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If you are in doubt as to any aspect about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in China Ocean Industry Group Limited, you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
CAPITAL REORGANISATION;
AND
NOTICE OF SPECIAL GENERAL MEETING**

FINANCIAL ADVISER



Draco Capital Limited

A notice convening the SGM of the Company to be held at Unit 07, 21/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 25 October 2019 at 9:30 a.m. is set out on pages 36 to 40 of this circular.

If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal is in force at or at any time after 12:00 noon on the date of the SGM and/or the Hong Kong Observatory has announced at or before 12:00 noon on the date of the meeting that either of the above mentioned warnings is to be issued within the next two hours, the SGM will be adjourned. The Company will publish an circular to notify Shareholders of the date, time and place of the adjourned SGM.

The SGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the SGM under bad weather conditions bearing in mind their own situation.

Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later 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 you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

3 October 2019

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	any person who is the registered holder of any Convertible Bonds then outstanding
“Business Day(s)”	a day (excluding Saturday, Sunday, public holiday or any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted between 9:00 a.m. and 5:00 p.m. in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“Capital Reduction”	the reduction of the paid-up capital of each of the issued Shares by cancelling the paid-up capital to the extent of HK\$0.049 per issued Share, thereby reducing the nominal or par value of each issued Share from HK\$0.05 to HK\$0.001 and the reduction of the nominal or par value of each authorised but unissued Share from HK\$0.05 to HK\$0.001
“Capital Reorganisation”	the proposed capital reorganisation of the Company comprising (i) the Capital Reduction; and (ii) the Share Consolidation
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	China Ocean Industry Group Limited (中海重工集團有限公司), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board (Stock Code: 0651)
“Completion”	completion of the issue of the Convertible Bonds by the Company and subscription for the Convertible Bonds by the Subscribers in accordance with the terms and conditions of each of the Subscription Agreements

DEFINITIONS

“connected person(s)”	has the meaning as ascribed thereto under the Main Board Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.04 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Convertible Bonds”	the convertible bonds in aggregate principal amount of HK\$110,000,000 which may be issued by the Company to the Subscribers pursuant to the Subscription Agreements
“Conversion Price”	the initial conversion price of HK\$0.64 per Conversion Share
“Conversion Rights”	the rights attached to the Conversion Bonds for the conversion of the Convertible Bonds into the Conversion Shares at the Conversion Price
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the Conversion Rights
“Director(s)”	the director(s) of the Company
“Existing CB”	the existing 2-year convertible bond in aggregate principal amount of HK\$189,000,000 issued by the Company on 10 November 2017, details of which are set out in the announcements of the Company dated 10 August 2017
“Existing Shares”	ordinary share(s) of the Company with a nominal value of HK\$0.05 each prior to the Capital Reorganisation
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”	the Company and its subsidiaries from time to time and “Group member” shall be construed accordingly
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Issue Date”	the date of issue of the Convertible Bonds
“Last Trading Day”	19 July 2019, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Subscription Agreements
“Latest Practicable Date”	30 September 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for the inclusion in this circular
“Long Stop Date”	30 November 2019, or such other date as the Company and the relevant Subscriber may agree in writing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange
“Nantong Huakai”	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 with limited liability
“New Shares”	ordinary share(s) with par value of HK\$0.04 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
“Reduced Share(s)”	ordinary shares of HK\$0.001 each in the issued share capital of the Company immediately upon the Capital Reduction becoming effective
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, Macau and Taiwan
“SGM”	a special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, the (i) Capital Reorganisation and (ii) the Subscription Agreement and the transaction contemplated thereunder

DEFINITIONS

“Share(s)”	the ordinary share(s) in the issued share capital of the Company
“Share Consolidation”	the proposed consolidation of every 40 issued and unissued Existing Shares into 1 Consolidated Share and the proposed rounding down of the total number of Consolidated Shares to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation
“Share Option Schemes”	the share option schemes adopted respectively by the Company on 27 May 2002 and 27 June 2012
“Share Options”	the share options granted under the Share Option Scheme
“Shareholder(s)”	the holder(s) of the Share(s)
“Specific Mandate”	the mandate to be sought from the Shareholders at the SGM to allot and issue the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber 1”	Hong Kong Tong Ji Investment Holding Ltd. (香港同濟投資控股有限公司), which is independent of Subscriber 2 and the holder of the Existing CB
“Subscriber 2”	Wise Benefit Investments Limited (智益投資有限公司), which is independent of Subscriber 1 and the holder of the Existing CB
“Subscribers”	Subscriber 1 and Subscriber 2
“Subscription”	the subscription of the Convertible Bonds by the Subscribers pursuant to the terms of the Subscription Agreements
“Subscription Agreement I”	the subscription agreement dated 19 July 2019 entered into between the Company and Subscriber 1 in relation to the subscription of Convertible Bonds in the principal amount of HK\$50,000,000
“Subscription Agreement II”	the subscription agreement dated 19 July 2019 entered into between the Company and Subscriber 2 in relation to the subscription of Convertible Bonds in the principal amount of HK\$60,000,000
“Subscription Agreements”	the Subscription Agreement I and the Subscription Agreement II

DEFINITIONS

“Supplemental Agreement I”	The supplemental agreement to Subscription Agreement I dated 27 September 2019 entered into between the Company and Subscriber 1
“Supplemental Agreement II”	The supplemental agreement to Subscription Agreement II dated 27 September 2019 entered into between the Company and Subscriber 2
“Supplemental Agreements”	The Supplemental Agreement I and the Supplemental Agreement II
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buybacks
“Trading Day(s)”	means a day on which trading of the Shares is conducted on the Stock Exchange in accordance with the rules and regulations of the Stock Exchange promulgated from time to time
“Ms. Wan”	Ms. Wan Zhang Qing* (萬丈青), is a PRC resident and a sophisticated investor
“Zhejiang Ocean”	Zhejiang Ocean Leasing Company Limited* (浙江海洋租賃股份有限公司), a sino-foreign joint equity enterprise established under the laws of the PRC
“%”	per cent.

The English translation of Chinese names or words in this circular, 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.*

EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation is set out below. The expected timetable is subject to the satisfaction of all the conditions of the Capital Reorganisation, including without limitation, the approval of the Capital Reorganisation by the Shareholders at the SGM and is therefore for indicative purpose only. Any change to the expected timetable will be announced in a separate announcement by the Company as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

Event

Latest time for lodging transfer of Shares in order to qualify for attending and voting at the SGM	4:30 p.m. on Friday, 18 October 2019
Register of members of the Company closed	Monday, 21 October 2019 to Friday, 25 October 2019 (both days inclusive)
Latest time and date for lodging forms of proxy for the SGM (not less than 48 hours prior to the time of the SGM)	9:30 a.m. on Wednesday, 23 October 2019
Time and date of the SGM	9:30 a.m. on Friday, 25 October 2019
Publication of announcement of poll results of the SGM	Friday, 25 October 2019
The following events are conditional on the fulfilment of the conditions for the implementation of the Capital Reorganisation:	
Effective date of the Capital Reorganisation	Tuesday, 29 October 2019
Dealing in Consolidated Shares commences	9:00 a.m. on Tuesday, 29 October 2019
First day for free exchange of existing share certificates for new share certificates for the Consolidated Shares	Tuesday, 29 October 2019
Original counter for trading in the Existing Shares in board lots of 5,000 Existing Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Tuesday, 29 October 2019

EXPECTED TIMETABLE

Event

Temporary counter for trading in the Consolidated Shares in board lots of 125 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m. on Tuesday, 29 October 2019
Original counter for trading in the Consolidated Shares in board lots of 5,000 Consolidated Shares (in the form of new share certificates) re-opens	9:00 a.m. on Tuesday, 12 November 2019
Parallel trading in the Consolidated Shares (in form of new share certificates and existing share certificates) commences	9:00 a.m. on Tuesday, 12 November 2019
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:00 a.m. on Tuesday, 12 November 2019
Temporary counter for trading in the Consolidated Shares in board lots of 125 Consolidated Shares (in the form of existing share certificates) closes	4:00 p.m. on Monday, 2 December 2019
Parallel trading in Consolidated Shares (in form of new share certificates and existing share certificates) ends	4:00 p.m. on Monday, 2 December 2019
Designated broker ceases to stand in the market to provide matching services for odd lots of the Consolidated Shares	4:00 p.m. on Monday, 2 December 2019
Last day for free exchange of existing share certificates for new share certificates for the Consolidated Shares	Wednesday, 4 December 2019

LETTER FROM THE BOARD

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. Zhang Weibing

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-Executive Directors:

Mr. Chau On Ta Yuen

Principal Place of Business in Hong Kong:

Unit 07, 21/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

Independent Non-executive Directors:

Ms. Xiang Siying
Mr. Hu Bai He
Ms. Xiang Ying

3 October 2019

To the Shareholders,

Dear Sir or Madam,

**1) ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
2) CAPITAL REORGANISATION;
AND
3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 19 July 2019, 2 August 2019, 23 August 2019, 20 September 2019 and 27 September 2019.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details of the Subscription Agreement and Capital Reorganisation; and (ii) other information in accordance with requirements of the Listing Rules.

LETTER FROM THE BOARD

ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 19 July 2019 (after trading hours), the Company and each of the Subscribers entered into the Subscription Agreements on substantially the same terms, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, the Convertible Bonds with an aggregate principal amount of HK\$110,000,000 due 3 years from the date of issue of the Convertible Bonds at the Conversion Price of HK\$0.64 per Conversion Share upon the Capital Reorganisation becoming effective. The Long Stop Date and certain terms are amended and supplemented by the Supplemental Agreements dated 27 September 2019.

Principal terms of the Subscription Agreement and the Convertible Bonds are set out as follows:

Subscription of Convertible Bonds

Pursuant to the Subscriptions Agreements (as amended and supplemented by the Supplemental Agreements), each of the Subscribers conditionally agreed to subscribe for Convertible Bonds as follows:

	Principal amount of Convertible Bonds to be subscribed (HK\$)
Subscriber 1	50,000,000
Subscriber 2	<u>60,000,000</u>
	<u><u>110,000,000</u></u>

Date: 19 July 2019 (after trading hours) (the Subscriptions Agreements) and 27 September 2019 (the Supplement Agreements)

Parties:

- Subscription Agreement I:
- (1) The Company as issuer; and
 - (2) Hong Kong Tong Ji Investment Holding Ltd. (香港同濟投資控股有限公司) as Subscriber 1
- Subscription Agreement II:
- (1) The Company as issuer; and
 - (2) Wise Benefit Investments Limited (智益投資有限公司) as Subscriber 2

LETTER FROM THE BOARD

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, the Subscribers and each of their ultimate beneficial owner(s) are Independent Third Parties of the Company under the Listing Rules.

Consideration and payment terms:

Issue Price: 100% at the principal amount of the Convertible Bonds

Interest: 10% per annum on the outstanding principal amount of the Convertible Bonds which shall be paid on the maturity date of the Convertible Bonds

Interest Period: The period of three years commencing on the date of issue of the Convertible Bonds and ending on the maturity date of the Convertible Bonds

Maturity Date: The date falling on the third (3rd) anniversary of the date of issue of the Convertible Bonds

Redemption upon maturity: Unless previously converted in accordance with the terms and conditions thereof, any outstanding Convertible Bonds shall be redeemed by the Company at its principal amount (together with any accrued but unpaid interests) on the Maturity Date. No interest shall be paid on the amount of the Convertible Bonds which has been converted into Conversion Shares prior to the maturity date of the Convertible Bond.

Conversion Price: Initially HK\$0.64 per Conversion Share, upon the Capital Reorganisation becoming effective, subject to usual adjustment provisions customary for convertible bonds of similar kind as described in the "Adjustment provision" paragraph below.

The Conversion Price was arrived at after arm's length negotiation between the Company and the Subscribers with reference to recent performance of the Shares, the Group's existing financial position and current market sentiment and represents:

LETTER FROM THE BOARD

1. no discount to the closing price of HK\$0.64 per New Share, based on the closing price of HK\$0.016 per Existing Share as quoted on the Stock Exchange on the date of the Subscription Agreements and adjusted for the effect of the Share Consolidation;
2. a premium of approximately 3.90% to the average closing price of HK\$0.616 per New Share, based on the average of the closing prices of HK\$0.0154 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation; and
3. a premium of approximately 4.58% to the average closing price of HK\$0.612 per Share, based on the average of the closing prices of HK\$0.0153 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation.

Adjustment provisions:

The Conversion Price shall from time to time be adjusted upon occurrence of the following events:

- (1) consolidation or sub-division of Shares;
- (2) capitalisation of profits or reserves;
- (3) scrip dividend in lieu of cash dividend and the market price of such Share exceeds the relevant cash dividend;
- (4) capital distribution;

LETTER FROM THE BOARD

- (5) offer of new Shares for subscription by way of rights, or grant to Shareholders any options or warrants to subscribe for new Shares at a price which is less than 95% of the then current market price at the date of the circular of the terms of such offer;
- (6) issue of Shares or options, warrants or any securities which carry rights of subscription for or acquisition of new Shares (save for shares issued under the Convertible Bonds, the Existing CB and options granted under the Share Option Schemes), at a price which is less than 95% of the then current market price at the date of the circular of the terms of such issue; and
- (7) issue of Shares (other than as mentioned in (5) and (6) above) by the Company or any of its subsidiaries, or issue of securities (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) by any other company, person or entity which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares (save for shares issued under the Convertible Bonds, the Existing CB and options granted under the Share Option Schemes), at a price which is less than 95% of the then current market price at the date of the circular of the terms of such issue.

The adjustment mentioned in (2) to (7) above are not applicable to:

- (1) an issue of Shares or other securities of the Company wholly or partly convertible into, or rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries or other eligible participants pursuant to any share scheme adopted in accordance with and in compliance with the Listing Rules;

LETTER FROM THE BOARD

- (2) an issue of Shares pursuant to the exercise of conversion rights under the Existing CB and the Convertible Bonds; and
- (3) an issue of Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights to acquire Shares for the acquisition of any securities, assets or business provided that an adjustment (if required) has been made pursuant to the aforesaid adjustment provisions in respect of the issue of such securities or granting of such rights (as the case may be).

Conversion Shares:

171,875,000 Conversion Shares would be in issue on full conversion of the Convertible Bonds at the Conversion Price, had the Capital Reorganisation become effective

As at the Latest Practicable Date, the Company has 13,636,838,840 Shares in issue. Assuming full exercise of the Conversion Rights attaching to the Convertible Bonds at HK\$0.64 per Conversion Share, the Company will allot and issue 171,875,000 Conversion Shares, representing (i) approximately 50.4% of the existing issued share capital of the Company given the Capital Reorganisation become effective and (ii) approximately 33.53% of the issued share capital of the Company given the Capital Reorganisation become effective and as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandates to be sought from the Shareholders at the SGM of the Company.

LETTER FROM THE BOARD

Conversion period:

The Conversion Rights attaching the whole or part of any outstanding principal amount of Convertible Bonds may be exercised, at the option of the Bondholder, at any time on and after the Issue Date up to but excluding the Maturity Date so long as:

- (1) the exercise of the Conversion Rights will not result in the relevant Bondholder(s), its associates and parties acting in concert with it (as defined under the Takeovers Code) will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless:
 - (i) a whitewash waiver is obtained in accordance with the requirement of the Takeovers Code; or
 - (ii) a general offer is made in accordance with the requirement of the Takeovers Code; and
- (2) not less than 25% of the then total number of issued Shares are being held in public hands.

Events of default:

If, among others, any of the following events occurs, the Bondholder(s) may give notice to the Company that the Convertible Bonds are, and they shall accordingly thereby become, immediately due and payable at an amount equal to the sum of the aggregate principal amount of the Convertible Bonds then outstanding and the interest accrued thereon:

- (1) the Company fails to pay the principal amount of the Convertible Bonds on the due date, save and except for administrative or technical error and payment has been made within 5 Business Days after the due date; or
- (2) in respect of any amount owed by any member of the Group to the Bondholder(s) and/or its subsidiary(ies), such member of the Group fails to repay such amount to the Bondholder(s) and/or its subsidiary(ies) pursuant to the relevant agreement in writing; or

LETTER FROM THE BOARD

- (3) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Convertible Bonds which default will constitute a material adverse effect on the Group's business, operations, assets, financial condition, and such default (a) is incapable of remedy or (b) being a default which is, in the opinion of the Bondholder(s), capable of remedy, remains unremedied for 14 days after the Bondholder(s) have given written notice thereof to the Company; or
- (4) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking property, assets or revenues of the Company or its major subsidiaries and which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or
- (5) unless otherwise agreed in writing by the Bondholder(s), the Company or its major subsidiaries is (a) unable to pay its debts as and when they fall due or (b) applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or its subsidiaries or the whole or any part of the undertaking, property, assets or revenues of the Company or its subsidiaries or (c) initiates any proceeding under any law for a readjustment or deferment of its obligations or any part of them or (d) makes or enters into a general assignment or compromise with or for the benefit of its creditors, which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or

LETTER FROM THE BOARD

- (6) an order is made or an effective resolution passed for the dissolution or winding-up of the Company or any of its major subsidiaries except in the case of dissolution or winding-up of subsidiaries in the course of internal reorganisation; or
- (7) suspension of trading of the Shares on the Stock Exchange or a recognised stock exchange for a continuous period of 5 Trading Days; or
- (8) there having been a material adverse change in the business, financial position or operation of the Company; or
- (9) it becomes illegal for the Company to perform or comply with any one or more of its obligations under the Convertible Bonds; or
- (10) a false or misleading representation in respect of the Convertible Bonds is made or has been made by the Company or any of its subsidiary; or
- (11) the Company or any of its subsidiary ceases to carry on or threatens to cease to carry on the whole or part of its business or operation has been terminated or threatened to be terminated; or
- (12) any legal representative, controller, senior officer, director of the Group is involved in or will be involved in material litigation, arbitral proceedings or other legal disputes; or
- (13) any breach, default or cross-default by the Company or any of its subsidiary in respect of any indebtedness or any indebtedness of the Company or any of its subsidiary becomes due and payable prior to its stated maturity; or

LETTER FROM THE BOARD

(14) in the opinion of the Bondholder(s), there having been a material litigation, lost in arbitration, operation or financial crisis, failure to pay debts when they fall due, winding up, insolvency etc. which may or has affected or prejudice the rights of the Bondholder(s) under the Subscription Agreements and the Convertible Bonds, or other matters which may affect the Bondholder(s)'s recovery of the principal of and interest on the Convertible Bonds.

Right to distribution in specie:

In the event the Company makes any distribution in specie in lieu of cash dividend during the conversion period, the Bondholder(s) shall be entitled to the following:

- (1) on the date of circular of such distribution, the Company and the Bondholder(s) may appoint an approved commercial bank or auditors of the Company to determine the value of distribution the Bondholder(s) is entitled to (“**Entitlement**”) based on the outstanding principal amount of the Convertible Bonds; and
- (2) upon determination of the Entitlement (which shall be final and binding upon the Company and the Bondholder(s)), the Company shall, in accordance with the Bondholder(s)' election, distribute the Entitlement to the Bondholder(s) in cash or in specie.

Voting:

The Bondholder(s) will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bonds.

LETTER FROM THE BOARD

Transferability:

Subject to the restricted transfer period described below, the Convertible Bonds are freely transferable at any time during the period from the date on which the Bondholder is registered as the holder of the Convertible Bonds provided that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company and its associates without the Company's prior written consent.

The Company will not register any transfer of Convertible Bonds: (i) during the 7 days prior to and including the date of payment of any principal amount in respect of the Convertible Bonds; (ii) after the delivery of a conversion notice by the Bondholder(s); or (iii) during the 7 days prior to and including the date of interest payment pursuant to the terms of the Convertible Bonds.

Ranking of Conversion Shares:

The Conversion Shares issued upon conversion of the Convertible Bonds will in all respects rank *pari passu* with the New Shares already in issue on the conversion date.

Application for listing:

No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The Board considers that the terms and conditions of the Convertible Bonds, which were arrived at after arm's length negotiations between the Company and each of the Subscribers, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions Precedent

Completion is conditional upon satisfaction of the following conditions:

- (1) the Shareholders having passed all necessary resolutions at a special general meeting of the Company according to applicable laws (including but not limited to the Listing Rules) to approve the Subscription Agreements and transactions contemplated thereunder, including but not limited to the Specific Mandate;
- (2) the Capital Reorganisation becoming effective;
- (3) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares; and
- (4) the Company and the Subscribers having obtained all necessary consents and approvals required to be obtained on their respective part in respect of the Subscription Agreements and the transactions contemplated thereunder (if applicable), and fully complied with relevant laws and regulations (including but not limited to the Listing Rules and applicable laws of Hong Kong). All such consents and approvals shall remain valid up to the date of Completion and there being no rules or regulations imposed by relevant authorities to prohibit or substantially delay the performance and completion of the Subscription Agreements.

In the event that the above conditions are not fulfilled on or before the Long Stop Date (as amended by the Supplemental Agreements), or such other date as the Company and the relevant Subscriber may agree in writing, the relevant Subscription Agreement shall automatically terminate and lapse, and the relevant Subscriber and the Company shall forthwith be released from their respective rights and obligations under the relevant Subscription Agreement, except for the obligations in relation to confidentiality.

As at the Latest Practicable Date, none of the conditions precedent have been fulfilled. Completion of each of the Subscription Agreements is not inter-conditional upon each other and the completion of disposal of 20% equity interest in Zhejiang Ocean as announced in the Company's announcements dated 28 February 2019, 6 March 2019, 11 April 2019, 3 May 2019, 17 May 2019, 30 May 2019, 15 July 2019, 30 July 2019 and 2 September 2019, and the circular dated 14 August 2019.

LETTER FROM THE BOARD

Specific Mandate

The Subscription Agreements and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the SGM.

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

Completion

Subject to the fulfillment of the above conditions, Completion shall take place whereby the Convertible Bonds shall be issued to the Subscribers in 4 tranches in the respective amount to be agreed between the Company and the Subscribers within one month after the satisfaction of all of the conditions precedent. Such settlement arrangement is based on the arm's length negotiation and commercial decision between Company and each of the Subscribers for which the Board is of the view that, the settlement of the principal amount of the Subscriptions will be expedited under such term in the Subscription Agreements as opposed to issuing the Convertible Bonds in a single tranche one month after satisfaction of all conditions precedent. As agreed between the Company and the Subscribers, the issue date of the issuance of each tranches of the Convertible Bonds will be in line with the repayment schedule of the Company and the Board therefore considers that such arrangement will not cause any material adverse impact on the repayment to the creditors of the Company and is in the interest of the Company and the Shareholders as a whole.

Each of the Subscribers and their respective ultimate beneficial owners have confirmed with the Company that upon the completion of the Subscription, each of the Subscribers and each of their respective ultimate beneficial owners, (i) will not take significant roles/directorships in the Company and/or its subsidiaries and in particular none of them will not be appointed as a director of the Company; (ii) will not nominate persons to become a director of the Company; and (iii) will be passive investors of the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not carry out any equity fund raising activities during the past 12 months prior to the date of this circular.

INFORMATION OF THE SUBSCRIBERS

The Subscriber 1 is a private company incorporated in British Virgin Islands with limited liability and its principal activities is investing holding. The Subscriber 1 is ultimately owned by Mr. Qian Jin (錢進). Mr. Qian is a PRC resident and a sophisticated investor.

On 4 April 2019, Mr. Qian and the Company entered into the memorandum of understanding (the "MOU") which sets out the Company's intention in respect of the conditional agreement to purchase, and Mr. Qian's intention in respect of the conditional agreement to sell and procure other shareholders of Shenzhen Shi Tongji Zhong Ji Shiye Limited* (深圳市同濟申基實業有限公司)(the "Target Company") to sell part of or the entire equity interests of the Target Company (the "Possible Acquisition"). However, due to commercial considerations, the Company and Mr. Qian mutually agreed to not proceed with the Possible Acquisition and entered into a termination agreement ("MOU Termination Agreement") to terminate the MOU on 29 August 2019.

LETTER FROM THE BOARD

During the discussion and negotiations of the terms and conditions of the Possible Acquisition between the Company and Mr. Qian, the Company approached Mr. Qian to see if he is interested in participating in a potential fundraising plan to improve the Company's financial position and for raising working capital of the Group. Mr. Qian expressed his interest in the proposed fundraising plan and after further discussions and negotiations the terms and conditions of the Convertible Bonds, the Company and Subscriber 1, which is wholly-owned by Mr. Qian entered into the Subscription Agreement I on 19 July 2019, pursuant to which, Subscriber 1 conditionally agreed to subscribe the Convertible Bonds.

Save as aforesaid, up to the Latest Practicable Date, there is no other past or existing relationship (including finance, business or other) or transactions between Mr. Qian and the Company. Save for the MOU, the Subscription Agreement and the MOU Termination Agreement, the Company and Mr. Qian and their respective connected persons, have not entered into any other agreement, arrangement or understanding (either in written or verbal form, explicit or implied), including without limitation to any agreement or understanding in connection with the Possible Acquisition, the Subscription, the corporate structure, the operation of the Company and its subsidiaries etc. Up to the Latest Practicable Date, there is no other ongoing negotiation between Mr. Qian (and his connected persons) and the Group to inject any assets by Mr. Qian to the Group in future.

The Subscriber 2 is a private company incorporated in British Virgin Islands with limited liability and its principal activities is investing holding. The Subscriber 2 is ultimately owned by Mr. Yu Yang. Mr. Yu is a New Zealand resident and a sophisticated investor.

Mr. Yu is a sophisticated investor and has known the management of the Company for more than 10 years. The management of the Company started to approach various potential investors in or about May 2019 to formulate plans for a fundraising exercise to improve its financial position and to raise working capital of the Group. Mr. Yu was approached and introduced by the Company in June 2019 in this respect and has expressed his interest in participating in such exercise to support the development of the Group. As such, after further discussions and negotiations of the terms and conditions of the Convertible Bonds, the Company and the Subscriber 2, which is wholly-owned by Mr. Yu entered into the Subscription Agreement II on 19 July 2019, pursuant to which, Mr. Yu conditionally agreed to subscribe the Convertible Bonds.

Save as aforesaid, up to the Latest Practicable Date, there is no other past or existing relationship (including finance, business or other) or transactions between Mr. Yu and the Company.

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, each of the Subscribers and each of their respective ultimate beneficial owners are Independent Third Parties of (i) the Company and (ii) the holder of the Existing CB.

LETTER FROM THE BOARD

REASONS FOR THE SUBSCRIPTION

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

Save as disclosed in the announcement of the Company dated 28 February 2019 and 13 June 2019 regarding the disposal of 20% of equity interest in Zhejiang Ocean and 60% of equity interest in Nantong Huakai respectively, up to the Latest Practicable Date, the Company has no plan to dispose of and/or downsize its existing businesses and introduce new businesses.

The Directors consider that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group upon exercise of the conversion rights attached to the Convertible Bonds so as to facilitate its future development.

The Directors consider that the terms of the Subscription Agreements, which were arrived at arm's length negotiations between the Company and each of the Subscribers, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds and net proceeds of the Subscription will be approximately HK\$110,000,000 and HK\$109,000,000 respectively. The Company intends to apply the net proceeds towards repayment of debts owed by the Group and the remaining for general working capital in which,

- approximately HK\$89,000,000 for repayment of the outstanding loans and interest owed by the Group; and
- approximately HK\$20,000,000 for working capital of the Group.

The net price per Conversion Share based on the above net proceeds is approximately HK\$0.634.

LETTER FROM THE BOARD

Set out below is the table showing the details of outstanding loans and interest which the Company intends to repay by using the net proceeds (the “**Outstanding Loans**”) ^{Note}:

Classification of the Outstanding Loans in the 2019 interim results of the Group	Outstanding amount (HK\$'000) (approx.)	Repayment amount (HK\$'000) (approx.)
Current liabilities – Other borrowing		
– Titan Petrochemicals Group Limited	10,659	10,659
– Ms. Wan	8,733	7,706
– Better Shine Limited	2,390	2,390
– Pacific Ocean Marine Limited	49,345	49,345
	71,127	70,100
Current liabilities – Convertible bonds payables		
– Forward Fund SPC-Double Management Fund SP	12,900	12,900
– Pacific Ocean Marine Limited	6,000	6,000
	18,900	18,900
Total	90,027	89,000

Note:

To the best of the knowledge, information and belief and having made all reasonable enquiries by the Directors. As at the Latest Practicable Date, one of the creditors of the Outstanding Loans, namely Ms. Wan, to whom approximately HK\$12,123,000 is owed by the Company, is a Shareholder. As such, Ms. Wan and her associates, who in aggregate held 162,000,454 Shares, representing approximately 1.19% of the total number of issued shares of the Company as at the Latest Practicable Date, are regarded to have a material interest and will be required to abstain from voting on the resolution approving the Subscription Agreements and the transactions contemplated thereunder to be proposed at the SGM. Ms. Wan is aware that the Outstanding Loan owed to her will not be fully repaid by the proceeds raised.

Such as disclosed herein, no other creditors of the Outstanding Loans are Shareholders of the Company as at the Latest Practicable Date.

Part of the proceeds raised from the Subscription will be used to repay the amount owed to Titan Petrochemicals Group Limited, the Petitioner of the Petition stated on page 29 to 31 of this circular. Also, 3 creditors of the Outstanding Loans are also the followers of the Petition (the “**Followers**”).

Set out below is the table showing the details of the names of the Followers and the respective total outstanding debts owed to them as at the Latest Practicable Date, and the respective due date of payments.

LETTER FROM THE BOARD

No.	Name of Creditors	Due date of payment	Outstanding amount <i>(HK\$'000)</i> <i>(approx.)</i>
1.	Forward Fund SPC-Double Management Fund SP	4 April 2019	12,900
2.	Better Shine Limited	30 April 2019	2,390
3.	Pacific Ocean Marine Limited	24 September 2019	55,345

The progress of the Petition is within the control of the Petitioner. As Followers of the Petitioner, they are entitled to (a) have the right of audience in any hearing of the Petitioner and (b) receive all documents in relation to the Petitioner. Further, the rights of the Followers arise in case of liquidation of the Company, whereby the Petitioner, the Followers and other creditors of the Company, if any, would be entitled to receive dividends of the realized assets of the Company in accordance to their priority and amount of the debts proved.

In the case of withdrawal by the Petitioner, before the perfection of the order for withdrawal, any of the Followers may apply to the court to step into the shoes of the Petitioner as the substituting petitioner (the “**Substituting Petitioner**”). As the Substituting Petitioner, it shall have the right to carry the Petition forward in its own name and petition for the winding up of the Company, unless and until the Petition be settled and withdrawn.

Upon the repayment to the Petitioner, the Petitioner will be requested for the withdrawal of the Petition by the Company. The proceeds raised will also be used to repay the debts owed to the Followers.

Set out below is the table showing the details of general working capital which the Company intends to apply the net proceeds to.

No.	Item	Amount <i>(HK\$'000)</i>
1.	Rental of head office	2,800
2.	Remuneration for directors and staff of the Group	9,700
3.	Listing related fee	900
4.	Annual audit and related professional fee	3,500
5.	Printer fee	1,000
6.	Bermuda company secretary and government fee	600
7.	Miscellaneous	<u>1,500</u>
Total		<u><u>20,000</u></u>

LETTER FROM THE BOARD

Completion of the Subscription is subject to fulfilment of the conditions precedent under each of the Subscription Agreements and the Capital Reorganisation becoming effective. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

CAPITAL REORGANISATION

As at the date of this circular, the authorised share capital of the Company is HK\$2,500,000,000 comprising 50,000,000,000 Existing Shares of HK\$0.05 each, of which 13,636,838,840 Existing Shares have been issued and are fully paid or credited as fully paid.

The Board proposes to carry out the Capital Reorganisation involving the following:

(A) Capital Reduction

- (i) the cancellation of HK\$0.049 paid up capital on each issued Existing Share by way of reduction of capital so that the nominal or par value of each issued Existing Share will be reduced from HK\$0.05 to HK\$0.001; and
- (ii) the credit arising from the Capital Reduction in the amount of HK\$668,205,103 will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit (if any) will be transferred to the distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve subject to compliance with applicable law.

(B) Share Consolidation

Immediately upon the Capital Reduction becoming effective, every 40 Reduced Shares of HK\$0.001 each in the then issued share capital of the Company will be consolidated into one Consolidated Share of HK\$0.04 in the share capital of the Company and the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation.

LETTER FROM THE BOARD

Effect of the Capital Reorganisation

As at the date of this circular, the authorised share capital of the Company is HK\$2,500,000,000 divided into 50,000,000,000 Existing Shares of HK\$0.05 each, of which 13,636,838,840 Existing Shares have been allotted and issued as fully paid or credited as fully paid. Upon the Capital Reorganisation becoming effective and assuming that no Existing Shares are repurchased or issued from the date hereof until the effective date of the Capital Reorganisation, the authorised share capital of the Company shall become HK\$50,000,000 divided into 1,250,000,000 Consolidated Shares of HK\$0.04 each, of which 340,920,971 Consolidated Shares will be in issue.

Assuming there will be no change in the issued share capital of the Company from the date of this circular up to the date on which the Capital Reorganisation becomes effective, the share capital structure of the Company will be as follows:

	As at the date of this circular	Immediately upon the Capital Reorganisation taking effect
Nominal or par value	HK\$0.05 per Existing Share	HK\$0.04 per New Share
Amount of the authorised share capital	HK\$2,500,000,000	HK\$50,000,000
Number of authorised shares	50,000,000,000 Existing Shares	1,250,000,000 New Shares
Number of issued shares	13,636,838,840 Existing Shares	340,920,971 New Shares
Amount of the issued share capital	HK\$681,841,942	HK\$13,636,839

Status of the New Shares

All New Shares in issue immediately following the Capital Reorganisation becoming effective will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (i) the passing of a special resolution by the Shareholders to approve the Capital Reorganisation at the SGM;
- (ii) compliance with section 46(2) of the Companies Act, including (a) publication of a notice in relation to the Capital Reduction in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the effective date of the Capital Reduction and (b) that on the effective date of the Capital Reduction, there are no reasonable grounds for believing the Company is, or after the proposed Capital Reduction would be, unable to pay its liabilities as they become due; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the New Shares to be in issue. An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the New Shares to be in issue upon the Capital Reorganisation becoming effective.

Assuming the above conditions are fulfilled, the Capital Reorganisation is expected to become effective on the next Business Day after the last of the aforesaid conditions are fulfilled.

Listing application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares to be issued upon the Capital Reorganisation becoming effective.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of the HKSCC, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

LETTER FROM THE BOARD

OTHER ARRANGEMENTS

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Odd lots arrangement and matching services

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Chief Securities Limited to provide a matching service, on a best efforts basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares during the period from 9:00 a.m. on Tuesday, 12 November 2019 to 4:00 p.m. on Monday, 2 December 2019 (both days inclusive). Shareholders who wish to use this matching service should contact Mrs. Tiffany Wey of Chief Securities Limited at 11/F., FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong or at the telephone number (852) 2500 9163 during office hours of such period. Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Shareholders who are in any doubt about the odd lot arrangement are recommended to consult their own professional advisers.

Free exchange of Consolidated Shares' certificates and trading arrangement

Subject to the Share Consolidation becoming effective, Shareholders may, on or after Tuesday, 29 October 2019 until Wednesday, 4 December 2019 (both days inclusive), submit existing share certificates for the Shares to the Hong Kong Branch Share Registrar, Tricor Abacus Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, to exchange, at the expense of the Company, for new share certificates of the Consolidated Shares (on the basis of Forty (40) Shares for one (1) Consolidated Share). Thereafter, existing share certificates of Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each existing share certificate for the Shares submitted for cancellation or each new share certificate issued for the Consolidated Shares, whichever the number of certificates cancelled/issued is higher. After close of business on Wednesday, 4 December 2019, existing share certificates for the Shares will only remain effective as documents of title and may be exchanged for certificates for Consolidated Shares at any time but will not be accepted for delivery, trading and settlement purposes. The colour of the existing share certificates for the Shares is issued in blue colour and the colour of the new share certificates for the Consolidated Shares will be issued in green colour.

LETTER FROM THE BOARD

REASON FOR THE CAPITAL REORGANISATION

According to Rule 13.64 of the Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities. In view of the recent trading prices of the Shares, the Board proposed to implement the Share Consolidation. It is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price of the Consolidated Shares. In addition, the Company is prohibited from issuing new shares at below their par value under the Companies Act. The Capital Reorganisation will give greater flexibility to the Company in future fund raising to accommodate its future expansion and growth, should the Board consider it prudent or advisable to do so, through the issue of New Shares in the future. Save for the Subscription, the Company currently has no other concrete plan to raise funds by way of issuing new Shares.

Upon the Capital Reduction becoming effective, the credit arising from the Capital Reduction will be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The Board is of the view that the elimination of the Company's accumulated losses will therefore facilitate any dividend payment by the Company, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. The Company currently has no concrete plan to declare or pay any dividend. As at the date of this circular, besides the Capital Reorganisation, to the best knowledge of the Directors, the Company has no intention to carry out any corporate action or arrangement, including share consolidation, share subdivision and change in board lot size, in the next 12 months which would have a contradictory effect to the Capital Reorganisation.

Save for the expenses to be incurred by the Company in implementing the Capital Reorganisation, the Board considers that the Capital Reorganisation will have no impact on the underlying assets, business operations, management or financial position of the Group or the proportionate interests of the Shareholders and their respective voting rights. Further, the Capital Reorganisation does not involve the diminution of any liability in respect of any unpaid capital of the Company nor does it involve the repayment to the Shareholders of any paid up capital of the Company. The Board considers that the Capital Reorganisation will not have any material adverse effect on the financial position of the Company.

In view of the above, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECTS OF THE SUBSCRIPTION AND THE CAPITAL REORGANISATION OF SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is the shareholding structure of the Company (a) as at the date of this circular; (b) immediately after the Capital Reorganisation becoming effective but before full conversion of the Convertible Bonds at the Conversion Price; (c) after the Capital Reorganisation becoming effective and immediately upon full conversion of the Existing CB and Convertible Bonds at the Conversion Price (without adjustment), assuming both Subscription Agreements Proceeded to Completion and there being no other change in the issued share capital and shareholding structure of the Company since the date of this circular:

Shareholder	At the date of this circular		Immediately after the Capital Reorganisation becoming effective		Immediately after the Capital Reorganisation becoming effective and immediately upon full conversion of the Convertible Bonds (assuming both Subscription Agreements proceeded to Completion)		After the Capital Reorganisation becoming effective and immediately upon full conversion of the Existing CB and Convertible Bonds (without adjustment) (assuming both Subscription Agreements proceeded to Completion)	
	No. of Shares	Approximately %	No. of New Shares	Approximately %	No. of New Shares	Approximately %	No. of New Shares	Approximately %
Mr. Li Ming	1,248,777,954	9.16%	31,219,449	9.16%	31,219,449	6.09%	31,219,449	5.38%
Lead Dragon Limited								
(Note 1)	542,005,000	3.97%	13,550,125	3.97%	13,550,125	2.64%	13,550,125	2.34%
Mr. Zhang Shi Hong (Note 2)	153,630,000	1.13%	3,840,750	1.13%	3,840,750	0.75%	3,840,750	0.66%
Mr. Zhang Weibing (Note 3)	30,000,000	0.22%	750,000	0.22%	750,000	0.15%	750,000	0.13%
Existing CB Holder	-	-	-	-	-	-	67,500,000	11.63%
The Subscriber 1	-	-	-	-	78,125,000	15.24%	78,125,000	13.46%
The Subscriber 2	-	-	-	-	93,750,000	18.28%	93,750,000	16.16%
Public Shareholders	11,662,425,886	85.52%	291,560,647	85.52%	291,560,647	56.85%	291,560,647	50.24%
Total:	13,636,838,840	100.00%	340,920,971	100.00%	512,795,971	100.00%	580,295,971	100.00%

Notes:

- Lead Dragon Limited is wholly-owned by Mr. Li Ming, the chairman and an executive Director.
- Mr. Zhang Shi Hong is an executive Director.
- Mr. Zhang Weibing is an executive Director.
- The above shareholding structure of the Company is shown for illustration purposes only. The Conversion Rights shall only be exercisable so long as not less than 25% of the then total number of issued Shares as enlarged by the issue of the Conversion Shares are being held in public hands and will not result in the relevant Bondholder, its associates and parties acting in concert with it will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirements of the Takeovers Code; or (ii) a general offer is made in accordance with the requirements of the Takeovers Code.

LETTER FROM THE BOARD

The Share Options

As at the date of this circular, Share Options granted under the Share Option Scheme carrying rights to subscribe for an aggregate of 326,000,000 Shares remain outstanding. Under the relevant terms and conditions thereof, the Share Consolidation may lead to adjustments to the exercise price and/or the number of shares of the Company falling to be issued upon exercise of the Share Options pursuant to the terms thereof. Assuming there is no other adjustment event under the relevant share option scheme other than the Share Consolidation becoming effective, the Share Options will entitle the holders thereof to subscribe for up to 8,150,000 Consolidated Shares in aggregate. Further circular will be made by the Company in respect of such adjustments as and when appropriate.

The Existing CB

As at the date of this circular, the Existing CB in aggregate principal amount of HK\$189,000,000 issued by the Company to the holders of the Existing CB on 10 November 2017 remains outstanding. Please refer to the announcement of Existing CB of the Company dated 10 August 2017. Based on the confirmation of the auditors of the Company or (as the case may be) an independent financial advisers, the Share Consolidation will cause adjustment to the conversion price of the Existing CB. Pursuant to the provisions of the adjustments to the conversion price as stated in the terms and conditions of the Existing CB, the conversion price, currently HK\$0.070 per Share, will be adjusted to HK\$2.8 per Share (the “**Adjustment**”) as a result of the Share Consolidation, and the maximum number of conversion shares which may be allotted and issued by the Company upon full conversion of the Existing CB will be adjusted to 67,500,000 Shares. The Company will ascertain the required adjustments and inform the holders of the Existing CB of the required adjustments as soon as practicable. A further announcement will be made by the Company in relation to any adjustments to the Existing CB upon the Share Consolidation becoming effective. The Adjustment will become effective from the close of trading hours on the day immediately preceding the date on which the Share Consolidation becomes effective.

Save as the aforesaid, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares as at the date of this circular.

STATUS OF THE WINDING UP PETITION

On 2 August 2019, the Company received a petition (the “**Petition**”) from Titan Petrochemicals Group Limited (the “**Petitioner**”) in the matter of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Chapter 32, Laws of Hong Kong) filed in the High Court of the of The Hong Kong Special Administrative Region (the “**High Court**”) under Companies Winding-up Proceedings No. 230 of 2019 that the Company may be wound up by the High Court on the ground that the Company is insolvent and unable to pay its debt. The winding up petition will be heard before the High Court at 9:30 a.m. on 25 September 2019 (the “**Hearing Date**”).

LETTER FROM THE BOARD

Alleged Basis Of The Petition

The Petitioner alleges that it has provided a loan in the amount of HK\$9.0 million to the Company pursuant to a loan agreement dated 12 January 2018 entered into between the Company and the Petitioner (the “**Loan Agreement**”), and the Company failed to repay the amount due under the Loan Agreement, which is totally HK\$10,659,201.10, i.e. the principal of the Loan Agreement, plus the interest and surcharge thereof (the “**Debts**”). Based on the above, the Petitioner alleges that the Company is unable to repay the Debts and should be wound up by reasons of sections 327(3)(b) and 327(4)(a) of Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the “**Ordinance**”).

Potential Impact Of The Petition

According to section 182 of the Ordinance, article 166 of the Bermuda Companies Act 1981 and by referring the circular ref. no. CD/DNS/CCASS/332/2016 dated 28 December 2016 issued by Hong Kong Securities Clearing Company Limited (“**HKSCC**”), the Company would like to remind Shareholders and potential investors of the risk that until the Petition has been struck-out, dismissed or permanently stayed, or the Company has obtained necessary validation order(s), (i) HKSCC may suspend any of its services in respect of the Shares, (ii) any transfer of Shares since the date of presentation of the Petition may be void, and (iii) the Subscription and any issuance of Conversion Shares upon exercising the conversion rights by the Subscribers under the Convertible Bonds may be void.

On 9 August 2019, Forward Fund SPC – Double Management Fund SP (the “**Supporting Creditor**”), a creditor for HK\$12,900,000.00 of the Company, served notice to the Company of its intention to appear at the hearing in respect of the Petition to be held before the High Court on the Hearing Date.

Actions Of The Company In Respect Of The Petition

The Company has negotiated with the Petitioner for a settlement and an amicable disposal of the matter under the Petition, and endeavored to agree on a joint application to dismiss the Petition.

Based on the risk exposures as disclosed above, in order to eliminate the uncertainties arising from the Petition, which are associated with the transfer of the Shares, the subscription of the Convertible Bonds and any issuance of Conversion Shares thereafter, the Company has engaged and consulted legal advisers to negotiate with the Petitioner for application for necessary validation order(s) from the High Court. On 28 August 2019, (i) the Company has received a letter from the Petitioner, pursuant to which the Petitioner will show no objection in case of the application by the Company for a validation order in way of consent summons; and (ii) the Supporting Creditor has also informed the Company that it adopts a neutral stance and will neither support nor oppose the application by the Company for a validation order in way of consent summons.

LETTER FROM THE BOARD

On 3 September 2019, an application for a validation order (“**Validation Order**”) was filed by the Company to the High Court. The Validation Order has been granted by the High Court on 23 September 2019. By the Validation Order, the Company shall proceed with the issuance of the Convertible Bonds.

The Board of Directors would like to provide additional information regarding the Validation Order as below.

- (1) Pursuant to the Validation Order, it is ordered that “*Until further order of the Court, notwithstanding the presentation of the Petition, the following shall not be void by virtue of Section 182 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32):*”
 - (e) *The issuance of convertible bonds to Hong Kong Tong Ji Investment Holding Ltd (“**HKTJ**”) in the sum of not more than HK\$50,000,000 and the entering into of any agreements for the purpose thereof, pursuant to the Subscription Agreement dated 19 July 2019 entered into between the Company and HKTJ (“**the HKTJ Agreement**”);*
 - (f) *Any payments made by HKTJ to the Company pursuant to the HKTJ Agreement and/or the convertible bonds;*
 - (g) *The issuance of convertible bonds to Wise Benefit Investments Limited (“**Wise Benefit**”) in the sum of not more than HK\$60,000,000 and the entering into of any agreements for the purpose thereof, pursuant to the Subscription Agreement dated 19 July 2019 entered into between the Company and Wise Benefit (“**the Wise Benefit Agreement**”);*
 - (h) *Any payments made by Wise Benefit to the Company pursuant to the Wise Benefit Agreement and/or the convertible bonds;*
 - (i) *Any other acts done by the Company, HKTJ and/or Wise Benefit pursuant to the terms of the HKTJ Agreement, the Wise Benefit Agreement and/or the convertible bonds...*”
- (2) The HKTJ Agreement, the Wise Benefit Agreement and the convertible bonds provide for the terms and conditions of the conversion of the Convertible Bonds into conversion shares. According to the legal advisers of the Company, “*any other acts done by the Company, HKTJ and/or Wise Benefit pursuant to the terms of the HKTJ Agreement, the Wise Benefit Agreement and/or the convertible bonds...*” “*shall not be void by virtue of Section 182 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)*”. Accordingly, on the proper construction of the Validation Order, the conversion of the Convertible Bonds into conversion shares would be under the scope of the Validation Order.

At the hearing of the Petition held on 25 September 2019 at the High Court of Hong Kong, the High Court Master has ordered to adjourn the hearing of the Petition to 20 November 2019 at 9:30 a.m.

LETTER FROM THE BOARD

For details of the Petition, please refer to the announcements of the Company dated 5 August 2019, 28 August 2019, 23 September 2019, 25 September 2019 and 27 September 2019.

LISTING RULES IMPLICATIONS

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM. The issue of the Convertible Bonds and the Conversion Shares by the Company are subject to, among others, the Shareholders' approval.

SGM

The SGM will be held at Unit 07, 21/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 25 October 2019 at 9:30 a.m. to consider and, if thought fit, pass the resolutions to approve (i) the Subscription Agreements and the transactions contemplated thereunder; and (ii) the Capital Reorganisation.

A notice convening the SGM is set out on pages 36 to 40 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to be present at the SGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time scheduled for the SGM or any adjournment thereof. The completion and return of a form of proxy will not preclude you from attending and voting at the meeting in person or any adjourned meeting should you so wish, and in such case, the form of proxy submitted by you shall be deemed to be revoked.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for Ms. Wan and her associates who in aggregate held 162,000,454 Shares, representing approximately 1.19% of the total number of issued shares of the Company as at the Latest Practicable Date, are regarded to have a material interest and will be required to abstain from voting on the resolution approving the Subscription Agreements and the transactions contemplated thereunder to be proposed at the SGM, none of the Shareholders has a material interest in the Subscription Agreement, the transactions contemplated thereunder and the Capital Reorganisation, and as such, no other Shareholders will be required to abstain from voting on the resolutions to be proposed at the SGM.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong register of members of the Company will be closed from Monday, 21 October 2019, to Friday, 25 October 2019 (both dates inclusive), for the purposes of determining the entitlements of the Shareholders to attend and vote at the SGM. No transfer of the Shares may be registered on those dates. The record date for determining the entitlement of the Shareholders to attend and vote at the SGM is Friday, 18 October 2019. In order to qualify to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Friday, 18 October 2019.

VOTING BY POLL

In accordance with Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the voting on all resolutions at the SGM will be conducted by way of poll.

RECOMMENDATION

The Board believes that the resolutions proposed in the notice of SGM are in the best interests of the Company and the Shareholders as a whole. The Board recommends that the Shareholders vote in favour of all resolutions to be proposed at the SGM.

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 enquiries, 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 herein or this circular misleading.

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed "Conditions of the Capital Reorganisation". Therefore, the Capital Reorganisation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Yours faithfully,
By order of the Board
Li Ming
Chairman

NOTICE OF SPECIAL GENERAL MEETING

CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

(the “Company”)

NOTICE IS HEREBY GIVEN that the special general meeting of the Company (the “SGM”) will be held at Unit 07, 21/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 25 October 2019 at 9:30 a.m. for the purpose of transacting the following business:

- A) Passing with or without amendments the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

1. “**THAT**

- (a) conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the New Shares (as defined below) and (ii) the compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda (the “**Companies Act**”), with effect from the first business day immediately following the date on which this resolution is passed (“**Effective Date**”):
- (i) cancellation of HK\$0.049 paid up capital on each issued existing ordinary share of the Company (“**Existing Share(s)**”) by way of reduction of capital so that the nominal or par value of each issued Existing Share will be reduced from HK\$0.05 to HK\$0.001 and the nominal or par value of each authorised but unissued ordinary share in the share capital of the Company shall be reduced from HK\$0.05 to HK\$0.001 (together, the “**Capital Reduction**”);
- (ii) immediately following the Capital Reduction becoming effective, every forty (40) issued ordinary shares of par value HK\$0.001 each in the share capital of the Company be consolidated and every forty (40) authorised but unissued ordinary shares of par value HK\$0.001 each in the share capital of the Company be consolidated (together, the “**Share Consolidation**”) into one (1) ordinary share of par value HK\$0.04 (each a “**Consolidated Share**”) in the share capital of the Company;

NOTICE OF SPECIAL GENERAL MEETING

- (iii) the credits arising from the Capital Reduction shall be credited to the contributed surplus account of the Company and shall be applied towards offsetting the accumulated deficit of the Company as at the Effective Date, and the balance (if any) be transferred to a distributable reserve account of the Company which may be utilised by the directors of the Company (“**Directors**”) as a distributable reserve in accordance with bye-laws of the Company and all applicable laws (including the Companies Act) and rules (including the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (“**Listing Rules**”)) including, without limitation, eliminating or setting off the accumulated deficits of the Company which may arise from time to time and/or paying dividend and/or making any other distribution out of such account from time to time;
 - (iv) any fractional Consolidated Shares resulting from the Share Consolidation will be disregarded and not issued to the shareholder(s) of the Company concerned, but all such fractional Consolidated Shares shall be aggregated and, if possible, sold for the benefit of the Company in such manner and on such terms as the Directors (collectively the “**Capital Reorganisation**”) may think fit; and
- (b) any one or more of the Directors be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise arising from and/or in connection with Capital Reduction and Share Consolidation.

- B) Passing with or without amendments the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

2) “**THAT**

- (a) the subscription agreement dated 19 July 2019, including the form of the proposed convertible bonds (“**Convertible Bonds 1**”) annexed thereto (the “**Subscription Agreement 1**”) as amended and supplemented by the supplemental agreement dated 27 September 2019, entered into between the Company as issuer and Hong Kong Tong Ji Investment Holding Ltd. (“**Subscriber 1**”) as subscriber, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), pursuant to which the Company has conditionally agreed to issue the Convertible Bonds 1 in an aggregate principal amount of HK\$50,000,000 to Subscriber 1 upon and subject to the terms and conditions as set out therein, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

NOTICE OF SPECIAL GENERAL MEETING

- (b) the issue of the Convertible Bonds 1 by the Company to Subscriber 1 in accordance with the terms and conditions of the Subscription Agreement 1 be and is hereby approved;
 - (c) the allotment and issue of up to 78,125,000 Consolidated Shares or such other number of shares in the share capital of the Company which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds 1 in accordance with the terms and conditions of the Convertible Bonds 1 (“**Conversion Shares 1**”) be and is hereby approved;
 - (d) any one Director be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Subscription Agreement 1 and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he/she considers necessary or expedient in his/her opinion to implement and/or give effect to the issue of the Convertible Bonds 1 and the issue and allotment of the Conversion Shares 1 which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds 1.”
- 3) **“THAT**
- (a) the subscription agreement dated 19 July 2019, including the form of the proposed convertible bonds (“**Convertible Bonds 2**”) annexed thereto (the “**Subscription Agreement 2**”) as amended and supplemented by the supplemental agreement dated 27 September 2019, entered into between the Company as issuer and Wise Benefit Investments Limited (“**Subscriber 2**”) as subscriber, a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification), pursuant to which the Company has conditionally agreed to issue the Convertible Bonds 2 in an aggregate principal amount of HK\$60,000,000 to Subscriber 2 upon and subject to the terms and conditions as set out therein, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) the issue of the Convertible Bonds 2 by the Company to Subscriber 2 in accordance with the terms and conditions of the Subscription Agreement 2 be and is hereby approved;

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- (c) the allotment and issue of up to 93,750,000 Consolidated Shares or such other number of shares in the share capital of the Company which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds 2 in accordance with the terms and conditions of the Convertible Bonds 2 (“**Conversion Shares 2**”) be and is hereby approved;
- (d) any one Director be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Subscription Agreement 2 and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he/she considers necessary or expedient in his/her opinion to implement and/or give effect to the issue of the Convertible Bonds 2 and the issue and allotment of the Conversion Shares 2 which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds 2.”

By order of the Board
Li Ming
Chairman

Hong Kong, 3 October 2019

Notes:

1. A member of the Company who is a 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 or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for the SGM is enclosed with the Company’s circular dated 3 October 2019. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with a valid power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong 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 a member of the Company from attending and voting in person at the SGM and any adjournment thereof should he so wish. In such event, his form of proxy will be deemed to have been revoked.
3. The Hong Kong register of members of the Company will be closed from Monday, 21 October 2019, to Friday, 25 October 2019 (both dates inclusive), for the purposes of determining the entitlements of the Shareholders to attend and vote at the SGM. No transfer of the Shares may be registered on those dates. The record date (being the last date of registration of any transfer of Shares given there will be no closure of register of members) for the purpose of determining the entitlements of the Shareholders to attend and vote at the SGM will be on Friday, 18 October 2019. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar of the Company, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by no later than 4:30 p.m. on Friday, 18 October 2019.

NOTICE OF SPECIAL GENERAL MEETING

4. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders, stand on the register in respect of the relevant joint holding.
5. If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal is in force at or at any time after 12:00 noon on the date of the SGM and/or the Hong Kong Observatory has announced at or before 12:00 noon on the date of the SGM that either of the above mentioned warnings is to be issued within the next two hours, the SGM will be adjourned. The Company will publish an announcement to notify Shareholders of the date, time and place of the adjourned SGM.
6. The SGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders of the Company should decide on their own whether they would attend the SGM under bad weather conditions bearing in mind their own situation.

As at the date of this notice, the board of Directors comprises three executive directors, namely, Mr. Li Ming, Mr. Zhang Shi Hong and Mr. Zhang Weibing, 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.