Company's plan to consolidate its shipbuilding business. The Company contemplated the acquisition of the Target Company in November 2015.

The Acquisition will bring in an excellent shipbuilding management and operation team with extensive experience to the Group and attract more talents to join in, which will improve the product quality and productivity of the Company's existing shipbuilding business. On the other hand, due to Nantong's advantageous location for the players in heavy industry and the comprehensive supporting facilities, the cost of material procurement and transportation will be significantly reduced and thus will help improve the profitability of the Group. In view of the aforesaid, the Board believes the Acquisition is in line with the Company's strategy for its existing shipbuilding business.

In terms of the Company's intelligent car-parking and automotive device business, the Company could leverage on the technical know-how and production capacity of the Target Group, consolidate and expand its existing intelligent car-parking and automotive device business given that the Company sees huge potential in the intelligent car-parking and automotive device business.

In view of the above, the Group believes the Acquisition provides a valuable opportunity to the Group to (i) share and integrate technologies between the Group's existing shipbuilding business and that of the Target Group to enhance the overall technical level of the Group's product development capability and diversify products mix; (ii) immediately broaden the Group's clients portfolios to facilitate future business exploration of the Group as well as broaden the source of revenue; (iii) strengthen resources allocation and talents interaction between the Group and the Target Group to improve overall productivity and reduce production cost; (iv) by leveraging on the technical know-how of the Target Group in construction of steel structures for bridge and building would definitely benefit the resources integration of the Group's intelligent car-parking and automotive device business; and (v) given the net asset position of the Target Group as at 31 October 2016, it is expected the current net liabilities position of the Company would be improved gradually. As such, the Board is of the view that the terms and conditions of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

After the Acquisition, the Company will shift the focus of its shipbuilding business to the coastal areas where the economy is more developed, and by acquiring the experienced management team of the Target Company, the Group can also strengthen its shipbuilding business and the intelligent car-parking and automotive device business. The Company will further enrich and extend its business scope and product line, thus comprehensively increase the asset size, profitability and overall competitiveness of the Company.

While the Board noted that the auditors had issued "emphasis of matter" as to the going concern of the Target Group given that the Target Group recorded net current liabilities as of 31 October 2016, the Board understands that the net current liabilities position was mainly due to short-term bank loans granted by banks in the PRC. The Company, which also operates shipbuilding business in the PRC, also experienced such arrangement from PRC banks and thus is of the view that it is a common practice of PRC banks to grant short-term loans to companies engaging in shipbuilding and related business and renew them every year upon expiry. Having further enquired and assessed, the Company noted that the Target Group had not experienced any major problem in renewing its short-term bank loans in the past. Moreover, it is one of the conditions precedent of the Acquisition Agreement that the Target Group has renewed the short-term loans (see condition xi under the section "2. ACQUISITION AGREEMENT – Conditions Precedent"). As such, the Company is of the view that the net current liabilities position of the Target Group would not have material impact to the cash flow and business operations of the Target Group.

In addition, based on the financial information of the Company and the Target Group, upon completion of the Acquisition, there will be marked increase in the revenue size and profitability of the Company, thereby enhancing the Company's continued profitability and resilience to financial risks.

Base on the above reasons, the Board is of the view that the terms and conditions of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

5. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, each member of the Target Group will become a wholly-owned subsidiary of the Company. As such, the assets, liabilities and results of the Target Group will be consolidated into the Company after Completion.

Appendix IV to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

(i). Earnings

As stated in the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group set out in Appendix IV to this circular, the loss attributable to owners of the Company for the year ended 31 December 2015 would have been reduced from approximately HK$500.81 million to approximately HK$489.46 million as if the Acquisition had taken place on 1 January 2015.

(ii). Assets and liabilities

As set out in Appendix IV to this circular, the unaudited pro forma consolidated statement of financial position of the Enlarged Group illustrates the effect of the completion of the Acquisition on the Group, assuming that the Acquisition had taken place on 1 January 2015. If the Acquisition had been completed on 1 January 2015, the total assets of the Enlarged Group as at 31 October 2016 would have been increased from approximately HK$2.37 billion to approximately HK$3.16 billion. The total liabilities of the Enlarged Group as at 31 October 2016 would have been increased from approximately HK$2.92 billion to approximately HK$3.71 billion.

As at the Latest Practicable Date, the total amount guaranteed by the Target Group in connection with provision of performance guarantee in favour of Huatai Heavy Industry, together with other contingent liabilities (the "**Total Contingent Liabilities**") amounted to approximately HK$464,448,250 which comprises (i) remaining indebted amount by Huatai Heavy Industry to Vessel Agency Company 1 of approximately RMB84,450,000 (equivalent to approximately HK$94,837,350) under the Settlement Plan; (ii) the possible maximum guaranteed amount of approximately US$45,040,000 (equivalent to approximately HK$349,060,000) under Guarantee Agreement 3 and Guarantee Agreement 4; and (iii) the estimated aggregate maximum amount of approximately RMB18,300,000 (equivalent to approximately HK$20,550,900) to be borne by the Target Group in connection with existing litigations of the Target Group. Save as disclosed above, the Target Group did not have any other material contingent liabilities as at the Latest Practicable Date. In the event that (i) the Target Group is unable to settle or conclude all outstanding litigations or legal proceedings; and/or (ii) Huatai Heavy Industry and/or the Target Group could not fulfill its settlement obligation of approximately RMB26,050,000 and procure Vessel Agency Company 1 to apply to the maritime court of Xiamen to discharge the property preservation measures on the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang held by the Target Company unconditionally by the Long Stop Date, the Acquisition will not proceed and the Acquisition Agreement shall cease to have any effect and the parties to the Acquisition Agreement shall have no further claims against the other under the Acquisition Agreement for costs, damages compensation or otherwise, save for antecedent breaches.

Regarding the financial guarantee provided by the Target Group in favour of Huatai Heavy Industry under Guarantee Agreement 3 and Guarantee Agreement 4 in the aggregate maximum guarantee amount of approximately US$45,040,000 (equivalent to approximately HK$349,060,000), the Board was given to understand that the shipbuilding progress under Guarantee Agreement 3 and Guarantee Agreement 4 is satisfactory, Huatai Heavy Industry is of the view that the ships would be delivered to the ship owner as scheduled and thus the possibility of financial guarantee obligation being enforced by Vessel Agency Company 2 is remote.

The Board believes that the financial impact of the above-mentioned Total Contingent Liabilities to the Enlarged Group would be limited to approximately RMB58,400,000. Given it is one of the conditions precedent of the Acquisition Agreement that the Vendors shall provide the counter guarantee to the Purchaser to indemnify the Purchaser for all losses and liabilities incurred by the Purchaser under the Guaranteed Agreements (see condition xiii under the section "2. ACQUISITION AGREEMENT – Conditions Precedent"), the Board is of the view that the impact of the existing contingent liabilities of the Target Group to the Enlarged Group upon completion of the Acquisition would not be material in this regard.

(iii). Liquidity

The Company expects to fund the Acquisition with its existing internal cash resources and external financing. If the Acquisition had been completed on 1 January 2015, the net cash position of approximately HK$70.18 million of the Group as at 31 October 2016 would have changed to the net debt position of approximately HK$260.40 million of the Enlarged Group.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP AND INTENTION OF THE COMPANY ON EXISTING BUSINESS

Upon completion of the Acquisition, the Enlarged Group will be principally engaged in (i) production and operation of shipbuilding; (ii) securities trading and providing financial services business; (iii) intelligent car-parking and automotive device business; and (iv) manufacture and sales of steel structures for different heavy industries.

The Directors expect that the global economy development will remain uncertain and the excessive capacity situation in the shipping market is unlikely to change substantially in the near term, the growth of shipping demand will remain slow. It is anticipated that the market will recover slowly in the future. Overall, opportunities and challenges coexist. The Group intends to reallocate resources to facilitate business restructuring of the Group's shipbuilding and intelligent car-parking and automotive device business to enhance production lead time and product offering. The Group will also leverage on the merit of the Target Group to adjust its products mix by venturing into the heavy industries with an aim to broaden client base and revenue resource of the Group and mitigate business risk associate with the Group's ship building business.

The Group has extensive experience in shipbuilding industries and has recently ventured into the intelligent car-parking and automotive device business. In light of the encouraging policies and measures on car parks construction successively issued by the national and local governments of the PRC, car park and "Internet of Vehicles" business will see rapid development in the near term and also help to diverse the risks of the Group's shipbuilding business by efficiently taking up its surplus capacity. The Target Group has a management and operation team with extensive experience especially in the development and manufacturing of steel structures for different kind of heavy industries. The Target Group supplies its products to its customers around to globe and also provides its customers with value added processing and finishing services. In such circumstances, the Directors believe that the Target Group provides an excellent strategic fit between the Target Group's technical know-how and technology with the Group's existing shipbuilding and intelligent car-parking and automotive device business, and offers a crucial platform for the Group to further expand its steel structures division and develop its heavy industry expertise and technology. The Acquisition will enable the Group to secure an advantageous position in the market of high-end and high value steel structures products in the PRC and also worldwide. Through the Acquisition, the Group also expects to enhance its product mix and benefit from the complementary synergy between the Target Group's business and the existing businesses of the Group.

Upon completion of the Acquisition, the Company will continue with the operation of its existing business. In respect of the shipbuilding business, the Company planned to gradually shift part of its existing shipbuilding business to Nantong, which is a coastal city, to enjoy the benefits of lower cost, abundant talents and convenient logistics, while retaining part of its shipbuilding business within Jiangxi Province. The Acquisition represents a crucial step of the Company to effect the shifting of its shipbuilding capacity to Nantong region. The Company expects to forge the shipbuilding industry chain in Nantong region in the future.

In respect of the intelligent car-parking and automotive device business, the Company planned to utilise the remaining capacity after shifting the shipbuilding capacity from Jiangxi Province to Nantong region to expand the intelligent car-parking and automotive device business. In addition, the Company planned to realign some of the machinery manufacturing and processing business of the Target Group to Jiangxi Province upon completion of the Acquisition.

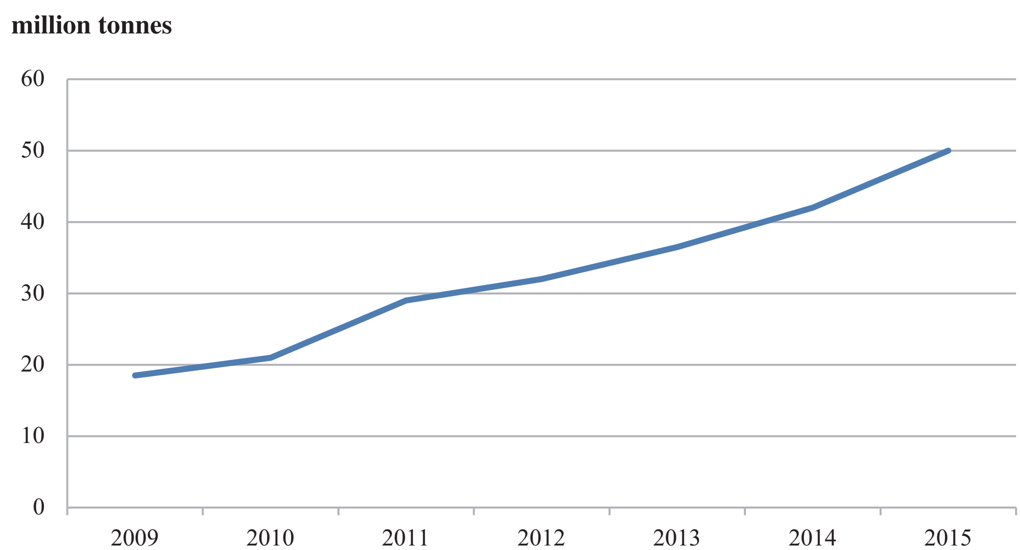
In view of the above, the Directors believe that the prospect of the Enlarged Group is promising.

OVERVIEW OF THE STEEL STRUCTURES INDUSTRY IN THE PRC

Steel structure is commonly used in construction, acted as supporting member in buildings and larger structures. For example, residential and industrial buildings, stadiums and transportation structures such as bridges and overpasses of railways and highways. Comparing to other construction structures like reinforced concrete structure, steel structure is of higher strength and durability but with lighter weight.

According to qianzhan.com ("前瞻產業研究院"), a company in China which focus on market research and consultancy, and the State Council of the People's Republic of China (the "State Council"), the steel structure production saw an increasing trend from 2009 to 2015. The steel structure volume increased from 18.5 million tons in 2009 to 50 million tons in 2015. Figure 4 illustrates the change in steel structure production volume from 2009 to 2015.

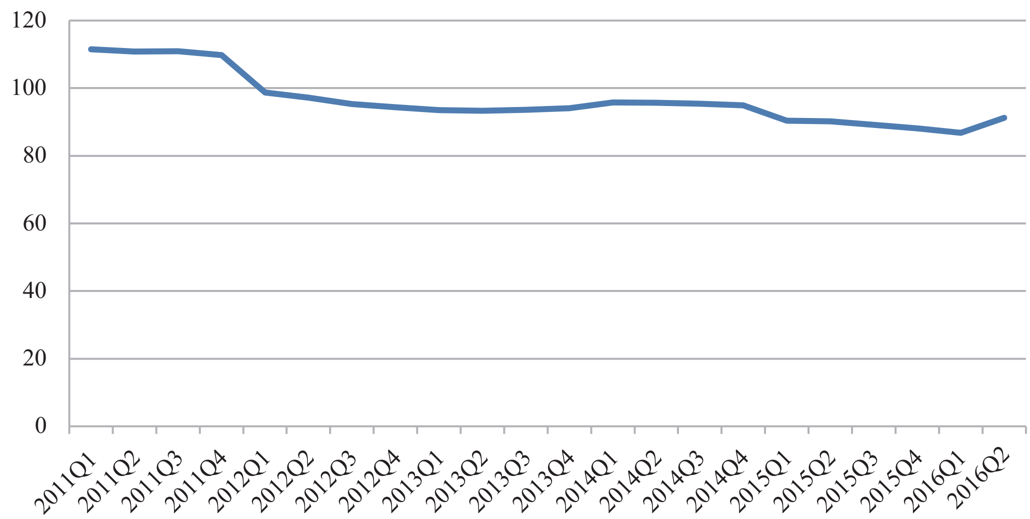
Production Volume of Steel Structure from 2009 to 2015



Source:qianzhan.com and the State Council

The production cost of steel structure is closely related to the price of steel. According to the National Bureau of Statistics of China, the price of steel in China experienced a gradual decrease from 2011 to 2015. Figure 5 illustrated the accumulated price index of steel from the first quarter of 2011 to the second quarter of 2016.

Accumulated Price Indices of Steel from the First Quarter of 2011 to the Second Quarter of 2016



Source: National Bureau of Statistics of China

The promotion of steel structure industry was included in various government plans and documents in China. The State Development and Reform Commission and the relevant administrative departments of the State Council jointly announced the Catalogue for Guiding Industry Restructuring (2011 Edition) (“產業結構調整指導目錄(二零一一年本)”) on 27 March 2011, which was an indicator for investment and government projects. Steel structure residential integrated systems and research, development and promotion of related technologies were listed in the encouraged category.

Moreover, in 2011, the Twelfth Five-Year Plan for the construction industry in China was announced to the public. It aimed to promote the sustainable and healthy development of China’s construction industry. In particular, China encouraged the use of building steel structure. Larger steel structure proportion would be used in highway, road and bridge construction as well as subway, light rail and other related projects in China.

7. RISK FACTORS

(i). Risks associated with the Acquisition

- **The Group's indebtedness may limit the Group's ability to obtain additional financing in the future**

The Company expects to fund the 1st Payment and the 2nd Payment by means of the Group's existing internal resources and fund the Final Payment by means of appropriate debt and/or equity financing (including but not limited to issue of convertible bonds, warrants, new Shares under general or specific mandate, rights issue and open offer). As the Group has committed a significant amount of financial resources for the Acquisition, the Group's indebtedness and related obligations could have important future consequences on the Group, such as potentially limiting the Group's ability to obtain additional financing and exposing the Group to the risk of increased interest costs as a result of any interest rates rise.

- **The Acquisition may not proceed to completion**

Completion of the Acquisition is subject to the fulfilment or waiver (as the case may be) of a number of conditions, the details of which are set out in the paragraph headed "The Acquisition Agreement – Conditions precedent" in the section headed "Letter from the Board" in this circular. If the Shareholders do not approve the Acquisition, or any condition is not satisfied or waived by the Long Stop Date, completion of the Acquisition may not take place.

There can be no assurance that the conditions will be fulfilled (or waived, where applicable of being waived) or that the Acquisition will be completed. If the Acquisition does not proceed to completion, the Company will not be able to realise the benefits anticipated from the Acquisition, and it may create uncertainty for the Group's business planning and development.

- **The expected benefits of the Acquisition may not be realised**

Although the Company has conducted due diligence in connection with the Acquisition, it may not be aware of all the risks associated with the acquired businesses at the time of purchase. Any discovery of adverse information concerning the acquired businesses after the completion of the Acquisition could materially and adversely affect the Group's business, financial condition and results of operations. Furthermore, the Target Group may not perform to the Company's expectations for various reasons, including legislative or regulatory changes that affect the products and services in which the Target Group specialise, and the loss of key customers and personnel. If the Group is not able to realise the benefits anticipated for the Acquisition, the Group's overall profitability and growth plans may be adversely affected.

The successful integration and resources re-allocation between the business of the Target Group and the Group will require, among other things, coordination of operations between the Group and the Target Group, retention of the Target Group's management and other employees, development and maintenance of a degree of uniform standards, controls, procedures and policies with the Group, and retention of existing suppliers and customers of the Target Group. Any difficulties encountered in the process of integration and resources re-allocation may cause disruption of the Enlarged Group's business activities. If the expected benefits of the Acquisition cannot be realised or if the Enlarged Group cannot address the risks relating to the integration, the financial position and operating results of the Enlarged Group may be adversely affected.

(ii). Risks relating to the Target Group and its operation

- **Going concern of the Target Group**

Net current liabilities

As at 31 October 2016, the Target Group recorded net current liabilities of RMB179,084,000. The net current liabilities was mainly due to the short-term banks and other borrowings in an aggregated amount of approximately RMB20,437,000 as at 31 October 2016, which are supposed to be repaid in the coming twelve months. As Such, the Target Group's ability to continue as a going concern may be uncertain. Should the Target Group be unable to operate as a going concern after Completion, the Enlarged Group will have to provide financial assistance to the Target Group, which may create additional financial burden to the Enlarged Group.

Having enquired, the Directors noted that all borrowings were either secured by the Target Group's assets or guaranteed by other parties. The Directors were given to understand that (i) it is normal practice of the PRC banks to grant short-term loans to companies engaging in shipbuilding and related business which are renewed on a yearly basis; (ii) the Target Group could either renew existing loans upon maturity or obtain new loans from past experience; (iii) it is the intention of the Target Group to continue to renew existing loan agreements and/or obtain new loans to finance its business operations; and (iv) the Target Group has been maintaining a long-term relationships with majority of its co-operating banks.

Although there is no assurance that these short-term loans will be extended in future upon maturity within a year, however, the Directors are of the view that the Target Group would be able to renew these loans on a yearly basis taking into account these loans are either secured by the Target Group's assets or guaranteed by other parties and the Target Group has been maintaining a long-term relationships with majority of its co-operating banks. Moreover, it is one of the conditions precedent of the Acquisition Agreement that the Target Group has renewed the short-term loans (see condition xi under the section "2. ACQUISITION AGREEMENT – Conditions Precedent"). If such condition could not be fulfilled by the Long Stop Date, the Acquisition will not proceed to Completion.

In reviewing the cash flow projections of the Target Group as prepared by the directors of the Target Company, which indicate that the Target Group would have sufficient working capital to meet its financial obligations as and when they fall due in the next 12 months from 31 October 2016, the Directors would like to highlight the following major bases and assumptions:

i. the Target Group intends to continue to renew the existing loans and/or obtain new bank loans, the interest expenses to be incurred for the forthcoming 12 months in relation to the existing loans is approximately RMB21.82 million; and

ii. a stable revenue stream is expected to be generated from the Target Group's businesses

The inability of Huatai Heavy Industry to satisfy its liabilities obligations towards the Vessel Agency Company will have adverse impact to the business operation of the Target Group

As disclosed in the section headed "provision of performance guarantee in favour of Huatai Heavy Industry" in this circular, the Target Group has provided performance guarantee in favour of Huatai Heavy Industry in respect of Huatai Heavy Industry's obligation towards the Vessel Agency Companies under the import and export co-operation agreements. In the event that Huatai Heavy Industry is unable to satisfy its obligations (as the case may be) towards the Vessel Agency Company, the Target Group will be liable to indemnify the Vessel Agency Companies all liabilities and losses incurred by the Vessel Agency Company which would definitely have adverse impact on the business operation of the Target Group.

It is one of the Conditions precedent of the Acquisition Agreement that the Vendors shall provide a counter-guarantee in favour of the Purchaser to indemnify the Purchaser for all liabilities and expenses which may be incurred by the Purchaser under the Huatai Guarantees.

- **Costs risk**

Steel cost is an important operating cost for the Target Group. The rise of steel price may lead to the increase of cost of material of the Target Group and in turn affect the profitability of Target Group. The uncertainty from the fluctuation of steel prices will cause the fluctuation of gross profit and thus affect the profitability of the Company.

- **Risk of tax incentives**

In October 2015, the Target Company was recognised as a Hi-tech enterprise and thereby became entitled to the preferential enterprise income tax at 15% applicable to Hi-tech enterprises during the preferential tax period. According to the Measures for the Administration of the Recognition of Hi-tech Enterprise (Guo Ke Fa [2016] No. 32) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, the hi-tech enterprise qualifications shall be valid for a period of three years as of the date of issuance of the certificate. Accordingly, the Target Company can enjoy a preferential tax period from 2015 to 2018. If the Target Company could not continue to satisfy relevant recognition requirements as a Hi-tech enterprise, it will cease to enjoy tax incentives, which in turn will have an adverse effect on net profits of corresponding years of the Target Group in future.

The qualification of Hi-tech enterprise has to be applied with relevant government departments every 3 years and the Company will assist the Target Company in making the application for the qualification of Hi-tech enterprise.

- **Risk on title certificates of the properties**

As at the Latest Practicable Date, among the assets of the Target Group, land with an area of approximately 63,630 square meters has yet obtained land certificates and properties with an area of approximately 18,675 square meters have yet obtained land certificates and building ownership certificates (collectively, known as "**Uncertified Properties**"). There exists a risk that the Uncertified Properties may be identified as illegally occupied which may be subject to penalties, forced demolishment, and/or being revoked. As advised by the management of the Target Group, the chance to rectify the Uncertified Properties is remote.

Having assessed the nature of the Uncertified Properties, the Board is of the view that none of the major manufacturing plants in connection with the core business operation of the Target Group are located in the Uncertified Properties, thus the Uncertified Properties should not have material adverse impact on the operation of the Target Group.

In addition, the Vendors will indemnify the Purchaser that if the Purchaser suffered from any losses after Completion, any losses will be borne by the Vendors and the Purchaser will not resulted in any losses.

- **Failure to hire and retain key management personnel and qualified employees could adversely affect the businesses and prospects of the Target Group**

The growth of the Target Group's business operations has been, to a certain extent, dependent on its key personnel with advanced management expertise and technical skills. If the Group fails to attract and retain personnel with suitable managerial, technical or marketing expertise or maintain an adequate labour force on a continuous basis, its business operations could be adversely affected.

As one of the non-waivable conditions precedent, each of the key personnel of the Target Group shall enter into a management undertaking pursuant to which, among others, each of them shall remain and continue as an employee of the relevant member of the Target Group for a minimum of three years after completion of the Registration and that he/she shall not participate whether directly or indirectly, in any business or activities which will or may compete with the business of the Target Group during the two-year period upon his/her ceasing to be an employee of the relevant member of the Target Group. The Board is of the view that such condition has provided a safeguard measure to the Group for at least three years.

- **Potential liability for environmental problems could have adverse impact to the operation of the Target Group**

Under the PRC law, construction projects of the Target Group are required to undergo environmental assessments and an environmental impact assessment ("**EIA**") report is required to be submitted to the relevant government authorities for approval before the commencement of construction and are required to apply for completion of environmental protection facilities acceptance (the "**Completion Acceptance**") upon completion of the projects. As at the Latest Practicable Date, (i) Fangzheng Ocean and the Target Company had completed the EIA while the Completion Acceptance remained outstanding; and (ii) Chuanbo Tu Zhuang has not yet completed the EIA. There exists a risk that the constructions of the Target Group may be brought to a halt by the relevant government authorities.

As one of the conditions for completion of the Acquisition, the Target Group is in the process of fulfilling the outstanding procedures and/or approvals as required under the PRC law in connection with the environmental issues of the Target Group.

(iii). Risks Relating to the Industry

- **Target Group's business is susceptible to changes in the market and may suffer detriments in a deteriorating market environment**

The Target Group provides the vast majority of its products and services to the heavy industry including but not limited to customers engaging in the shipbuilding industry, marine and offshore industry, mining industry etc., which are highly sensitive to the economic environment. A deteriorating economic environment could be detrimental to the Target Group's financial results and its ability to achieve its strategic goals. If the growth of the heavy industries slows down, the Target Group's operating results, financial condition, business and prospects would be adversely affected. However, the Target Group's sales are diversified and well spread across customers, products and geographies to mitigate individual variations in demand. In addition, by reviewing production forecasts and through close communication with customers, the Target Group actively monitors market activity levels to adequately respond to changes in demand. In addition, the Target Group focuses on maintaining a significant layer of variable costs including the use of temporary personnel, ensuring resources can be re-allocated internally.

- **Changes in heavy industry policies and regulations may adversely affect its business, financial condition and results of operations**

The Target Group is subject to the rules and regulations applicable to heavy industries throughout the world. Moreover, if the relevant government authorities change their existing regulations or policies, the Target Group's results of operations, financial condition, business and prospects could be adversely affected. The Target Group may also incur extra costs in order to comply with technical specifications or other conditions resulting from any enacted or proposed changes in the applicable laws and regulations. As a result, the Target Group's business, financial condition, results of operations and/or prospects may be adversely affected. The business of the Target Group's customers is also subject to regulations any change of which could indirectly affect the Target Group's business.

- **Risk relating to overcapacity of the shipbuilding industry**

For each of the years ended 31 December 2015, 31 December 2014 and 31 December 2013 and for the ten months ended 31 October 2016, revenue from shipbuilding projects represents approximately 22.21%, 13.81%, 45.93% and 41.95% to the total revenue of the Target Group, respectively.

In recent years, due to downturn of the global shipbuilding industry as a whole and continuous expansion of shipbuilding industry in the PRC, there has been a persistent overcapacity in the shipbuilding industry in the PRC, which may have adverse impact on the operational results of the Company.

(iv). Other Risks

- **Valuation on the Target Group**

The Valuation on the Target Group involves various assumptions and therefore such valuation may or may not effectively reflect the true value of the Target Group. Any impairment will be recognized in profit or loss.

- **Exchange rates risk**

The Enlarged Group will be exposed to foreign exchange fluctuations with respect to the EUR, RMB and the US$. The financial results of the Enlarged Group are reported in HK$. Sales of steel structures to its customers may be settled in RMB, EUR and/or US$. Since the operation of the Target Group is conducted in the PRC, a portion of the Enlarged Group's expenses are in RMB. As a result, the Enlarged Group's financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies.

LISTING RULES IMPLICATION

As certain applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition pursuant to the Acquisition Agreement exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and therefore the Company is subject to reporting, announcement and Shareholders' approval requirements.

THE SGM

The SGM will be held at Golden Restaurant, Macau Jockey Club, 1/F, East Wing Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong on Tuesday, 14 March 2017 at 10:30 a.m., during which resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder.

The notice of the SGM is set out on pages SGM-1 and SGM-2 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment thereof should the Shareholders so wish.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM.

The resolution proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the poll results of the SGM.

RECOMMENDATIONS

The Board is of the opinion that the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of resolution proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

MISCELLANEOUS

In case of inconsistency, the English text of this circular and the enclosed form of proxy shall prevail over their respective Chinese text.

By Order of the Board
China Ocean Industry Group Limited
Li Ming
Chairman

1. THREE YEAR FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the year ended 31 December 2013, the year 31 December 2014 and the year ended 31 December 2015 are disclosed on pages 20-100 of the 2013 annual report published on 29 April 2014, pages 21-114 of the 2014 annual report published on 28 April 2015 and pages 27-151 of the 2015 annual report published on 27 April 2016 respectively, which are published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.irasia.com/listco/hk/chinaoceanindustry/index.htm). Please refer to the hyperlinks as stated below:

2013 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0429/LTN20140429931.pdf

2014 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0428/LTN201504281380.pdf

2015 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427640.pdf

2. INDEBTEDNESS STATEMENT

Statement of indebtedness

Bank borrowings

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had secured bank loans of approximately HK$1,237 million with interest bearing at 4.25-10% per annum. The Enlarged Group's certain land, property, plant and equipment and prepaid lease payment with an aggregated carrying value of approximately HK$20 million, HK$278 million and HK$302 million, respectively as at 31 December 2016 are pledged to banks to secure general banking facilities granted to the Enlarged Group.

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group has pledged the entire equity interest of Jiangxi Jiangzhou Union Shipping Co., Ltd, an indirectly wholly owned subsidiary of the Enlarged Group, to secure a bank loan of approximately HK$119 million with interest bearing at 5.7%per annum.

Unsecured and unguaranteed other borrowings

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Group had non-interest bearing other borrowings of approximately HK$12 million and fixed-rate other borrowings of approximately HK$28 million at 36% per annum, which were unsecured and unguaranteed.

Unsecured and guaranteed other borrowings

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Group had fixed-rate other borrowings of approximately HK$133 million at 4.56-24% per annum, which were unsecured and guaranteed by the Company's assets and personal assets of senior management.

Convertible bonds

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Group had convertible bonds of approximately HK$252 million charged at interest rate at 7.5% per annum and convertible bonds of HK$99 million charged at 2% per annum.

Disclaimer

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have, at the close of business on 31 December 2016, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of (i) the estimated net proceeds from the issue of the Convertible Notes of approximately HK$282,000,000 announced on 6 December 2016, 8 December 2016, 9 December 2016 and 15 December 2016, respectively, and (ii) the present available resources to the Enlarged Group subject to successful renewal of loan facilities up to HK$723,000,000 offered by the banks and 3rd parties, the Enlarged Group will have sufficient working capital for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group was made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016.

The information is extracted from the annual reports and interim report of the Company for the relevant financial years, published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.irasia.com/listco/hk/chinaoceanindustry/index.htm).

The management discussion and analysis for each financial year and for the six months ended 30 June 2016 should be read in conjunction with the financial information of the Group included in the respective annual reports and interim report of the Company.

A. Management discussion and analysis for the six months ended 30 June 2016

Overview

In the first half of 2016, the Group's shipbuilding business still faced tremendous pressure due to continuing downturn of the marine market. Since the second half of 2015, through continuously adjusting its shipbuilding business structure, optimizing the allocation of resources, improving the operation efficiency, the Group was able to sustain the current business scale of shipbuilding business and significantly reduce costs. At the same time, financial leasing business achieved steady progress in business development and, created synergies with the Group's other businesses. Following the acquisition of the intelligent car-parking project of Shandong Dereton at the end of 2015, the Group has been focusing on development of intelligent carparking and automotive device business which achieved significant result during the period under review. In addition, by entering into cooperation agreements and establishing joint ventures with business partners in relevant areas, the Group has been able to utilize multiple resources and advantages to continuously expand the business scope and market share of car-parking business. In light with increasing domestic market demand coped with encouraging policies issued by government of the PRC, the Group is expecting rapid development in our intelligent car-parking and automotive device business with promising prospect.

For the six months ended 30 June 2016, the Group recorded a revenue of HK$168.46 million (2015: HK$67.25 million), representing a substantial increase of 150.50% as compared to the same period last year. This increase was mainly due to revenue of HK$96.89 million contributed by intelligent car-parking and automotive device business (2015: Nil). The Group's shipbuilding business recorded a revenue of HK$70.99 million (2015: HK$65.48 million), representing an increase of 8.41% as compared to the same period last year. The Group's financial leasing business contributed a revenue of HK$0.58 million (2015: HK$1.78 million), representing a slight decrease as compared to the same period last year. During the period under review, the Group recorded a gross loss of HK$59.09 million (2015: HK$151.65 million), representing a significant decrease of 61.04% compared to last year. The gross loss was due to slumping market, increasing competition and, lower pricing of shipbuilding orders.

The Group's selling and administrative expenses increased from HK$38.47 million to HK$79.12 million, mainly due to increased sales and administrative activities associated with the expansion of intelligent car-parking and electronic automotive device business. The Group's financial cost decreased significantly by 43.40% from HK$100.52 million to HK$56.89 million, mainly due to the great effort in adjusting financing methods and negotiation with subscribers of convertible bonds and creditors to basically convert both convertible bonds and debts into shares by the Group in 2015, resulting a substantial decrease of financial cost.

In conclusion, the Group recorded a loss attributable to shareholders of HK$192.25 million (in the first half of 2015: loss of HK$282.48 million) for the six months ended 30 June 2016. The loss for the period under review decreased by approximately 31.94% as compared to the same period last year.

Shipbuilding business

In conclusion, the Group recorded a loss attributable to shareholders of HK$192.25 million (in the first half of 2015: loss of HK$282.48 million) for the six months ended 30 June 2016. The loss for the period under review decreased by approximately 31.94% as compared to the same period last year.

As of 30 June 2016, the Group received confirmed orders of 4 heavy lift vessels of 12,500 ton, 4 heavy lift vessels of 14,000 ton and 2 chemical tankers of 16,500 ton in total.

Financial leasing

During the period under review, while expanding its business, the Group's financial leasing business has created synergies with the Group's shipbuilding business and supported our shipbuilding business to go through the sluggish period. As of 30 June 2016, the Group recorded a total revenue of HK$0.58 million (2015: HK$1.78 million) from its financial leasing segment. In addition, the Group also shared profits of HK$4.09 million (2015: HK$6.50 million) from Zhejiang Ocean Leasing Company Limited and Zhejiang Qiandao Leasing Company Limited (浙江千島融資租賃有限公司), in which the Group holds 20% and 25% equity interests respectively.

Intelligent car-parking and electronic automotive device business

During the period under review, the Group's intelligent car-parking and electronic automotive device business has made gratifying progress. As of 30 June 2016, this segment recorded a total revenue of HK$96.89 million (in the first half of 2015: Nil).

During the period under review, the Group has entered various cooperative partnership with multiple enterprises including: jointly formed Shenzhen Zhonghai Saige Intelligent Carparking Development Limited* (深圳中海賽格智慧停車發展有限公司) with Shenzhen Electronics Group* (深圳賽格集團); signed JV agreements with investors such as Beijing Shougang Lujie Venture Investment Company Limited* (北京首鋼綠節創業投資有限公司) and jointly formed Beijing Zhongshou Intelligent Parking Management Company Limited* (北京中首智慧停車管理有限公司); and signed cooperative agreement with Jiangxi Nanchang Travel Group Limited* (江西南昌旅遊集團有限公司) to jointly manage car park and relevant military theme park. The Group believes that the cooperation with various business partners will enable us to jointly develop and expand intelligent car-parking business by utilising the resources and strengths of each party.

Others

During the reporting period, the Group has jointly established Jiangxi River-side Industry Development and Venture Capital Investment Enterprise* (江西沿江產業發展創業投資企業) with affiliate enterprises of Jiujiang City in JiangXi Province and other investors which was established to acquire and make equity investment in related enterprises leveraging on the Group's strengths in clean energy development and support from local government on organic integration of natural resources of Jiujiang riverside and urban development.

Liquidity and financial resources

As at 30 June 2016, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$50.30 million (31 December 2015: HK$151.71 million) of which HK$0.58 million (31 December 2015: HK$81.53 million) was pledged; short-term borrowings of HK$1,134.94 million (31 December 2015: HK$953.15 million); long-term borrowings of HK$287.55 million (31 December 2015: HK$253.99 million); convertible bonds payable amounted to approximately HK$301.80 million (31 December 2015: HK$293.73 million) represented the fair value of principal amount of HK$252 million (31 December 2015: HK$252 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.77) at 30 June 2016 (31 December 2015: (4.35)).

Charges on group assets

As at 30 June 2016, HK$0.58 million (31 December 2015: HK$81.53 million) of deposits, HK$274.00 million (31 December 2015: HK$309.05 million) of property, plant and equipment and HK$304.00 million (31 December 2015: HK$308.84 million) of prepaid lease payments, were pledged to banks for borrowings, guarantees and facilities granted by them to the Group.

As at 30 June 2016, the Company has pledged the entire equity interest of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd to secure a bank borrowing amounted to RMB106,580,000 (31 December 2015: RMB107,000,000).

Exposure to fluctuation in exchange rates and any related hedges

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars, United States Dollars and Euro. As at 30 June 2016, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

New business, material acquisitions and disposal

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the period under review.

Litigations and contingent liabilities

(a) At 30 June 2016, the Group has not paid the social security fund for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 30 June 2016 of approximately HK$40,560,000 (equivalent to RMB34,966,000) in aggregate, were recorded as "Trade, bills and other payables" in the condensed consolidated statement of financial position (31 December 2015: approximately HK$39,681,000 (equivalent to RMB33,628,000)).

A repayment agreement was signed between Jiangxi Shipbuilding, a wholly-owned subsidiary of the Company and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Per the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(b) At 30 June 2016, the Group has not paid the housing provident fund contributions for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 30 June 2016 of approximately HK$5,317,000 (equivalent to RMB4,584,000) in aggregate, were recorded as "Trade, bills and other payables" in the condensed consolidated statement of financial position (31 December 2015: approximately HK$6,798,000 (equivalent to RMB5,761,000)).

The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

(c) The Company had recognised the provision in relation to the litigations of approximately RMB10,381,000 (31 December 2015: RMB10,611,000) under "Trade, bills and other payables" in the condensed consolidated statement of financial position as at 30 June 2016, details are set out as follows:

(i) In November 2015, a supplier filed its writ to 九江仲裁委員會 against Jiangxi Shipbuilding. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,164,000 and the relevant overdue interests to the plaintiff for payment of gas services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payment and the relevant interests accrued up to 30 June 2016 of approximately RMB4,059,000 in aggregate, were recorded under "Trade, bills and other payables" in the condensed consolidated statement of financial position.

(ii) In November 2015, a contractor filed its writ to 上海市金山區人民法院 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay a principal of approximately RMB1,372,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 30 June 2016 of approximately RMB1,722,000 in aggregate, were recorded under "Trade, bills and other payables" in the condensed consolidated statement of financial position.

(iii) In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Shipbuilding. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payment and the relevant interests accrued up to 30 June 2016 of approximately RMB4,600,000 in aggregate was recorded under "Trade, bill and other payables" in the condensed consolidated statement of financial position.

(iv) In January 2016, the deposit of RMB13.5 million was confiscated by a bank in the PRC (the "PRC Bank") resulted from the default payment of an independent third party (the "Borrower") in which the Group has provided corporate guarantee to the PRC Bank for the Borrower. In March 2016, Jiangxi Shipbuilding filed its writ against the Borrower for the compensation.

(d) On 3 December 2015, Merge Limited and other shareholders of Zhejiang Ocean as counter guarantors (collectively referred to the "Counter Guarantors") entered into the counter guarantee agreement with Zhoushan Marine Comprehensive Development and Investment Co., Ltd*(舟山海洋綜合開發投資有限公司)(the "Guarantor"), pursuant to which the Counter Guarantors shall, in proportion to their respective shareholding in Zhejiang Ocean and upon demand of the Guarantor, indemnify the Guarantor for all liabilities and expenses which may be incurred by the Guarantor under any guarantee given or to be given by the Guarantor in favour of Zhejiang Ocean during the period from 1 January 2015 to 31 December 2020 in respect of loan agreements and asset securitisation agreements entered into by Zhejiang Ocean (the "Guarantee"), up to an aggregate amount of RMB900,000,000 (equivalent to approximately HK$1,107,000,000), together with any interests, penalty, compensation and related fees and expenses which may be payable by the Guarantor under the Guarantee. Accordingly, the maximum amount which Merge Limited shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000 (equivalent to approximately HK$221,400,000).

Details of the counter-guarantee are disclosed in the Company's announcement dated 3 December 2015.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 30 June 2016.

Human resources

The Group had around 600 employees as at 30 June 2016. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

Capital commitments

At 30 June 2016, the Group has the following capital commitments:

	30 June 2016	**31 December 2015**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
Unpaid registered capital for the associates	95,403	77,500
Unpaid registered capital for the subsidiaries	580,464	161,896
Unpaid consideration payable for the acquisition of 23% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd. ("Jiangxi Gas") from Sanya Chengda Investment Limited	–	22,155
Unpaid consideration payable for the acquisition of 24% equity interest of Jiangxi Gas from Nanchang Fubang Pipeline Gas Company Limited	–	23,118
	675,867	284,669

Future plans for material investments and acquisition of capital assets

As at 30 June 2016, the Enlarged Group has no plans for material investment or capital assets.

B. Management discussion and analysis for the year ended 31 December 2015

Overview

In 2015, the Group's shipbuilding business still faced severe challenges. The domestic shipbuilding industry came under intense pressure due to the slow recovery of international economy, continuing downturn of the marine market as well as the rising downward pressure on the Chinese economy. To cope with the challenges, the management of our Group has been seeking support from the local government and financial institutions actively, and devoted greater efforts to expand the market in order to secure a basic amount of newly obtained orders, and introduced an experienced and talented management team to optimise the shipbuilding business. In addition, the management of our Group has proactively seeked transformation of the Company's business by taking advantage of our existing resource and competitive edge. Following tapping into finance lease business, our business scope has expanded into manufacturing and sales of intelligent car park, investment and operation of car parks and electronic automotive device business during this year.

For the year ended 31 December 2015, the Group recorded revenue of HK$157.64 million (2014: HK$104.88 million), representing an increase of approximately 50.31% as compared to 2014. This increase was mainly due to the revenue of new shipbuilding orders commenced last year being recognised during the year. However, the Group recorded gross loss of HK$157.86 million in 2015 (2014: loss of HK$156.47 million) due to increased cost of sales brought by new orders.

In 2015, whilst we continued to maintain operation of shipbuilding business, our diversification strategy has shown positive results. China Ocean Shipbuilding (Shenzhen) Financial Leasing Company, a wholly owned subsidiary of the Group established in 2014 in Qianhai, Shenzhen, recorded revenue of HK$3.44 million, representing an increase of approximately 330% as compared to HK$0.80 million in 2014. A well-established financial leasing company in Zhejiang province which is owned as to 20% by the Group has contributed profit of HK$8.79 million (2014: HK$1.59 million) this year, representing an increase of approximately 453% as compared to 2014. In December 2015, the Group completed the acquisition of Shandong Dereton and successfully expanded to the intelligent car-parking system business. Although no material contribution was booked from this business in 2015, it is expected to be a growth point in the Company's future business development.

For the year ended 31 December 2015, the Group recorded HK$4.64 million (2014: HK$6.73 million) in other income and HK$3.16 million (2014: HK$2.41 million) for selling and distribution expenses. These items did not record a significant change compared with last year.

During the year, the significant loss of approximately HK$15.56 million (2014: gain of HK$1.14 million) incurred in other gain and losses was mainly due to foreign exchange gain/loss has changed from gain of HK$3.13 million to loss of HK$14.97 million as a result of the depreciation of RMB. Administrative expenses of HK$88.92 million (2014: HK$111.45 million) recorded a significant decrease which was primarily due to the management improvement and payroll cost reduction of Jiangxi Jiangzhou Union Shipbuilding Co., Ltd ("Jiangxi Shipbuilding"). In 2015, the administrative expenses of Jiangxi Shipbuilding were HK$44.53 million (2014: HK$75.99 million), HK$31.46 million less as compared to 2014.

During the year, the Group placed great effort in encouraging early conversion of convertible bonds and debt restructuring to improve financial position and reduce financial cost. Convertible bond of HK$948 million issued in 2014 and convertible bonds of HK$60 million issued in March 2015 have been converted into ordinary shares in full. In addition, in November 2015, the debts of Jiangxi Shipbuilding of HK$139.82 million (2014: Nil) were converted into ordinary shares after negotiation with its debtors. The financial cost of the Group in this year was HK$201.85 million (2014: HK$247.94 million), representing a decrease of 18.59% as compared to last year.

In conclusion, the Group recorded loss attributable to shareholders of the Company of HK$500.81 million (2014: loss of HK$633.18 million) for the year ended 31 December 2015. The loss decreased by approximately 20.91% as compared to last year.

Shipbuilding business

The lack of growth momentum in the world economy and the downturn in the domestic economy deteriorated the situation of entire shipbuilding industry. Though the newly obtained orders has been increased, the Group's shipbuilding business still faced great pressure due to low prices of new ships, tightened credit facilities to shipbuilding companies by financial institutions and rising labor cost. Nevertheless, the Group has successfully increased the new orders, revenue and gross profits of its shipbuilding business through improving its management, cutting staff and enhancing its efficiency as well as expanding the market.

During the year ended 31 December 2015, the revenue of the shipbuilding segment amounted to HK$143.19 million (2014: HK$104.08 million), representing an increase of 37.58% as compared with last year and the gross loss was HK$350.65 million (2014: HK$465.94 million), representing a reduction of 24.74% as compared with last year. In July 2015, the Group reached an agreement with a ship buyer and received final settlement of trade receivable of HK$75.99 million, which was the deferral final receivable by installments over 5.5 years. The accumulated impairment loss of HK$92.34 million had been fully provided in prior years.

Trading business

The trading business recorded insignificant losses in both 2015 and 2014.

Financial services business

In 2014, the Group established China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited, a wholly owned subsidiary in Qianhai, Shenzhen. We have made progress in ship financial leasing which supported our shipbuilding business to go through the sluggish period. Besides, Zhejiang Ocean Leasing Company Limited which the Group holds equity has expanded its business and created synergies with the Group's other businesses. Financial service segment of the Group will continue play a more important role in supporting the business transformation of the Group and is expected to be a new profit growth point to the Group.

During the year ended 31 December 2015, the external sales of financial services segment contributed revenue of HK$3.44 million (2014: HK$0.80 million) and the entire financial leasing segment recorded a profit of HK$3.11 million (2014: loss HK$1.82 million). In addition, the Group also shared profits of HK$8.79 million (2014: HK$1.59 million) from the financial leasing company in Zhejiang province.

Intelligent car-parking system business

The intelligent car-parking system business mainly includes the manufacturing and sales of car-parking equipment, investment, operation and management of car parks and electronic automotive device business. During the year, this segment has yet to make contribution to the Group as its acquisition was just completed in December 2015. This business is crucial for the business transformation of the Group, also will be the key business of the Group in the coming years.

Liquidity and financial resources

As at 31 December 2015, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$151.71 million (31 December 2014: HK$127.09 million) of which HK$81.53 million (31 December 2014: HK$113.15 million) was pledged; short-term borrowings of HK$953.15 million (31 December 2014: HK$711.25 million); long-term borrowings of HK$253.99 million (31 December 2014: HK$219.24 million); convertible bonds payable amounted to approximately HK$293.73 million (31 December 2014: HK$572.94 million) represented the principal amount of HK$252 million (31 December 2014: HK$718 million). The gearing ratio defined as non-current liabilities and short-term borrowing divided by total shareholders' equity was (4.35) as at 31 December 2015 (31 December 2014: (2.05)).

During the year ended 31 December 2015, 300,000,000 shares and 3,330,000,000 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.20 per share. 537,761,685 shares of HK$0.05 each were issued pursuant to the conditional Subscription Agreement of the Company at subscription price of HK$0.26 per share.

On 16 February 2015, the Company entered into the Subscription Agreements with each of the subscribers, namely Jiang Liqun, Ma Xingqiao and Wan Zhangqing, pursuant to which the subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$60 million. The convertible bonds have an initial conversion price of HK$0.20 per share, which equal to the closing price of HK$0.20 per share as quoted on the Stock Exchange on 16 February 2015, and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. Upon full conversion of the convertible bonds, a total of 300,000,000 shares would be issued. The gross proceeds from the subscriptions were HK$60.00 million and the net proceeds were approximately HK$59.9 million. The subscriptions have been completed on 6 March 2015 and the convertible bonds were fully converted into 300,000,000 shares on 29 May 2015.

On 2 June 2015, the Company, Mr. Li Ming ("Mr. Li") and Prosper Talent Limited ("Prosper") which is indirectly and wholly-owned by CCB International (Holdings) Limited, entered into the subscription agreement. Pursuant to the subscription agreement, Prosper has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$200 million. The convertible bonds have an initial conversion price of HK$0.2481 per share, representing a discount of 19.97% to the closing price of HK$0.31 per share as quoted on the Stock Exchange on 2 June 2015, and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. Upon full conversion of the convertible bonds, a total of 806,126,561 shares would be issued. The gross proceeds from the issue of the Convertible Notes was HK$200 million. The net proceeds from the issue of the Convertible Notes amounted to approximately HK$198.4 million. As at the date of this report, approximately HK$126 million of the net proceeds has been used to pay up the capital contribution to China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited which is engaged in financial leasing business in the PRC; and approximately HK$48.8 million of the net proceeds used for general working capital purposes (including repayment of debts).

On 25 September 2015, the Company, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. (Jiangxi Shipbuilding), a wholly-owned subsidiary of the Company and the creditors of Jiangxi Shipbuilding (including 54 former employee creditors, 255 employee creditors and 32 contractors and suppliers) entered into the conditional subscription agreement pursuant to which the creditors have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 537,761,685 subscription shares at the subscription price of HK$0.26 per share, representing a premium of 15.56% to the closing price as quoted on the Stock Exchange on the last trading day immediately prior to the date of the announcement. As consideration, the creditors agreed to waive the debts in an aggregate amount of approximately RMB114.94 million (equivalent to about HK$139.82 million) due from Jiangxi Shipbuilding together with all the rights and benefits attaching thereto and accruing thereon. On 13 November 2015, all conditions precedent to the subscription agreement had been fulfilled or waived and an aggregate of 537,761,685 shares were issued to the creditors in full.

Charges of group assets

As at 31 December 2015, HK$81.53 million (31 December 2014: HK$113.15 million) of deposits, HK$309.65 million (31 December 2014: HK$377.56 million) of property, plant and equipment and HK$308.84 million (31 December 2014: HK$320.53 million) of prepaid lease payments were pledged to banks or other parties to secure borrowings, bills payable and facilities granted to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and borrowings.

As at 31 December 2015, the Company pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure an bank borrowing amounting to RMB107 million (31 December 2014: RMB107 million).

As at 31 December 2015, as security to the issue of HK$200 million convertible bond, the Company had pledged its shares in China Ocean Shipbuilding Holdings Limited, its wholly-owned subsidiary in BVI, to Prosper Talent Limited; and China Ocean Shipbuilding Holdings Limited also pledged its shares in its Hong Kong subsidiary, China Ocean Shipbuilding (Hong Kong) Limited, to Prosper Talent Limited. For detail please refer to the announcement of the Company dated 3 June 2015.

Exposure to fluctuation in Exchange rates and any related hedges

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2015, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable instrument to manage this exposure. The Board will continue to consider the appropriate hedging measures.

New business, material acquisitions and disposals

In December 2015, with the authorization of the Special General Meeting, the Group conditionally acquired the entire issued share capital of Success Capture Limited, which is engaged in manufacturing and sales of car-park equipment, investment, operation and management of car parks and electronic automotive device business in PRC. (For details refer to the announcement of the Company dated 15 October 2015 and 4 December 2015 and the circular of the Company dated 12 November 2015.)

Save as disclosed above, there was no new business, material acquisitions and disposals of subsidiaries and associated companies during the year under review.

Litigations

As at 31 December 2015, details of the pending litigations of the Group are set out as follows:

(i). In November 2015, a supplier filed its writ to Jiujiang Arbitration Commission (九江仲裁委員會) against Jiangzhou Union Shipbuilding Co., Ltd. ("Jiangxi Shipbuilding"), a wholly-owned subsidiary of the Company claiming that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,164,000 and the relevant overdue interests for providing gas services to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2015 of approximately RMB4,289,000 in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position.

(ii). In November 2015, a contractor filed its writ to Shanghai Jinshan District People's Court (上海市金山區人民法院) against Jiangxi Shipbuilding claiming that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB1,372,000 and the relevant overdue interests to the plaintiff for the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2015 of approximately RMB1,772,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

(iii). In December 2014, a contractor filed its writ to Wuhan Maritime Court (武漢海事法院) against Jiangxi Shipbuilding claiming that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, this litigation is still pending for judgment. The principal payments and the relevant interests accrued up to 31 December 2015 of approximately RMB4,220,000 in aggregate were recorded as "Trade, bills and other payables" in the consolidated statement of financial position.

(iv). In December 2014, a supplier filed its writ to China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) against Jiangxi Shipbuilding claimed that Jiangxi Shipbuilding had failed to pay RMB3,812,000 for purchase of paint and delivery charges. The principal payments and the relevant interests accrued of approximately RMB3,812,000 in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position as at 31 December 2014. Since the litigation was settled, the payments were fully repaid in 2015.

Other than disclosed above, the members of the Group has no other material litigation as of 31 December 2015 and 31 December 2014.

Human resources

The Group had around 1,200 employees as at 31 December 2015. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees in Hong Kong. Shares options may also be granted to eligible persons of the Group.

Contingent liabilities

At 31 December 2015, the Group has not paid the social security fund for and on behalf of its employees which expose the Group to the risk of being imposed penalty by the relevant government authority. The social security fund accrued up to 31 December 2015 of approximately HK$39,681,000 (equivalent to RMB33,628,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statements of financial position (2014: approximately HK$40,683,000 (equivalent to RMB32,546,000)).

A repayment agreement was signed between Jiangxi Shipbuilding and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Pursuant to the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

At 31 December 2015, the Group has not paid the housing provident fund contributions for and on behalf of its employees which expose the Group to the risk of being imposed penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2015 of approximately HK$6,798,000 (equivalent to RMB5,761,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2014: approximately HK$7,210,000 (equivalent to RMB5,768,000)).

The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

On 3 December 2015, Merge and other shareholders of Zhejiang Ocean as counter guarantors (collectively referred to the "Counter Guarantor") entered into the counter guarantee agreement with Zhoushan Marine Comprehensive Development and Investment Co., Ltd*(舟山海洋綜合開發投資有限公司)("Guarantor"), pursuant to which the Counter Guarantors shall, in proportion to their respective shareholding in Zhejiang Ocean and upon demand of the Guarantor, indemnify the Guarantor for all liabilities and expenses which may be incurred by the Guarantor under any guarantee given or to be given by the Guarantor in favour of Zhejiang Ocean during the period from 1 January 2015 to 31 December 2020 in respect of loan agreements and asset securitization agreements entered into by Zhejiang Ocean ("Guarantee"), up to an aggregate amount of RMB900,000,000 (equivalent to approximately HK$1,107,000,000), together with any interests, penalty, compensation and related fees and expenses which may be payable by the Guarantor under the Guarantee. Accordingly, the maximum amount which Merge shall indemnify the Guarantor is 20% of the aforesaid aggregate amount, being RMB180,000,000 (equivalent to approximately HK$221,400,000).

Details of the counter-guarantee are disclosed in the Company's announcement dated 3 December 2015.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities as at 31 December 2015 and 31 December 2014.

Capital commitments

As at 31 December 2015, the Group has capital commitments of approximately HK$77.5 million (31 December 2014: Nil) for its associate, Zhejiang Ocean Leasing Company Limited and total capital commitments of HK$161.90 million (31 December 2014: HK$125 million) for its subsidiaries which was unpaid registered capital contracted but not provided in the consolidated financial statements.

C. Management discussion and analysis for the year ended 31 December 2014

Overview

2014 was another challenging year for the Group and the shipbuilding industry in general. After a pick-up in new orders and rising new building prices in second half of 2013 and early 2014, market momentum began to weaken again in the fourth quarter of the year. This downturn was a result of the fragile global recovery since 2009 and prolonged excess capacity in the PRC's shipbuilding industry. The plunging price of oil further lowered the incentive to invest in energy-saving ships and it also delayed the dismantling of outdated ships, and this had a negative impact on the demand for new ships as well as construction prices.

For the year ended 31 December 2014, the Group recorded revenues of HK$104.88 million (2013: HK$491.14 million), a decrease of approximately 78.65 % compared to 2013. This decrease was mainly the result of revenues from new shipbuilding orders commenced construction work in the last quarter of the year, which have not yet been recognized in the reporting period. In addition to the decrease in revenues, production capacity of the Group's shipyard has yet to be fully utilized amidst the current sluggish demand in the shipbuilding market, as well as the foreseeable losses incurred to secure the delivery of vessels that caused the Group's gross margin recorded a loss of HK$156.47 million in 2014 (2013: profit of HK$8.35 million).

In order to minimise the risks due to the current adverse operating environment in the shipbuilding sector, the Group sought to proactively explore and diversify into new businesses that may offer better prospects in order to improve overall operational efficiency. In June 2014, the Group announced its entry into the financial services business and the formation of a joint venture in Zhoushan. The joint venture began operations by forming a company with a shipbuilding enterprise in Zhoushan for the development of clean energy and shipping related business. In September 2014 the Group set up a subsidiary in Qianhai, Shenzhen, and obtained a business license to conduct financial leasing business, providing finance leases, especially for shipbuilding and related enterprises in the PRC enterprises. In November 2014 the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province.

For the year ended 31 December 2014, the Group recorded HK$6.73 million (2013: HK$11.92 million) in other income, gain of HK$1.14 million (2013: loss of HK$1.27 million) in other gains and losses, and HK$2.41 million (2013: HK$1.75 million) for selling and distribution expenses. These items did not record a significant change compared with last year.

Administrative expenses of HK$111.45 million (2013: HK$179.99 million) recorded a significant decrease and was primarily due to a decrease in the recognition of impairment of trade receivables from HK$83.97 million to HK$8.25 million.

During the year ended 31 December 2014, due to a lack of liquidity in recent years, the Group placed a great deal of effort on improving its financial position by fund raising activities. The Company issued one billion Hong Kong dollar convertible bonds in June 2014. These convertible bonds incurred significantly effective interest and resulted to a higher of 42.63% finance costs to HK$247.94 million (2013: HK$173.83 million) for the Group. In addition, the Group recorded isolated one-off, non-recurring costs that included impairment loss recognised in respect of property, plant and equipment, loss on the modification of convertible notes payable as well as share-based payment expenses amounting to HK$134.46 million.

In conclusion, the Group recorded a loss attributable to shareholders of HK$633.18 million (2013: loss of HK$337.44 million) for the year ended 31 December 2014. The loss increased by approximately 87.64% compared to last year.

Shipbuilding business

The shipbuilding sector came under intense pressure due to a lack of liquidity and new orders in recent years, over production capacity and volatile shipbuilding market. The Group, however, was included in the "White List" that PRC authorities published based on the "Regulatory Conditions for Shipbuilding Industry" 《船舶行業規範條件》, aimed at encouraging financial institutions to provide more capital support for shipyards. Despite this measure, financial institutions did not relax their credit policies and restrictions, and the availability of bank loans to shipbuilders remained limited during 2014.

During the year ended 31 December 2014, revenues from the shipbuilding segment amounted to HK$104.08 million, representing a drop of 78.81% compared with last year and the gross loss of HK$157.27 million. The operating performance of the shipbuilding segment of the Group was also affected by account receivables deferral from a ship buyer, which the Group has already made a provision for impairment of trade receivables in 2013 and 2014. The Group also has been in advanced negotiations with other shipowners and banks and is confident of achieving greater progress in recovering the net receivables in 2015.

As at 31 December 2014, the secured order book of the Group comprised totally 11 heavy lift vessels and multi-purpose vessels. Moreover, specific new orders, including totally 12 multi-purpose vessels, multipurpose vessels and chemical tankers are expected to become effective in the near future. In addition, certain new orders are currently being actively negotiated.

Trading business

The trading business recorded insignificant losses in both 2014 and 2013.

Financial services business

During the year ended 31 December 2014, the Group expanded into the financial services business, specifically financial leasing services to enterprises in the PRC, especially targeting private shipyards. In September 2014, the Group obtained a business license for China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited, a wholly owned subsidiary company of the Group, established in Qianhai, Shenzhen. Besides, the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province. Since the financial services sector has begun to operate in late 2014, so only a small contribution was recorded to the Group during the year.

During the year ended 31 December 2014, the financial services segment began contributing revenues of HK$0.80 million and recorded a loss of HK$1.82 million. In addition, the Group also shared the profit of HK$1.59 million from the financial leasing company in Zhejiang province.

Liquidity and financial resources

As at 31 December 2014, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$127.09 million (31 December 2013: HK$310.67 million) of which HK$113.15 million (31 December 2013: HK$297.12 million) was pledged; short-term borrowings of HK$711.25 million (31 December 2013: HK$610.82 million); long-term borrowings of HK$219.24 million (31 December 2013: HK$292.33 million); short-term promissory notes payable amounted to approximately HK$ nil (31 December 2013: HK$79.84 million); convertible bonds/notes payable amounted to approximately HK$572.94 million (31 December 2013: HK$295.72 million) represented the principal amount of HK$718 million (31 December 2013: HK$314.42 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (2.02) at 31 December 2014 (31 December 2013: (1.04)).

During the year ended 31 December 2014, 1,022,727,270 shares, 596,133,333 shares and 1,410,000,000 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes/bonds at a conversion price of HK$0.22 per share, HK$0.15 and HK$0.20 per share respectively.

On 6 March 2014, the Company entered into the subscription agreements with four subscribers, namely Qin Weijia, Wang Yongli, Wan Yong and Charmate Development Ltd, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 530,000,000 subscription shares at a price of HK$0.107 per subscription share, representing of a 17.69% discount on the closing price (i.e. HK$0.13) of the last trading day immediately before the announcement date. The gross proceeds from the subscription were approximately HK$56.71 million and the net proceeds were approximately HK$56.61 million. The subscription has been completed on 20 March 2014. During the year ended 31 December 2014, the Group has fully utilized the net proceeds from the subscriptions for (i) approximately HK$29.57 million was used to repay debts; and (ii) approximately HK$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

On 14 May 2014, the Company entered into a placing agreement with Partner Capital Securities Limited, for placement of convertible bonds of the Company in an aggregate principal amount of HK$1,000,000,000 on a best-efforts basis. The convertible bonds have an initial conversion price of HK$0.20 per share (subject to adjustment) and bear interest at 7.5% per annum on the principal amount of the convertible bonds outstanding. On 27 June 2014, the issuance of the convertible bonds was completed, HK$964,000,000 convertible bonds was issued to Kingwin Capital Group Limited and HK$36,000,000 convertible bonds was issued to Partners Equity Investment Fund I, both parties were independent third parties to the Company.

Charges on group assets

As at 31 December 2014, HK$113.15 million (31 December 2013: HK$297.12 million) of deposits, HK$ nil (31 December 2013: HK$23.04 million) of inventories, HK$377.90 million (31 December 2013: HK$511.18 million) of property, plant and equipment, HK$320.53 million (31 December 2013: HK$329.83 million) of prepaid lease payments and HK$ nil (31 December 2013: HK$137.03 million) of value-added tax recoverable, were pledged to banks or other parties for borrowings, bills payable and facilities granted by them to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables and borrowings.

As at 31 December 2014, the Company were pledged the entire equity interest of a wholly-owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd., to secure a outstanding bank borrowing amounted to RMB107 million. For details, please refer to the Company's announcement dated 30 December 2013.

Exposure to fluctuation in exchange rates and any related hedges

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2014, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

New business, material acquisitions and disposals

(i). In August 2014, the Group formed a joint venture in Zhoushan. The joint venture began operations by forming a company with a shipbuilding enterprise in Zhoushan for the development of clean energy and shipping related business. (For details, please refer the company's announcements dated 6 August 2014 and 18 December 2014.)

(ii). In September 2014 the Group set up a subsidiary in Qianhai, Shenzhen, and obtained a business license to conduct financial leasing business, providing finance leases, especially for shipbuilding and related enterprises in the PRC enterprises. (For details, please refer the company's announcement dated 8 October 2014.)

(iii). In November 2014 the Group acquired the 20% equity interest of a well-established financial leasing company in Zhejiang province. (For details, please refer the company's announcement dated 6 November 2014.)

Save as disclosed above, there was no new business, material acquisitions and disposals of subsidiaries and associated companies during the year under review.

Litigation

As at 31 December 2014, the details of the outstanding litigations of the Group are set out as follows:

In December 2014, a contractor filed its writ to 武漢海事法院 against Jiangxi Jiangzhou Union Shipbuilding Ltd. ("Jiangxi Shipbuilding"), a wholly-owned subsidiary of the Company. It was stated in the writ that Jiangxi Shipbuilding had failed to pay a principal of approximately RMB4,220,000 and the relevant overdue interests to the plaintiff for payment of the vessel decoration services provided by the plaintiff to Jiangxi Shipbuilding. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB4,220,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

In December 2014, a supplier filed its writ with 中國國際經濟貿易仲裁委員會 against Jiangxi Shipbuilding in relation to Jiangxi Shipbuilding had failed to pay RMB3,812,000 for purchase of paint and delivery charges. At the end of the reporting period, the principal payments and the relevant interests accrued up to 31 December 2014 of approximately RMB3,812,000 in aggregate, were recorded under "Trade, bills and other payables" in the consolidated statement of financial position.

Save as disclosed above, no member of the Group was engaged in any litigation of material importance.

Human resources

The Group had around 700 employees as at 31 December 2014. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

Contingent liabilities

(i). At 31 December 2014, the Group has not paid the social security fund for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2014 of approximately HK$40,683,000 (equivalent to RMB32,546,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statements of financial position (2013: approximately HK$31,091,000 (equivalent to RMB24,290,000)).

A repayment agreement was signed between Jiangxi Shipbuilding and the relevant government authority on 26 January 2015 in respect of the settlement of the unpaid social security fund. Per the agreement, all outstanding amounts should be repaid before December 2019. The Directors considered that if the Group could settle the unpaid social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(ii). At 31 December 2014, the Group has not paid the housing provident fund contributions for and on behalf of its employees which expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2014 of approximately HK$7,210,000 (equivalent to RMB5,768,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position (2013: approximately HK$5,491,000 (equivalent to RMB4,290,000)). The Directors are of the opinion that the possibility to the risk of being imposed the penalty by the relevant government authority is remote.

Save as disclosed above, the directors of the Company are of the opinion that the Group has no material contingent liabilities at 31 December 2014.

Capital commitments

At 31 December 2014, the Group has capital commitment of approximately HK$125 million (31 December 2013: Nil) contracted but not provided in the consolidated financial statements in respect of unpaid registered capital for China Ocean Shipbuilding (Shenzhen) Financial Leasing Company Limited.

D. Management discussion and analysis for the year ended 31 December 2013

Overview

The Group is engaged in the production and operation of shipbuilding and securities trading business. During the year under review, the shipbuilding market in China was still suffered from a long term downturn since the financial crises occurred in 2008. The industry continued to face the over capacity and the low level new building price. Many shipyards, especially the private shipyards, were struggling with plummeting orders and soaring debts. The conditions of the industry were very challenging but it seems to reach its trough. The new orders were increasing and the new building prices were slightly increased since late 2013. In addition, starting from the third quarters of 2013, Chinese authorities have introduced a slew of measures to crack down on overcapacity-plagued shipbuilding industries, encourage upgrading and mergers. The latest development indicates the shipbuilding industry may be set for a turnaround.

For the year ended 31 December 2013, the Group recorded a revenue of HK$491.14 million (2012: HK$1,870.30 million), a decrease of approximately 73.74% in compare to the year 2012. The decrease is mainly due to the production capacity of the shipyard cannot be fully utilized as a result of the downturn of shipbuilding market. The Group's gross margin was turned from a loss of HK$39.18 million in 2012 to a slight profit of HK$8.35 million in 2013. The turnaround was mainly contributed by the less foreseeable losses were recognized during 2013.

The Group recorded HK$11.92 million (2012: HK$12.36 million) of other income, HK$1.27 million (2012: HK$1.45 million) of other gains and losses and HK$1.75 million (2012: HK$1.65 million) of selling and distribution expenses for the year ended 31 December 2013.These items did not show significant change in comparing with last year.

The administrative expenses of HK$179.99 million (2012: HK$97.13 million). The significant increase was primarily due to the recognition of impairment of trade receivables amounting to HK$83.97 million during 2013.

The finance costs of the Group decreased by 4.54% to HK$173.83 million from HK$182.10 million. The total finance costs remained at a high level, even though there was a slight decrease during the year, mainly due to the Group was still at a high level of borrowing and need to obtain liquidity from the "high rate" sources of credit.

The other material items to affect the loss of for the year were absence of impairment loss recognized in respect of property, plant and equipment (2012: HK$90.62 million), the decrease of loss on fair value change of convertible notes payable from HK$20.95 million to HK$1.11 million and the absence of gain on settlement of deferred consideration (2012: HK$52.94 million). The contributions to the bottom line due to absence of impairment loss recognised in respect of property, plant and equipment and decrease in loss on fair value change of convertible notes payable were partially offset by the absence of gain on settlement of deferred consideration.

To conclude, the loss for the year ended 31 December 2013 was amounting to approximately HK$337.44 million (2012: HK$344.10 million), it was decreased by 1.94% in comparing with year 2012.

Shipbuilding business

During 2013, the shipbuilding segment was still performing at low level due to a lack of liquidity and new orders. During the year ended 31 December 2013, the shipbuilding business of the Group generated revenue of approximately HK$491.14 million to the Group, representing a decrease of approximately 73.74% as compared to approximately HK$1,870.30 million in 2012. The decrease in revenue mainly due to the works on new orders has not yet commenced because the ship-owner obtained financial supports from its bank was later than expected. During the year 2013, the adverse effect of the shipyard did not run in its full capacity which offsetting by less foreseeable loss recognized during the year. Consequently, the Group recorded a slight gross profit of HK$8.35 million for the year ended 31 December 2013 (2012: gross loss of HK$39.18 million).

The Group agreed to extend credit terms to a shipowner in light of considering the longterm relationship with the shipowner and ensuring successfully delivery of vessels in 2012. At 31 December 2013, the gross amount due from this shipowner increased to approximately HK$167.94 million in which approximately HK$125.56 million is long term debt (at 31 December 2012: approximately HK$150.74 million included approximately HK$134.20 million long term debt). During the year ended 31 December 2013, the Group has received approximately HK$9.30 million from the shipowner for the partial settlement of the deferral final payments. In view of the payment history of the shipowner and in order to improve the Group's short term liquidity, the shipyard was under negotiation with certain parties such as other shipowner and bank to settle the outstanding balances in cash immediately by them. The Group is likely need to provide a discount to the parties. Accordingly, for the sake of prudence, the Group has made HK$83.97 million provision for impairment of trade receivable.

The shipbuilding business recorded a loss before tax of HK$151.66 million (before finance costs) (2012: HK$109.68 million (before deducting impairment cost recognized in property, plant and equipment and finance costs). The increase of loss was mainly due to the one off provision for doubtful debt.

During the year 2013, the Group had delivered two heavy lift vessels to ship-owners. As at 31December 2013, the secured order book comprised five heavy lift vessels. In January 2014, the contract for constructing four multi-purposes vessels was effective and the works for construction is scheduled to be started in mid 2014. In addition, the contract for constructing two multi-purposes vessels would likely to become effective in the coming month. Besides, certain new orders including eight multi-purpose vessels are currently being closely negotiating.

Trading business

The trading business recorded insignificant losses in both 2013 and 2012.

Liquidity and financial resources

As at 31 December 2013, the Group had bank balances and cash (including pledged bank deposits) of approximately HK$310.67 million (31 December 2012: HK$309.30 million) of which HK$297.12 million (31 December 2012: HK$269.45 million) was pledged; short term borrowings of HK$610.82 million (31 December 2012: HK$608.01 million); long term borrowings of HK$292.33 million (31 December 2012: HK$31.08 million); convertible notes payable amounted to approximately HK$295.72 million (31 December 2012: HK$278.63 million) represented the principal amount of HK$314.42 million (31 December 2012: HK$330.00 million). The gearing ratio defined as non-current liabilities and short term borrowing divided by total shareholders' equity was (1.04) as at 31 December 2013 (31 December 2012: (1.49)).

During the year, 103,866,666 shares of HK$0.05 each were issued pursuant to the exercise of conversion rights attaching to the Company's convertible notes at a conversion of HK$0.15 per share.

On 23 July 2013, the Company entered into the subscription agreements with two subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 200,000,000 subscription shares at a price of HK$0.102 per subscription share. The gross proceeds from the subscription were approximately HK$20.40 million and the net proceeds were approximately HK$20.35 million. The subscription has been completed on 31 July 2013.

Charges of group assets

As at 31 December 2013, HK$297.12 million (31 December 2012: HK$302.45 million) of deposits, HK$23.04 million (31 December 2012: HK$50.91 million) of inventories, HK$511.18 million (31 December 2012: HK$522.77 million) of property, plant and equipment, HK$329.83 million (31 December 2012: 335.14 million) of prepaid lease payments and HK$137.03 million (31 December 2012: HK$148.23 million) of value-added tax recoverable, were pledged to banks for other borrowings and banking facilities granted by banks to the Group. The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

Exposure to fluctuation in exchanges rates and any related hedges

The income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2013, the Group did not hedge its exposure to foreign exchange risk profile as the Group could not find a suitable tool to manage this exposure. The Board will continue to consider the appropriate hedging measures.

New business, material acquisitions and disposals

There was no new business, material acquisitions and disposals of subsidiaries and associated companies during the year under review.

Litigation

On 1 May 2013, the UK Arbitration Tribunal granted the arbitral awards on the arbitration proceeding between a wholly owned subsidiary of the Company, Jiangxi Jiangzhou Union Shipbuilding Ltd. (the "Shipyard") and a ship-buyer, namely Algoma Tankers International Inc. (the "Algoma") over the validity of rescission notices sent by Algoma. Pursuant to the awards Shipyard was liable to pay Algoma the refund of the installments, its related interest and legal costs. On 23 May 2013, Shipyard submitted an application to the UK court for permission to appeal on a question of law arising out of the awards but the court refused in early November 2013. In enforcing the awards, Algoma served notices for payments in late November 2013. On 27 December 2013, Shipyard has settled the installment and its related interests amounting to US$38,941,731 (approximately HK$302.19 million). For details of the results of arbitration, please refer to the Company's announcement dated 2 May 2013, 8 November 2013 and 30 December 2013.

Save as disclosed above, no member of the Group was engaged in any litigation of material importance.

Human resources

The Group had around 830 employees as at 31 December 2013. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

Contingent liabilities

(a) The Group has an arbitration proceeding in progress with a vessel owner in respect of three vessels over the validity of the rescission notices at 31 December 2012. During the year ended 31 December 2013, the Group had fully settled the principal payments for the shipbuilding contracts of the vessels in arbitration and the corresponding interests in aggregate, to the relevant vessel owner. Accordingly, there was no material contingent liability in connection to the arbitration at 31 December 2013 (31 December 2012: approximately HK$372,338,000 which were recorded as "Trade, bills and other payables" as disclosed in Note 26 to the consolidated financial statements for the year ended 31 December 2012).

(b) At 31 December 2013, the Group has not paid the social security fund for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The social security fund accrued up to 31 December 2013 of approximately HK$31,091,000 (equivalent to RMB24,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated financial statements. (2012: approximately HK$18,125,000 (equivalent to RMB14,500,000)).

A repayment agreement was signed between Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. and the relevant government authority on 3 March 2014 in respect of the accrued social security fund, all amounts should be repaid before December 2015. The Directors considered that if the Group could settle the accrued social security fund according to the repayment agreement, no penalty would be imposed by the relevant government authority.

(c) At 31 December 2013, the Group has not paid the housing provident fund contributions for and on behalf of its employees and expose the Group to the risk of being imposed the penalty by the relevant government authority. The housing provident fund contributions accrued up to 31 December 2013 of approximately HK$5,491,000 (equivalent to RMB4,290,000) in aggregate, were recorded as "Trade, bills and other payables" in the consolidated statement of financial position. (2012: approximately HK$3,063,000 (equivalent to RMB2,450,000)). The directors are of the opinion that the possibility to the risk of being imposed the penalty of the relevant government authority is remote.

Other than disclosed above, the Directors are of the opinion that the Group has no other material contingent liabilities at 31 December 2013 and 2012.

Capital commitments

At 31 December 2013, there was no (31 December 2012: HK$3.82 million) capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements.

There was no capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2013, 31 December 2014, 31 December 2015 and ten months ended 31 October 2016. The following financial information are based on the accountants report of the Target Group set out in Appendix III to this circular.

Business Review

The Target Group is a diversified developers and manufacturers of steel structures for building, ship and bridge, mining heavy equipment and marine heavy equipment to technically demanding industries including but not limited to shipbuilding, construction engineering, mining and marine engineering industries. The Target Group also provides its customers with value added processing and finishing services. Products of the Target Group are exported to overseas such as Korea, Japan, Europe, Australia and America etc. as well as domestic sales. As the Target Group is principally engaged in the development, manufacture and sales of steel structures, during the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the ten months ended 31 October 2016, no separate analysis of reportable segment profit before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

The Target Group runs its business operation along 1,200 meters northern Yangtze River coastal line at Rugao port shipyard, Jiangsu Province with a total area of approximately 300,000 square meters. Since the commence of business operation of the Target Group, it has constructed several plants and workshops including but not limited to main production plant, pretreatment production workshop, closed workshop, painting workshop, machining workshop and product storage yard with a total building area of approximately 75,000 square meters. The Target Group is located in Nantong which is a prosperous coastal city with port industry and processing industry as the pillars of its economy and particularly the harbor front heavy industry which has grown rapidly in recent years. With a number of industrial parks and economic and technological development zones established, Nantong has plenty of heavy industrial products and accessories and attracted lots of talents to develop new technology. From the perspective of geographical location, Nantong is an important port in the downstream area of the Yangtze River and has forged a convenient three dimensional water-land-air transport network which can bring great advantages to the local heavy machinery manufacturers.

Financial Review

Revenue

The revenue of the Target Company is mainly generated from the manufacturing and sale of steel structures, which is categorised into (i) steel structure projects; (ii) shipbuilding projects; and (iii) bridge projects. Products of steel structure projects usually comprise Ro-Ro equipment, marine engineering crane, metallurgical/mining machinery/equipment, superstructure and off-shore house module, crane and port machinery. Products of shipbuilding projects mainly comprise large ship steel structures. Products of bridge projects mainly comprise large bridge steel structures. Products of the Target Group are widely applied into different kind of heavy industries including but not limited to shipbuilding industry, marine and offshore industry, building construction industry and mining industry.

For the year ended 31 December 2013, the Target Group recorded revenue of approximately RMB 256,385,000, which comprises (i) revenue from steel structure projects of approximately RMB199,454,000 and (ii) revenue from shipbuilding projects of approximately RMB56,931,000.

For the year ended 31 December 2014, the Target Group recorded revenue of approximately RMB211,645,000, which comprises (i) revenue from steel structure projects of approximately RMB182,413,000; and (ii) revenue from shipbuilding projects of approximately RMB29,232,000, representing a decrease of approximately 14.75% as compared with the preceding year. The decrease was mainly due to the continuous slowing down of the global economy and there was no improvement on the excessive capacity situation in the shipbuilding industry.

For the year ended 31 December 2015, the Target Group recorded revenue of approximately RMB436,324,000, which comprises (i) revenue from steel structure projects of approximately RMB231,544,000; (ii) revenue from shipbuilding projects of approximately RMB200,421,000; and (iii) revenue from bridge projects of approximately RMB4,359,000, representing an increase of approximately 106.16% as compared with the same period in year 2014. The increase in revenue was mainly attributable to (i) increase in new purchase orders from a major customer in connection with the shipbuilding projects; (ii) increase in new purchase orders from a major customer in connection with marine and offshore projects from the steel structure projects; (iii) exploration of new projects to produce large bridge steel structures.

For the ten months ended 31 October 2016, the Target Group recorded revenue of approximately RMB194,489,000, which comprises (i) revenue from steel structure projects of approximately RMB85,190,000; (ii) revenue from shipbuilding projects of approximately RMB81,586,000; and (iii) revenue from bridge projects of approximately RMB27,713,000, representing a decrease of approximately 40.36% as compared with the same period in year 2015. Such decrease was mainly attributable to the decrease in revenue from the Target Group's shipbuilding projects of approximately 58.91% from approximately RMB198,543,000 in 2015 to approximately RMB81,586,000.

Other Income

Other income mainly represented income from sale of scrap materials, bank interest income and dividend income from the Target Group's investment.

For the year ended 31 December 2013, other income of the Target Group amounted to approximately RMB4,237,000.

For the year ended 31 December 2014, other income of the Target Group amounted to approximately RMB4,599,000, representing approximately same level as compared with the same period in year 2013.

For the year ended 31 December 2015, other income of the Target Group amounted to approximately RMB4,210,000, representing approximately same level as compared with the same period in year 2014.

For the ten months ended 31 October 2016, other income of the Target Group amounted to approximately RMB1,639,000, representing a decrease of approximately 52.24% as compared with the same period in 2015.

Administrative Expenses

Administrative expenses comprise primarily costs arising from the administration departments, such as utility charges, administrative staff costs, transportation and entertainment expenses, general office expenses, legal and professional expenses, depreciation charges, amortization expenses and other taxes.

For the year ended 31 December 2013, administrative expenses of the Target Group amounted to approximately RMB34,552,000.

For the year ended 31 December 2014, administrative expenses of the Target Group amounted to approximately RMB43,942,000, representing an increase of approximately 27.18% as compared with the same period in year 2013. Such increase was mainly due to (i) the recognition of research and development costs of approximately RMB10,230,000; (ii) increase in administrative staff costs and benefits of approximately 19.86% from approximately RMB13,484,573 in year 2013 to approximately RMB16,163,269 in year 2014 due to the further recruitment of staff and increase in salaries; (iii) reduction of provision on impairment of doubtful debt of approximately 74.17% from approximately RMB4,047,567 in year 2013 to approximately RMB1,039,502 in year 2014 which partially net off the effect.

For the year ended 31 December 2015, administrative expenses of the Target Group amounted to approximately RMB37,900,000, representing a decrease of approximately 13.56% as compared with the same period in year 2014. Such decrease was mainly due to decrease in administrative staff costs and benefits of approximately 42.73% from approximately RMB16,163,269 in year 2014 to approximately RMB9,256,951 in year 2015.

For the ten months ended 31 October 2016, administrative expenses of the Target Group amounted to approximately RMB21,994,000, representing a decrease of approximately 30.85% as compared with the same period in year 2015. Such decrease was mainly due to (i) decrease in research and development cost of approximately 99.99% from approximately RMB6,653,254 in year 2015 to approximately RMB682 in year 2016; (ii) decrease in business consultation fees of approximately 62.78% from approximately RMB804,000 in year 2015 to approximately RMB299,239 in year 2016; (iii) decrease in administrative staff costs and benefits of approximately 17.94% from approximately RMB9,579,997 in year 2015 to approximately RMB7,861,652 in year 2016; and (iv) increase in marketing expenses of approximately 252.76% from approximately 563,680 in year 2015 to approximately RMB1,988,455 in year 2016 with an aim to expand to business of the Target Group.

Finance Costs

Finance costs comprise primarily interest expenses on bank, and other borrowings and bills payable. The finance costs for each of years ended 31 December 2013, 31 December 2014 and 31 December 2015 and for the ten months ended 31 October 2016 were approximately RMB23,165,000, RMB20,797,000, RMB16,220,000 and RMB12,694,000, respectively, representing a decreasing tend year over year.

Net Loss/Profit

For the each of the years ended 31 December 2013 and 31 December 2014, the Target Group recorded net loss after taxation of approximately RMB52,731,000 and RMB66,230,000, respectively.

For the year ended 31 December 2015, the Target Group recorded net profit after taxation of approximately RMB11,973,000, representing a turnaround in performance as compared with year 2014. The turnaround performance was mainly attributable to (i) increase in revenue of approximately 106.16% as compared with year 2014; (ii) reduction of administrative expenses of approximately 13.75% as compared with year 2014 due to the implementation of streamline plan on the organization structure of the Target Group; and (iii) decrease in financial cost.

For the ten months ended 31 October 2016, the Target Group recorded net profit after taxation of approximately RMB23,081,000, representing a turnaround in performance as compared with the same period in year 2015. The turnaround in performance was mainly attributable to (i) reduction of administrative expenses of approximately 30.85% as compared with the same period in year 2015 due to the continuous implementation of streamline plan on the organization structure of the Target Group; (ii) decrease in finance cost; (iii) recognition of one-off gain on disposal of subsidiaries in the amount of approximately RMB22,239,000; and (iv) provision made for financial guarantees under the existing Guaranteed Agreements in the amount of RMB11,860,000 which partially net off the effect.

On 24 March 2016, the Target Group completed the disposal of its entire equity interests of Nantong Huakai Energy Technology Development Co., Ltd.*（南通華凱能源科技開發有限公司）and Nangtong Hejia Steel Structure Co., Ltd.*（南通禾佳鋼構有限公司）to Nantong Xianglong Shipping Technology Development Company Limited*（南通向隆船舶科技發展有限公司）at considerations of RMB20,820,000 and RMB5,000,000, respectively. Upon completion of the disposals, the Target Group recorded an one-off gain on disposals of approximately RMB22,239,000. The Board would like to emphasise that the provision for financial guarantees under the existing Guaranteed Agreements in the amount of RMB11,860,000 is not cash in nature. For illustrative purposes only, disregarding the provision for financial guarantee and the one-off gain on disposals, the Target Group would have recorded net profit of approximately RMB12,702,000, still representing a turnaround in performance as compared with the same period in year 2015.

Liquidity and Financial Resources

During the years ended 31 December 2013, 31 December 2014, 31 December 2015 and ten months ended 31 October 2016, the Target Group generally financed its operations through internally generated cash flows, capital injection from shareholders and third parties loans.

As at 31 December 2013, 31 December 2014, 31 December 2015 and 31 October 2016, the Target Group had net current liabilities of approximately RMB189,972,000 (including cash balance of approximately RMB27,442,000), RMB248,622,000 (including cash balance of approximately RMB66,137,000), RMB293,813,000 (including cash balance of approximately RMB1,288,000) and approximately RMB179,084,000 (including cash balance of approximately RMB537,000), respectively. The current ratio, being the ratio of current assets to current liabilities, was approximately 0.73, 0.59, 0.49 and 0.58 as at 31 December 2013, 31 December 2014, 31 December 2015 and 31 October 2016 respectively. The increase in current ratio as at 31 October 2016 as compared with 31 December 2015 was mainly due to (i) capital injection of RMB100,000,000 from shareholders of the Target Company on 1 March 2016; (ii) internally generated cash inflows; and (iii) repayment of bank borrowings. The gearing ratio of the Target Group is based on the amount of total borrowing divided by total assets. The gearing ratios of the Target Group were 34.64%, 44.84%, 54.34% and 44.02% as at 31 December 2013, 31 December 2014, 31 December 2015 and 31 October 2016 respectively.

Foreign Currency Exposure

The income and expenditure of the Target Group were denominated in Renminbi, Euro and United States Dollars. As at 31 December 2013, 31 December 2014, 31 December 2015 and 31 October 2016, the Target Group did not hedge its exposure to foreign exchange risk profile as the Target Group could not find a suitable tool to manage this exposure. The management of the Target Group will continue to consider the appropriate hedging measures.

Charges on Assets

a) The following assets were pledged for the Target Group's general bank facilities:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings	35,866	33,569	31,264	28,592
Construction in progress	10,077	12,031	17,102	–
Prepaid lease payments	28,847	27,649	26,756	13,929
Inventories	–	–	20,229	–
Trade receivables	39,074	33,264	19,081	–
Pledged bank deposits	95,517	57,452	19,463	15,226
	209,381	163,965	133,895	57,747

b) The following assets were pledged to two independent third parties to secure the corporate guarantees provided in favour of Huatai Heavy Industry as follow:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings	37,478	35,027	32,566	31,348
Prepaid lease payments	15,686	15,305	14,931	14,763
	53,164	50,332	47,497	46,111

Litigations and contingent Liabilities

As at 31 December 2013, the Target Group provided performance guarantee in favour of Huatai Heavy Industry to a Vessel Agency Company. The maximum amount of the guarantee is US$21,800,000.

As at 31 December 2014, the Target Group provided performance guarantee in favour of Huatai Heavy Industry to three Vessel Agency Companies. The maximum aggregate amount of the performance guarantee is US$111,880,000.

As at 31 December 2015, the Target Group provided performance guarantee in favour of Huatai Heavy Industry to three Vessel Agency Companies. The maximum aggregate amount of performance guarantee is US$111,880,000.

As at 31 October 2016, the Target Group had following contingent liabilities:

(i). Arbitration relating to performance guarantee provided

The Target Group has contingent liabilities of approximately RMB84.45 million arising from Guarantee Agreement 4 entered into between the Target Company and Vessel Agency Company 2. The 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang had been subjected to frozen order. Details were disclosed under the section headed "Provision of performance guarantee in favour of Huatai Heavy Industry" in the letter from the Board of this circular.

The Vendors have provided the counter guarantee to the Purchaser to indemnify all losses arising from the Guarantee Agreements.

(ii). Litigations relating to labour disputes

The Target Group has contingent liabilities of approximately RMB12,000,000 arising from various labour disputes.

(iii). Litigations relating to business disputes

The Target Group has contingent liabilities of approximately RMB6,300,000 arising from various business disputes in connection with business contracts other than the Guarantee Agreements.

(iv). Provision of performance guarantee

The Target Group provided performance guarantee in favour of Huatai Heavy Industry to two Vessel Agency Companies. The maximum aggregate amount of the guarantee is US$67,560,000.

Information on Employees

As at 31 December 2013, 31 December 2014, 31 December 2015 and 31 October 2016, the Target Group had 887, 1,031, 855 and 635 full-time staff in the PRC. To cope with the continuous downturn on the global economic environment and the overcapacity situation of heavy industry in the PRC, the Target Group has commenced a streamline campaign towards its existing group structure and production procedures. Since year 2015, the Target Group has been cutting excessive full-time labour force and has been employing temporary personnel in order to gain flexibility on the human resources allocation and control of labour costs. Total staff costs (including Directors' remuneration) for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and ten months ended 31 October 2016 amounted to approximately RMB42,526,000, RMB66,726,000, RMB70,665,000 and RMB23,603,000 respectively. The Target Group did not adopt any share option scheme. The remuneration, promotion and salary increments of employees were assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

Significant Investment, Material Acquisitions and Disposals

In 2015, the Target Group invested in 0.77% equity interest in a private commercial bank in the PRC.

On 24 March 2016, the Target Group completed the disposal of its entire equity interests of Huakai Energy and Hejia Steel Structure to Xianglong Shipping at considerations of RMB20,820,000 and RMB5,000,000, respectively.

Except for investment in subsidiaries and save as disclosed above, no significant investments, material acquisitions and disposals have been made by the Target Group during the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and ten months ended 31 October 2016.

Future Plans for Material Investments and Capital Assets

As at 31 October 2016, the Target Group did not have any future plans on material investments and capital assets.

Prospects

The primary business of the Target Group is the development, manufactures and sales of steel structures for building, ship and bridge, mining heavy equipment and marine heavy equipment to technically demanding industries including but not limited to shipbuilding, construction engineering, mining and marine engineering industries.

Going forward, the Target Group will continue to optimize and diversify its existing products mix with an ambition to explore more different kind of customers. On the other hand, the Target Group will continue to streamline existing group structure and production procedures. Upon completion of the Acquisition, the Target Group will become a part of the Company. The Target Group will leverage on the Group's listing status, market knowledge, experience and resources so as to achieve the synergistic effects in terms of operation effectiveness and branding.

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

24 February 2017

The Board of Directors
China Ocean Industry Group Limited
Units 1702-03
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs/Madams,

We set out below our report on the financial information (the "Financial Information") of 南通華凱重工有限公司 (transliterated as the Nantong Huakai Heavy Industry Company Limited*) ("Huakai Heavy") and its subsidiaries (collectively referred to as the "Huakai Heavy Group"), which comprises the consolidated statements of financial position of the Huakai Heavy Group as at 31 December 2013, 2014, 2015 and 31 October 2016, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Huakai Heavy Group for each of the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the directors of Huakai Heavy for inclusion in Appendix III to the circular dated 24 February 2017 (the "Circular") issued by China Ocean Industry Group Limited (the "Company") in connection with its proposed acquisition of the entire registered capital of Huakai Heavy (the "Transaction").

Huakai Heavy was established in the People's Republic of China (the "PRC") with limited liability on 12 April 2007. The address of Huakai Heavy's registered office and principal place of business is 江蘇省如皋市(如皋港區)文晉路2號 (transliterated as No.2, Wenpu Road, Rugao, Jiangsu*). Huakai Heavy is principally engaged in manufacture and sales of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment, ship, bridge and building steel structure in the PRC.

At the end of each of the Relevant Periods and at the date of this report, Huakai Heavy has equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of establishment and place of business	Registered and paid up capital	Percentage of equity interest attributable to Huakai Heavy					Principal activities
			At 31 December			At 31 October	At date of	
			2013	2014	2015	2016	this report	
南通方正海洋工程科技有限公司 (transliterated as Nantong Fangzheng Ocean Engineering Technology Company Limited*)	PRC 22 April 2004	RMB25,000,000	100%	100%	100%	100%	100%	Manufacture and sales of steel structure
南通禾佳鋼構有限公司 (transliterated as Nantong Hejia Steel Structure Company Limited*)	PRC 24 February 2011	RMB5,000,000	100%	100%	100%	–	–	Manufacture and sales of metal mechanism parts production
南通華凱能源科技開發有限公司 (transliterated as Nantong Huakai Energy Technology Development Company Limited*)	PRC 21 June 2011	RMB20,820,000	100%	100%	100%	–	–	New energy technology research and development
南通華凱船舶塗裝有限公司 (transliterated as Nantong Huakai Ship Painting Company Limited*)	PRC 27 December 2007	RMB5,000,000	100%	100%	100%	100%	100%	Provision of pretreatment and painting services of steel plate

All the companies of the Huakai Heavy Group have adopted 31 December as their financial year end dates.

The statutory financial statements of the entities comprising the Huakai Heavy Group for each of the years ended 31 December 2013, 2014 and 2015 which were audited by the respective certified public accountants registered in the PRC during the Relevant Periods are as follows:

Name or company	Statutory auditors			
	For the financial year ended 31 December			For the ten months ended 31 October
	2013	2014	2015	2016
Huakai Heavy	*Note (a)*	*Note (c)*	*Note (c)*	*Note (b)*
南通方正海洋工程科技有限公司 (transliterated as Nantong Fangzheng Ocean Engineering Technology Company Limited*)	*Note (a)*	*Note (c)*	*Note (c)*	*Note (b)*
南通禾佳鋼構有限公司 (transliterated as Nantong Hejia Steel Structure Company Limited*)	*Note (b)*	*Note (b)*	*Note (b)*	*Note (b)*
南通華凱能源科技開發有限公司 (transliterated as Nantong Huakai Energy Technology Development Company Limited*)	*Note (a)*	*Note (c)*	*Note (b)*	*Note (b)*
南通華凱船舶塗裝有限公司 (transliterated as Nantong Huakai Ship Painting Company Limited*)	*Note (a)*	*Note (c)*	*Note (b)*	*Note (b)*

* *For identification purposes only*

Notes:

(a) The statutory financial statements for the year ended 31 December 2013 were prepared in accordance with "Accounting Standards for Business Enterprises" issued by the Ministry of Finance of the PRC (the "MOF") and other relevant regulatory requirements (collectively known as the "PRC GAAP") and were audited by 如皋興皋瑞聯合會計師事務所 (transliterated as Rugao Ruxingrui United Certified Public Accountants*), certified public accountants registered in the PRC.

(b) No audited financial statements have been prepared as there is no statutory audit requirement.

(c) The statutory financial statements for the years ended 31 December 2014 and 31 December 2015 were prepared in accordance with the PRC GAAP and were audited by 南通偉業聯合會計師事務所 (transliterated as Nantong Weiye United Certified Public Accountants*), certified public accountants registered in the PRC.

For the purpose of this report, the directors of Huakai Heavy have prepared the consolidated financial statements of the Huakai Heavy Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (collectively the "Underlying Financial Statements").

We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments have been made by us to the Underlying Financial Statements in preparation of this report for inclusion in the Circular. The preparation of the Underlying Financial Statements is the responsibility of the directors of Huakai Heavy. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

* *For identification purposes only*

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Huakai Heavy Group as at 31 December 2013, 2014 and 2015 and 31 October 2016, and of its financial performance and cash flows for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

The unaudited comparative consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Huakai Heavy Group for the ten months ended 31 October 2015 together with the notes thereon have been extracted from the unaudited financial information of the Huakai Heavy Group for the same period (the "31 October 2015 Financial Information") which was prepared by the directors of Huakai Heavy solely for the purpose of this report. We have reviewed the 31 October 2015 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 October 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 31 October 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 October 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the Financial Information below, which indicates that as at 31 October 2016, the Huakai Heavy Group has net current liabilities of approximately RMB179,084,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Huakai Heavy Group's ability to continue as a going concern.

(A) FINANCIAL INFORMATION OF南通華凱重工有限公司 (TRANSLITERATED AS NANTONG HUAKAI HEAVY INDUSTRY COMPANY LIMITED*) ("HUAKAI HEAVY") AND ITS SUBSIDIARIES

The following is the financial information of Huakai Heavy and its subsidiaries (hereinafter collectively referred to as the "Huakai Heavy Group") prepared by the directors of Huakai Heavy as at 31 December 2013, 2014, 2015 and 31 October 2016 and for each of the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 (the "Relevant Periods") (collectively known as the "Financial Information").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Ten months ended 31 October	
	Notes	**2013**	**2014**	**2015**	**2015**	**2016**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*8*	256,385	211,645	436,324	326,120	194,489
Cost of sales		(251,624)	(207,068)	(356,616)	(286,835)	(149,882)
Gross profit		4,761	4,577	79,708	39,285	44,607
Other income	*9*	4,237	4,599	4,210	3,432	1,639
Other gains and losses	*10*	(2,891)	(417)	(6,970)	(3,019)	(1,570)
Gain on disposal of subsidiaries	*29*	–	–	–	–	22,239
Selling and distribution expenses		(283)	(24)	(247)	(755)	(229)
Administrative expenses		(34,552)	(43,942)	(37,900)	(31,807)	(21,994)
Change in fair value of financial guarantee		–	(13,270)	(13,698)	–	(11,860)
Finance costs	*11*	(23,165)	(20,797)	(16,220)	(13,678)	(12,694)
(Loss) profit before tax		(51,893)	(69,274)	8,883	(6,542)	20,138
Income tax (expense) credit	*12*	(838)	3,044	3,090	(93)	2,943
(Loss) profit and total comprehensive (expense) income for the year/period	*13*	(52,731)	(66,230)	11,973	(6,635)	23,081

* *For identification purposes only*

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December 2013	2014	2015	At 31 October 2016
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	126,798	117,145	162,200	179,990
Prepaid lease payments – non-current portion	17	32,442	31,471	30,500	18,119
Available-for-sale investment	18	–	–	13,000	13,000
Deferred tax assets	28	–	3,317	6,742	9,707
		159,240	151,933	212,442	220,816
CURRENT ASSETS					
Inventories	19	123,526	121,939	126,895	83,003
Trade and bill receivables	20	55,095	50,125	55,996	27,013
Other receivables	20	29,060	19,718	36,635	48,832
Prepayment for purchase of raw materials	20	7,778	4,850	13,457	12,861
Prepaid lease payments	17	971	971	971	434
Amounts due from directors	21	–	12,013	–	50
Amounts due from shareholders/former shareholders	21	28	41	22,289	23,600
Amounts due from related parties	21	166,120	21,050	–	31,896
Pledged bank deposits	22	95,517	57,452	19,463	15,226
Bank balances and cash	22	27,442	66,137	1,288	537
		505,537	354,296	276,994	243,452
CURRENT LIABILITIES					
Trade, bills and other payables	23	286,596	200,726	152,903	138,331
Receipts in advances	23	53,329	25,501	20,260	23,724
Amount due to a director	21	–	–	14,129	–
Amounts due to shareholders/former shareholders	21	18,933	22,455	–	–
Amounts due to related parties	21	106,397	113,980	90,596	17,283
Borrowings	24	230,254	226,986	265,951	204,370
Financial guarantee	31	–	13,270	26,968	38,828
		695,509	602,918	570,807	422,536
NET CURRENT LIABILITIES		(189,972)	(248,622)	(293,813)	(179,084)
TOTAL ASSETS LESS CURRENT LIABILITIES		(30,732)	(96,689)	(81,371)	41,732
CAPITAL AND RESERVES					
Share capital	25	50,000	50,000	50,000	150,000
Reserves		(81,570)	(147,800)	(132,817)	(109,736)
TOTAL (DEFICITS) EQUITY		(31,570)	(97,800)	(82,817)	40,264
NON-CURRENT LIABILITY					
Deferred tax liabilities	28	838	1,111	1,446	1,468
		(30,732)	(96,689)	(81,371)	41,732

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000*	Capital reserve *RMB'000* *(Note)*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2013	50,000	–	(28,839)	21,161
Loss and total comprehensive expense for the year	–	–	(52,731)	(52,731)
At 31 December 2013	50,000	–	(81,570)	(31,570)
Loss and total comprehensive expense for the year	–	–	(66,230)	(66,230)
At 31 December 2014	50,000	–	(147,800)	(97,800)
Capital contribution from owners	–	3,010	–	3,010
Profit and total comprehensive income for the year	–	–	11,973	11,973
At 31 December 2015	50,000	3,010	(135,827)	(82,817)
Capital injection	100,000	–	–	100,000
Profit and total comprehensive income for the period	–	–	23,081	23,081
At 31 October 2016	150,000	3,010	(112,746)	40,264
For the ten months ended 31 October 2015 (unaudited)				
At 1 January 2015	50,000	–	(147,800)	(97,800)
Loss and total comprehensive expense for the period	–	–	(6,635)	(6,635)
At 31 October 2015	50,000	–	(154,435)	(104,435)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
OPERATING ACTIVITIES					
(Loss) profit before tax	(51,893)	(69,274)	8,883	(6,542)	20,138
Adjustments for:					
Amortisation of prepaid lease payments	971	971	971	809	452
Depreciation of property, plant and equipment	14,914	14,493	15,424	12,424	16,529
Impairment loss recognised in respect of trade receivables	245	803	–	–	–
Impairment loss recognised in respect of other receivables	240	230	247	247	–
Gain on disposal of subsidiaries	–	–	–	–	(22,239)
Interest income	(3,252)	(3,923)	(1,028)	(1,028)	(261)
Change in fair value of financial guarantee	–	13,270	13,698	–	11,860
Finance cost	23,165	20,797	16,220	13,678	12,694
Gain on disposal of property, plant and equipment	–	(22)	–	–	–
Written-off of inventories	2,868	59	609	609	–
Written-off of property, plant and equipment	–	–	485	485	85
Operating cash flows before movements in working capital	(12,742)	(22,596)	55,509	20,682	39,258
(Increase) decrease in inventories	(24,448)	1,528	(5,565)	(32,176)	43,852
Decrease (increase) in trade and bill receivables	62,225	4,167	(5,871)	5,839	28,983
(Increase) decrease in other receivables	(8,816)	9,112	(17,164)	(27,280)	(26,934)
(Increase) decrease in prepayment for purchase of raw materials	(5,587)	2,928	(8,607)	(19,272)	156
(Increase) decrease in amounts due from related parties	(54,924)	145,070	21,050	12,269	(276,682)
Increase (decrease) in amounts due to shareholders/former shareholders	18,933	3,522	(22,455)	(22,455)	(1,311)
(Increase) decrease in amounts due from directors	–	(12,013)	12,013	11,164	(50)
(Decrease) increase in amounts due to related parties	(46,001)	7,583	(23,384)	14,421	176,594
(Increase) decrease in amounts due from shareholders/former shareholders	(28)	(13)	(22,248)	(17,148)	–
Increase (decrease) in amounts due to a director	–	–	14,129	24,148	(7,991)
Increase (decrease) in trade, bills and other payables	55,511	(85,870)	(47,823)	(27,232)	3,046
Increase (decrease) in receipts in advances	46,526	(27,828)	(5,241)	(10,474)	3,464
Cash generated from (used in) operations	30,649	25,590	(55,657)	(67,514)	(17,615)
Interest received	3,252	3,923	1,028	1,028	261

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES	33,901	29,513	(54,629)	(66,486)	(17,354)
INVESTING ACTIVITIES					
(Increase) decrease in pledged bank deposits	(95,517)	38,065	37,989	33,120	(763)
Purchase of property, plant and equipment	(6,613)	(5,619)	(60,964)	(33,664)	(69,048)
Purchase of available-for-sale investment	–	–	(13,000)	(13,000)	–
Net cash inflow on disposal of subsidiaries	–	–	–	–	19,689
Proceeds from disposal of property, plant and equipment	125	801	–	–	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(102,005)	33,247	(35,975)	(13,544)	(50,122)
FINANCING ACTIVITIES					
Borrowings raised	437,629	425,727	469,228	469,273	176,125
Interest paid	(23,165)	(20,797)	(16,220)	(13,678)	(12,694)
Proceeds from issue of shares	–	–	–	–	100,000
Capital contribution	–	–	3,010	–	–
Repayment of borrowings	(409,425)	(428,995)	(430,263)	(436,309)	(196,706)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	5,039	(24,065)	25,755	19,286	66,725
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(63,065)	38,695	(64,849)	(60,744)	(751)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	90,507	27,442	66,137	66,137	1,288
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD represented by bank balances and cash	27,442	66,137	1,288	5,393	537

NOTES TO THE FINANCIAL INFORMATION

1. General

南通華凱重工有限公司 (transliterated as Nantong Huakai Heavy Industry Co., Ltd.*) ("Huakai Heavy") was established in the People's Republic of China (the "PRC") with limited liability on 12 April 2007. The address of the registered office and principal place of business of Huakai Heavy is江蘇省如皋市(如皋港區)文晉路2號 (transliterated as No.2, Wenpu Road, Rugao, Jiangsu*).

Huakai Heavy is principally engaged in manufacture and sales of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment, ship, bridge and building steel structure in the PRC.

The name of the parent companies/ultimate controlling parties during the years ended 31 December 2013, 2014 and 2015 and for the period from 1 January 2016 to the date of this report are as follow:

Period	Name/place of incorporation of the parent company	Ultimate controlling party
From 1 January 2013 to 10 August 2014	N/A	秦利明先生 (transliterated as Mr. Qin Li Ming*)
From 11 August 2014 to 31 August 2014	N/A	徐小寓先生 (transliterated as Mr. Xu Xiao Yu*)
From 1 September 2014 to 3 November 2015	南通向隆船舶科技發展有限公司 (transliterated as Nantong Xianglong Shipping Technology Development Company Limited*) ("Xianglong Shipping")/The PRC	Mr. Xu Xiao Yu
From 4 November 2015 to 2 June 2016	Xianglong Shipping/The PRC	霍起先生 (transliterated as Mr. Huo Qi*)
From 3 June 2016 and up to the date of this report	南通鑫達船舶科技發展有限公司 (transliterated as Nantong Xinda Shipping Technology Development Company Limited*) ("Xinda Shipping")/The PRC	Mr. Huo Qi/ 馬貞強先生 (transliterated as Mr. Ma Zhenqiang*)

* *For identification purposes only*

The financial information of Huakai Heavy and its subsidiaries (hereinafter collectively referred to as the "Huakai Heavy Group") for each of the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 (the "Relevant Periods") (collectively known as the "Financial Information") is presented in Renminbi ("RMB"), which is also the functional currency of Huakai Heavy Group.

2. Basis of preparation

As at 31 October 2016, the Huakai Heavy Group had net current liabilities of approximately RMB179,084,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Huakai Heavy Group's ability to continue as a going concern. Therefore, the Huakai Heavy Group may be unable to realise its assets and discharge its liability in the normal course of business.

At 31 October 2016, a significant portion of the funding requirements of the Huakai Heavy Group for capital expenditures was satisfied by short-term borrowings. Consequently, at 31 October 2016, the Huakai Heavy Group had net current liabilities of approximately RMB179,084,000. The Huakai Heavy Group may refinance and/or restructure certain short-term borrowings into long-term borrowings and will also consider alternative sources of financing, where applicable. The directors of the Huakai Heavy Group (the "Directors of Huakai Heavy") are therefore of the opinion that the Huakai Heavy Group will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these consolidated financial statements on a going concern basis.

3. Application of new and revised Hong Kong financial reporting standards ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Huakai Heavy Group has adopted all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Huakai Heavy Group's financial period beginning on 1 January 2016 consistently throughout the Relevant Periods.

The Huakai Heavy Group has not early adopted the following new and amendments to HKFRSs that have been issued but are not yet effective during the Relevant Periods:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Clarification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
Amendments to HKFRS 10 and Hong Kong Accounting Standard ("HKAS") 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 *Effective for annual periods beginning on or after 1 January 2018*

2 *Effective for annual periods beginning on or after 1 January 2019*

3 *Effective for annual periods beginning on or after a date to be determined*

4 *Effective for annual periods beginning on or after 1 January 2017*

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets; b) impairment of financial assets; and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Huakai Heavy Group is still in the process of assessing the impact of HKFRS 9. The Directors of Huakai Heavy believe that it is impractical to disclose the impact in these consolidated financial statements until the Huakai Heavy Group has completed the assessment.

HKFRS 15 Revenue from Contracts with Customers and the clarification to HKFRS 15

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Huakai Heavy Group is still in the process of assessing the impact of HKFRS 15. The Directors of Huakai Heavy believe that it is impractical to disclose the impact in these consolidated financial statements until the Huakai Heavy Group has completed the assessment.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Huakai Heavy Group is in the process of assessing the impact of HKFRS 16. The Directors of Huakai Heavy believe that it is impractical to disclose the impact in these consolidated financial statements until the Huakai Heavy Group has completed the assessment.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Directors of Huakai Heavy do not anticipate that the application of these amendments will have a material impact on the Huakai Heavy Group's consolidated financial statements.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors of Huakai Heavy do not anticipate that the application of these amendments will have a material impact on the Huakai Heavy Group's consolidated financial statements.

Other than the above, the Directors of Huakai Heavy do not anticipate that the application of the other new and amendment to HKFRSs will have any significant impact on the Huakai Heavy Group's financial results and financial position.

4. Summary of significant accounting policies

The Financial Information presents the financial track record of the Huakai Heavy Group for the three years ended 31 December 2013, 2014, 2015 and ten months ended 31 October 2016 and is prepared for the purposes of inclusion in a circular of China Ocean Industry Group Limited (the "Company") to its shareholders for the purpose of proposed acquisition of the entire registered capital of Huakai Heavy, using the principal accounting policies which are materially consistent with those of the Company as applied in the Company's consolidated financial statements for the year ended 31 December 2015.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Huakai Heavy Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Huakai Heavy and entities controlled by Huakai Heavy and its subsidiaries. Control is achieved when Huakai Heavy:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Huakai Heavy Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Huakai Heavy Group obtains control over the subsidiary and ceases when the Huakai Heavy Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Huakai Heavy Group gains control until the date when the Huakai Heavy Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of Huakai Heavy and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Huakai Heavy and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Huakai Heavy Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Huakai Heavy Group are eliminated in full on consolidation.

When the Huakai Heavy Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Huakai Heavy Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, sales related tax and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Huakai Heavy Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Huakai Heavy Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Huakai Heavy Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Huakai Heavy Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Huakai Heavy Group and the amount of income can be measured reliably).

Consultancy service income is recognised when the related services are provided.

Leasehold land and building

When a lease includes both land and building elements, the Huakai Heavy Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Huakai Heavy Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress are carried at cost, less any recognised accumulated impairment loss. Costs comprises the direct costs of construction during the period of construction. Construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write-off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Provision

Provisions are recognised when the Huakai Heavy Group has a present obligation (legal and constructive) as a result of a past event, and it is probable that the Huakai Heavy Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Borrowing costs

All borrowings costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised when the Huakai Heavy Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, amount(s) due from directors/shareholders/former shareholders/related parties, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment loss (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss ("FVTPL"); loans and receivables; or held-to-maturity investments. The Huakai Heavy Group designated unlisted equity investments as AFS financial assets on initial recognition of those items.

Dividends on AFS equity investments are recognised in profit or loss when the Huakai Heavy Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each of the reporting periods (see the accounting policy in respect of impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each of the reporting periods. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as a default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and bill receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Huakai Heavy Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bill receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and bill receivables and other receivables are considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the assets at the date the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Huakai Heavy Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Huakai Heavy Group are recognised at the proceeds received, net of direct issued costs.

Financial liabilities

Financial liabilities (including trade, bills and other payables, amount(s) due to a director/shareholders/former shareholders/related parties and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Huakai Heavy Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Huakai Heavy Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Huakai Heavy Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Huakai Heavy Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Huakai Heavy Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Huakai Heavy Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Huakai Heavy Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Huakai Heavy Group derecognises financial liabilities when, and only when, the Huakai Heavy Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of tangible assets

At the end of each of the reporting periods, the Huakai Heavy Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered assets an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Huakai Heavy Group estimates the recoverable amount of the cash-generating units to which the assets belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rare that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from ''(loss) profit before tax'' as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Huakai Heavy Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Huakai Heavy Group expects, at the end of each of the reporting periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the Financial Information of each individual group entity comprising the Huakai Heavy Group, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each of the reporting periods, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

The employees of the Huakai Heavy Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC Government. The Huakai Heavy Group is required to contribute certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Huakai Heavy Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

Provision for warranty

The Huakai Heavy Group estimated the cost of warranties granted on shipbuilding products and undertakings to repair or replace items that do not perform satisfactorily at the time revenues for the related items are recognised. The shipbuilding products are covered by warranty for one year from the date of delivery. While the Huakai Heavy Group has put in place product quality programs and processes, warranty obligations are affected by actual product failure rates and by material usage and service delivery costs incurred in correcting a product failure. The warranty provision is established based upon the best estimates at the amounts necessary to settle future and existing claims on products sold as at the end of the reporting period. While management believes that the Huakai Heavy Group's warranty provisions are adequate and that the judgements applied are appropriate, the ultimate cost of product warranty could differ materially from the estimates. When the actual cost of quality of the products is lower than management originally anticipated, the Huakai Heavy Group releases an appropriate proportion of the provision, and if the cost of quality is higher than anticipated, the Huakai Heavy Group increases the provision.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Huakai Heavy Group's accounting policies, which are described in Note 4 to the Financial Information, the Directors of Huakai Heavy are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical judgements in applying accounting policies

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the critical judgements, apart from those involving estimations (see below), that the Directors of Huakai Heavy have made in the process of applying the Huakai Heavy Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Going concern and liquidity

As explained in Note 2 to the Financial Information, the financial position of the Huakai Heavy Group indicates the existence of a material uncertainty which may cast doubt on the Huakai Heavy Group's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the Directors of Huakai Heavy, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors of Huakai Heavy consider that the Huakai Heavy Group has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2 to the Financial Information.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment of trade receivables

When there is objective evidence of indicate that the trade receivables may not be recovered, the Huakai Heavy Group estimates the future cash flows to determine the impairment loss. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness, the past collection history of each customer and the customer's operation as a going concern. If the financial conditions of customers of the Huakai Heavy Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Impairment of AFS investment

For AFS investment, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgment, the historical data on market volatility as well as the price of the specific investment are taken into account. The Huakai Heavy Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

(c) Allowance for inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The Huakai Heavy Group reviews its inventory levels in order to identify slow-moving and obsolete items. When the Huakai Heavy Group identifies items of inventories which have a net realisable value lower than its carrying amount, the Huakai Heavy Group estimates the amount of written-off of inventories to net realisable value is recognised as an expense in the period the written-off occur. During the Relevant Periods, written-off of inventories of approximately RMB2,868,000, RMB59,000, RMB609,000 and RMB Nil are recognised in the Financial Information for the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 respectively.

(d) Impairment of property, plant and equipment

The carrying amount of property, plant and equipment are reviewed and adjusted for impairment in accordance with HKAS 36 whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The Huakai Heavy Group determines the recoverable amount of these assets based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the future cash flows are less than expected, a material impairment loss may arise. No impairment of property, plant and equipment has been provided during the Relevant Periods.

(e) Fair value measurements and valuation processes

Some of the Huakai Heavy Group's liabilities are measured at fair value for financial reporting purposes. The Directors of Huakai Heavy determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or liability, the Huakai Heavy Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Huakai Heavy Group engages third party qualified valuers to perform the valuation. The management of Huakai Heavy works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Huakai Heavy Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 7(c) to the consolidated financial statements provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

6. Capital risk management

The Huakai Heavy Group manages its capital to ensure that the Huakai Heavy Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Huakai Heavy Group consists of net debt, which includes borrowings, net of cash and cash equivalents and equity attributable to equity holders of Huakai Heavy, comprising registered capital and reserves.

The Directors of Huakai Heavy review the capital structure on a regular basis. As part of this review, the Directors of Huakai Heavy consider the cost of capital and the risk associates with each class of capital. The Huakai Heavy Group will balance its overall capital structure through new share issues as well as the issue of new debt.

7. Financial instruments

(a) *Categories of financial instruments*

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale investment	–	–	13,000	13,000
Loan and receivables:				
Trade and bill receivables	55,095	50,125	55,996	27,013
Other receivables	29,060	19,178	36,635	48,832
Amounts due from directors	–	12,013	–	50
Amounts due from shareholders/former shareholders	28	41	22,289	23,600
Amounts due from related parties	166,120	21,050	–	31,896
Pledged bank deposits	95,517	57,452	19,463	15,226
Bank balances and cash	27,442	66,137	1,288	537
	373,262	225,996	135,671	147,154
	373,262	225,996	148,671	160,154
Financial liabilities				
Liabilities measured at FVTPL:				
Financial guarantee	–	13,270	26,968	38,828
Liabilities measured at amortised cost:				
Trade, bills and other payables	286,596	200,726	152,903	138,331
Amount due to a director	–	–	14,129	–
Amounts due to shareholders/ former shareholders	18,933	22,455	–	–
Amounts due to related parties	106,397	113,980	90,596	17,283
Borrowings	230,254	226,986	265,951	204,370
	642,180	564,147	523,579	359,984
	642,180	577,417	550,547	398,812

(b) Financial risk management objectives and policies

The Huakai Heavy Group's major financial instruments include available-for-sale investment, trade and bill receivables, other receivables, amount(s) due from (to) directors/shareholders/former shareholders/related parties, pledged bank deposit, bank balances and cash, financial guarantee, trade, bills and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain bank balances and cash and trade receivables are denominated in foreign currencies, which expose the Huakai Heavy Group to foreign currency risk.

The Huakai Heavy Group currently does not have a foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Huakai Heavy Group's foreign currency denominated monetary assets at the end of each of the reporting periods are as follows:

	Assets			
	At 31 December			**At 31 October**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
United States dollars ("USD")	16,070	13,085	1,578	7,130
Euro ("EUR")	17	17	15	16

Sensitivity analysis

The Huakai Heavy Group is mainly exposed to the foreign currency risk of USD and EUR.

The following table details the Huakai Heavy Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. A 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translations at the end of each of the reporting periods or a 5% change in foreign currency rates.

A positive number below indicates an increase in post-tax loss for the years ended 31 December 2013 and 31 December 2014 (for the year ended 31 December 2015 and for the ten months ended 31 October 2016: decrease in post-tax profit) where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax loss and the balances below would be negative.

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Effect on post-tax loss/(profit)				
– USD Impact	803	654	79	357
– EUR Impact	1	1	1	1

(ii) Interest rate risk

The Huakai Heavy Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings. The Huakai Heavy Group's cash flow interest rate risk relates primarily to variable-rate bank balances. The Huakai Heavy Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Huakai Heavy Group currently does not have an interest rate hedging policy. However, the Directors of Huakai Heavy monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise. The Directors of Huakai Heavy considered the Huakai Heavy Group's exposure to interest rate risk is not material. Hence, no interest rate sensitivity analysis is presented.

Credit risk

The Huakai Heavy Group's maximum exposure to credit risk which will cause a finance loss to the Huakai Heavy Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

The Huakai Heavy Group's credit risk is primarily attributable to its trade and bill receivables, other receivables and amounts due from directors/shareholders/former shareholders..

In order to minimise the credit risk, the Directors of Huakai Heavy have implemented credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of Huakai Heavy review the recoverable amount of each individual debt at the end of each of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors of Huakai Heavy consider that the Huakai Heavy Group's credit risk is significantly reduced.

The credit risk of liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Operational risk

During the years ended 31 December 2013, 2014, 2015 and the ten months ended 31 October 2015 and 2016, the Huakai Heavy Group's exposure to operational risk is primarily attributable to heavy reliance on several major customers located in the PRC. The revenue contributed by these major customers amounted to approximately RMB238,263,000, RMB175,294,000, RMB288,671,000, RMB276,357,000 and RMB108,825,000 which accounted for 93%, 83%, 70%, 85% and 66% of the Huakai Heavy Group's total revenue for the years ended 31 December 2013, 2014, 2015 and the ten months ended 31 October 2015 and 2016 respectively. The Directors of Huakai Heavy Group continue closely monitor the performance and financial position of these major customers to avoid any adverse impact on the Huakai Heavy Group's financial position.

Liquidity risk

In the management of the liquidity risk, the Huakai Heavy Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Huakai Heavy Group's operation and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank facilities and ensures compliance with loan covenants.

At 31 October 2016, the Huakai Heavy Group had net current liabilities of approximately RMB179,084,000. The adoption of going concern basis has been detailed in Note 2 to the Financial Information. In the opinion of the Directors of Huakai Heavy, the Huakai Heavy Group's exposure to liquidity risk is limited.

The following table details the Huakai Heavy Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Huakai Heavy Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate	Repayable on demand or within 1 year	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2013				
Trade, bills and other payables	–	286,596	286,596	286,596
Amounts due to shareholders/former shareholders	–	18,933	18,933	18,933
Amounts due to related parties	–	106,397	106,397	106,397
Borrowings	5.22	237,114	237,114	230,254
		649,040	649,040	642,180
At 31 December 2014				
Trade, bills and other payables	–	200,726	200,726	200,726
Amounts due to shareholders/former shareholders	–	22,455	22,455	22,455
Amounts due to related parties	–	113,980	113,980	113,980
Borrowings	6.57	232,968	232,968	226,986
Financial guarantee	–	13,270	13,270	13,270
		583,399	583,399	577,417
At 31 December 2015				
Trade, bills and other payables	–	152,903	152,903	152,903
Amount due to a director	–	14,129	14,129	14,129
Amounts due to related parties	–	90,596	90,596	90,596
Borrowings	5.52	272,968	272,968	265,951
Financial guarantee	–	26,968	26,968	26,968
		557,564	557,564	550,547
At 31 October 2016				
Trade, bills and other payables	–	137,589	137,589	138,331
Amounts due to related parties	–	18,025	18,025	17,283
Borrowings	10.84	205,610	205,610	204,370
Financial guarantee	–	38,828	38,828	38,828
		400,052	400,052	398,812

At the end of each of the reporting periods, there was no principal amount of the Huakai Heavy Group's bank borrowings with unconditional repayment on demand clause.

(c) Fair value measurements of the financial instruments

This note provides information about how the Huakai Heavy Group determines fair values of financial liabilities.

Fair value of the Huakai Heavy Group's financial liabilities that are measured at fair value on a recurring basis.

Some of the Huakai Heavy Group's financial liabilities are measured at fair value at the end of each of the reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value						
		At 31 December		At 31 October		Valuation	Significant
Fair liabilities	**2013**	**2014**	**2015**	**2016**	**Fair value hierarchy**	**technique(s) and key input(s)**	**unobservable Inputs**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*			
Financial guarantee in the consolidated statements of financial position	Liabilities-approximately –	Liabilities-approximately 13,270	Liabilities-approximately 26,968	Liabilities-approximately 38,828	Level 3	Probabilities of occurrence of default incidents and the potential losses upon the occurrence of such incidents	Default rate, recovery rate and risk-free rate

There were no transfers between Levels 1, 2 and 3 for the Relevant Periods.

	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2013				
Financial liabilities				
Financial guarantee	–	–	–	–
31 December 2014				
Financial liabilities				
Financial guarantee	–	–	13,270	13,270
31 December 2015				
Financial liabilities				
Financial guarantee	–	–	26,968	26,968
31 October 2016				
Financial liabilities				
Financial guarantee	–	–	38,828	38,828

Reconciliation of Level 3 fair value measurements

	Financial Guarantee
	RMB'000
At 1 January 2013, 31 December 2013 and 1 January 2014	–
Fair value change	(13,270)
At 31 December 2014 and 1 January 2015	(13,270)
Fair value change	(13,698)
At 31 December 2015 and 1 January 2016	(26,968)
Fair value change	(11,860)
At 31 October 2016	(38,828)

During the years ended 31 December 2014 and 2015 and ten months ended 31 October 2016, included in the consolidated statement of profit or loss and other comprehensive income of approximately RMB13,270,000, RMB13,698,000 and RMB11,860,000 relates to financial guarantee held at the end of each of the reporting periods.

The fair values of the financial liabilities included in the level 3 categories above have been determined in accordance with generally accepted pricing models with the most significant inputs as mentioned above.

The Directors consider that the carrying amounts of other financial liabilities recorded at amortised cost in the consolidated financial statements approximate their values.

8. Revenue and segment information

Revenue represents turnover arising on manufacturing and selling of fittings for ship, marine equipment, mining equipment, ro-ro equipment and bridge and building steel structure during the reporting periods.

Information reported to the Directors of Huakai Heavy, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Huakai Heavy Group is organised and managed. No operating segments identified by the Directors of Huakai Heavy have been aggregated in arriving at the reportable segment of the Huakai Heavy Group.

Specifically, the Huakai Heavy Group's reportable and operating segment under HKFRS 8 is as follows:

– Steel structure engineering and installation

Since this is the only operating and reportable segment of the Huakai Heavy Group, no further analysis thereof is presented. All the revenue of the Huakai Heavy Group is generated from steel structure engineering and installation during the Relevant Periods.

Revenue from major products and services

The following is analysis of the Huakai Heavy Group's revenue from its major products and services:

	Year ended 31 December			Ten months ended 31 October	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Steel structure project	199,454	182,413	231,544	127,577	85,190
Shipbuilding project	56,931	29,232	200,421	198,543	81,586
Bridge project	–	–	4,359	–	27,713
	256,385	211,645	436,324	326,120	194,489

Geographical information

The Huakai Heavy Group's operations are located in the PRC and Northern Europe.

Information about the Huakai Heavy Group's revenue from external customers is presented based on the geographical location of customers.

	Year ended 31 December			Ten months ended 31 October	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue from external customers					
The PRC	162,061	117,158	325,695	231,001	178,482
Northern Europe	94,324	94,487	110,629	95,119	16,007
	256,385	211,645	436,324	326,120	194,489

All the Huakai Heavy Group's non-current assets (excluded financial instruments) are located in the PRC.

Information about major customers

Revenue from customers of each of the Relevant Periods contributing over 10% of the total revenue of the Huakai Heavy Group is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A[1]	94,324	90,260	100,780	95,119	N/A*
Customer B[1]	65,372	56,072	N/A*	N/A*	N/A*
Customer C[3]	–	–	N/A*	N/A*	27,713
Customer D[1]	26,891	N/A*	–	–	–
Customer E[1]	–	28,962	N/A*	N/A*	N/A*
Customer F[2]	51,676	N/A*	187,891	181,238	81,112

[1] *Revenue from steel structure project*

[2] *Revenue from shipping project*

[3] *Revenue from bridge project*

* *The corresponding revenue did not contribute over 10% of the total revenue of the Huakai Heavy Group.*

9. Other income

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of scrap materials	949	454	850	568	–
Consultancy income, net	–	–	1,417	1,180	–
Interests on bank deposits	3,252	3,923	1,028	1,028	261
Gain on disposal of property, plant and equipment	–	22	–	–	–
Dividends income from AFS investment	–	–	–	–	550
Others	36	200	915	656	828
	4,237	4,599	4,210	3,432	1,639

10. Other gains and losses

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Compensation for land acquisition	–	–	(1,602)	–	(846)
Written-off of inventories	(2,868)	(59)	(609)	(609)	–
Written-off of property, plant and equipment	–	–	(485)	(458)	(85)
Foreign exchange gain (loss)	216	160	(4,034)	(1,714)	(543)
Others	(239)	(518)	(240)	(238)	(96)
	(2,891)	(417)	(6,970)	(3,019)	(1,570)

11. Finance costs

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interests on bank borrowings	14,858	15,041	13,974	11,562	9,455
Interests on bills payables	1,663	2,780	626	626	651
Interests on other borrowings	5,203	975	–	–	2,525
Fund management fee incurred in connection with borrowings	1,441	2,001	1,620	1,490	63
	23,165	20,797	16,220	13,678	12,694

12. Income tax expense

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Deferred tax *(Note 28)*	838	(3,044)	(3,090)	93	(2,943)

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The income tax expense for the Relevant Periods can be reconciled to the (loss) profit before income tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss) profit before tax	(51,893)	(69,274)	8,883	(6,542)	20,138
Tax at the domestic income tax rate of 25% *(Note a)*	(12,973)	(17,318)	2,221	(1,636)	5,035
Tax effect of tax concessions *(Note b)*	–	–	(1,067)	–	(1,285)
Tax effect of expenses not deductible for tax purpose	855	340	858	104	233
Tax effect of income not taxable for tax purpose	–	–	–	–	(5,560)
Tax effect of tax losses not recognised	12,956	13,934	899	1,625	386
Utilisation of tax losses previously not recognised	–	–	(6,001)	–	(1,752)
Income tax expense	838	(3,044)	(3,090)	93	(2,943)

Note a: The domestic tax rate (which is the PRC EIT rate) represents the tax rate used in the jurisdiction where the operation of the Huakai Heavy Group is substantially based.

Note b: The income tax is calculated at the prevailing PRC tax rates on the estimated assessable profits for the Relevant Periods. The relevant government authorities issued the High and New Technology Enterprise certificate to Huakai Heavy on 10 October 2015 and the certificate was valid for three years from date of issue. It is subject to a preferential rate of 15%.

At 31 December 2013, 2014, 2015 and 31 October 2016, the Huakai Heavy Group had unused tax losses of RMB84,457,000, RMB140,192,000, RMB115,518,000 and RMB104,914,000 respectively available for offset against future profits. No deferred tax assets attributable to tax losses of the Huakai Heavy Group have been recognised for the Relevant Periods due to unpredictability of future profits streams.

13. (Loss) profit for the year/period

	Year ended 31 December			Ten months ended 31 October	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss) profit for the year/period has been arrived at after charging:					
Directors' and chief executive's remuneration *(Note 14)*					
Salaries and other benefits	203	149	92	74	137
Contributions to retirement benefits scheme	–	–	6	3	2
	203	149	98	77	139
Other staff costs:					
Salaries and other benefits	33,898	57,860	61,462	56,830	30,444
Contributions to retirement benefits scheme	8,425	8,717	9,105	7,552	5,879
Other staff costs	42,323	66,577	70,567	64,382	36,323
Total staff costs	42,526	66,726	70,665	64,459	36,462
Auditor's remuneration					
– Audit service	25	176	49	39	50
Depreciation of property, plant and equipment *(Note a)*	14,914	14,493	15,424	12,424	16,529
Amortisation of prepaid lease payments	971	971	971	809	452
Impairment loss recognised in respect of trade receivables	245	803	–	–	–
Impairment loss recognised in respect of other receivables	240	230	247	247	–
Cost of inventories recognised as expenses	126,874	95,833	217,963	177,602	68,392

Note a: Included in depreciation of property, plant and equipment, approximately RMB12,595,000, RMB12,251,000, RMB12,666,000, RMB10,555,000 and RMB15,582,000 are recognised in cost of sales for the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2015 and 2016, respectively.

14. Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the Relevant Periods are as follows:

	Year ended 31 December						Ten months ended 31 October			
	2013		2014		2015		2015		2016	
	Salaries and other benefits *RMB'000*	Contributions to retirement benefits scheme *RMB'000*	Salaries and other benefits *RMB'000*	Contributions to retirement benefits scheme *RMB'000*	Salaries and other benefits *RMB'000*	Contributions to retirement benefits scheme *RMB'000*	Salaries and other benefits *RMB'000* (unaudited)	Contributions to retirement benefits scheme *RMB'000* (unaudited)	Salaries and other benefits *RMB'000*	Contributions to retirement benefits scheme *RMB'000*
Executive Directors:										
Mr. Qin Li Ming *(Note a)*	203	–	129	–	–	–	–	–	–	–
Mr. Zhu Hong Bin *(Note b)*	–	–	20	–	92	6	74	3	64	2
Mr. Ma Zhenqiang *(Note c)*	–	–	–	–	–	–	–	–	73	–
	203	–	149	–	92	6	74	3	137	2

Notes:

(a) Mr. Qin Li Ming was appointed as the executive director with effect from 12 April 2007 and resigned with effect from 10 August 2014.

(b) Mr. Zhu Hong Bin was appointed as the executive director with effect from 11 August 2014.

(c) Mr. Ma Zhenqiang was appointed as the executive director with effect from 3 June 2016.

During the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2015 and 2016, no emoluments were paid by the Huakai Heavy Group to any of the directors of Huakai Heavy as an inducement to join or upon joining the Huakai Heavy Group or as compensation for loss of office.

The directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Huakai Heavy Group. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

Apart from the directors, the Huakai Heavy Group has not classified any other persons as chief executives during the Relevant Periods.

15. Five highest paid employees

The five highest paid employees of Huakai Heavy Group during the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2015 and 2016 included 1, 1, 0, 0 and 1 director of Huakai Heavy, respectively, detail of whose remuneration are set out in Note 14 to the Financial Information above. Details of the remuneration for the remaining 4, 4, 5, 5 and 4 highest paid employees who are neither a director or a chief executive of Huakai Heavy Group, for the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2015 and 2016, respectively, are as follows:

	Year ended 31 December			Ten months ended 31 October	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	1,093	658	676	564	355
Contributions to retirement benefits scheme	10	20	11	9	9
	1,103	678	687	573	364

16. Property, plant and equipment

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2013	94,637	3,160	4,040	60,740	19,510	182,087
Additions	–	–	–	3,448	3,165	6,613
Transfer	3,307	–	–	1,255	(4,562)	–
Disposal	–	–	(263)	–	–	(263)
At 31 December 2013	97,944	3,160	3,777	65,443	18,113	188,437
Additions	–	21	2,278	1,366	1,954	5,619
Transfer	6,951	–	–	1,085	(8,036)	–
Disposal	–	–	(1,500)	–	–	(1,500)
At 31 December 2014	104,895	3,181	4,555	67,894	12,031	192,556
Additions	–	82	2,823	34,055	24,004	60,964
Transfer	–	–	–	9,474	(9,474)	–
Written-off	–	–	–	(2,032)	–	(2,032)
At 31 December 2015	104,895	3,263	7,378	109,391	26,561	251,488
Additions	9,615	30	259	34,372	24,772	69,048
Transfer	28,647	–	–	145	(28,792)	–
Disposal of subsidiaries	(3,307)	(66)	(831)	(17,350)	(17,215)	(38,769)
Written-off	–	–	–	(1,586)	–	(1,586)
At 31 October 2016	139,850	3,227	6,806	124,972	5,326	280,181
ACCUMULATED DEPRECIATION						
At 1 January 2013	21,936	1,902	2,260	20,765	–	46,863
Provided for the year	6,175	497	664	7,578	–	14,914
Eliminated on disposal	–	–	(138)	–	–	(138)
At 31 December 2013	28,111	2,399	2,786	28,343	–	61,639
Provided for the year	6,175	345	420	7,553	–	14,493
Eliminated on disposal	–	–	(721)	–	–	(721)
At 31 December 2014	34,286	2,744	2,485	35,896	–	75,411
Provided for the year	6,497	317	939	7,671	–	15,424
Written-off	–	–	–	(1,547)	–	(1,547)
At 31 December 2015	40,783	3,061	3,424	42,020	–	89,288
Provided for the period	6,062	175	1,066	9,226	–	16,529
Disposal of subsidiaries	(405)	(64)	(392)	(3,264)	–	(4,125)
Written-off	–	–	–	(1,501)	–	(1,501)
At 31 October 2016	46,440	3,172	4,098	46,481	–	100,191
CARRYING VALUES						
At 31 December 2013	69,833	761	991	37,100	18,113	126,798
At 31 December 2014	70,609	437	2,070	31,998	12,031	117,145
At 31 December 2015	64,112	202	3,954	67,371	26,561	162,200
At 31 October 2016	93,410	55	2,708	78,491	5,326	179,990

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each of reporting periods.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 5%
Furniture and fixtures	20%
Motor vehicles	12.5%
Plant and machinery	5% – 20%

At the end of each of the Relevant Periods, the Huakai Heavy Group had pledged certain buildings and construction in progress to various banks to secure the Huakai Heavy Group's borrowings as details in Notes 24 and 26 to the Financial Information.

At the end of each of the Relevant Periods, the Huakai Heavy Group had pledged certain buildings to two independent third parties to secure the corporate guarantees provided in favour of a related company, 華泰重工(南通)有限公司 (transliterated as Huatai Heavy Industry (Nantong) Company Limited*) ("Huatai Industry") as details in Note 26 to the Financial Information.

Applications for property ownership certificates of certain buildings of the Huakai Heavy Group were still in progress and these property ownership certificates had not been issued to the Huakai Heavy Group by the relevant government authorities at 31 October 2016. The aggregate carrying amounts of those buildings at the end of each of the Relevant Periods are as follow:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aggregate carrying amount	31,633	34,859	30,821	42,019

The Directors of Huakai Heavy are of the opinion that the Huakai Heavy Group has acquired the beneficial title to those buildings at the end of each of the Relevant Periods, and the property ownership certificates can be obtained in the near future.

* *For identification purposes only*

17. Prepaid lease payments

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leasehold land in the PRC				
At 1 January	34,384	33,413	32,442	31,471
Amortisation	(971)	(971)	(971)	(452)
Derecognised on disposal of subsidiaries	–	–	–	(12,466)
At 31 December	33,413	32,442	31,471	18,553
Analysed for reporting purposes as:				
Non-current asset	32,442	31,471	30,500	18,119
Current asset	971	971	971	434
	33,413	32,442	31,471	18,553

At the end of each of the Relevant Periods, the Huakai Heavy Group had pledged certain prepaid lease payments to various banks to secure the Huakai Heavy Group's borrowings as details in Notes 24 and 26 to the Financial Information.

At the end of each of the Relevant Periods, the Huakai Heavy Group had pledged certain prepaid lease payments to two independent third parties to secure the corporate guarantees provided in favour of a related company, Huatai Heavy Industry, as details in Note 26 to the Financial Information.

Application for land use right certificates of certain prepaid lease payments of the Huakai Heavy Group were still in progress and these land use right certificates had not been issued to the Huakai Heavy Group by the relevant government authorities at 31 October 2016. The aggregate carrying amounts of those prepaid lease payments at the end of each of the Relevant Periods are as follow:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aggregate carrying amount	4,163	4,073	3,984	3,909

The Directors of Huakai Heavy are of the opinion that the Huakai Heavy Group has acquired the beneficial title to those buildings at the end of each of the Relevant Periods, and the prepaid lease payments can be obtained in the near future.

18. Available-for-sale investment

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity securities	–	–	13,000	13,000

The above unlisted equity investment represents 0.77% equity interest in a private commercial bank in the PRC.

The investment in the unlisted equity securities is measured at cost less accumulated impairment at the end of each of the Relevant Periods because they do not have a quoted market price and the range of reasonable fair value estimates is so significant that the Directors of Huakai Heavy are of the opinion that their fair values cannot be measured reliably.

19. Inventories

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	16,311	42,453	45,133	17,996
Work in progress	107,215	79,486	81,762	65,007
	123,526	121,939	126,895	83,003

At 31 December 2015, the Huakai Heavy Group had pledged certain inventories to various banks to secure the Huakai Heavy Group's borrowings as details in Notes 24 and 26 to the Financial Information.

20. Trade and bill receivables/other receivables/prepayment for purchase of raw materials

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	57,618	51,301	59,552	30,314
Less: Allowance for doubtful debts	(2,773)	(3,576)	(3,576)	(3,301)
Trade receivables, net	54,845	47,725	55,976	27,013
Bill receivables	250	2,400	20	–
Total trade and bill receivables, net of allowance for doubtful debts	55,095	50,125	55,996	27,013
Other receivables *(note a)*	32,669	17,149	36,537	8,637
Less: Allowance for doubtful debts	(3,611)	(3,841)	(4,088)	(3,500)
Other receivables, net	29,058	13,308	32,449	5,137
Deposit paid for the construction *(Note b)*	–	–	–	13,500
Guaranteed deposit *(Note c)*	–	–	–	30,000
Value-added tax recoverable	2	6,410	4,186	195
Total other receivables, net	29,060	19,718	36,635	48,832
Prepayment for purchase of raw materials	7,778	4,850	13,457	12,861

Notes:

(a) Included in the Huakai Heavy Group's other receivables, amounts of approximately RMB3,053,000, RMB11,125,000, RMB9,181,000 and RMB2,987,000 as at 31 December 2013, 2014, 2015 and 31 October 2016, respectively, represented the staff advances which are unsecured, interest-free and have no fixed terms of repayment.

(b) It represented the deposit paid for the construction of steel girder bridge as at 31 October 2016.

(c) It represented the guarantee deposit for the Huakai Heavy Group's bills payables as required by the bank as at 31 October 2016.

The Huakai Heavy Group generally allows credit period of 30 days to its customers.

The aged analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the delivery date which approximated the respective dates on which revenue was recognised at the end of each of the Relevant Periods:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 30 days	4,721	9,779	18,479	6,997
31 – 60 days	9,449	8,986	5,075	439
61 – 90 days	2,720	113	3,823	500
Over 90 days	38,205	31,247	28,619	19,077
	55,095	50,125	55,996	27,013

At the end of each of the reporting periods, the Huakai Heavy Group's trade and bill receivables and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default payments, and current market conditions. The Huakai Heavy Group does not hold any collateral for all of its trade receivables as at the reporting date.

Ageing of trade and bill receivables which are past due but not impaired:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 30 days	9,449	8,986	5,075	439
31 – 60 days	2,720	113	3,823	500
Over 60 days	38,205	31,247	28,619	19,077
	50,374	40,346	37,517	20,016

At the end of each of the Relevant Periods, the Directors of Huakai Heavy considered that no further impairment is necessary as there have not been a significant change in credit quality attributed to the customer and the balances are still considered fully recoverable.

Movement in the allowance for doubtful debts for trade receivables:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	2,528	2,773	3,576	3,576
Impairment loss recognised	245	803	–	–
Disposal of subsidiaries	–	–	–	(275)
At end of the year/period	2,773	3,576	3,576	3,301

Movement in the allowance for doubtful debts for other receivables:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	3,371	3,611	3,841	4,088
Impairment loss recognised	240	230	247	–
Disposal of subsidiaries	–	–	–	(588)
At end of the year/period	3,611	3,841	4,088	3,500

Included in trade and bill receivables, are the following amounts denominated in a currency other than the functional currency of the Huakai Heavy Group:

	At 31 December			At 31 October
	2013	2014	2015	2016
	'000	*'000*	*'000*	*'000*
USD	2,302	697	227	777

At 31 December 2013, 2014 and 2015, the Huakai Heavy Group had pledged certain trade receivables to a bank to secure the Huakai Heavy Group's borrowings as details in Notes 24 and 26 to the Financial Information.

21. Amount(s) due from (to) directors/shareholders/former shareholders/related parties

The amount(s) due from (to) directors/shareholders/former shareholders/related parties are unsecured, interest free and repayable on demand.

Particulars of amount(s) due from (to) directors/shareholders/former shareholders/related parties are disclosed as follows:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from directors				
Mr. Zhu Hong Bin *(Note a)*	–	12,013	–	–
Mr. Ma Zhenqiang *(Note i)*	–	–	–	50
	–	12,013	–	50
Amount due to a director				
Mr. Zhu Hong Bin *(Note a)*	–	–	(14,129)	–
Amounts due from shareholders/former shareholders				
Mr. Cao De Hua *(Note b)*	28	28	–	–
Xianglong Shipping *(Note d)*	–	13	22,289	–
Xinda Shipping *(Note d)*	–	–	–	23,600
	28	41	22,289	23,600
Amounts due to shareholders/former shareholders				
Mr. Qin Li Ming *(Note e)*	(14,477)	(20,703)	–	–
Mr. Yan Xiang *(Note f)*	(4,450)	(1,740)	–	–
Mr. Zhou Ya Jun *(Note g)*	(6)	(12)	–	–
	(18,933)	(22,455)	–	–

	At 31 December 2013	2014	2015	At 31 October 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Huatai Heavy Industry *(Notes a, e-g)*	114,933	–	–	31,896
華泰(南通)船務有限公司 (transliterated as Huatai (Nantong) Shipping Company Limited*) ("Huatai Shipping") *(Notes a, e-g)*	46,614	5,360	–	–
上海真迪豪實業有限公司 (transliterated as Shanghai Zhen Dihao Industrial Company Limited*) ("Shanghai Zhen Dihao") *(Note b)*	4,500	4,500	–	–
Jiangxi Topsky International Trading Co., Ltd *(Note c)*	–	10,533	–	–
南通江海恒達船務設備有限公司 (transliterated as Nantong Jianghai Hengda Shipping Equipment Co., Ltd*) ("Jianghai Hengda") *(Note e)*	–	584	–	–
Ms. Qin Li *(Note e)*	73	73	–	–
	166,120	21,050	–	31,896
Amounts due to related parties				
Mr. Zhu Hong Bin *(Note a)*	–	–	–	(5,634)
Huatai Heavy Industry *(Notes a, e-g)*	–	(53,334)	(65,761)	–
Huatai Shipping *(Notes a, e-g)*	–	–	(15,186)	–
Jiangxi Topsky International Trading Co., Ltd *(Note c)*	–	–	(649)	(649)
上海向隆投資管理有限公司 (transliterated as Shanghai Xianglong Investment Management Co., Ltd*) ("Shanghai Xianglong") *(Note c)*	–	(40,000)	–	–
南通華源置業有限公司 (transliterated as Nantong Huayuan Real Estate Co., Ltd*) ("Nantong Huayuan") *(Note e)*	(11,663)	(11,657)	–	–
南通江海船舶配件廠 (transliterated as Nantong Jianghai Shipping Accessories Factory*) ("Jianghai Shipping") *(Note e)*	(9,066)	(7,066)	–	–
Jianghai Hengda *(Note e)*	(6,294)	–	–	–
南通江海恒發船舶設備有限公司 (transliterated as Nantong Jianghai Hengfa Shipping Equipment Co., Ltd*) ("Jianghai Hengfa") *(Note e)*	(72,769)	(1,923)	–	–
Mr. Zhu Yun Fei *(Note e)*	(6,605)	–	–	–
遼寧北方傳媒廣告有限公司 (transliterated as Liaoning North Media Advertising Co., Ltd*) ("Liaoning North Media") *(Note h)*	–	–	(9,000)	(11,000)
	(106,397)	(113,980)	(90,596)	(17,283)

* *For identification purposes only*

Maximum amount(s) outstanding due from directors/shareholders/former shareholders/related parties during the end of each of the Relevant Periods are as follows:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from directors				
Mr. Zhu Hong Bin *(Note a)*	–	12,359	12,013	–
Mr. Ma Zhenqiang *(Note i)*	–	–	–	50
Amounts due from shareholders/ former shareholders				
Mr. Cao De Hua *(Note b)*	28	28	28	–
Mr. Xu Xiao Yu *(Note c)*	–	1,535	120	–
Xianglong Shipping *(Note d)*	–	13	22,289	51,640
Xinda Shipping *(Note d)*	–	–	–	23,600
Amounts due from related parties				
Huatai Heavy Industry *(Notes a, e-g)*	114,933	114,933	–	42,162
Huatai Shipping *(Notes a, e-g)*	46,614	46,614	–	–
Shanghai Zhen Dihao *(Note b)*	4,500	4,500	4,500	–
Jiangxi Topsky International Trading Co., Ltd *(Note c)*	–	10,533	10,533	–
Jianghai Hengda *(Note e)*	6,050	6,050	584	–
Ms. Qin Li *(Note e)*	1,150	73	73	–

Notes:

(a) Mr. Zhu Hong Bin is the director of Huakai Heavy, Huatai Heavy Industry and Huatai Shipping since 11 August 2014.

(b) Mr. Cao De Hua was the shareholder of Huakai Heavy and is also the director of Shanghai Zhen Dihao, Huatai Heavy Industry and Huatai Shipping. On 10 August 2014, he disposed of his entire shareholding in Huakai Heavy and ceased to be the shareholder of Huakai Heavy thereafter.

(c) Mr. Xu Xiao Yu was the shareholder of Huakai Heavy since 11 August 2014. He is also a shareholder of Jiangxi Topsky International Trading Co., Ltd and director of Shanghai Xianglong. On 28 October 2015, he disposed of his entire shareholding in Huakai Heavy and ceased to be the shareholder of Huakai Heavy thereafter.

(d) Xianglong Shipping is the shareholder of Huakai Heavy since 1 September 2014. On 3 June 2016, Xinglong Shipping disposed of the entire shareholding of Huakai Heavy to Xinda Shipping and ceased to be the shareholder of Huakai Heavy thereafter. Xinda Shipping became the shareholder of Huakai Heavy since 3 June 2016.

(e) Mr. Qin Li Ming was the shareholder of Huakai Heavy and is also the director of Nantong Huayuan, Jianghai Shipping, Jianghai Hengda, Jianghai Hengfa, Huatai Heavy Industry and Huatai Shipping. He and Ms. Qin Li are close family member of Mr. Zhu Yun Fei, former shareholders of Huakai Heavy. On 10 August 2014, he disposed of his entire shareholding in Huakai Heavy and ceased to be the shareholder of Huakai Heavy thereafter.

(f) Mr. Yan Xiang was the shareholder of Huakai Heavy and is the director of Huatai Heavy Industry and Huatai Shipping. On 10 August 2014, he disposed of his entire shareholding in Huakai Heavy and ceased to be the shareholder of Huakai Heavy thereafter.

(g) Mr. Zhou Ya Jun was the shareholder of Huakai Heavy and is the director of Huatai Heavy Industry and Huatai Shipping. On 10 August 2014, he disposed of his entire shareholding in Huakai Heavy and ceased to be the shareholder of Huakai Heavy thereafter.

(h) Mr. Huo Qi is the shareholder of Huakai Heavy since 29 October 2015 and is also the shareholder of Liaoning North Media.

(i) Mr. Ma Zhenqiang was appointed as the executive director of Huakai Heavy with effect from 3 June 2016.

22. Pledged bank deposits/bank balances and cash

The bank balances carry interest rates as follows:

		At 31 December		At 31 October
	2013	**2014**	**2015**	**2016**
Range of interest rate per annum	0.01%-0.35%	0.01%-0.35%	0.01%-0.35%	0.01%-0.35%

The pledged bank deposits were pledged for secured bills payables and bank borrowings as required by the relevant banks (Note 26) and carry fixed interest rates as follows:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
Range of interest rate per annum	0.35%-3%	0.35%-2.75%	0.35%-2.5%	0.35%-1.90%

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the Huakai Heavy Group:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	'000	*'000*	*'000*	*'000*
USD	340	1,443	16	286
EUR	2	2	2	2

23. Trade, bills and other payables/receipts in advances

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note)*	76,791	74,851	75,760	54,832
Bills payables *(Note)*	167,700	91,500	2,000	45,000
	244,491	166,351	77,760	99,832
Accrual of salaries	11,847	17,371	26,125	25,001
Other payables and accruals	30,258	17,004	49,018	13,498
	286,596	200,726	152,903	138,331
Receipts in advances	53,329	25,501	20,260	23,724

Notes:

The following is an aged analysis of trade and bills payables presented based on invoice date or issue date of bills payables, respectively, at the end of each of the reporting periods:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 30 days	20,986	50,296	24,467	4,547
31 – 60 days	88,086	43,071	5,588	6,652
61 – 90 days	14,131	4,108	3,991	8,416
91 – 180 days	81,936	48,550	10,857	16,991
Over 180 days	39,352	20,326	32,857	63,226
	244,491	166,351	77,760	99,832

During the Relevant Periods, the credit period on trade and bills payables range from 90 – 180 days. The Huakai Heavy Group has financial risk management policies in place to ensure that all payables are settled within the credit timetable.

At the end of each of the Relevant Periods, bills payables are secured by pledged bank deposits as details in Notes 22 and 26 to the Financial Information.

At 30 October 2016, certain bills payables are secured by a guarantee deposit as details in Note 20 to the Financial Information.

24. Borrowings

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Repayable on demand or within one year:				
Bank borrowings	230,254	226,986	265,951	164,800
Other borrowings	–	–	–	39,570
	230,254	226,986	265,951	204,370
Secured	93,400	128,867	149,881	57,800
Unsecured	136,854	98,119	116,070	146,570
	230,254	226,986	265,951	204,370

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Huakai Heavy Group's borrowings are as follows:

	At 31 December			At 31 October
	2013	2014	2015	2016
Fixed-rate borrowings (bank and other borrowings)	2.19%-7.28%	1.03%-9.60%	2.35%-8.03%	4.35%-90.00%

At the end of each of the Relevant Periods, the Huakai Heavy Group has pledged certain trade receivables, buildings, prepaid lease payments, inventories and pledged bank deposits as details in Note 26 to the Financial Information to secure the general banking facilities of the Huakai Heavy Group.

At the end of each of the Relevant Periods, various banks in the PRC provided general banking facilities to the Huakai Heavy Group which were guaranteed by the related parties as follow:

Name of the related party	Relationship	Guaranteed amounts			
		At 31 December			At 31 October
		2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Zhu Hong Bin	Director *(Note 21(a))*	–	43,398	71,568	62,000
Mr. Cao De Hua	Former shareholder *(Note 21(b))*	6,118	–	–	–
Mr. Qin Li Ming	Former shareholder *(Note 21(e))*	87,228	48,500	–	–
Mr. Yan Xiang	Former shareholder *(Note 21(f))*	37,228	17,000	–	–
Mr. Zhou Ya Jun	Former shareholder *(Note 21(g))*	37,228	17,000	–	–
Ms. Qin Li	Close family member of a former shareholder	15,000	–	–	–
Huatai Heavy Industry	Related party *(Note 21 (a, e-g))*	–	–	13,000	25,000
Mr. Huo Qi	Shareholder *(Note 21(h))*	–	–	–	35,000

At 31 October 2016, other borrowings of RMB10,441,000 were guaranteed by Mr. Zhu Hong Bin and Mr. Huo Qi, the director and the shareholder of Huakai Heavy, respectively.

At 31 October 2016, other borrowings of RMB2,378,000 were guaranteed by Mr. Zhu Hong Bin, the director of Huakai Heavy.

At 31 October 2016, other borrowings of RMB26,750,000 were borrowed from Liaoning North Media and guaranteed by Mr. Zhu Hong Bin, the director of Huakai Heavy.

25. Registered capital

	RMB'000
Registered and paid up capital:	
At 1 January 2013, 31 December 2013, 2014 and 2015	50,000
Addition *(Note)*	100,000
At 31 October 2016	150,000

Note: On 1 March 2016, the shareholders contributed RMB100,000,000 as additional paid up capital of Huakai Heavy.

26. Pledge of assets

a) At the end of each of the Relevant Periods, the following assets were pledged for the Huakai Heavy Group's general bank facilities:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings *(Note 16)*	35,866	33,569	31,264	28,592
Construction in progress *(Note 16)*	10,077	12,031	17,102	–
Prepaid lease payments *(Note 17)*	28,847	27,649	26,756	13,929
Inventories *(Note 19)*	–	–	20,229	–
Trade receivables *(Note 20)*	39,074	33,264	19,081	–
Pledged bank deposits *(Note 22)*	95,517	57,452	19,463	15,226
	209,381	163,965	133,895	57,747

b) At the end of each of the Relevant Periods, the following assets were pledged to two independent third parties to secure the corporate guarantees provided in favour of a related company, Huatai Heavy Industry as follow:

	At 31 December			At 31 October
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings *(Note 16)*	37,478	35,027	32,566	31,348
Prepaid lease payments *(Note 17)*	15,686	15,305	14,931	14,763
	53,164	50,332	47,497	46,111

27. Capital commitments

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	6,613	5,619	60,964	69,048

28. Deferred tax

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December			At 31 October
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	–	3,317	6,742	9,707
Deferred tax liabilities	(838)	(1,111)	(1,446)	(1,468)
	(838)	2,206	5,296	8,239

The followings are the deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Financial guarantees	Provision	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	–	–	–
(Debit) to profit or loss *(Note 12)*	–	(838)	(838)
At 31 December 2013 and 1 January 2014	–	(838)	(838)
Credit (debit) to profit or loss *(Note 12)*	3,317	(273)	3,044
At 31 December 2014 and 1 January 2015	3,317	(1,111)	2,206
Credit (debit) to profit or loss *(Note 12)*	3,425	(335)	3,090
At 31 December 2015 and 1 January 2016	6,742	(1,446)	5,296
Credit (debit) to profit or loss *(Note 12)*	2,965	(22)	2,943
At 31 October 2016	9,707	(1,468)	8,239

29. Disposal of subsidiaries

On 24 March 2016, the Huakai Heavy Group completed the disposal of its entire equity interests of 南通華凱能源科技開發有限公司 (transliterated as Nantong Huakai Energy Technology Development Co., Ltd.*) ("Huakai Energy") and 南通禾佳鋼構有限公司 (transliterated as Nantong Hejia Steel Structure Co., Ltd.*) ("Hejia Steel Structure") to Xianglong Shipping at considerations of RMB20,820,000 and RMB5,000,000, respectively.

	Huakai Energy	Hejia Steel Structure	Total
	RMB'000	*RMB'000*	*RMB'000*
Analysis of assets and liabilities over which control was lost:			
Property, plant and equipment	30,263	4,381	34,644
Prepaid lease payments	12,466	–	12,466
Inventories	40	–	40
Other receivables and prepayments	647	14,530	15,177
Amount due from holding company	125	–	125
Amount due from a fellow subsidiary	–	1,267	1,267
Amount due from related parties	215,863	28,923	244,786
Pledged bank deposit	5,000	–	5,000
Bank balances and cash	6,131	–	6,131
Trade and other payables	(4,115)	(13,628)	(17,743)
Amount due to a fellow subsidiary	(1,267)	–	(1,267)
Amounts due to related parties	(216,474)	(33,433)	(249,907)
Amount due to a director	(6,138)	–	(6,138)
Bank borrowings	(41,000)	–	(41,000)
Net assets disposed of	1,541	2,040	3,581
Gain on disposal	19,279	2,960	22,239
Total consideration	20,820	5,000	25,820

* *For identification purposes only*

	Huakai Energy *RMB'000*	Hejia Steel Structure *RMB'000*	Total *RMB'000*
Net cash outflow on disposal of subsidiaries:			
Consideration received in cash and cash equivalents	20,820	5,000	25,820
Less: bank balances and cash disposed of	6,131	–	6,131
	14,689	5,000	19,689

30. Litigations and contingent liabilities

On 20 March 2014 and 18 April 2014, the Huakai Heavy Group provided two corporate guarantees (the "Guarantee Agreement") to a vessel agency company (the "Vessel Agency Company") in favour of a related company, Huatai Heavy Industry, to the extent of USD22,520,000. Due to the failure of a ship owner to fulfill its payment obligation under the relevant shipbuilding contracts, Huatai Heavy Industry had cancelled the export and import co-operation agreements with the Vessel Agency Company. Pursuant to the terms of the export and import co-operation agreements, Huatai Heavy Industry was liable to settle the prepaid amount paid by the Vessel Agency Company approximately of RMB85.93 million (the "Prepaid Amount"). On 8 July 2016, since Huatai Heavy Industry was unable to repay the said Prepaid Amount to the Vessel Agency Company and the Vessel Agency Company had enforced the Guarantee Agreement to recover the outstanding Prepaid Amount from the Huakai Heavy Group. As such, certain assets of Huakai Heavy and 100% equity interest of 南通方正海洋工程科技有限公司 (transliterated as Nantong Fangzheng Ocean Engineering Technology Company Limited*) ("Fangzheng Ocean") and 南通華凱船舶塗裝有限公司 (transliterated as Nantong Huakai Ship Painting Company Limited*) ("Chuanbo Tu Zhuang") held by Huakai Heavy had been frozen by the maritime court of Xiamen (廈門海事法院). On 9 October 2016, Huatai Heavy Industry received a civil mediation agreement (民事調解書)(the "Civil Mediation Agreement") issued by the maritime court of Xiamen, which acknowledged the settlement agreement entered into between Huatai Heavy Industry and the Vessel Agency Company regarding the settlement plan (the "Settlement Plan") towards the outstanding Prepaid Amount pursuant to which the outstanding Prepaid Amount shall be settled by nine installments.

Pursuant to the Civil Mediation Agreement, the Vessel Agency Company agreed to (i) discharge the property preservation measures imposed on the assets of Huakai Heavy by Vessel Agency Company upon settlement of the 1st installment; (ii) discharge the property preservation measures imposed on the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang held by Huakai Heavy upon settlement of 2nd installment to 4th installment. Up to the date of this report, Huatai Heavy Industry has settled the 1st installment and 2nd installment in accordance with the Settlement Plan but has not settled the 3rd installment and the 4th installment accordance with the Settlement Plan. Therefore, the 100% equity interest of Fangzheng Ocean and Chuanbo Tu Zhuang remain frozen up to the date of this report.

31. Financial guarantee

As at 31 December 2014, 2015 and 31 October 2016, the Huakai Heavy Group provided several corporate guarantees to two independent third parties in favour of a related company, Huatai Heavy Industry, to the extent of USD67,560,000 (equivalent to approximately RMB419,872,000). The financial guarantee contracts were measured at their fair values by an independent valuer, Roma Appraisals Limited using present values techniques in accordance with HKFRS 13 Fair Value Measurement ("HKFRS 13"). At 31 December 2014, 2015 and 31 October 2016, approximately RMB13,270,000, RMB26,968,000 and RMB38,828,000 has been accounted for as financial liability, respectively.

In accordance with HKFRS 13, the financial guarantee contracts are both initially and subsequently recognised at fair value. Accordingly, in respect of the financial guarantee contracts, a change in fair value of the financial guarantee of approximately RMB13,270,000, RMB13,698,000 and RMB11,860,000 was credited to the profit or loss for the year ended 31 December 2014 and 2015 and ten months ended 31 October 2016, respectively.

32. Related party transactions

(a) Save as disclosed elsewhere in the Financial Information, the Huakai Heavy Group had the following significant transactions with its related parties during the reporting periods.

Transaction	Company	Relationship	Year ended 31 December			Ten months ended 31 October	
			2013	2014	2015	2015	2016
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interests expense on other borrowings	Huatai Shipping	Related party *(Note 21(a, e-g))*	352	562	–	–	–
Interests expense on other borrowings	Jianghai Hengfa	Related party *(Note 21(e))*	3,819	413	–	–	–
Purchase of raw material	Jiangxi Topsky International Trading Co., Ltd	Related party *(Note 21(c))*	–	11,100	–	–	–
Revenue	Huatai Heavy Industry	Related party *(Note 21(a, e-g))*	51,676	6,996	206,810	181,238	81,112
Consultancy income	Huatai Heavy Industry	Related party *(Note 21(a, e-g))*	–	–	9,283	7,736	5,642

(b) Compensation of key management personnel, being the remuneration of directors during the Relevant Periods has been disclosed in Note 14 to the Financial Information.

(c) The Directors are of the view that the terms of the above related party transactions are fair and reasonable, based on normal commercial terms where no charge over the assets of the Group is created in respect of the above transactions

33. Events after the end of the relevant periods

There is no significant event after the end of the Relevant Periods.

34. Subsequent financial statements

No audited consolidated financial statements of the Huakai Heavy Group have been prepared in respect of any period subsequent to 31 October 2016 and up to the date of this report.

Yours faithfully,

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Suites 313-316, 3/F
Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA INFORMATION

The Board of Directors
China Ocean Industry Group Limited
Units 1702-03
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs/Madam,

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of China Ocean Industry Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016 and, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015 and related notes of the Group and 南通華凱重工有限公司 (transliterated as Nantong Huakai Heavy Industry Company Limited) ("Huakai Heavy") and its subsidiaries (hereinafter collectively referred to as the "Huakai Heavy Group") (hereinafter collectively referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information") as set out on pages 7 to 12 of Appendix IV to the circular dated 24 February 2017 (the "Circular") issued by the Company in connection with the proposed acquisition of the entire registered capital of Huakai Heavy (the "Proposed Acquisition"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages 13 to 18 of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 30 June 2016 and the Group's financial performance and cash flows for the year ended 31 December 2015 as if the Proposed Acquisition had taken place at 30 June 2016 and 1 January 2015 respectively. As part of this process, information about the Group's financial position as at 30 June 2016 has been extracted by the Directors from the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2016, on which an interim report dated 31 August 2016 have been published, while the Group's financial performance and cash flows has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 December 2015, on which an annual report dated 31 March 2016 have been published.

The information about the Huakai Heavy Group's financial position as at 31 October 2016 and financial performance and cash flow for the year ended 31 December 2015 has been extracted by the Directors from the financial information as set out in Appendix III to the Circular.

DIRECTORS' RESPONSIBILITIES FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 *"Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 *"Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 30 June 2016 or 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly complied on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Enlarged Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the pro forma adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

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24 February 2017

1. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of China Ocean Industry Group Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group''), as if the proposed acquisition of the entire registered capital of 南通華凱重工有限公司 (transliterated as Nantong Huakai Heavy Industry Company Limited*) (''Huakai Heavy'') and its subsidiaries (hereinafter collectively referred to as the ''Huakai Heavy Group'') (hereinafter collectively referred to as the ''Enlarged Group'') (the ''Unaudited Pro Forma Financial Information'') (the ''Proposed Acquisition'') had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position, and as if the Proposed Acquisition had been completed on 1 January 2015 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows. Details of the Proposed Acquisition are set out in the section headed ''Letter from the Board'' contained in this Circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules''), for the purpose of illustrating the effect of the Proposed Acquisition pursuant to the terms of a conditional agreement dated 16 November 2016 entered into among the Group, Nantong Xinda Shipping Technology Development Company Limited (the ''Nantong Xinda'') and Mr. Huo Qi (hereinafter collectively referred to as the ''Vendors'') and Mr. Ma Zhenqiang, the director of Huakai Heavy and major shareholder of Nantong Xinda, (the ''Acquisition Agreement''), the Group agreed to conditionally acquire the entire registered capital of Huakai Heavy held by the Vendors. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position or financial performance and cash flow of the Enlarged Group had the Proposed Acquisition been completed as of the specified dates or any future date.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group upon completion as at 30 June 2016 and is prepared as if the Proposed Acquisition had taken place on 30 June 2016 and is based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016, which has been extracted from the Company's interim report for the six months ended 30 June 2016 dated 31 August 2016, and the audited consolidated statement of financial position of the Huakai Heavy Group as at 31 October 2016 as extracted from the accountant's report thereon set out in Appendix III to this Circular, and adjusted on a pro forma basis to reflect the effect of the Proposed Acquisition. A narrative description on these pro forma adjustments that are (i) directly attributable to the Proposed Acquisition and not relating to future events and decisions; and (ii) factually supportable based on the terms of the Acquisition Agreement.

* *For identification purposes only*

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group upon completion for the year ended 31 December 2015 are prepared as if the Proposed Acquisition had taken place on 1 January 2015 and are based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2015, which have been extracted from the annual report of the Group for the year ended 31 December 2015 dated 31 March 2016, and the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Huakai Heavy Group for the year ended 31 December 2015 as extracted from the accountant's report set out in Appendix III to this Circular, and adjusted on a pro forma basis to reflect the effect of the Proposed Acquisition. A narrative description on these pro forma adjustments that are (i) directly attributable to the Proposed Acquisition and not related to future events and decisions; and (ii) factually supportable based on the terms of the Acquisition Agreement.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group. The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. The Unaudited Pro Forma Financial Information does not purport to describe (i) the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 30 June 2016; and (ii) the actual financial performance and cash flows of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 1 January 2015. The Unaudited Pro Forma Financial Information does not purport to predict the future financial position, financial performance and cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in (i) the published annual report of the Group for the year ended 31 December 2015 dated 31 March 2016; (ii) the published interim report of the Company for the six months ended 30 June 2016 dated 31 August 2016, and (iii) other financial information included elsewhere in this Circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group Year ended 31 December 2015	The Huakai Heavy Group Year ended 31 December 2015	Pro Forma Adjustments	The Enlarged Group Year ended 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(f)*	
Revenue	157,635	536,679	–	694,314
Cost of sales	(315,493)	(438,638)	–	(754,131)
Gross (loss) profit	(157,858)	98,041	–	(59,817)
Other income	4,643	5,178	–	9,821
Other gains and losses	(15,564)	(8,573)	–	(24,137)
Change in fair value of contingent consideration payable	25,478	–	–	25,478
Changes in fair value of investments held for trading	(1,684)	–	–	(1,684)
Change in fair value of convertible bonds payable	(35,990)	–	–	(35,990)
Loss on settlement of loan by issuance of shares	(10,755)	–	–	(10,755)
Selling and distribution expenses	(3,163)	(304)	–	(3,467)
Administrative expenses	(88,923)	(46,616)	(3,971)	(139,510)
Share-based payments expenses	(49,194)	–	–	(49,194)
Finance costs	(201,847)	(19,951)	–	(221,798)
Share of profit of associates	8,791	–	–	8,791
Share of loss of joint ventures	(1,054)	–	–	(1,054)
Change in fair value of financial guarantee	–	(16,849)	–	(16,849)
(Loss) profit before tax	(527,120)	10,926	(3,971)	(520,165)
Income tax credit	26,307	3,799	596	30,702
(Loss) profit for the year	(500,813)	14,725	(3,375)	(489,463)
Other comprehensive income (expense):				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translating foreign operations	46,961	–	–	46,961
Share of translation reserve of associates	(5,998)	–	–	(5,998)
Share of statutory reserve of associates	980	–	–	980
Share of translation reserve of joint ventures	(30,291)	–	–	(30,291)
Other comprehensive income for the year, net of income tax	11,652	–	–	11,652
Total comprehensive (expense) income for the year	(489,161)	14,725	(3,375)	(477,811)

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group As at 30 June 2016	The Huakai Heavy Group As at 31 October 2016	Pro Forma Adjustments			The Enlarged Group As at 30 June 2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Unaudited)			(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(c)(i)*	*Note 5(c)(ii)*	*Note 5(e)*	
NON-CURRENT ASSETS						
Property, plant and equipment	297,422	208,788	–	34,812	–	541,022
Prepaid lease payment						
– non-current portion	296,830	21,018	–	28,828	–	346,676
Goodwill	188,057	–	–	167,584	–	355,641
Intangible assets	225,760	–	–	67,550	–	293,310
Interests in subsidiaries	–	–	313,200	(313,200)	–	–
Interests in associates	159,452	–	–	–	–	159,452
Investment in joint ventures	463,636	–	–	–	–	463,636
Trade receivables						
– non-current portion	348	–	–	–	–	348
Deposits – non-current portion	116	–	–	–	–	116
Finance lease receivables					–-	
– non-current portion	6,585	–	–	–		6,585
Available-for-sale investments	–	15,080	–	–	–	15,080
Deferred tax assets	–	11,260	–	–	–	11,260
	1,638,206	256,146	313,200	(14,426)	–	2,193,126
CURRENT ASSETS						
Inventories	144,048	96,283	–	–	–	240,331
Trade and bill receivables	50,419	31,335	–	–	–	81,754
Other receivables	215,529	56,645	–	–	64,433	336,607
Prepayment for purchase of raw materials	244,404	14,919	–	–	–	259,323
Prepaid lease payments	7,169	503	–	691	–	8,363
Investments held for trading	2,074	–	–	–	–	2,074
Finance lease receivables	18,612	–	–	–	–	18,612
Amount due from a director	–	58	–	–	(58)	–
Amounts due from related parties	–	36,999	–	–	(36,999)	–
Amounts due from shareholders/former shareholders	–	27,376	–	–	(27,376)	–
Pledged bank deposits	580	17,662	–	–	–	18,242
Bank balances and cash	49,715	623	(50,338)	–	–	–
	732,550	282,403	(50,338)	691	–	965,306

	The Group As at 30 June 2016	The Huakai Heavy Group As at 31 October 2016	Pro Forma Adjustments			The Enlarged Group As at 30 June 2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Unaudited)			(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(c)(i)*	*Note 5(c)(ii)*	*Note 5(e)*	
CURRENT LIABILITIES						
Bank overdrafts	–	–	43,622	–	–	43,622
Trade, bills and other payables	419,600	160,464	–	–	20,048	600,112
Receipt in advance	17,188	27,520	–	–	–	44,708
Amount due to customers for contract work	330,659	–	–	–	–	330,659
Amounts due to related parties	3,164	20,048	–	–	(20,048)	3,164
Amounts due to directors	540	–	–	–	–	540
Borrowings	1,134,937	237,069	–	–	–	1,372,006
Convertible bonds payable	301,800	–	–	–	–	301,800
Contingent consideration payable	315,740	–	–	–	–	315,740
Provision for warranty	3,509	–	–	–	–	3,509
Financial guarantee	–	45,040	–	–	–	45,040
Tax liabilities	2,043	–	–	–	–	2,043
	2,529,180	490,141	43,622	–	–	3,062,943
NET CURRENT LIABILITIES	(1,796,630)	(207,738)	(93,960)	691	–	(2,097,637)
TOTAL ASSETS LESS CURRENT LIABILITIES	(158,424)	48,408	219,240	(13,735)	–	95,489
CAPITAL AND RESERVES						
Share capital	599,899	174,000	–	(174,000)	–	599,899
Reserves	(1,163,863)	(127,295)	–	127,295	–	(1,163,863)
Equity attributable to owners of the Company	(563,964)	46,705	–	(46,705)	–	(563,964)
Non-controlling interest	11,085	–	–	–	–	11,085
TOTAL (DEFICITS) EQUITY	(552,879)	46,705	–	(46,705)	–	(552,879)
NON-CURRENT LIABILITIES						
Borrowings – non-current portion	287,549	–	–	–	–	287,549
Other payables	–	–	219,240	–	–	219,240
Deferred tax liabilities	106,674	1,703	–	32,970	–	141,347
Deposit received – non-current portion	232	–	–	–	–	232
	394,455	1,703	219,240	32,970	–	648,368
	(158,424)	48,408	219,240	(13,735)	–	95,489

4. UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS OF THE ENLARGED GROUP

	The Group Year ended 31 December 2015	The Huakai Heavy Group Year ended 31 December 2015	Pro Forma Adjustments			The Enlarged Group Year ended 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)				(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(c)(i)*	*Note 5(e)*	*Note 5(f)*	
OPERATING ACTIVITIES						
(Loss) profit before tax	(527,120)	10,926	–	–	(3,971)	(520,165)
Adjustments for:						
Share of profit of associates	(8,791)	–	–	–	–	(8,791)
Share of loss of joint ventures	1,054	–	–	–	–	1,054
Depreciation of property, plant and equipment	58,209	18,972	–	–	–	77,181
Amortisation of intangible assets	–	–	–	–	3,971	3,971
Impairment loss recognised in respect of other receivables	–	304	–	–	–	304
Change in fair value of investment held for trading	1,684	–	–	–	–	1,684
Change in fair value of contingent consideration payable	(25,478)	–	–	–	–	(25,478)
Loss on settlement of loan by issuance of shares	10,755	–	–	–	–	10,755
Share-based payments expenses	49,194	–	–	–	–	49,194
Gain on disposal of property, plant and equipment	(1,743)	–	–	–	–	(1,743)
Change in fair value of convertible bonds payable	35,990	–	–	–	–	35,990
Write-off of inventories	–	749	–	–	–	749
Write-off of property, plant and equipment	9	595	–	–	–	604
Interest income	(2,007)	(1,263)	–	–	–	(3,270)
Finance costs	201,847	19,951	–	–	–	221,798
Amortisation of prepaid lease payments	7,231	1,194	–	–	–	8,425
Amortisation of intangible assets	3,320	–	–	–	–	3,320
Change in fair value of financial guarantee	–	16,849	–	–	–	16,849
Reversal of impairment loss recognised in respect of finance lease receivables	(70)	–	–	–	–	(70)

	The Group Year ended 31 December 2015	The Huakai Heavy Group Year ended 31 December 2015	Pro Forma Adjustments			The Enlarged Group Year ended 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)				(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(c)(i)*	*Note 5(e)*	*Note 5(f)*	
Operating cash flows before movements in working capital	(195,916)	68,277	–	–	–	(127,639)
Increase in inventories	(45,588)	(6,845)	–	–	–	(52,433)
Decrease (increase) in trade and bill receivables	41,796	(7,221)	–	–	–	34,575
Decrease (increase) in other receivables	73,681	(21,113)	–	13,303	–	65,871
Increase in prepayment for purchase of raw materials	(91,951)	(10,587)	–	–	–	(102,538)
Decrease in finance lease receivables	6,960	–	–	–	–	6,960
Decrease in amounts due to related parties	(20,652)	(28,762)	–	28,762	–	(20,652)
Decrease in amounts due to shareholders/ former shareholders	–	(27,620)	–	27,620	–	–
(Decrease) increase in amounts due to directors	(2,003)	17,379	–	(17,379)	–	(2,003)
Decrease in trade, bills and other payables	(96,059)	(55,120)	(332,100)	(39,003)	–	(522,282)
Decrease in provision for warranty	(134)	–	–	–	–	(134)
Decrease in amounts due to customers for contract work	(50,089)	–	–	–	–	(50,089)
Decrease in receipts in advances	–	(6,446)	–	–	–	(6,446)
Decrease in amount due from a director	–	14,776	–	(14,776)	–	–
Decrease in amounts due from related parties	–	25,892	–	(25,892)	–	–
Increase in amounts due from shareholders/former shareholders	–	(27,365)	–	27,365	–	–
Cash used in operations	(379,955)	(64,755)	(332,100)	–	–	(776,810)
Tax paid	(283)	–	–	–	–	(283)
Interest received	2,007	1,263	–	–	–	3,270
NET CASH USED IN OPERATING ACTIVITIES	(378,231)	(63,492)	(332,100)	–	–	(773,823)

	The Group Year ended 31 December 2015	The Huakai Heavy Group Year ended 31 December 2015	Pro Forma Adjustments			The Enlarged Group Year ended 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)				(Unaudited)
	Note 5(a)	*Note 5(b)*	*Note 5(c)(i)*	*Note 5(e)*	*Note 5(f)*	
INVESTING ACTIVITIES						
Purchase of property, plant and equipment	(5,998)	(74,984)	–	–	–	(80,982)
Decrease in pledged bank deposits	33,565	46,726	–	–	–	80,291
Proceeds from disposal of property, plant and equipment	1,921	–	–	–	–	1,921
Purchase of available-for-sale investment	–	(15,990)	–	–	–	(15,990)
Net cash outflow on acquisition of associates	(31,016)	–	–	–	–	(31,016)
Net cash inflow on acquisition of subsidiaries	17,343	–	–	–	–	17,343
NET CASH FROM (USED IN) INVESTING ACTIVITIES	15,815	(44,248)	–	–	–	(28,433)
FINANCING ACTIVITIES						
Borrowings raised	921,078	577,150	–	–	–	1,498,228
Repayments of borrowings	(609,057)	(529,223)	–	–	–	(1,138,280)
Interest paid	(162,987)	(19,951)	–	–	–	(182,938)
Proceeds from issue of convertible bonds	260,000	–	–	–	–	260,000
NET CASH FROM FINANCING ACTIVITIES	409,034	27,976	–	–	–	437,010
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,618	(79,764)	(332,100)	–	–	(365,246)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	13,934	82,671	–	–	–	96,605
Effect of foreign exchange rates changes	9,629	(1,387)	–	–	–	8,242
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	70,181	1,520	(332,100)	–	–	(260,399)

5. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) For the propose of the preparation of unaudited pro forma consolidated statement of financial position, the amounts are extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 as set out in the latest published interim report of the Company dated 31 August 2016. For the purpose of the preparation of unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the amounts are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2015 as set out in the latest published annual report of the Group dated 31 March 2016.

(b) For the purpose of the preparation of unaudited pro forma consolidated statement of financial position, the amounts extracted from the accountant's report on the Huakai Heavy Group as at 31 October 2016 as set out in Appendix III to this Circular, which are presented in RMB, have been translated into HK$ at an exchange rate of RMB1=HK$1.16, being the market exchange rate as at 30 June 2016.

For the purpose of the preparation of unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the amounts extracted from the accountant's report on the Huakai Heavy Group for the year ended 31 December 2015 as set out in Appendix III to this Circular, which are presented in RMB, have been translated into HK$ at an exchange rate of RMB1=HK$1.23, being the average exchange rate for the year ended 31 December 2015.

(c) (i) The adjustments represent the proposed acquisition of the entire registered capital of Huakai Heavy. Pursuant to the Acquisition Agreement, the Group has conditionally agreed to acquire the entire registered capital of Huakai Heavy for an aggregated consideration of RMB270,000,000 (equivalent to approximately HK$313,200,000 with reference to the exchange rate as at 30 June 2016), which will be satisfied by cash in the following manner:

(1) As to RMB81,000,000 (equivalent to approximately HK$93,960,000 with reference to the exchange rate as at 30 June 2016) (the "1st Payment") payable to the Vendors in proportion to their respective interest in Huakai Heavy within 90 days after the completion date of the Proposed Acquisition;

(2) Subject to adjustment, as to a maximum of RMB54,000,000 (equivalent to approximately HK$62,640,000 with reference to the exchange rate as at 30 June 2016) (the "2nd Payment") payable to the Vendors in proportion to their respective interest in Huakai Heavy within 5 business days upon the audited financial statements of the Huakai Heavy Group for the year ended 31 December 2016 is issued or the date when the Company is registered as the shareholder of Huakai Heavy with the relevant local Administration for Industry and Commerce in the PRC (the "Registration") (whichever is later) subject to the deduction by the shortfall amount in respect to the profit guarantee for the year ended 31 December 2016 of RMB15,000,000 (the "Contingent Consideration Receivables 2016") as defined in the Acquisition Agreement, on completion. The Contingent Consideration Receivables 2016 should be measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Based on the Directors' best estimation, the probability of meeting the profit guarantee by the Huakai Heavy Group is high and therefore it assumes that the fair value of the Contingent Consideration Receivables 2016 at 30 June 2016 is HK$Nil; and

(3) Subject to adjustment, as to a maximum of RMB135,000,000 (equivalent to approximately HK$156,600,000 with reference to the exchange rate as at 30 June 2016) (the "Final Payment") payable to the Vendors in proportion to their respective interest in Huakai Heavy within 5 business days upon the audited financial statements of the Huakai Heavy Group for the year ending 31 December 2017 is issued or completion of the Registration (whichever is later) subject to the deduction by the shortfall amount in respect to the profit guarantee for the year ending 31 December 2017 of RMB50,000,000 (the "Contingent Consideration Receivables 2017 ") as defined in the Acquisition Agreement, on completion. The Contingent Consideration Receivables 2017 should be measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Based on the Directors' best estimation, the probability of meeting the profit guarantee by the Huakai Heavy Group is high and therefore it assumes that the fair value of the Contingent Consideration Receivables 2017 at 30 June 2016 is HK$Nil.

However, the Group did not have sufficient cash and cash equivalents at 30 June 2016 to settle the 1st Payment and the 2nd Payment. The Directors are of the opinion that, having assessed the Group's latest available internal resources which taking into account the estimated net proceeds from the issue of the Convertible Notes of approximately HK$282,000,000 announced on 6 December 2016, 8 December 2016, 9 December 2016 and 15 December 2016 (the "2016 Convertible Notes"), the Company is able to satisfy the 1st Payment and the 2nd Payment of the purchase consideration while may not have sufficient resources to finance the Final Payment in full. To ensure the Company will be capable to satisfy the Final Payment in full, the Company will consider using appropriate debt and/or equity financing (including but not limited to issue of convertible bonds, warrants, new Shares under general or specific mandate, rights issue and open offer) to finance the Final Payment. Given that if applicable, the Final Payment shall be obliged to be settled by the Company within 5 Business Days upon the later of the date when the audited financial statements of the Huakai Heavy Group for the year ending 31 December 2017 is issued or completion of the Registration (whichever is later), which is estimated to be in around July 2018. As such, the Directors are of the view that there exist reasonable time for the Company to source and procure sufficient funds by way of appropriate debt and/or equity financing activities to meet the Final Payment.

As at the Latest Practicable Date, save for the issue of the 2016 Convertible Notes, the Company has yet to identify and/or conclude any terms for any other suitable fund raising opportunities with financial institution(s) and/or underwriters. The Company would exercise due and careful consideration when choosing the best fund raising method available to the Group.

(ii) The Proposed Acquisition is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *"Business Combination"* ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the identifiable assets and liabilities of the Huakai Heavy Group will be accounted for in the Unaudited Pro Forma Financial Information of the Enlarged Group at fair value.

The adjustments represent:

(1) Elimination of the investment cost in Haukai Heavy, share capital and pre-acquisition reserves of the Haukai Heavy Group on consolidation;

(2) Assets and liabilities recognised at the date of the Proposed Acquisition, based on the audited figures at 31 October 2016 as stated in the accountant's report set out in Appendix III, and the business valuation of the Huakai Heavy Group as at 31 October 2016 (the ''Business Valuation'') performed by an independent professional valuer, Roma Appraisals Limited, are as follows:

		Equivalents to
	RMB'000	*HK$'000*
Property, plant and equipment	210,000	243,600
Prepaid lease payment	44,000	51,040
Intangible assets	58,233	67,550
Available-for-sale investments	13,000	15,080
Deferred tax assets	9,707	11,260
Inventories	83,003	96,283
Trade and bill receivables	27,013	31,335
Other receivables	48,832	56,645
Prepayment for purchase of raw materials	12,861	14,919
Amount due from directors	50	58
Amount due from shareholders/former shareholders	23,600	27,376
Amount due from related parties	31,896	36,999
Pledged bank deposit	15,226	17,662
Bank balances and cash	537	623
Trade, bills and other payables	(137,589)	(159,603)
Receipts in advance	(23,724)	(27,520)
Amount due to related parties	(18,025)	(20,909)
Borrowings	(204,370)	(237,069)
Financial guarantee	(38,828)	(45,040)
Deferred tax liabilities	(29,891)	(34,673)
	125,531	145,616

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assessed whether there is any material fair value adjustment of the assets and liabilities being acquired based on their knowledge of the business of the Huakai Heavy Group as well as the Business Valuation. Based on the currently available information and the Business Valuation, recognition of an intangible asset, a patent, of approximately HK$67,550,000 and fair value upward adjustments of approximately HK$34,812,000, HK$29,519,000 and HK$32,970,000 are made to property, plant and equipment, prepaid lease payment and deferred tax liabilities, respectively. The fair value upward adjustment made to the deferred tax liabilities represent the deferred tax effect of the net effect of all the fair value adjustments of the above-mentioned assets.

Goodwill arising on the Proposed Acquisition

		Equivalent to
	RMB'000	*HK$'000*
Consideration transferred	270,000	313,200
Less: Fair value of net assets acquired	125,531	145,616
Pro forma goodwill	144,469	167,584

(d) Goodwill arising from the Proposed Acquisition is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable in accordance with the accounting policies of the Group and the requirements of Hong Kong Accounting Standard 36 – *Impairment of Assets* ("HKAS 36"). Goodwill will be allocated to the cash generating units ("CGUs") that are expected to benefit from the synergies of the Proposed Acquisition for the purpose of impairment testing. The results of the Enlarged Group may be affected by impairment loss whenever the recoverable amount of CGUs is lower than the carrying amount.

Based on the existing business model of the Enlarged Group, the Directors have performed the necessary assessment on impairment in accordance with the requirements under HKAS 36. Steel structure engineering and installation is the CGU for the purpose of impairment testing of the pro forma goodwill.

The Directors have conducted a review of the pro forma goodwill based on the Business Valuation.

The recoverable amount of the pro forma goodwill has been determined by using business value. The business value was determined by discounting the cash flows generated from the continuing use of the CGU. Based on the impairment test of the pro forma goodwill, the Directors assessed that the recoverable amount of the CGU is determined to be higher than its carrying amount of the CGU.

The amounts of goodwill and the related impairment assessment are subject to change on the completion date due to the fair value assessment of the net assets of the Huakai Heavy Group, which may differ materially from the amounts disclosed above.

(e) The adjustment represented the reclassification of the current accounts with the related parties upon the completion of the Proposed Acquisition.

(f) The adjustment reflects the additional amortisation of a patent of approximately HK$3,971,000 provided in relation to the fair value adjustment as mentioned in Note 5(c) and the corresponding reversal of deferred tax liabilities of approximately HK$596,000 as if the acquisition completed on 1 January 2015.

(g) No adjustments have been made to the unaudited pro forma consolidated statement of financial position, to reflect any trading results or other transactions entered into subsequent to 30 June 2016 for the Group and 31 October 2016 for the Huakai Heavy Group where applicable and unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows to reflect any trading results or other transaction entered into subsequent to 31 December 2015 for the Group and the Huakai Heavy Group where applicable.

(h) The adjustments referred to notes 5(c)(i) and 5(e) do not have continuing financial effect on the consolidated statement of profit and loss and other comprehensive income and the consolidated statement of cash flows of the Enlarged Group.

(i) No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisors, reporting accountants, valuers, and other expenses) as the Directors determined that such costs are insignificant. The total acquisition-related costs are estimated to be approximately HK$2.46 million.

ROMA

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24 February 2017

China Ocean Industry Group Limited
Units 1702-03, 17/F,
China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Case Ref: KY/BV3098/NOV15

Dear Sir/Madam,

Re: Valuation of 100% Equity Interest in 南通華凱重工有限公司 (Nantong Huakai Heavy Industry Company Limited*)

In accordance with the instructions from China Ocean Industry Group Limited (hereinafter referred to as the "Company") to us to conduct a business valuation on 100% equity interest in 南通華凱重工有限公司 (Nantong Huakai Heavy Industry Company Limited*) (hereinafter referred to as the "Target Company"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our opinion of the market value of 100% equity interest in the Target Company as at 31 October 2016 (hereinafter referred to as the "Date of Valuation").

This report states the purpose of valuation, scope of work, economic and industry overviews, an overview of the Target Company, basis of valuation, investigation and analysis, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Roma Appraisals Limited (hereinafter referred to as "Roma Appraisals") acknowledges that this report may be made available to the Company for public documentation purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and information provided by the management of the Company, the management of the Target Company and/or their representative(s) (together referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the steel structure industry in China, and the development, operations and other relevant information of the Target Company. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Company provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the Target Company will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the valuation of the Target Company, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3. ECONOMIC OVERVIEW

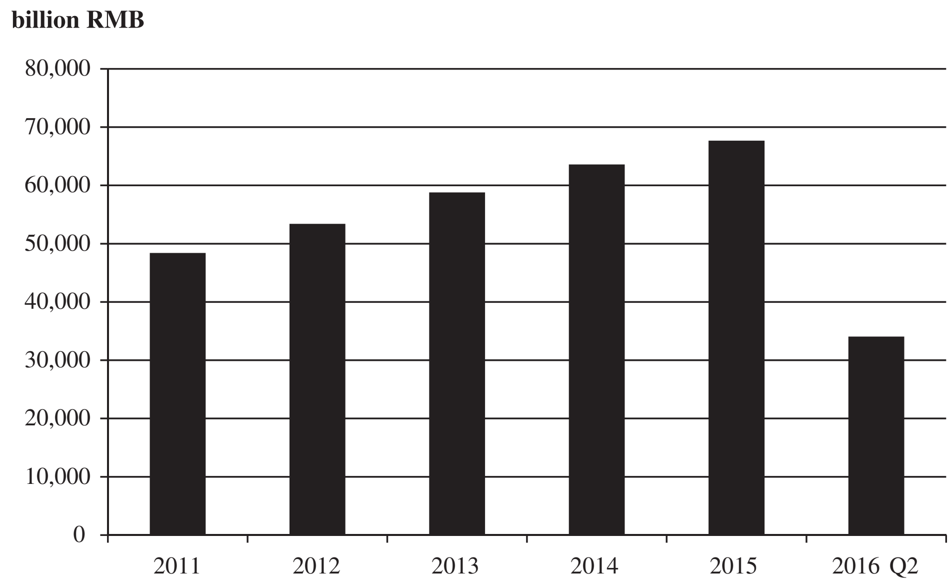
3.1 Overview of the Economy in China

According to the National Bureau of Statistics of China, the nominal gross domestic product ("GDP") of China in the second quarter of 2016 was RMB34,063.7 billion, a year over year increase of 8.5% comparing to June 2015. China was the third largest economy in the world, ranked after the European Union and the United States, in terms of nominal GDP measured by the International Monetary Fund ("IMF") in 2014. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China's economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth since 2011.

Over the past five years from 2011 to 2015, compound annual growth rate of China's nominal GDP was 11.0% whereas the Chinese government targeted to grow its GDP by around 7.0% annually for the period from 2011 to 2015. Figure 1 illustrates the nominal GDP of China from 2011 to the second quarter of 2016.

Figure 1 – China's Nominal GDP from 2011 to Second Quarter of 2016

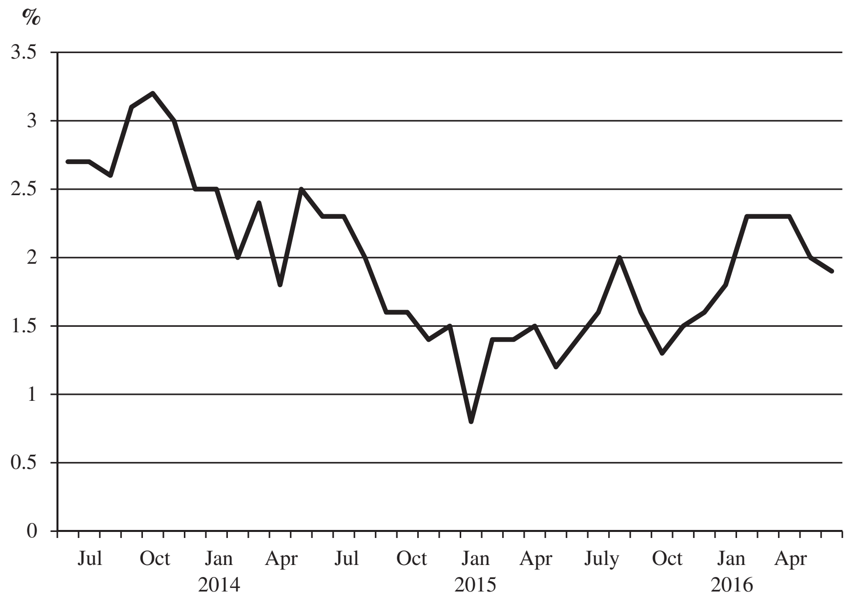


Source: National Bureau of Statistics of China

3.1 Inflation in China

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in China has been driven mainly by food prices, which have been stayed high in 2011. According to the National Bureau of Statistics of China, the consumer price index ("CPI") demonstrated an uptrend in the first half of 2011. Thanks to the government's policies in suppressing commodity prices, the inflation in CPI slowed in the second half of 2011 and first half of 2012 and maintained at around 2.0% to 3.2% during 2013. During 2014, the CPI dropped and reached 1.5% in December 2014. During first half of 2015, the CPI maintained at around 0.8% to 1.5%, and fluctuated around 1.3% to 2.0% in second half of 2015. In 2016, the CPI dropped from 2.3% to 1.9%. Figure 2 shows the year-over-year change in CPI of China from June 2013 to June 2016.

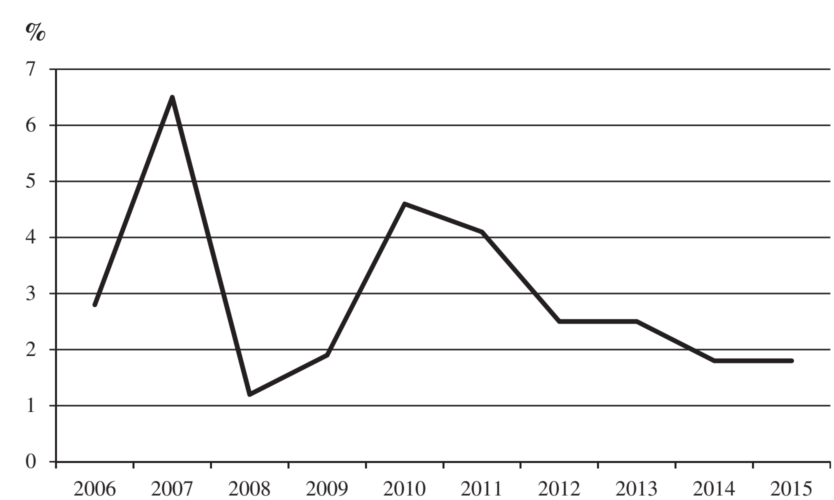
Figure 2 – Year-over-year Change in China's CPI from June 2013 to June 2016



Source: Bloomberg

China's inflation rate was volatile during the past decade. According to the IMF, the inflation rate in China increased from 2.8% in 2006 to 6.5% in 2007, and then dropped to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate increased to 4.6% in 2010 and maintained at 4.1% in 2011. The inflation rate dropped again to 2.5% in 2012 and 2013, and further to 1.8% in 2014. Finally, it maintained at 1.8% in 2015. According to IMF's forecast, the long-term inflation rate of China is expected to be around 3.0%. Figure 3 shows the historical trend of China's inflation rate from 2006 to 2015.

Figure 3 – China's Inflation Rate from 2006 to 2015



Source: International Monetary Fund

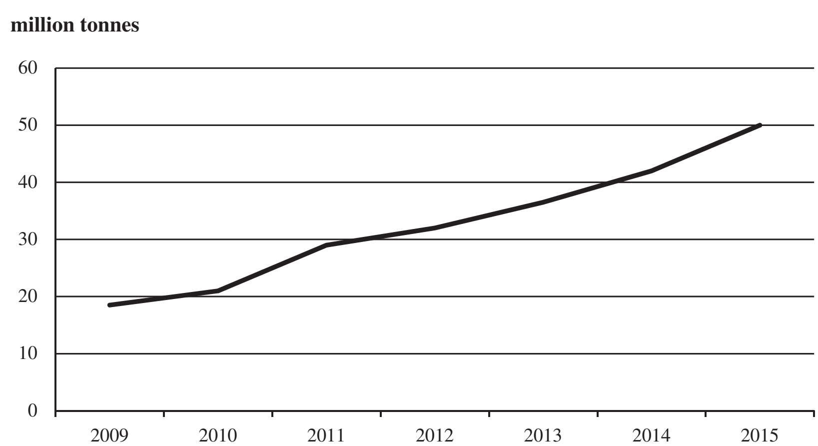
4. INDUSTRY OVERVIEW

4.1 Overview of the Steel Structure Industry in China

Steel structure is commonly used in construction, acted as supporting member in buildings and larger structures. For example, residential and industrial buildings, stadiums and transportation structures such as bridges and overpasses of railways and highways. Comparing to other construction structures like reinforced concrete structure, steel structure is of higher strength and durability and lighter weight.

According to 前瞻產業研究院 ("Qianzhan Industrial Research Institute"), a company in China which focus on market research and consultancy, and the State Council of the People's Republic of China (the "State Council"), the steel structure production was in an increasing trend from 2009 to 2015. The steel structure volume increased from 18.5 million tons in 2009 to 50 million tons in 2015. Figure 4 illustrates the change in steel structure production volume from 2009 to 2015.

Figure 4 – Production Volume of Steel Structure from 2009 to 2015

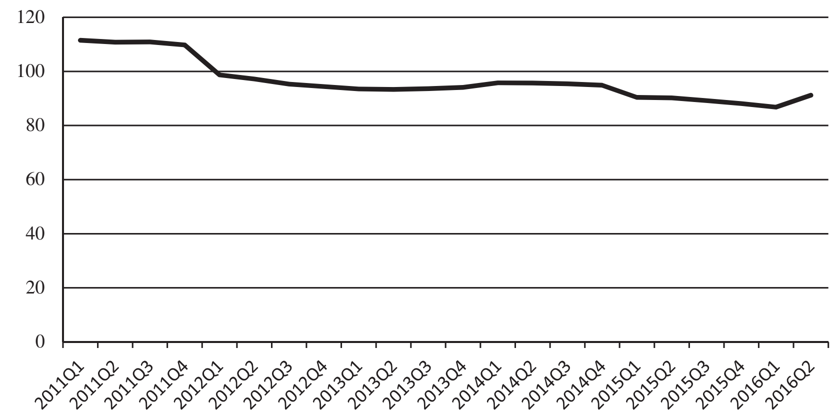


Source: Qianzhan Industrial Research Institute and the State Council

4.2 Price of Steel

The production cost of steel structure is closely related to the price of steel. According to the National Bureau of Statistics of China, the price of steel in China from 2011 to 2015 decreased gradually. Figure 5 illustrated the accumulated price index of steel from the first quarter of 2011 to the second quarter of 2016.

Figure 5 – Accumulated Price Indices of Steel from the First Quarter of 2011 to the Second Quarter of 2016



Source: National Bureau of Statistics of China

4.3 Policy Support

The promotion of steel structure industry was included in various government plans and documents in China. The State Development and Reform Commission and the relevant administrative departments of the State Council jointly announced the Catalogue for Guiding Industry Restructuring (2011 Edition) ("產業結構調整指導目錄(二零一一年本)") on 27 March 2011, which was an indicator for investment and government projects. Steel structure residential integrated systems and research, development and promotion of related technologies were listed in the encouraged category.

Moreover, in 2011, the Twelfth Five-Year Plan for the construction industry in China was announced to the public. It aimed to promote the sustainable and healthy development of China's construction industry. In particular, China encouraged the use of building steel structure. Larger steel structure proportion would be used in highway, road and bridge construction as well as subway, light rail and other related projects in China.

5. THE TARGET COMPANY

The Target Company was incorporated in the People's Republic of China ("PRC") on 12 April 2007 with limited liability and is principally engaged in manufacture and sales of steel structures and fittings for ship, marine equipment, mining equipment, ro-ro equipment and bridge and building steel structures. The Target Company holds 100% equity interest in 南通方正海洋工程科技有限公司 (Nantong Fangzheng Ocean Engineering Technology Company Limited*) ("Fangzheng Ocean") and 南通華凱船舶塗裝有限公司 (Nantong Huakai Ship Painting Company Limited*) ("Chuanbo Tu Zhuang").

Fangzheng Ocean was incorporated in the PRC on 22 April 2004 with limited liability. It was subsequently acquired by the Target Company on 11 February 2011. Fangzheng Ocean is principally engaged in manufacture and sales of steel structures.

Chuanbo Tu Zhuang was incorporated by the Target Company in the PRC on 27 December 2007 with limited liability and in principally engaged in the provision of pretreatment and painting services of steel plate.

6. BASIS OF VALUATION

Our valuation is based on going concern premise and conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, **market value** is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Company. In addition, we have made relevant inquiries and obtained further information and statistical figures related to the steel structure industry in China as we considered necessary for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Company provided to us by the Management and have considered such information and data as attainable and reasonable.

The valuation of the Target Company requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Target Company;
- The financial condition of the Target Company;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risks of the Target Company such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business.

8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Target Company, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("equity and long term debt"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("equity") and investors who lend money to the business entity ("debt"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

8.4 Business Valuation

In the process of valuing the Target Company, we have taken into account of its operation and the nature of the steel structure industry it is participating.

The Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not readily available. The Asset-Based Approach was also not adopted because it could not capture the future earning potential and thus market value of the Target Company. We have therefore considered the adoption of the Income-Based Approach in arriving at the market value of the Target Company.

8.4.1 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("DCF") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation + After-Tax Interest Expenses-Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \cdots + \frac{CF_n}{1+r^{\ n}}$$

In which
PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

To adopt this method, we obtained the weighted average cost of capital ("WACC") of the Target Company as a basic discount rate. WACC of the Target Company is the minimum required return that the Target Company must earn to satisfy its various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It is computed using the formula below:

$$WACC = W_e * R_e + W_d * R_d * (1 - T_c)$$

In which
R_e *= Cost of equity;*
R_d *= Cost of debt;*
W_e *= Weight of equity value to enterprise value;*
W_d *= Weight of debt value to enterprise value; and*
T_c *= Corporate tax rate.*

8.4.2 Cost of Debt

The cost of debt was determined by the expected borrowing rate of the Target Company. Since the interest expenses paid on debts are tax-deductible for the Target Company, the cost of the Target Company to get debt funds is less than the required rate of return of the suppliers of the debt capital. The after-tax cost of debt was calculated by multiplying one minus the corporate tax rate by the cost of debt.

8.4.3 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model ("CAPM"), which describes the relationship between the risk of the Target Company and expected return to investors. It is calculated by the following formula:

$$R_e = R_f + \beta * MRP + ORP$$

In which
R_e *= Cost of equity;*
R_f *= Risk-free rate;*
β *= Beta coefficient;*
MRP = Market Risk Premium; and
ORP = Other Risk Premium.

8.4.4 Discount Rate

In the process of determining the WACC, we adopted several listed companies with business scopes and operations similar to those of the Target Company as comparable companies. The comparable companies were selected mainly with reference to the following selection criteria:

- The companies are principally engaged in the steel structure industry business in China;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description
CSSC Steel structure industry Engineering Co Ltd	600072.CH	China	CSSC Steel Structure Engineering Co Ltd designs and builds a variety of steel structures for buildings and transportation equipment. The company also produces pressure containers, ship parts, electric equipment, and port machinery.
Jiangsu Zhongtai Bridge Steel structure industry Company Limited	002659.CH	China	Jiangsu Zhongtai Bridge Steel Structure Company Limited constructs steel bridges. The company's main services include manufactures, transports and installs steel bridges, provides corresponding technical studies, design, and technical services.
Anhui Honglu Steel Construction Group Company Limited	002541.CH	China	Anhui Honglu Steel Construction Group Company Limited manufactures and sells steel structures and related products. The company's main products are equipment steel structures, heavy steel construction, light steel construction structural products and steel structure enclosure products.
Anhui Fuhuang Steel structure industry Company Limited	002743.CH	China	Anhui Fuhuang Steel Structure Company Limited designs, manufactures and installs steel structure products. The company's main products are light steel structures and heavy steel structures.
China Saite Group Company Limited	153.HK	Hong Kong	China Saite Group Company Limited is an integrated steel structure and prefabricated construction solution service provider. The company constructs bridges, train stations, stadiums, exhibition centers and factories.

Source: Bloomberg

Below is the summary of the key parameters of the WACC of the Target Company adopted as at the Date of Valuation:

Key Parameters		As at 31 October 2016
a)	Risk-free Rate	2.74%
b)	Market Expected Return	13.85%
c)	Market Risk Premium	11.11%
d)	Beta Coefficient	0.98
e)	Size Premium	3.58%
f)	Other Risk Premium	1.00%
g)	Cost of Equity	18.19%
h)	Cost of Debt	5.90%
i)	Weight of Equity Value to Enterprise Value	93.17%
j)	Weight of Debt Value to Enterprise Value	6.83%
k)	Corporate Tax Rate	25.00%
WACC (ROUNDED)		**17.00%**

Notes:

a) The risk-free rate adopted was the yield rate of the China government 10-year note as at the Date of Valuation as extracted from Bloomberg.

b) The market expected return adopted was the market return in China stock market as at the Date of Valuation as extracted and sourced from Bloomberg.

c) The market risk premium adopted was the difference between the market expected return and the risk-free rate adopted.

d) The beta coefficient adopted was the median adjusted beta of the comparable companies as sourced from Bloomberg.

e) The size premium adopted was adopted with reference to the size premium study published by Duff & Phelps, LLC.

f) The other risk premium adopted was to reflect the unsystematic risk of the Target Company.

g) The cost of equity was determined based on CAPM.

h) The cost of debt adopted was the China above 5-year benchmark lending rate as sourced from Bloomberg adjusted by the other risk premium.

i) The weight of equity value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

j) The weight of debt value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

k) The corporate tax rate adopted was the corporate tax rate in China.

Hence, we adopted the WACC of 17% as the discount rate of the Target Company as at the Date of Valuation.

8.4.5 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the 2016 edition of the FMV Restricted Stock Study Companion Guide, a marketability discount of 16.11% was adopted in arriving at the market value of the Target Company as at the Date of Valuation.

9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The valuation was performed based on the discounted cash flow method under the income-based approach with financial forecasts provided by the Management. Long-term growth rate of 3% was adopted based on the projected China's long term inflation as sourced from International Monetary Fund;

- The valuation was mainly based on the projections of the future cash flows as provided by the Management. The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- The valuation was performed based on the audited financial statements of the Target Company as at 31 October 2016 provided by the Management;

- The businesses of the Target Company will be operated and developed as planned;

- Any previous or future litigation matter will neither affect the operation of the Target Company, nor significantly affect the financial status of the Target Company;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; and
- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Target Company. The factors considered included, but were not necessarily limited to the following:

- Audited financial statements of the Target Company as at 31 October 2016;
- Financial forecasts of the Target Company;
- Business licenses of the Target Company;
- Overview of the steel structure industry in China; and
- General descriptions in relation to the Target Company.

We have discussed the details with the Management. We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

11. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the company background, business nature and market share of the Target Company provided to us.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Target Company was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Target Company.

We have not investigated the title to or any legal liabilities of the Target Company and have assumed no responsibility for the title to the Target Company appraised.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

12. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company and their associated companies, or the values reported herein.

13. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of 100% equity interest in the Target Company as at the Date of Valuation, in our opinion, was reasonably stated as **RMB272,000,000 (RENMINBI TWO HUNDRED AND SEVENTY TWO MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited
Kelvin Luk
ICVS
Director

Note: Mr. Luk is a member of the International Association of Consultants, Valuators and Analysts (IACVA). Mr. Luk has over ten years of experience in valuation and consultation.

APPENDIX –
ASSUMPTIONS AND ESTIMATES

The following assumptions were estimated by the Management:

1. **BUSINESS MODEL**

- The revenue of the Target Company are mainly generated from steel structure projects, bridge projects and ship projects.

- As advised by the Management, the development of the Target Company would become stable since 2021. Long term projected inflation rate in China of 3% by the International Monetary Fund as sourced from Bloomberg was adopted for the projection since 2021.

2. **REVENUE**

- Steel structure projects included fabrication, delivery and installation of steel material and ro-ro equipment. The revenue from steel structure projects was estimated to be approximately RMB3,311,255 for the two months ended 31 December 2016 and RMB168,292,465, RMB118,055,556, RMB303,547,607 and RMB373,405,812 in 2017, 2018, 2019 and 2020 respectively.

- Bridge projects included manufacturing and sales of steel structures and fittings for bridge. The revenue from bridge projects was estimated to be approximately RMB22,379,915 for the two months ended 31 December 2016 and RMB185,333,333, RMB306,133,333, RMB301,538,462 and RMB301,538,462 in 2017, 2018, 2019 and 2020 respectively.

- Ship projects included manufacturing and sales of steel structures and fittings for ship. The revenue from ship projects was estimated to be approximately RMB19,230,769 for the two months ended 31 December 2016 and RMB379,912,821, RMB323,777,778, RMB189,111,111 and RMB177,264,957 in 2017, 2018, 2019 and 2020 respectively.

- The Management estimated that revenue will grow at 3.0% from 2021 and onwards, with reference to long term projected inflation rate of China by International Monetary Fund as sourced from Bloomberg.

3. **COST OF GOODS SOLD**

- The cost of goods sold of each of the aforementioned projects included material cost, salary expense, technical service fee, utility expense, equipment rental and repairment expense.

- The cost of goods sold from steel structure projects was estimated to be approximately RMB2,606,242 for the two months ended 31 December 2016 and RMB135,839,810, RMB95,271,588, RMB245,262,201 and RMB301,774,443 in 2017, 2018, 2019 and 2020 respectively.

- The cost of goods sold from bridge projects was estimated to be approximately RMB16,645,326 for the two months ended 31 December 2016 and RMB142,198,360, RMB234,662,398, RMB231,570,536 and RMB231,593,023 in 2017, 2018, 2019 and 2020 respectively.

- The cost of goods sold from ship projects was estimated to be approximately RMB15,385,894 for the two months ended 31 December 2016 and RMB311,418,214, RMB264,549,563, RMB154,699,099 and RMB145,247,452 in 2017, 2018, 2019 and 2020 respectively.

- The Management estimated that cost of goods sold will grow at 3.0% from 2021 and onwards, with reference to long term projected inflation rate of China by International Monetary Fund as sourced from Bloomberg.

4. SALES TAX AND SURCHARGE

- The sales tax and surcharge for the Target Company was estimated to be 0.3% of the total revenue.

5. ADMINISTRATIVE EXPENSES

- The administrative expenses were estimated to be approximately RMB2,980,900 for the two months ended 31 December 2016 and RMB21,679,185, RMB23,327,382, RMB25,128,273 and RMB27,083,898 in 2017, 2018, 2019 and 2020 respectively.

- The Management estimated that administrative expenses will grow at 3.0% from 2021 and onwards, with reference to long term projected inflation rate of China by International Monetary Fund as sourced from Bloomberg.

6. OTHER INCOME

- Other income was expected to be generated from sales of waste in relation to steel structure and ship projects. It was estimated to be approximately RMB280,329 for the two months ended 31 December 2016 and RMB5,709,911, RMB3,707,167, RMB4,318,667 and RMB5,091,167 in 2017, 2018, 2019 and 2020 respectively.

7. CORPORATE INCOME TAX

- With reference to the Chinese high-tech enterprise certification of the Target Company provided by the Management, corporate tax of 15% was adopted for years 2016, 2017 and 2018 as the Target Company enjoyed 3 years of taxation preference in accordance with the preferential taxation for hi-tech enterprises. China's corporate tax rate of 25% was adopted with reference to taxation law of China after the Chinese high-tech enterprise certification of the Target Company expired.

8. NET WORKING CAPITAL

- Trade and bill receivables, prepayment for purchase of raw materials, inventories, trade and bill payables, receipt in advances and accrual of salaries were treated as working capital of the Target Company.

- Prepayment for purchase of raw materials and receipt in advances were projected in proportional to cost of goods sold while accrual of salaries were projected in proportional to administration expenses and salary expense.

- Expected turnover days of trade and bill receivables, inventories and trade and bill payables of 46.8 days, 129.9 days and 79.6 days were estimated by the Management with reference to historical turnover days of the Target Company in 2015.

- The change in net working capital was then arrived by subtracting the net working capital in last year from that in current year.

9. CAPITAL EXPENDITURES AND DEPRECIATION

- Capital expenditure in 2017 was high since the Target Company would be on developing stage, the capital expenditure would be relatively stable from 2018 and onwards.

- The depreciation expense in relation to the capital expenditure was estimated based on straight line depreciation with useful life of 10 years.

- The depreciation expense in relation to the land was estimated based on straight line depreciation with useful life of 40.6 years.

- The depreciation expense in relation to the existing property and construction in progress were estimated based on straight line depreciation with useful life of 20 years.

- The depreciation expense in relation to the plant and equipment were estimated based on straight line depreciation with useful life of 8 years.

PRIVATE & CONFIDENTIAL

華融(香港)會計師事務所有限公司
Asian Alliance (HK) CPA Limited

24 February 2017

Our reference: C007AASPC20160901/MC/RL/HC

The Board of Directors
China Ocean Industry Group Limited
Units 1702-03, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs/Madam,

Accountant's report of calculations of discounted future estimated cash flows in connection with the valuation of 南通華凱重工有限公司 (transliterated as Nantong Huakai Heavy Industry Company Limited*) (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group")

To the directors of China Ocean Industry Group Limited (the "Company")

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Roma Appraisals Limited dated 24 February 2017, in respect of the Target Group, as at 31 October 2016 (the "Valuation") is based. The Target Company is incorporated in the People's Republic of China with limited liability. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in the circular dated 24 February 2017 issued by the Company in connection with the acquisition of the entire registered capital of the Target Company.

* *For identification purposes only*

Directors' responsibilities for the discounted future estimated cash flows

The directors of the Company (the "Directors") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectively, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regularly requirements.

Reporting accountant's responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report.

Our engagement was conducted in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised) "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" issued by HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled with the Assumptions. Our work does not constitute any valuation of the Target Group.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or concluded any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Hong Kong

The following is the text of a letter from Chanceton Capital Partners Limited, the financial adviser of the Company, in connection with the profit forecast underlying in the Final Valuation, for the purpose of inclusion in this circular.

川盟融資有限公司
Chanceton Capital Partners Limited

24 February 2017

The Board of Directors
China Ocean Industry Group Limited
Units 1702-03, China Merchants Tower
Shun Tak Centre, 168-200 Connaught Road Central
Hong Kong

Dear Sirs/Madam,

Re: Very Substantial Transaction – Valuation of 100% equity interest of 南通華凱重工有限公司 (Nantong Huakai Heavy Industry Company Limited* (the "Target Company")) and its subsidiaries (hereinafter collectively referred to as the "Target Group") in relation to the acquisition of 100% equity interest in the Target Company

We refer to the valuation prepared by Roma Appraisals Limited ("**Independent Valuer**") in relation to the valuation of 100% equity interest in the Target Group as at 31 October 2016 (the "**Valuation**"). Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as those defined in the circular of China Ocean Industry Group Limited dated 24 February 2017 (the "**Circular**").

We have reviewed the forecasts upon which the Final Valuation has been made and have discussed with the management of the Company and the Independent Valuer the information and documents provided by the management of the Company which formed part of the basis and assumptions upon which the profit forecasts have been prepared. We have also considered the report from Asian Alliance (HK) CPA Limited dated 24 February 2017 as set out in Appendix VI to the Circular regarding the calculations and arithmetical accuracy of the Final Valuation upon which the profit forecasts have been made. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target Group may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Independent Valuer on the Final Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the profit forecast upon which the Final Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,

For and on behalf of
Chanceton Capital Partners Limited

Wong Kam Wah
Managing Director

Cheung Shun Lim Ignatius
Associate Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTEREST

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and/or short position of the Directors and chief executive in the Shares, underlying Shares and debentures of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3, and Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name	Long/Short position	Capacity	Number of ordinary shares held	Number of share options held	Approximate percentage of the issued shares held as at the Latest Practicable Date
Li Ming	Long position	Beneficial owner	895,927,954	70,000,000	8.01%
	Long position	Interest of controlled Corporation	512,995,000 *(note 1)*	–	4.25%
Chau On Ta Yuen	Long position	Beneficial owner	–	49,743,000	0.41%
Wang San Long	Long position	Beneficial owner	–	20,110,600	0.17%
Zhang Shi Hong	Long position	Beneficial owner	31,140,000	107,581,000	1.15%
Liu Jin	Long position	Beneficial owner	–	110,000,000	0.91%
Hu Bai He	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Siying	Long position	Beneficial owner	–	1,000,000	0.01%
Xiang Ying	Long position	Beneficial owner	–	1,000,000	0.01%

Note 1: Mr. Li Ming is deemed to be interested in the 512,995,000 shares held by Lead Dragon Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is wholly and beneficially owned by Mr. Li Ming.

Save as disclosed in this report, as at the Latest Practicable Date, none of the Directors or their associates had any interests and/or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3, and Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

(b) Director's interests in assets, contracts or arrangement of the Enlarged Group

There was no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date of which any Director is materially interested and which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2015, the date of which the latest published and audited consolidated financial statements of the Company were made up.

(c) Service contract

Mr. Li Ming, an executive Director of the Company, entered into a service contract with the Company in February 2009 which term is subject to retirement by rotation and re-election at least once every three years. Mr. Zhang Shi Hong, an executive Director of the Company, entered into a service contract with the Company in December 2007 which term is subject to retirement by rotation and re-election at least once every three years. Mr. Wang San Long, an executive Director of the Company, entered into a service contract with the Company in May 2008 which term is subject to retirement by rotation and re-election at least once every three years. Ms. Liu Jin, an executive Director, entered into a service contract with the Company in September 2007 which term and is subject to retirement by rotation and re-election at least once every three years. Mr. Chau On Ta Yuen, a non-executive Director, entered into a service contract with the Company in June 2015 for a term of two years and is subject to retirement by rotation and re-election at least once every three years. Ms. Xiang Ying, an independent non-executive Director, entered into a service contract with the Company in June 2015 for a term of two years and is subject to retirement by rotation and re-election at least once every three years. Ms. Xiang Si Ying and Mr. Hu Bai He, independent non-executive Directors, both entered into a service contract with the Company in June 2016 for a term of two years and is subject to retirement by rotation and re-election at least once every three years.

Save as disclosed above, no Director had a service contract with the Company which was not terminable by the Company within one year without payment of compensation, other than statutory compensation, as at the Latest Practicable Date.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons had interests of 5% or more in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Long/ Short position	Nature of Interests	Number of shares/ underlying share held	Approximate percentage of the issued shares held as at the Latest Practicable Date
Macquarie Group Limited *(Note 1)*	Long	Interest of controlled corporation	2,164,330,000	17.94%
Central Huijin Investment Ltd. *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
China Construction Bank Corporation *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
CCB International Group Holdings Limited *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
CCB Financial Holdings Limited *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
CCB International (Holdings) Limited *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
CCBI Investments Limited *(Note 2)*	Long	Interest of controlled corporation	806,126,561	6.68%
	Short	Interest of controlled corporation	1,491,334,138	12.37%
Prosper Talent Limited *(Note 2)*	Long	Beneficial owner	806,126,561	6.68%
	Short	Beneficial owner	1,491,334,138	12.37%
Mr. Li Ming *(Note 3)*	Long	Beneficial owner	965,927,954	8.01%

Notes:

(1) For the purpose of the SFO, Macquarie Group Limited is deemed to be interested in 2,164,330,000 Shares or underlying Shares held directly by Macquarie Bank Limited which is wholly-owned by Macquarie Group Limited.

(2) Prosper Talent Limited is wholly and beneficially owned by CCBI Investments Limited, which in turn is wholly and beneficially owned by CCB International (Holdings) Limited. CCB International (Holdings) Limited is wholly and beneficially owned by CCB International Group Holdings Limited, which is wholly and beneficially owned by China Construction Bank Corporation, which in turn is owned as to approximately 57.26% by Central Huijin Investment Ltd. Therefore, the aforesaid companies were deemed to be interested in the same 806,126,561 shares and 1,491,334,138 short position in shares of the Company directly held by Prosper Talent Limited pursuant to Part XV of the SFO.

(3) Mr. Li Ming's interest is also disclosed in the above section headed "Directors' Interests in Shares and Underlying Shares".

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the Shares or underlying Shares of the Company as at the Latest Practicable Date as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group and is or may be material:

a). the Acquisition Agreement;

b). the cooperation framework agreement dated 28 December 2016 entered into among the Company), Nantong Wangzhe Shipbuilding Construction Company Limited*(南通旺哲船舶工程有限公司), Xiamen Xiangyu Group Limited*(廈門象嶼集團有限公司), Mr. Zhu Jianhua and Mr. Li Ming in relation to the parties' agreement to collaborate in relation to the establishment of a joint venture in Tongzhou District, Nangtong City of the PRC which shall engage in shipbuilding, shipping logistics, leasing of ports, shipbuilding related financial leasing etc.;

c). the cash account agreement dated 8 December 2016 ("**Cash Account Agreement**") entered into between the Company and Macquarie Bank Limited in relation to the opening of a cash account ("**Cash Account**") by the Company at Macquarie Bank Limited (acting through its Hong Kong branch) for receiving and holding the net subscription moneys of the convertible notes;

d). the fixed and floating security deed over cash account dated 8 December 2016 entered into between the Company and Macquarie Bank Limited pursuant to which, among other matters, the Company agreed to assign to Macquarie Bank Limited by way of security and charge in favour to Macquarie Bank Limited the Cash Account and all its right, title and interest from time to time in and to the Cash Account Agreement and all related rights;

e). the conditional subscription agreement dated 6 December 2016 entered into between the Company and Macquarie Bank Limited relating to the subscription of the 2016 Convertible Notes;

f). the capital contribution agreement (the "**Capital Contribution Agreement**") dated 8 August 2016 entered into among Merge Limited ("**Merge**") (a wholly-owned subsidiary of the Company, Shenzhen Ruilong Industries Development Limited*(深圳市瑞隆實業發展有限公司), Shenzhen Fuyun Logistics Limited* ("**Shenzhen Fuyun**")(深圳市福運物流有限公司), and Shenzhen Rainbow Fine Chemical Industry Co., Limited* ("**Rainbow**")(深圳市彩虹精細化工股份有限公司),in respect of, among others, the the contribution of registered capital in the aggregate amount of RMB50 million to be made by Merge, Shenzhen Fuyun and Rainbow in cash pursuant to the Capital Contribution Agreement;

g). the acknowledgement and confirmation dated 7 July 2016 entered into between the Company and Prosper Talent Limited confirming that the maturity date of the Convertible Notes be extended to 8 July 2017;

h). the strategic cooperation agreement dated 29 June 2016 entered into between the Company and Jiangxi Nanchang Travel Group Limited*（江西南昌旅遊集團有限公司）pursuant to which the parties to thereto shall collaborate to facilitate the homecoming of the decommissioned Nanchang aircraft carrier（南昌艦）and develop the related military theme park in Nanchang, Jiangxi Province of the PRC;

i). the investment agreement dated 21 June 2016 entered into among the Company, Beijing Zhongguan Hongan Asset Management Company Limited*（北京中冠鴻安資產管理有限公司）and Beijing Shougang Lujie Venture Investment Company Limited*（北京首鋼綠節創業投資有限公司）in relation to the formation of Beijing Zhongshou Intelligent Parking Operation Management Company Limited*（北京中首智慧停車運營管理有限公司）;

j). the termination agreement dated 22 March 2016 entered into among China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company), the Company, Zhejiang Guopei Energy Investment Management Limited*（浙江國沛能源投資管理有限公司）, and Sanya Chengda Investment Limited*（三亞成大投資有限公司）relating to the termination of the equity transfer agreement dated 25 June 2015;

k). the termination agreement dated 22 March 2016 entered into among China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company), the Company, Nancheong Fubon Pipeline Gas Company Limited*（南昌富幫管道天然氣有限公司）relating to the termination of the equity transfer agreement dated 25 June 2015;

l). the conditional joint venture agreement dated 18 March 2016 entered into among China Ocean (LNG) Limited（中海天然氣有限公司）(an indirect wholly-owned subsidiary of the Company), Jiujiang State-owned Assets Management Limited Co., Ltd（九江市國有資產經營有限公司）and Jiujiang Baopu Asset Management Limited (Limited Partnership)*（九江抱樸資產管理有限公司(有限合夥）in relation to the formation of Jiangxi River-side Industry Development and Venture Capital Investment Fund（江西沿江產業發展創業投資企業）;

m). the supplemental agreement dated 21 March 2016 in relation to the conditional joint venture agreement dated 18 March 2016 entered into among China Ocean (LNG) Limited（中海天然氣有限公司）(an indirect wholly-owned subsidiary of the Company), Jiujiang State-owned Assets Management Limited Co., Ltd（九江市國有資產經營有限公司）and Jiujiang Baopu Asset Management Limited (Limited Partnership)*（九江抱樸資產管理有限公司(有限合夥）in relation to the formation of Jiangxi River-side Industry Development and Venture Capital Investment Fund（江西沿江產業發展創業投資企業）;

n). the joint venture agreement dated 17 December 2015 entered into between the Company and Shenzhen Electronics Group Company Limited*（深圳賽格集團有限公司）in relation to the formation of Shenzhen Saige Intelligent Carparking Industry Development Limited*（深圳賽格智慧停車產業發展有限公司）;

o). the supplemental equity transfer agreement dated 9 December 2015 entered into among China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company), the Company, Zhejiang Guopei Energy Investment Management Limited*（浙江國沛能源投資管理有限公司）, and Sanya Chengda Investment Limited*（三亞成大投資有限公司）to amend certain terms of the equity transfer agreement dated 25 June 2015;

p). the supplemental equity transfer agreement dated 9 December 2015 entered into among China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company), the Company, Nancheong Fubon Pipeline Gas Company Limited*（南昌富幫管道天然氣有限公司）to amend certain terms of the equity transfer agreement dated 25 June 2015;

q). the counter guarantee agreement dated 3 December 2015 entered into among Merge Limited (a direct wholly-owned subsidiary of the Company), Zhejiang Ouhua Shipbuilding Company Limited*（浙江歐華造船股份有限公司）, Zhoushan City Dinghai District State-owned Assets Management Company Limited*（舟山市定海區國有資產經營有限公司）, Hang Shing (Hong Kong) International Limited（恒誠(香港)國際有限公司 (collectively known as "Counter Guarantors") and Zhoushan China Ocean Investment Fund*（舟山中海投創業投資企業）(as "Guarantor") pursuant to which the Counter Guarantors agreed to counter-guarantee the Guarantor for all liabilities and expenses which may be incurred by the Guarantor under the guarantee in respect of loans and facilities granted to Zhejiang Ocean Leasing Company Limited*（浙江海洋租賃有限公司） (as associated company of the Company) during the period from 1 January 2015 to 31 December 2020 and up to an aggregate amount of RMB900,000,000;

r). The supplemental subscription agreement dated 30 November 2015 entered into between the Company and Hongkong Cathaya Kinglong Fortune Management Co., Limited to extend the initial long stop date to fulfill the conditions precedent of the subscription stipulated in the subscription agreement dated 26 October 2015 from 30 November 2015 to 31 December 2015;

s). the non-legal binding strategic cooperation agreement dated 12 November 2015 entered into among the Company, Zhongan Anchan Technology Development Co, Ltd*（中安安產科技發展有限公司）and China Safety Industry Association（中國安全產業協會）to facilitate the rapid development of the intelligent automotive parking equipment business of the Group;

t). the conditional subscription agreement dated 26 October 2015 entered into between the Company and the Hongkong Cathaya Kinglong Fortune Management Co., Limited relating to the subscription of a three year, 7.5% coupon convertible bonds in the principal amount of HK$100,000,000;

u). the sale and purchase agreement dated 15 October 2015 entered into among Brilliant Plus Holdings Limited (a wholly-owned subsidiary of the Company) (as purchaser), Pacific Greatest Limited (as vendor) and Mr. Tang Wuqiang, Mr. Ning Jizhong and Ms. Su Rulin (as guarantors), pursuant to which the purchaser has conditionally agreed to purchase, and the vendor has conditionally agreed to sell, the entire equity interest in Success Capture Limited at the initial consideration of HK$67,470,000, which shall be adjusted upward to a maximum of HK$450,000,000 upon fulfillment of the guarantee profit;

v). the conditional subscription agreement dated 25 September 2015 entered into among the Company, Jiangxi Jiangzhou Union Shipbuilding Co., Ltd.*（江西江州聯合造船有限責任公司）(an indirect wholly-owned subsidiary of the Company) (as borrower) and a number of creditors relating to the subscription of 537,761,685 Shares to settle the loan owed by the borrower to the creditors in an aggregate amount of approximately RMB114,944,409;

w). the counter guarantee letter issued by the Company on 5 August 2015 at the request of Xiamen ITG Shipbuilding Imp. & Exp. Co. Ltd*（廈門國貿船舶進出口有限公司）as the guarantor relating to the provision of counter-guarantee to the said guarantor up to an aggregate of US$30,120,000;

x). a non-binding letter of intent dated 9 July 2015 entered into between the Company and an Independent Third Party which is a company incorporated in Hong Kong and principally engaging in investment in oil and natural gas, and supply of energy in particular city gas in the PRC, to strengthen the cooperation in relation to the assets and shareholding integration between the parties thereto.

y). the equity transfer agreement dated 25 June 2015 entered into among China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company) as purchaser, Zhejiang Guopei Energy Investment Management Limited*（浙江國沛能源投資管理有限公司）, and Sanya Chengda Investment Limited*（三亞成大投資有限公司）as vendor relating to the acquisition of 23% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd.* at a consideration of RMB18,775,500;

z). the equity transfer agreement dated 25 June 2015 entered into between China Ocean (LNG) Limited (an indirect wholly-owned subsidiary of the Company) as purchaser, Nancheong Fubon Pipeline Gas Company Limited*（南昌富幫管道天然氣有限公司）as vendor relating to the acquisition of 24% equity interest of Jiangxi Petrochina Kunlun Gas Co., Ltd.* at a consideration of RMB19,591,800 aa). the conditional subscription agreement dated 2 June 2015 entered into among the Company, Mr. Li Ming and Prosper Talent Limited relating to the subscription of a 12 months, 7.5% coupon rate convertible notes in the principal amount of HK$200,000,000;

bb). the counter guarantee letter issued by the Company on 31 March 2015 at the request of Xiamen ITG Shipbuilding Imp. & Exp. Co. Ltd*（廈門國貿船舶進出口有限公司）as the guarantor relating to the provision of counter-guarantee to the said guarantor up to an aggregate of US$30,120,000; and

cc). the conditional capital contribution agreement dated 20 March 2015 entered into among Merge and other shareholders of Zhejiang Ocean Leasing Company Limited*（浙江海洋租賃股份有限公司）relating to the increase in capital contribution of Zhejiang Ocean Leasing Company Limited*（浙江海洋租賃股份有限公司）from US$30,000,000 to US$100,000,000.

5. LITIGATION

Details of the litigations of the Enlarged Group please refer to the sections headed "Financial Information of the Group" and "Financial Information of the Target Group".

6. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

8. MISCELLANEOUS

a. The registered office of the Company is situated at Clarendon House, 2 Church Street Hamilton HM 11 Bermuda

b. The principal place of business of the Company is situated at Units 1702-03,17/F China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

c. The company secretary of the Company is Ms. Cheung Tin Shu

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and Bye Laws of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2015 and the interim report of the Company for the six months ended 30 June 2016;

(c) the Accountant's Report on the Target Group prepared by the Asian Alliance as set out in Appendix III to this Circular;

(d) the report from Asian Alliance on the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(e) the Valuation Report and the Confirmation Letter prepared by the Independent Valuer as set out in Appendix V to this Circular;

(f) the letter from the Board as set out on page 5 to 50 of this Circular;

(g) the service contracts referred to in the paragraph headed "Service contract" in this appendix;

(h) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(i) the letters of consent from the experts as set out in Appendix VI in this Circular;

(j) this circular; and

(k) the respective circulars of the Company dated 28 January 2016 and 26 May 2016.

CHINA OCEAN INDUSTRY GROUP LIMITED
中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of China Ocean Shipbuilding Industry Group Limited (the "Company") will be held at Golden Restaurant, Macau Jockey Club, 1/F, East Wing Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong on Tuesday, 14 March 2017 at 10:30 a.m., to consider and, if thought fit, pass the following ordinary resolution (with or without modifications):

ORDINARY RESOLUTION

1. "**THAT**

(a) the conditional acquisition agreement dated 16 November 2016 (the "Acquisition Agreement", details of which are disclosed in the circular of the Company dated 24 February 2017 (the "Circular")) entered into amongst (i) Nantong Xinda Shipping Technology Development Company Limited*(南通鑫達船舶科技發展有限公司), Mr. Huo Qi (as vendors); (ii) Mr. Ma Zhenqiang; and (iii) China Ocean Industry (Shenzhen) Limited Company*(中海重工(深圳)有限公司) as purchaser (as amended and supplemented by the Supplemental Agreement as defined in the Circular), in relation to the sale and purchase of 100% of the registered capital of Nantong Huakai Heavy Industry Company Limited*(南通華凱重工有限公司)(the "Acquisition") for a maximum consideration of RMB270,000,000, subject to adjustments to be made in accordance with the Acquisition Agreement (a copy of Acquisition Agreement has been produced at the meeting marked "A" and signed by the chairman of the meeting for identification purpose) the terms and conditions thereof and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more of the directors of the Company be and is hereby authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company (including the affixation of the common seal of the Company where required) as he or she may consider necessary, appropriate, expedient or desirable in connection with, or to give effect to, the Acquisition Agreement and to implement the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the Acquisition Agreement and any other transactions contemplated under or incidental to the Acquisition Agreement."

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

Hong Kong, 24 February 2017

Principal place of business:
Units 1702-03,
17/F, China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Notes:

1. A member of the Company who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.

2. A form of proxy for the SGM is enclosed with the notice of the SGM. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment of the meeting.

3. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the above resolution will be voted by way of poll. As at the date of this notice, none of shareholders of the Company are required to abstain from voting in respect of the above ordinary resolution above.

The English translation of Chinese names or words in this notice, 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 circular, Company's executive Directors are Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Wang San Long, Mr. Liu Jin, one non-executive director is Mr. Chau On Ta Yuen and the independent non-executive Directors are Ms. Xiang Si Ying, Mr. Hu Bai He and Ms. Xiang Ying.