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CHINA OCEAN INDUSTRY GROUP LIMITED
中海重工集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock code: 00651)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF ENTIRE REGISTERED CAPITAL OF THE TARGET COMPANY

THE ACQUISITION AGREEMENT

The Board is pleased to announce that on 16 November 2016 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, the Vendors and Mr. Ma entered into the Acquisition Agreement pursuant to which 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).

Completion shall take place on the fifth Business Day (or such other date as may be agreed by the parties thereto) after all the conditions precedent to the Acquisition Agreement have been fulfilled (or, if applicable, waived by the parties thereto).

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.

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 convened and held for Shareholders to consider, and if thought fit, approve, the Acquisition Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and hence no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the SGM.

As additional time is needed to prepare the financial information of the Target Company to be included in the circular, a circular containing, among other things, (i) details of the Acquisition; (ii) financial information of the Target Group; (iii) valuation report of the Target Group; (iv) notice of the SGM; and (v) other information as required under the Listing rules, will be despatched to the Shareholders on or before 23 December 2016 in order to allow sufficient time for the Company to prepare the required financial information and other relevant information for incorporating into the circular.

As Completion is subject to the fulfillment and/or waiver (as the case may be) of the conditions precedent as set out in the Acquisition Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 16 November 2016 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, the Vendors and Mr. Ma entered into the Acquisition Agreement pursuant to which 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).

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are set out as follows:

Date : 16 November 2016 (after trading hours of the Stock Exchange)

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 date of this announcement, (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 date of this announcement, Mr. Ma is the legal representative, a director and the 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). 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 ship-building 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 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.

Regarding the financing of the Acquisition, having assessed the Group's latest available internal resources, 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. To ensure the Purchaser will be capable to satisfy the Final Payment, 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 remaining Consideration. Given that if applicable, the Final Payment shall be obliged to be settled by the Purchaser 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 approximately 18 months from the date of this announcement. 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 date of this announcement, the Company has yet to identify and/or conclude any terms for any 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 this announcement; (iii) the turnaround in performance of the Target Group to record an unaudited consolidated net profit of approximately RMB22.58 million for the year ended 31 December 2015 as compared to a net loss recorded of approximately RMB56 million and approximately RMB51.89 million, respectively for each of the two years ended 31 December 2014 and 31 December 2013; and (iv) the preliminary appraised value of 100% interest in the Target Group as at 30 June 2016 by the Independent Valuer of RMB270,000,000 (equivalent to approximately HK$307,800,000).

The preliminary valuation (the “**Valuation**”) is subject to change upon finalisation and therefore may or may not be the same as the final valuation. A copy of the final valuation report, including details of the assumptions, basis and methodology of the valuation, will be included in the circular to be despatched to the Shareholders in relation to the Acquisition.

In preparing the preliminary 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. Details of the principal assumptions of the preliminary valuation are as follows:

- The preliminary 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 preliminary 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;

- The preliminary valuation was performed based on the draft audited financial statements of the Target Group as at 30 June 2016 provided by its management;

- 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 preliminary 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;

- Discount rate of 16.2% was adopted in the preliminary valuation, which was the estimated weighted average cost of capital of the Target Company with reference to comparable companies engaged in similar businesses;

- Working capital projection was estimated with reference to working capital turnover days of the Target Group and its comparable companies as advised by the management;

- The businesses of the Target Group will be operated and developed as planned;

- Any previous or future litigation matter will neither affect the operation of the Target Group, nor significantly affect the financial status of the Target Group;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained and renewable upon expiry;

- Land use rights located in outside of Youlaisha River Embankment, Rugao Development Zone, Zhiqing Village of Yangtze River Town*（長江鎮知青村, 如皋港開發區又來沙主江堤外）and outside of Yangtze River Embankment, Rugao*（如皋市長江鎮江堤外）can be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates, and the Target Group 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 Group 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 Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group; and

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing.

Asian Alliance (HK) CPA Limited ("**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 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 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 Valuation are set out in the Appendices to this announcement 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 this 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

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of Asian Alliance and Chanceton and their respective associates are an Independent Third Parties. As at the date of this announcement, neither Asian Alliance nor Chanceton 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 and Chanceton has given their respective written consents to the publication of this announcement 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 is 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 shall be no less than RMB15 million (the "**2016 Guaranteed Profit**"); and

(ii). for the Second Relevant Period 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:

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

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:

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

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 each of the years ending 31 December 2016 and 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 guarantees was determined after arm's length negotiations between the parties of the Acquisition after taking into accounts the factors in those discussions.

The 2016 Actual Profit and 2017 Actual Profit shall be determined according to the audited financial statements of the Target Group for each of the years ending 31 December 2016 and 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 is fulfilled or not (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 parties to the Acquisition Agreement) of, among other things, the following conditions:

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;

ii. board of directors of the Target Company, Purchaser and Vendors having passed the relevant resolutions to approve the Acquisition;

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;

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 note 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;

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;

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;

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;

viii. there having been no material adverse change in the Target Group since 31 March 2016 up to the date of 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);

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;

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;

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;

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;

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;

xv. there having been no litigation or proceedings involving the Target Group which are 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;

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;

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;

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;

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;

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》）;

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;

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;

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).

If the above conditions precedent have not been fulfilled or waived at the sole discretion of the parties to the Acquisition Agreement and such waiver may be made subject to terms and conditions as determined by the relevant party (only conditions i (to the extent applicable to the Vendors), viii, xi and xvi 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 18 January 2017 (or such later date as the parties to the Acquisition Agreement 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. As at the date of this announcement, 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.

INFORMATION OF THE TARGET GROUP

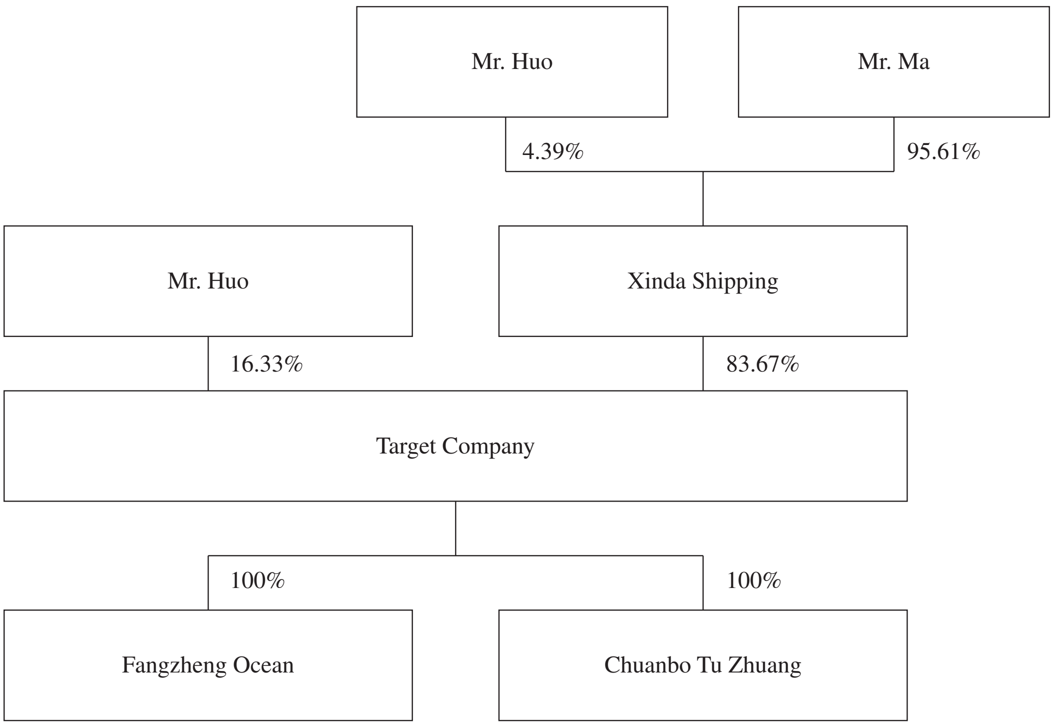
Target Company and its subsidiaries

The Target Company is incorporated in 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 date of this announcement, 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 for disclosed above, the Target Company does not hold any other material investment. 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 is 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. As at the date of this announcement, Fangzheng Ocean does not hold any material investment.

Chuanbo Tu Zhuang is 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. As at the date of this announcement, Chuanbo Tu Zhuang does not hold any material investment.

The shareholding structure of the Target Company as at the date of this announcement is set out below:



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. The Target Group 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 manufactures a wide variety of products, *inter alia*, Ro-Ro equipment, marine engineering crane, metallurgical mining machinery and equipment, bridge and building steel structures, ship steel structures and superstructure work. Majority of the products of the Target Group are exported to overseas such as Korea, Japan, Europe, Australia and America etc.

Financial Information of the Target Group

Set out below is the financial information of the Target Group prepared in accordance with the PRC GAAP for the year ended 31 December 2014 and the year ended 31 December 2015:

	For the year ended 31 December 2014 (unaudited) *(RMB'000)*	**For the year ended 31 December 2015 (unaudited)** *(RMB'000)*
Revenue	211,645	436,324
Net profit/(loss) before taxation	(56,004)	22,582
Net profit/(loss) after taxation	(56,004)	22,582

The unaudited net asset value of the Target Group was approximately RMB63.74 million as at 30 June 2016.

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 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.

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; and (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. 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.

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.

INTENTION OF THE COMPANY ON EXISTING BUSINESS

Upon completion of the Acquisition, the Company will continue 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 shift of 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.

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 convened and held for Shareholders to consider, and if thought fit, approve, the Acquisition and the transactions contemplated under the Acquisition Agreement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and hence no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Acquisition at the SGM.

As additional time is needed to prepare the financial information of the Target Company to be included in the circular, a circular containing, among other things, (i) details of the Acquisition; (ii) financial information of the Target Group; (iii) valuation report of the Target Group; (iv) notice of the SGM; and (v) other information as required under the Listing rules, will be despatched to the Shareholders on or before 23 December 2016 in order to allow sufficient time for the Company to prepare the required financial information and other relevant information for incorporating into the circular.

As Completion is subject to the fulfillment and/or waiver (as the case may be) of the conditions precedent as set out in the Acquisition Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the securities of the Company.

DEFINITIONS

"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
"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
"Acquisition"	the sale and purchase of Sale Equity from Vendors to the Purchaser
"Acquisition Agreement"	the conditional agreement dated 16 November 2016 (after trading hours of the Stock Exchange) entered into among the Purchaser, the Vendors and Mr. Ma in relation to 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
"Guaranteed Profits"	The 2016 Guaranteed Profit and the 2017 Guaranteed Profit
"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
"Director(s)"	director(s) of the Company
"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
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huatai Accounts Receivable"	the accounts receivable of the Target Company due from Huatai Heavy Industry from time to time, which amount was RMB 42,162,207.32 as at 30 June 2016
"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
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	18 January 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
“PRC GAAP”	the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and other relevant accounting regulations as promulgated in the PRC
“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
“SGM”	the special general meeting of the Company to be convened for the purpose of, among others, approving the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

"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
"Vendor A" or "Xinda Shipping"	Nantong Xinda Shipping Technology Development Company Limited, a company established under the laws 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 the context requires otherwise, amounts denominated in RMB have been converted into HK$ at an exchange rate of RMB1: HK$1.14 for the purpose of illustration only. No representation is made that any amount in HK$ or RMB could have been or could be converted at the relevant dates at the above rate or at any other rates or at all.

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

Hong Kong, 16 November 2016

The English translation of Chinese names or words in this announcement, where indicated by "" are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words*

As at the date of this announcement, the Board of the Company comprises four executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong, Mr. Wang San Long and Mr. Liu Jin, one non-executive director, namely, Mr. Chau On Ta Yuen; and three independent non-executive directors, namely, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.

APPENDIX I – REPORT FROM ASIAN ALLIANCE

The following is the text of a report from Asian Alliance (HK) CPA Limited, prepared for the purposes of inclusion in this announcement.

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

16 November 2016

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* ("Huakai Heavy")) and its subsidiaries (hereinafter collectively referred to as the "Huakai Heavy 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, in respect of the Huakai Heavy Group, as at 30 June 2016 (the "Valuation") is based. Huakai Heavy is a company 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 announcement dated 16 November 2016 to be issued by the Company in connection with the acquisition of the entire registered capital of Huakai Heavy (the "Announcement").

* *For identification propose 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, objectivity, 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 Huakai Heavy 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

APPENDIX II – LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

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 Valuation, for the purpose of inclusion in this announcement.

川盟融資有限公司
Chanceton Capital Partners Limited

16 November 2016

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 30 June 2016 (the "**Valuation**"). Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as those defined in the announcement of China Ocean Industry Group Limited dated 16 November 2016 (the "**Announcement**").

We have reviewed the forecasts upon which the 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 16 November 2016 as set out in Appendix I to the Announcement regarding the calculations and arithmetical accuracy of the 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 Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the profit forecast upon which the 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