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This circular appears for information purposes only and does not constitute an invitation or offer to the shareholders of the Company or any other persons to acquire, purchase, or subscribe for securities of the Company.

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



TSC Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 206)

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE;
(3) MAJOR AND CONNECTED TRANSACTION RELATING TO
THE FORMATION OF JOINT VENTURE; AND
(4) NOTICE OF EGM

Financial Adviser to the Rights Issue



Underwriters of the Rights Issue



Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 46 to 47 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 48 to 82 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 2 January 2019. Any Shareholder or other person dealing in the Shares from the Latest Practicable Date up to the date on which all conditions of the Rights Issue are fulfilled (which is expected to be at 4:00 p.m. on Tuesday, 29 January 2019), and any dealings in the Rights Shares in their nil-paid form from Tuesday, 15 January 2019 to Tuesday, 22 January 2019 (both days inclusive), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating dealings in the securities of the Company are recommended to consult their own professional advisers.

It should be noted that the Rights Issue is only partially underwritten and that the Underwriting Agreement contains provisions granting Tonghai Securities the right to terminate the obligations of the Underwriters thereunder on the occurrence of certain events including force majeure. These certain events are set out in the section headed "Termination of the Underwriting Agreement" on pages 9 to 10 of this circular. If the Underwriting Agreement is terminated by Tonghai Securities or does not become unconditional, the Rights Issue will not proceed.

A notice convening the EGM to be held at 10:00 a.m. on Friday, 28 December 2018, at Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong is set out on pages 137 to 139 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. no later than Wednesday, 26 December 2018 at 10:00 a.m. (Hong Kong time)) or any adjournment thereof (as the case maybe). Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case maybe) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

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EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below. The expected timetable is subject to change, and any changes will be announced by the Company as and when appropriate.

Event	2018/2019
Latest time for lodging transfers of Shares to attend and vote at the EGM	4:30 p.m. on Wednesday, 19 December
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the EGM (both dates inclusive) . . .	From Thursday, 20 December to Friday, 28 December
Latest time for lodging proxy forms to qualify for attendance and voting at the EGM	10:00 a.m. on Wednesday, 26 December
Record date for attendance and voting at the EGM	Friday, 28 December
Expected date and time of the EGM	10:00 a.m. on Friday, 28 December
Announcement of results of the EGM	Friday, 28 December
Effective date of the Authorised Share Capital Increase	Friday, 28 December
Last day of dealings in Shares on cum-rights basis	Monday, 31 December
First day of dealings in Shares on ex-rights basis	Wednesday, 2 January
Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Thursday, 3 January
Closure of register of members of the Company for determining entitlements under the Rights Issue (both dates inclusive)	From Friday, 4 January to Thursday, 10 January
Record Date for determining entitlements to the Rights Issue	Thursday, 10 January
Register of members of the Company re-opens	Friday, 11 January
Despatch of Prospectus Documents (in the case of the Excluded Shareholders, the Prospectus only for their information)	Friday, 11 January
First day of dealings in nil-paid Rights Shares	Tuesday, 15 January
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Thursday, 17 January

EXPECTED TIMETABLE

Event	2018/2019
Last day of dealings in nil-paid Rights Shares	Tuesday, 22 January
Latest time for acceptance of, and payment for, the Rights Shares and the applications for excess Rights Shares	4:00 p.m. on Friday, 25 January
Latest Time for Termination and for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 29 January
Announcement of results of the Rights Issue	Friday, 1 February
Refund cheques to be despatched in relation to wholly or partially unsuccessful applications for excess Rights Shares on or before	Monday, 4 February
Certificates for fully paid Rights Shares to be despatched on or before	Monday, 4 February
Commencement of dealings in the fully-paid Rights Shares	9:00 a.m. on Friday, 8 February

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place as shown if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning:

- (1) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Last Acceptance Date. Instead the Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day;
- (2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date. Instead the Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance and application and payment for excess Rights Shares does not take place on the Last Acceptance Date, the dates mentioned in the expected timetable may be affected.

The expected timetable set out above is indicative only and is subject to change, and any changes will be announced by the Company in separate announcement(s) as and when appropriate.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“AOG”	Alliance Offshore Group Ltd., a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Articles”	the articles of association of the Company
“Asset Injection”	the acquisition of the entire issued share capital to the JV as procured by the Fund in accordance with the Subscription and Joint Venture Agreement
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Authorised Share Capital Increase”	the proposed increase in the authorised share capital of the Company from HK\$200 million divided into 2,000,000,000 Shares to HK\$1,000 million divided into 10,000,000,000 Shares
“Board”	the board of Directors
“Business Day(s)”	any weekday(s) (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks are generally open for business in Hong Kong
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“CCBI”	CCB International Capital Limited, a corporation licensed to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

DEFINITIONS

“Circular”	the circular to be despatched to the Shareholders giving details of, among other things, the Authorised Share Capital Increase, the Rights Issue and the Subscription and Joint Venture Agreement containing the notice of the EGM
“CM Group”	China Merchants Group Limited* (招商局集團有限公司), a company incorporated in the PRC with limited liability. It is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CM Industry”	China Merchants Industry Holdings Co., Ltd., a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by CM Group
“Companies Law”	the Companies Law of the Cayman Islands
“Companies Miscellaneous Provisions Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	TSC Group Holdings Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 206)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EAF(s)”	the excess application form(s) of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held at which resolution(s) will be proposed to consider, and, if thought fit, to approve, among other things, the Authorised Share Capital Increase, the Rights Issue and the Subscription and Joint Venture Agreement
“Enlarged Group”	the Group and the Target Group
“Excluded Shareholder(s)”	the Overseas Shareholder(s) whose registered addresses in the Company’s register of members as at the Record Date are in places where the Directors, after making enquiries, consider it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to such Shareholder(s), if any
“Fund”	China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.), an exempted limited partnership registered in the Cayman Islands
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong, being all of the independent non-executive Directors, to be established to give recommendation to the Independent Shareholders in respect of the Rights Issue, and on the terms of the Subscription and Joint Venture Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Lego Corporate”	Lego Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, appointed as the independent financial adviser by the Company with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders on the terms of the Rights Issue

DEFINITIONS

“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the EGM under the Listing Rules
“Independent Third Party(ies)”	parties that are independent of the Company and its connected persons
“Irrevocable Undertaking”	an irrevocable undertaking dated 8 November 2018 given by Prime Force in favour of the Company as described in the section headed “Irrevocable Undertaking”
“JV” or “Target Company”	Wealthy Marvel Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Fund as at the Latest Practicable Date
“Last Acceptance Date”	25 January 2019, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company may determine and notify the Underwriters in writing
“Last Trading Day”	8 November 2018, being the last trading day of the Shares on the Stock Exchange immediately prior to the publication of the Rights Issue Announcement
“Latest Practicable Date”	7 December 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained herein
“Latest Time for Acceptance”	4:00 p.m. on the Last Acceptance Date
“Latest Time for Termination”	4:00 p.m. on 29 January 2019 or such later time or date as may be agreed between the Underwriters and the Company in writing, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 January 2019 or such later date mutually agreed by the Fund and AOG

DEFINITIONS

“Overseas Shareholder(s)”	Shareholder(s) whose address(es) on the register of members of the Company on the Record Date are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders for the Rights Issue
“Posting Date”	Friday, 11 January 2019 or such other day as may be agreed between the Company and the Underwriters, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Excluded Shareholders (as the case may be)
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prime Force”	Prime Force Investment Corporation, a company incorporated in the British Virgin Islands, which is wholly owned by the Fund and is the controlling shareholder of the Company
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL(s) and the EAF(s)
“Qualifying Shareholders”	Shareholder(s), whose names appear on the register of members of the Company as at the Record Date, other than the Excluded Shareholder(s)
“Record Date”	10 January 2019, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, which is Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rig Asset(s)”	two units of self-elevating drilling units

DEFINITIONS

“Rights Issue”	the proposed issue of Rights Shares on the basis of one (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders on the Record Date at the Subscription Price payable in full on acceptance and otherwise subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Issue Announcement”	the announcement of the Company dated 8 November 2018 in relation to the Rights Issue
“Rights Share(s)”	new Share(s) to be allotted and issued under the Rights Issue, being up to 1,473,156,204 new Shares (assuming that there will be no change in the number of issued Shares on or before the Record Date)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate granted to the Directors by the independent shareholders pursuant to an ordinary resolution passed at the extraordinary general meeting held on 5 February 2018
“SPV1”	Well Target Five Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of JV as at the Latest Practicable Date
“SPV2”	Well Target Six Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of JV as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 50,000,000 shares of US\$1.00 each in the JV pursuant to the Subscription and Joint Venture Agreement

DEFINITIONS

“Subscription and Joint Venture Agreement”	the share subscription and joint venture agreement dated 23 November 2018 entered into between the Fund, AOG and the JV
“Subscription and Joint Venture Agreement Announcement”	the announcement of the Company dated 25 November 2018 in relation to the Subscription and Joint Venture Agreement
“Subscription Price”	the subscription price in respect of each Rights Share, being HK\$0.45 per Rights Share
“subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“Target Group”	the Target Company and its subsidiaries, collectively
“Tonghai Securities”	China Tonghai Securities Limited (formerly known as Oceanwide Securities Company Limited), a licensed corporation to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Underwriters”	Tonghai Securities and CCBI
“Underwriting Agreement”	the underwriting agreement dated 8 November 2018 and entered into between the Company and the Underwriters in relation to the Rights Issue
“Underwritten Shares”	up to 589,000,000 Rights Shares to be underwritten by Tonghai Securities subject to the terms and conditions of the Underwriting Agreement (representing the shortfall between maximum number of Rights Shares to be issued pursuant to the Rights Issue and the number of Rights Shares to be taken up by Prime Force pursuant to the Irrevocable Undertaking and indicated as may be taken up by Prime Force pursuant to excess application)
“Untaken Shares”	Rights Shares not taken up by the Qualifying Shareholders under PALs or EAFs at or before the Latest Time for Acceptance

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent

* *For identification purpose only*

TERMINATION OF THE UNDERWRITING AGREEMENT

Tonghai Securities shall be entitled by notice in writing issued to the Company, served prior to the Latest Time for Termination, 4:00 p.m. (Hong Kong time) on Tuesday, 29 January 2019 (being the second Business Day following (but excluding) the Latest Time for Acceptance), to terminate the Underwriting Agreement.

If, at any time prior to the Latest Time for Termination, there occurs in the reasonable opinion of Tonghai Securities:

- (i) the success of the Rights Issue or the taking up of the Rights Shares by the Shareholders would be in any material respect adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in all material respects adversely affect the business or the financial or trading position or prospects of the Group as a whole or the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities, armed conflict or act of terrorism, or affecting local securities market or the occurrence of any combination of circumstances which in any material respect adversely affects the business or the financial or trading position or prospects of the Group as a whole or in any material respect adversely prejudices the success of the Rights Issue or the taking up of the Rights Shares by the Shareholders or otherwise makes it inexpedient or inadvisable for the Company or the Underwriters to proceed with the Rights Issue; or
- (ii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction or trading in securities) occurs which in the absolute opinion of Tonghai Securities in any material respect affect the success of the Rights Issue (such success being the taking up of the Rights Shares by the Shareholders) or otherwise in the absolute opinion of Tonghai Securities makes it inexpedient or inadvisable or inappropriate for the Company or the Underwriters to proceed with the Rights Issue; or
- (iii) any change in the circumstances of the Company, its controlling Shareholder or any members of the Group which in the absolute opinion of Tonghai Securities may have material adversely effect on the prospect of the Company; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (iv) any event of force majeure occurs, including without limiting the generality thereof, any act of God, war, fire, flood, explosion, epidemic, terrorism, which in any material respect adversely affect the business or the financial or trading position or prospects of the Group as a whole or the Rights Issue; or
- (v) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole occurs, whether or not ejusdem generis with any of the foregoing; or
- (vi) any matter occurs which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of Tonghai Securities, a material omission in the context of the Rights Issue; or
- (vii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five (5) consecutive trading days occurs, excluding any halt or suspension in connection with the Rights Issue; or
- (viii) any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange occurs due to exceptional financial circumstances or otherwise; or
- (ix) there occurs an event or a matter arising which, if it had occurred or arisen before the date of the Underwriting Agreement, would have rendered any of the warranties given by the Company untrue, incorrect, incomplete or misleading in any respect,

Tonghai Securities shall be entitled by notice in writing issued to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Upon giving the notice of termination in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriters shall cease and determine and none of the parties to the Underwriting Agreement shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement, but without prejudice to the rights of the Company and the Underwriters in respect of any breach of the Underwriting Agreement occurring prior to such termination, and provided that the Company shall remain liable to pay to the Underwriters such fees and expenses according to the terms of the Underwriting Agreement. Indemnities given by the Company in the Underwriting Agreement shall survive notwithstanding termination of the Underwriting Agreement. **If Tonghai Securities terminates the Underwriting Agreement, the Rights Issue will not proceed.**



TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

Executive Directors:

Mr. Wang Hongyuan (*Executive Chairman*)
Mr. Jiang Bing Hua (*Co-Chairman*)
Mr. Zhang Menggui, Morgan

Non-executive Directors:

Mr. Wang Jianzhong
Mr. Lou Dongyang

Independent Non-Executive Directors:

Mr. Chan Ngai Sang, Kenny
Mr. Zou Zhendong
Mr. Chen Weidong

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Operations Headquarters:

13788 West Road, Suite 100
Houston
Texas 77041
United States of America

Principal place of business in Hong Kong:

Units 2706-2709, 27/F
One Harbourfront
18 Tak Fung Street
Hung Hom, Kowloon
Hong Kong

11 December 2018

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE;
(3) MAJOR AND CONNECTED TRANSACTION RELATING TO
THE FORMATION OF JOINT VENTURE; AND
(4) NOTICE OF EGM**

INTRODUCTION

Reference is made to the Rights Issue Announcement, in relation to, among other things, the Authorised Share Capital Increase and the Rights Issue. The Company will allot and issue not more than 1,473,156,204 Rights Shares at the Subscription Price of HK\$0.45 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share held on the Record Date. The aggregated Subscription Price for the Rights Shares

LETTER FROM THE BOARD

will be not more than approximately HK\$662.92 million. The estimated net proceeds from the Rights Issue, if fully subscribed and after deducting the estimated expenses, will be approximately HK\$659.75 million, assuming that there is no change in the number of issued Shares on or before the Record Date. The Rights Issue is only partially underwritten. The Rights Issue will not be available to the Excluded Shareholders. To qualify for the Rights Issue, the Shareholder or an investor must be: (i) registered as a member of the Company on the register of members of the Company in Hong Kong at the close of business on the Record Date; and (ii) not be an Excluded Shareholder.

Reference is also made to the Subscription and Joint Venture Announcement, in relation to, among other things, the Subscription and Joint Venture Agreement. On 23 November 2018, the Fund, AOG and the JV entered into the Subscription and Joint Venture Agreement, (i) AOG will subscribe for, and the Fund will procure the JV to allot and issue, 50,000,000 shares of US\$1.00 each, representing 50% of the enlarged issued share capital of the JV after the completion of the Subscription and Joint Venture Agreement, at a total subscription price of US\$50 million, (ii) the Fund will contribute the Rig Assets to the JV at the total consideration of US\$150 million, out of which US\$50 million will be satisfied by the JV by the allotment and issue of 49,999,999 shares of US\$1.00 each to the Fund, which together with the one share owned by the Fund will represent 50% of the enlarged share capital of the JV after the completion of the Subscription and Joint Venture Agreement, and the balance of the consideration of US\$100 million will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. Pursuant to the Subscription and Joint Venture Agreement, the parties agreed to regulate their respective rights and obligations towards the management and operation of the JV upon completion of the Subscription.

The purpose of this circular is to provide you with, among other things, (i) further details of the Authorised Share Capital Increase; (ii) further details of the Rights Issue; (iii) further details of the Subscription and Joint Venture Agreement; (iv) a letter of recommendation from the Independent Board Committee; (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and the Subscription and Joint Venture Agreement; (vi) financial information and general information of the Group; and (vii) the notice of EGM in which ordinary resolutions will be proposed to consider, and if thought fit, approve the Authorised Share Capital Increase, the Rights Issue and the Subscription and Joint Venture Agreement with the transactions contemplated thereunder.

A. Proposed Increase in Authorised Share Capital

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200 million divided into 2,000,000,000 Shares of HK\$0.10 each. In order to facilitate the Rights Issue, to accommodate the future expansion and growth of the Group and to provide the Company with greater flexibility for future expansion in the share capital of the Company, the Board proposes the Authorised Share Capital Increase from HK\$200 million divided into 2,000,000,000 Shares of HK\$0.10 each to HK\$1,000 million divided into 10,000,000,000 Shares of HK\$0.10 each by the creation of an additional 8,000,000,000 new Shares, all of which will rank *pari passu* with all existing Shares in all respects.

LETTER FROM THE BOARD

The Board is of the view that the Authorised Share Capital Increase will provide flexibility to the Company for future fundraising and expansion in the share capital of the Company, and is therefore in the interest of the Company and the Shareholders as a whole.

The proposed Authorised Share Capital Increase is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM.

B. Proposed Rights Issue

The Company proposes to raise capital by way of the Rights Issue. The Company will allot and issue not more than 1,473,156,204 Rights Shares at the Subscription Price of HK\$0.45 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share held on the Record Date. The aggregated Subscription Price for the Rights Shares will be not more than approximately HK\$662.92 million. The estimated net proceeds from the Rights Issue, if fully subscribed and after deducting the estimated expenses, will be approximately HK\$659.75 million, assuming that there is no change in the number of issued Shares on or before the Record Date.

The Rights Issue is only partially underwritten. For further details, please refer to the section headed "Underwriting Arrangement" below.

Subject to the Authorised Share Capital Increase becoming effective and other conditions as detailed in the section headed "Underwriting Arrangement — Conditions of the Underwriting Agreement" below, the Board proposes to implement the Rights Issue on the following terms:

Rights Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) existing Share held on the Record Date
Subscription Price	:	HK\$0.45 per Rights Share
Net price per Rights Share	:	HK\$0.45 per Rights Share (assuming full subscription under the Rights Issue)
Number of Shares in issue as at the Latest Practicable Date	:	1,473,156,204 Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 1,473,156,204 Rights Shares (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)

LETTER FROM THE BOARD

- Aggregate nominal value of the Rights Shares : Up to HK\$147,315,620 (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)
- Total number of issued Shares upon completion of the Rights Issue : Up to 2,946,312,408 Shares (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)
- Number of Underwritten Shares : The underwriting obligations of Tonghai Securities and the obligations of CCBI to procure subscription for Untaken Shares are several.

Tonghai Securities has agreed to subscribe for, or procure the subscription for, up to 589,000,000 Rights Shares, being all the Underwritten Shares.

CCBI has agreed to procure the subscription for, on a best effort basis, up to 118,970,204 Shares, being any untaken Right Shares other than Rights Shares to be taken up by Prime Force pursuant to the Irrevocable Undertaking and the Underwritten Shares underwritten by Tonghai Securities.

For the avoidance of doubt, should CCBI fails to procure the subscription for any of the aforementioned Rights Shares, the underwriting obligations of Tonghai Securities shall remain unaffected.

- Underwriters : (i) Tonghai Securities; and
(ii) CCBI

Please refer to the section headed "Information about the Underwriters" below for information on the Underwriters.

As at the Latest Practicable Date, the Company has no outstanding warrants, options, derivatives or securities convertible into or exchangeable for Shares.

LETTER FROM THE BOARD

Assuming no new Shares are issued and no repurchase of the Shares takes place on or before the Record Date, up to 1,473,156,204 Rights Shares to be issued pursuant to the terms of the Rights Issue represents 100% of the number of existing issued Shares and 50% of the number of issued Shares as enlarged immediately upon completion of the Rights Issue.

The Rights Issue is only partially underwritten. Pursuant to the Company's constitutional documents and the Companies Law, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level. Based on the Irrevocable Undertaking and underwriting obligations of Tonghai Securities under the Underwriting Agreement, it is anticipated that at least 1,354,186,000 Rights Shares will be taken up.

In the event the Rights Issue is undersubscribed, any Rights Shares not taken up will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Qualifying Shareholders

The Rights Issue will only be available to the Qualifying Shareholders and not be available to the Excluded Shareholders. The Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Posting Date and will despatch the Prospectus only (but not the PAL and the EAF) to the Excluded Shareholders for their information only.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of the Shares (together with the relevant share certificate(s) or indemnities thereof) must be lodged with the Registrar no later than 4:30 p.m. (Hong Kong time) on Thursday, 3 January 2019, at the following address:

Tricor Investor Services Limited at
Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

It is expected that the last day of dealings in the Shares on a cum-rights basis is Monday, 31 December 2018 and the Shares will be dealt with on an ex-rights basis from Wednesday, 2 January 2019.

Rights of the Overseas Shareholders (if any)

The Prospectus Documents will not be registered or filed under the applicable securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

LETTER FROM THE BOARD

As at the Latest Practicable Date, other than Prime Force, the Company did not have any Overseas Shareholders whose addresses appeared on the register of members of the Company are outside of Hong Kong.

The Board will make necessary enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any) under the laws of the relevant overseas jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to any Overseas Shareholders on account either of the legal restrictions of the relevant overseas regulatory body or stock exchange, no provisional allotment of the Rights Shares will be made to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Excluded Shareholders.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid pro rata (but rounded down to the nearest cent) to the relevant Excluded Shareholders in Hong Kong dollars, except that the Company will retain individual amounts of less than HK\$100 for its own benefit. Any unsold entitlements of the Excluded Shareholders will be made available for excess application by the Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, the Overseas Shareholders should exercise caution when dealing in the Shares.

Closure of register of members

The register of members of the Company will be closed from Thursday, 20 December 2018 to Friday, 28 December 2018 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Friday, 4 January 2019 to Thursday, 10 January 2019 (both days inclusive) for determining the entitlements to the Rights Issue.

No transfer of the Shares will be registered during the above book closure periods.

Basis of provisional allotments

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every one (1) existing Share held by the Qualifying Shareholders as at the close of business on the Record Date.

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Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing a PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance, i.e. by 4:00 p.m. on Friday, 25 January 2019.

Status of the Rights Issue

The Rights Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully paid Rights Shares will be entitled to receive all future dividends and distributions the record dates of which are on or after the date of allotment and issue of the fully paid Rights Shares. Dealings in the Rights Shares will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Share certificate for the Rights Issue and refund cheques

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on or before Monday, 4 February 2019, to those entitled thereto by ordinary post, at their own risk, to their registered addresses.

Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Monday, 4 February 2019, by ordinary post to the applicants, at their own risk, to their registered addresses.

The Subscription Price

The Subscription Price of HK\$0.45 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or where a transferee of the nil-paid Rights Shares subscribes for the Rights Shares. The Subscription Price represents:

- a discount of approximately 6.3% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 8.2% to the average closing price of HK\$0.49 per Share for the five consecutive trading days up to and including the Last Trading Day;
- a discount of approximately 6.3% to the average closing price of HK\$0.48 per Share for the ten consecutive trading days up to and including the Last Trading Day;

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- a discount of approximately 4.3% over the theoretical ex-rights price of approximately HK\$0.47 per Share after the Rights Issue, based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 55.2% over the consolidated net asset value of the Company per Share of approximately HK\$0.29 as at 30 June 2018; and
- the cumulative value dilution within 12 months immediately preceding the date of the Right Issue Announcement is 11.0% based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day.

The Subscription Price was determined, among others, after arm's length negotiation between the Company and the Underwriters with reference to the market price of the Shares prior to and including the Last Trading Day, the financial position of the Group and the prevailing market conditions.

Since the Rights Issue will entitle the Qualifying Shareholders to participate in future growth of the Company on equal terms and to maintain their respective pro rata shareholdings in the Company, and the proceeds are intended to be used as set out in the section below headed "Reasons for the Rights Issue and intended use of proceeds", the Directors (excluding the independent non-executive Directors who will form their views after considering the opinion of the Independent Financial Adviser) consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Fractional entitlement to the Rights Shares

On the basis of provisional allotment of one (1) Rights Share for every one (1) existing Share held on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for (i) the Rights Shares representing the entitlement of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders. Applications for excess Rights Shares may be made by completing the EAF for the excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for.

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The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- subject to availability of the excess Rights Shares, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of excess Rights Shares applied for by them. No reference will be made to Rights Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders.

Beneficial owners of Shares whose shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Shares whose shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

For those beneficial owners of Shares whose Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for completion of the relevant registration not later than 4:30 p.m. on Thursday, 3 January 2019.

Rights Issue on a partially underwritten basis

The Rights Issue is only partially underwritten. Any Shareholder who applies to take up all or part of his entitlement under the PAL or apply for excess Rights Shares under EAF may also unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the Executive (as defined in the Takeovers Code) has been obtained.

Accordingly, the Rights Issue will be made on the term that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the applications of any Shareholder for his/her entitlement under the PAL or for excess Rights Shares under the EAF will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code.

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Irrevocable Undertaking

As at the Latest Practicable Date, Prime Force, the controlling shareholder of the Company, holds 765,186,000 Shares, representing approximately 51.94% of the existing issued Shares.

On 8 November 2018, Prime Force entered into the Irrevocable Undertaking in favour of the Company. Pursuant to the Irrevocable Undertaking, Prime Force irrevocably undertakes, among other things, that (i) it will take up or procure they are taken up on the terms of the Prospectus Documents the 765,186,000 Rights Shares which will constitute the provisional allotment of Rights Shares in respect of the Shares beneficially owned by Prime Force pursuant to the terms of the Rights Issue; (ii) it will not, and shall procure that companies controlled by it (whether directly or indirectly) not to, dispose of or transfer the Rights Shares to be provisionally allotted to it; and (iii) it shall remain the beneficial owner of the 765,186,000 Shares currently held by it at close of business on the Record Date and shall not dispose of or transfer its beneficial interests in any of the Shares owned by it or otherwise deal in any interests in the Shares or interests therein before the Record Date.

Apart from the Irrevocable Undertaking, Prime Force indicated that it may subscribe for or procure the subscription of an addition of 118,970,000 Rights Shares by way of excess application through completing the EAF for excess Rights Shares. As at the Latest Practicable Date, Prime Force is the legal and beneficial owner of 765,186,000 Shares registered under its own name in the register of members of the Company. Pursuant to the Irrevocable Undertaking, among other things, Prime Force shall not transfer, deal in or acquire any Shares prior to the Record Date. Accordingly, in the event that Prime Force applies for Rights Shares by way of excess application, it will be required to complete and submit an EAF in its own name. The Company will be able to identify Prime Force's application for excess Rights Shares by the EAF submitted by it, and disregard its excess applications to the extent the total number of excess Rights Shares it applies for exceeds the total number of Rights Shares offered minus the number of Shares to be taken up by Prime Force under its assured entitlements in accordance with Rule 7.21(3)(b) of the Listing Rules.

Save for the above, the Company has not received any information from any substantial shareholders (as defined in the Listing Rules) of the Company of their intention to take up the Rights Shares to be provisionally allotted or offered to them under the Rights Issue as at the Latest Practicable Date.

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Application for listing of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

Both the nil-paid Rights Shares and the fully-paid Rights Shares will be traded in board lots of 1,000 Shares in the market. Dealings in the Rights Shares in both nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as 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 trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements will be made to enable the Rights Shares (in both their nil-paid and fully-paid forms) to be admitted into CCASS.

Conditions of the Rights Issue

The Rights Issue is conditional upon (i) the Authorised Share Capital Increase becoming effective on or before the Record Date, and (ii) the Underwriting Agreement having become unconditional and not being terminated in accordance with its terms. For the avoidance of doubt, the Rights Issue is not conditional upon the completion of the Subscription and Joint Venture Agreement as described in the section headed “C. The Subscription and Joint Venture Agreement” below. In the event that the Rights Issue is not approved, the Company will consider alternative fund raising methods as further described in the section headed “B. Proposed Rights Issue — Reasons for the Rights Issue and intended uses of proceeds” below.

For conditions of the Underwriting Agreement, please refer to the section headed “Underwriting Arrangement — Conditions of the Underwriting Agreement” below.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

On 8 November 2018 (after trading hours), the Underwriters and the Company entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The Rights Issue will only be partially underwritten by Tonghai Securities in accordance with the terms of the Underwriting Agreement as set out below:

Underwriting Agreement

Date : 8 November 2018 (after trading hours)

Parties : (1) the Company;

(2) Tonghai Securities (formerly known as Oceanwide Securities Company Limited) (as underwriter); and

(3) CCBI (as underwriter) (together with Tonghai Securities, the “Underwriters”).

For further information on the Underwriters, please refer to the section headed “Information about the Underwriters”.

Number of Underwritten Shares : The underwriting obligations of Tonghai Securities and the obligations of CCBI to procure subscription for untaken Rights Shares are several.

Tonghai Securities has agreed to subscribe for, or procure the subscription for, up to 589,000,000 Rights Shares, being all the Underwritten Shares.

CCBI has agreed to procure the subscription for, on a best effort basis, up to 118,970,204 Shares, being any untaken Right Shares other than Rights Shares to be taken up by Prime Force pursuant to the Irrevocable Undertaking and the Underwritten Shares underwritten by Tonghai Securities.

For the avoidance of doubt, should CCBI fails to procure the subscription for any of the aforementioned Rights Shares, the underwriting obligations of Tonghai Securities shall remain unaffected.

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Underwriting Commission : Underwriting commission equal to 0.8% of the aggregate Subscription Price in respect of the Underwritten Shares is payable to Tonghai Securities.

Underwriting commission equal to 0.8% of the aggregate Subscription Price in respect of the Rights Shares actually subscribed for through CCBI is payable to CCBI.

Any sub-underwriting fees and expenses relating to the sub-underwriting(s) shall be borne by the respective Underwriters.

The number of Shares taken or underwritten by Prime Force and Tonghai Securities is closed to the maximum number of Right Shares. The Board is of the view that the chance of the Right Shares been fully taken is high and there is no need to pay an extra cost in engaging another underwriter to commit hard underwriting of the untaken Right Shares.

Each of the Underwriters shall be entitled to deduct part or all of the underwriting commission, out-of-pocket expenses and any other fees and expenses which the Company has agreed to pay to it from any amount to be paid by such Underwriter to the Company under the Underwriting Agreement.

The terms of the Underwriting Agreement, including the commission rate of 0.8%, were determined after arm's length negotiations between the Company and the Underwriters with reference to, among other things, the size of the Rights Issue, the current market conditions and the prevailing market rate for the underwriting commission of comparable transactions. The Directors consider that the terms of the Underwriting Agreement including the terms governing the underwriting commission are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Underwriter's Undertaking

Under the Underwriting Agreement, each of the Underwriters has undertaken with the Company that it shall use its reasonable endeavor to procure that each of the subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of Untaken Shares procured by it: (i) shall be third party(ies) independent of, not acting in concert (as such term is defined in the Takeovers Code) with and shall not be connected with the Directors, chief executive or substantial shareholders of the Company or their respective associates; (ii) shall not own 10% or more of the issued share capital of the Company immediately upon completion of the Rights Issue and are not otherwise core connected persons (as defined in the Listing Rules) of the Company. Each of the Underwriters has also agreed that it shall procure, and shall ensure that the sub-underwriters (if any) to procure independent places to take up the Rights Shares pursuant to the Listing Rules.

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Conditions of the Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement are conditional upon:

- (a) the meeting(s) of the Board properly and validly convened, or the written resolution(s) of the Directors properly and validly passed, to approve and implement the Authorised Share Capital Increase and the Rights Issue;
- (b) the passing of all necessary resolution(s) by the Shareholders and/or the Independent Shareholders (as the case may be) at the EGM duly approving and confirming:
 - (i) the Authorised Share Capital Increase; and
 - (ii) the Rights Issue;each in accordance with the Articles and the Listing Rules;
- (c) the Authorised Share Capital Increase becoming effective on or before the Record Date;
- (d) the Stock Exchange having authorized the registration with, and the registration with, the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Board (and all other documents required to be attached thereto) not later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong);
- (e) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus to the Excluded Shareholders, if any and for information purposes only, on or before the Posting Date;
- (f) the Listing Committee of the Stock Exchange granting, or agreeing to grant (subject to allotment), and not having revoked, the listing of and permission to deal in the Rights Shares in their nil-paid and fully-paid forms, either unconditionally or subject to such conditions as the Company may accept;
- (g) each condition to enable the nil-paid Rights Shares and the fully-paid Rights Shares to be admitted as eligible securities for deposit, clearance and settlement in CCASS having been satisfied prior to the first day of dealings in nil-paid Rights Shares or the fully-paid Rights Shares (as the case may be) and no notification having been received by the Company from HKSCC by such date that such admission or facility for holding and settlement has been or is to be refused;

LETTER FROM THE BOARD

- (h) the Shares remaining listed on the Stock Exchange and the listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than five (5) trading days and no indication being received before the Latest Time for Termination from the Stock Exchange and/or the SFC to the effect that such listing may be withdrawn or objected to;
- (i) the representations and warranties or undertakings given by the Company in the Underwriting Agreement being true, accurate and not misleading in all material respects on and as of the date of the Underwriting Agreement and at any time before the Latest Time for Termination, as though they have been given and made at such time by reference to the facts and circumstances then subsisting;
- (j) the issue of the Rights Shares and the obligations of the Underwriters to underwrite the Underwritten Shares not being prohibited by any statute, order, rule, directive or regulation promulgated after the date of the Underwriting Agreement by any legislative, executive or regulatory body or authority of Hong Kong and/or the Cayman Islands and compliance by the sub-underwriters(s) with all their respective obligations under the sub-underwriting agreement(s) to be entered into by the Underwriters with such sub-underwriters(s), if any, and such sub-underwriting agreement being in full force and effect and not being terminated;
- (k) the Underwriting Agreement not being terminated by Tonghai Securities in accordance with the terms thereof;
- (l) no stop order or similar order having been issued by any court or other judicial, governmental or regulatory authority in relation to the Rights Issue nor the sale and subscription and/or purchase of the Rights Shares in accordance with the provisions of this Underwriting Agreement and the execution and performance of the Underwriting Agreement by the Company being prohibited by any statute, order, rule, regulation or directive issued by, or objected to by any legislative, executive or regulatory body or authority of Hong Kong;
- (m) procurement of one or more sub-underwriter(s) to enter into sub-underwriting agreement(s) with Tonghai Securities; and
- (n) compliance with and performance of undertakings and obligations of Prime Force under the Irrevocable Undertaking.

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Tonghai Securities may at any time in writing waive any of the above conditions (save for those required by law) or extend the time or date for fulfilment of any such condition subject to such terms and conditions determined by it.

If any of the conditions above has not been satisfied or otherwise waived (as the case may be) on or before the relevant time and date specified in that respective condition or, if no such date is so specified or referred to, is not fulfilled on or prior to the Latest Time for Termination (or such later date(s) as the Underwriters and the Company may agree in writing), the Rights Issue will not proceed and all liabilities of the parties to the Underwriting Agreement shall cease and determine. In such event, none of the parties shall have any claim against the other parties (other than for antecedent breaches and claims) provided that, among other things, the Company shall remain liable to pay the Underwriters' reasonable out-of-pocket expenses in accordance with the terms of the Underwriting Agreement.

As the Rights Issue is subject to the above conditions, it may or may not proceed accordingly. If Tonghai Securities terminates the Underwriting Agreement, the Rights Issue will not proceed.

Termination of the Underwriting Agreement

Please refer to the section headed "Termination of the Underwriting Agreement" in this circular.

INFORMATION ABOUT THE UNDERWRITERS

Tonghai Securities, formerly known as Oceanwide Securities Company Limited, is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and its ordinary course of business includes underwriting of securities. As at the Latest Practicable Date, Tonghai Securities did not hold any Shares.

CCBI is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and its ordinary course of business includes underwriting of securities. As at the Latest Practicable Date, CCBI did not hold any Shares.

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Each of the Underwriters has confirmed that (1) it is independent of and not connected with the Company or its connected persons and not acting in concert with any of the Underwriters or other Shareholders and their respective ultimate beneficial owners; and (2) it has complied with Rule 7.19(1)(a) of the Listing Rules that it is licensed under the SFO for Type 1 regulated activity and its ordinary business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Underwriters, their respective ultimate beneficial owner(s) and/or associates are Independent Third Parties.

EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, assuming no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue, set out below are the shareholding structure of the Company (1) as at the Latest Practicable Date; and (2) immediately after the completion of the Rights Issue:

Scenario 1 – Assuming all Rights Shares are taken up by the Qualifying Shareholders:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Prime Force	765,186,000	51.94	1,530,372,000	51.94
Global Energy Investors, LLC. ⁽¹⁾	120,046,200	8.15	240,092,400	8.15
Directors	9,812,000	0.67	19,624,000	0.67
Windmere International Limited ⁽²⁾	66,072,800	4.49	132,145,600	4.49
China International Marine Containers (Hong Kong) Limited ("CIMC (HK)")	92,800,000	6.30	185,600,000	6.30
Treasure Maker Investments Limited ⁽³⁾	5,095,000	0.35	10,190,000	0.35
Other public Shareholders	414,144,204	28.11	828,288,408	28.11
Total	<u>1,473,156,204</u>	<u>100.00</u>	<u>2,946,312,408</u>	<u>100.00</u>

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Scenario 2 – Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than Prime Force and the Underwriters and/or subscribers procured by them for all the Underwritten Shares pursuant to the Underwriting Agreement):

	Immediately after completion of the Rights Issue (assuming Prime Force does not apply for any excess Rights Shares)		Immediately after completion of the Rights Issue (assuming Prime Force applies for 118,970,000 excess Rights Shares)	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Prime Force	1,530,372,000	54.13	1,649,342,000	55.98
Global Energy Investors, LLC. ⁽¹⁾	120,046,200	4.25	120,046,200	4.07
Directors	9,812,000	0.35	9,812,000	0.33
Windmere International Limited ⁽²⁾	66,072,800	2.34	66,072,800	2.24
The Underwriters (and/or subscriber(s) procured by them)	589,000,000	20.83	589,000,000	19.99
CIMC (HK)	92,800,000	3.28	92,800,000	3.15
Treasure Maker Investments Limited ⁽³⁾	5,095,000	0.18	5,095,000	0.17
Other public Shareholders	414,144,204	14.65	414,144,204	14.06
Total	<u>2,827,342,204</u>	<u>100.00</u>	<u>2,946,312,204</u>	<u>100.00</u>

Notes:

- (1) Global Energy Investors, LLC. is the beneficial owner of 120,046,200 Shares. The entire share capital of Global Energy Investors, LLC. is beneficially owned as to 50% each by Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua, both executive Directors.
- (2) Windmere International Limited is the beneficial owner of 66,072,800 Shares and is wholly-owned by Mr. Brian Chang. Mr. Brian Chang was a non-executive Director and he resigned from the position with effect from 9 February 2018.
- (3) The Company adopted a share award plan on 16 January 2015. Treasure Maker Investments Limited is the trustee of such share award plan and it holds 5,095,000 Shares on trust under the share award plan.

LETTER FROM THE BOARD

REASONS FOR THE RIGHTS ISSUE AND INTENDED USE OF PROCEEDS

The Group has principally been engaged in the business of designing and manufacturing of rig equipment, manufacture and trading of oilfield expendables and offshore rig construction and services.

With the relative improvement of oil price as compared to the average level in the past 4 years, and improvement in related offshore rig services charter rates, the Group is seeking to leverage its expertise and experience on the recovery in the drilling and offshore rig services sectors. The Group's long term strategic objective is to be a full service solution provider for the offshore marine industry. The Group plans to achieve this objective by expanding its operations vertically upstream and downstream, as well as horizontally throughout different segments of the oil & gas value chain.

The Company currently plans to expand its operating business through potential acquisition of offshore drilling rigs and related rig charter business. The Company will explore opportunities for forming strategic partnerships or other forms of co-operations with established operators with successful track record of offshore drilling rigs.

The new operating model of the Company will help switch from reliance on downstream capital expenditure to operational expenditure, which the Company sees signs of quicker recovery and promote the Company's transformation. At this stage, asset acquisition will also have room for appreciation in the long run. The company's participation in downstream companies will further promote the extension of the value chain.

The Company intends to employ equity financing to finance such expansion. This is because the Company does not currently have the necessary financial resources and the unutilized proceeds from the previous fund raising exercise will not be sufficient for undertaking the desired projects. Accordingly, the Company would need to raise new funds to achieve its business objectives. The Directors have considered alternative fund raising methods, which include: (i) allotting and issuing new shares or issuing convertible bonds. Such issues, as opposed to the Rights Issue, will not allow the existing Shareholders to maintain their respective shareholdings in the Company. In addition, based on the feedback from investors from roadshows and meetings conducted recently, the Directors are of the view that it would be difficult to raise sufficient funds in supporting the Company's development plan using such method; (ii) loans from banks. The Directors are of the view that it would be difficult for the Group to obtain a significant amount of additional bank loans given that the Group has suffered losses in recent years and substantially all of its assets and properties are already secured or guaranteed for the current bank borrowings of the Group. As such, the Directors did not pursue the above equity and debt fund raising methods which are considered not appropriate and are of the view that the Rights Issue is the best available option under the current situation of the Company.

Assuming full subscription under the Rights Issue, the gross proceeds and net proceeds from the Rights Issue are expected to be approximately HK\$662.92 million and approximately HK\$659.75 million, respectively. Assuming nil subscription under the Rights Issue (save for Prime Force pursuant to the Irrevocable Undertaking and the

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Underwriting Agreement in respect of the Underwritten Shares), the gross proceeds and net proceeds from the Rights Issue are expected to be no less than approximately HK\$609.38 million and approximately HK\$604.05 million, respectively. The net proceeds will be used for the following:

- approximately 70% of the net proceeds or approximately HK\$422.8 million will be used for, subject to the approval by the Independent Shareholders at the EGM and the fulfillment of the conditions under the Subscription and Joint Venture Agreement, settling the subscription price of US\$50 million (equivalent to approximately HK\$390 million) to be payable by AOG, pursuant to the Subscription and Joint Venture Agreement, thereby acquiring the Rig Assets through the JV; and approximately US\$4.2 million (equivalent to approximately HK\$32.8 million) of the remaining proceeds are intended to be used in other investment opportunities in the oil and gas industry, including upstream and downstream of the industry value chain, by way of, among others, other joint ventures with its controlling shareholder in oil and gas production businesses and/or acquisition of other rig assets, which are expected to be utilized after 2019. As at the Latest Practicable Date, except the Subscription and Joint Venture Agreement and the transactions contemplated thereunder, no other agreement, arrangement, understanding or negotiation has been signed or made by the Company in relation to the application of the remaining 70% of the proceeds other than the Subscription. For further details on the Subscription and Joint Venture Agreement, please refer to the section headed “C. The Subscription and Joint Venture Agreement” below in this letter;
- approximately 20% of the net proceeds or approximately HK\$120.8 million will be used for repayment of the existing debts of the Group, approximately HK\$78.3 million will fall due by 2019 and approximately HK\$42.5 million will fall due after 2019; and
- the remainder 10% or approximately HK\$60.4 million will be used for general working capital of the Group of which approximately HK\$20.4 million will be used for equipment expenditure and material procurement expenses for new orders, approximately HK\$30 million will be used for repayment of debts to suppliers and approximately HK\$10 million will be used for employees’ salaries and office expenses.

In the event that there is an undersubscription of the Rights Issue, the net proceeds of the Rights Issue will be utilized in proportion to the above uses, and the Company may consider meeting any shortfall of the potential acquisition of offshore drilling rigs from available debt facilities, internal resources, and/or other financial resources.

After completion of the Rights Issue, if the actual use of proceeds of the Rights Issue significantly deviates from the intended use as disclosed above (or as subsequently disclosed by the Company), the Company will appropriately disclose such information as soon as reasonably practicable.

In view of the above, the Board considers that it is in the interests of the Company and the Shareholders to proceed with the Rights Issue.

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FUND RAISING EXERCISE IN THE PRECEDING 12-MONTH PERIOD

The Company has conducted the following equity fund raising activities during the 12 months immediately preceding the Latest Practicable Date:

Date of Rights Issue Announcement	Event	Estimated net proceeds raised	Intended use of proceeds	Actual use of proceeds (up to 30 November 2018)
14 December 2017	Issue of 765,186,000 Shares under Specific Mandate	Approximately HK\$505.07 million	<ol style="list-style-type: none"> (1) Repayment of a portion of the debts of the Group (approximately HK\$101.01 million, representing approximately 20% of proceed); (2) Expansion of the Group's business and/or potential acquisition to be decided by the Board after issue of the Shares (approximately HK\$136.55 million, representing approximately 27.04% of proceed); (3) Repayment of unsecured notes issued by the Company (approximately HK\$217 million, representing approximately 42.96% of the proceed); and (4) General working capital of the Group (approximately HK\$50.51 million, representing approximately 10% of the proceed) 	<ol style="list-style-type: none"> (1) Expansion of the Group's business in approximately HK\$178.5 million; (2) Repayment of unsecured notes issued by the Company in approximately HK\$217 million; and (3) General working capital of the Group approximately HK\$31.27 million. <p>As at 30 November 2018, the amount of unutilized proceeds was approximately HK\$78.3 million, it is intended that:</p> <ul style="list-style-type: none"> • approximately HK\$39.2 million of which will be used for repayment of debts to the suppliers, commencing from December 2018; • approximately HK\$15.6 million of which will be used for equipment expenditure and material procurement expenses for new orders, commencing from December 2018; and • approximately HK\$23.5 million of which will be used for employees' salaries and office expenses for the two months ending January 2019.

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Further, on 15 March 2018, the Company issued 850,000 new Shares pursuant to the exercise of options under the share option scheme of the Company adopted on 20 October 2005.

C. The Subscription and Joint Venture Agreement

Principal terms of the Subscription and Joint Venture Agreement are set forth below:

Date

23 November 2018 (after trading hours)

Parties

1. AOG;
2. the Fund; and
3. the JV

Subject Matter

Pursuant to the Subscription and Joint Venture Agreement, (i) AOG conditionally agreed to subscribe for, and the Fund will procure the JV to allot and issue, 50,000,000 shares of US\$1.00 each, representing 50% of the enlarged issued share capital of the JV after the completion of the Subscription and Joint Venture Agreement, at a total subscription price of US\$50 million, (ii) the Fund conditionally agreed to contribute the Rig Assets to the JV at the total consideration of US\$150 million, out of which US\$50 million will be satisfied by the JV by the allotment and issue of 49,999,999 shares of US\$1.00 each to the Fund, which together with the one share of US\$1.00 each owned by the Fund will represent 50% of the enlarged share capital of the JV after the completion of the Subscription and Joint Venture Agreement, and the balance of the consideration of US\$100 million will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. The parties further agreed to regulate their respective rights and obligations towards the management and operation of the JV upon completion of the Subscription.

The subscription price in the amount of US\$50 million shall be paid in cash upon the Completion and was agreed after arm's length negotiations between the Company and the Fund taking into account the value of the Rig Assets.

Immediately after completion of the Subscription, the JV will be owned as to 50% by AOG and 50% by the Fund.

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Conditions Precedent

Completion of the Subscription is conditional on the satisfaction of the following conditions on or before the date of completion:

1. the completion of the acquisitions of the entire issued share capital of SPV1 and SPV2 by the JV and all conditions precedents included therein have been fulfilled;
2. the form of the articles of associations of SPV1, SPV2 and the JV having been agreed by the Fund and AOG and adopted by the relevant shareholder(s) of SPV1, SPV2 and the JV, respectively;
3. the representations and warranties given by the Fund and the JV remaining true and accurate as at the completion of the Subscription;
4. all necessary approvals, consents and waivers or regulatory rules or procedures of relevant government bodies, stock exchange and other regulatory authority having jurisdiction over the transactions contemplated in the Subscription and Joint Venture Agreement and all other transactions in connection therewith and incidental thereto, having been obtained by the parties and the JV, including but not limited to compliance with the requirements under the Listing Rules applicable to the Company, namely, the passing of resolutions by the Independent Shareholders approving the Subscription and Joint Venture Agreement and the transactions contemplated thereunder in accordance with the Listing Rules and all applicable laws at a general meeting of the Company; and
5. the representations and warranties given by AOG remaining true and accurate as at the completion of the Subscription.

Each of the Fund and the JV shall use its best endeavours to procure that conditions 1 to 4 set out above are satisfied (unless waived by AOG) not later than the Long Stop Date. AOG shall use its best endeavours to procure that condition 5 set out above is satisfied not later than the Long Stop Date. If the conditions set out above are not fulfilled by the Long Stop Date, the provisions of the Subscription and Joint Venture Agreement (other than certain ancillary provisions) shall from Long Stop Date have no effect and no party shall have any liability under such provisions (without prejudice to the rights of any of the parties in respect of antecedent breaches).

Save as condition 3 above which may be waived by AOG before the Long Stop Date, no other conditions as set out above may be waived by the parties.

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For the avoidance of doubt, the completion of the Subscription and Joint Venture Agreement is not conditional upon the Rights Issue as described in the section headed “B. Proposed Rights Issue” above. If the Rights Issue is approved but the Subscription and Joint Venture Agreement is not approved, the Company intends to utilize 70% of the net proceeds to invest in other investment opportunities in the oil and gas industry, including upstream and downstream of the industry value chain, by way of, among others, other joint ventures with its controlling shareholder in oil and gas production businesses and/or acquisition of other rig assets.

Management of the JV

The parties agreed that the JV and its subsidiaries shall carry on the business of investing in and managing the Rig Assets and other offshore vessels.

AOG and the Fund shall each have the right to appoint the number of directors in proportion to their respective shareholdings in the JV, and each of them shall procure that, at all times during the continuance of the Subscription and Joint Venture Agreement, there shall be at least two persons appointed by it and maintained in office as directors. Each of AOG and the Fund shall have the right to remove any director appointed by it and appoint another director in his place.

The Subscription and Joint Venture Agreement provides that all references made to the JV in the Subscription and Joint Venture Agreement is deemed to include reference to any subsidiary of the JV and is construed accordingly to apply equally to any subsidiary of the JV.

Both SPV1 and SPV2 are entities formed for the sole purpose of holding registered title to the respective Rig Asset and business activities shall be managed by the JV and the respective board of directors of each of the SPV1 or SPV2.

The JV shall be jointly controlled by AOG and the Fund and all major decisions shall be subject to unanimous agreement of the parties.

Upon the completion of the Subscription, the JV will be owned as to 50% by the Group and will be accounted for as a joint venture, and the financial results, assets and liabilities of the JV will be stated in the consolidated financial statements at the Group’s share of financial results and net assets under the equity method of accounting.

Restrictions on Equity Transfers

Neither party shall have the right to transfer any of its shares of the JV unless in accordance with the provisions of the Subscription and Joint Venture Agreement and the articles of association of the JV. In the event that a shareholder of the JV (the “**Selling Shareholder**”) proposes to transfer its shares of the JV, the other shareholder of the JV shall have a right of first refusal and tag along, while the Selling Shareholder shall have a right of drag along.

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Information About the Group and the Fund

The Group is currently principally engaged in manufacturing and trading of rig equipment and oilfield expendables. AOG, a wholly-owned subsidiary of the Company, is principally engaged in the business of building, upgrading, chartering, operating and sales of offshore service vessels.

The Fund is an exempted limited partnership registered in the Cayman Islands which primarily focused on making investments in the marine industry.

Information About the JV

In accordance with the Subscription and Joint Venture Agreement, the entire issued share capital of SPV1 and SPV2 has been transferred, to the JV at the total consideration of US\$150 million, out of which (i) US\$50 million has been satisfied by the allotment and issue of shares by the JV to the Fund; and (ii) US\$100 million was outstanding as at the Latest Practicable Date and will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. Save as disclosed above, the JV had no material assets or liabilities as at the Latest Practicable Date.

As of the Latest Practicable Date, the JV has not carried out any business since its incorporation on 23 October 2017 save for the dealing with the transfer of SPV1, SPV2 and the Rig Assets from the Fund. No profit/loss before and after taxation was recognised by the JV up to the Latest Practicable Date. The aggregate of the original acquisitions costs of SPV1, SPV2 and the Rig Assets to the Fund amounted to approximately US\$150 million.

The capital contribution by AOG is determined after arm's length negotiation among the Company and the Fund with reference to the estimated capital requirements of the JV and the respective shareholding percentage held by AOG and the Fund in the JV. The capital contribution by AOG will be funded by proceeds from the Rights Issue as disclosed in the paragraph headed "B. Proposed Rights Issue — Reasons for the Rights Issue and intended use of proceeds" above (subject to completion of the Rights Issue), the internal resources of the Group and/or external debt financing if necessary. Save as disclosed above, no other future capital commitment or shareholder's loan that the Company is required to contribute pursuant to the Subscription and Joint Venture Agreement.

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The Rig Assets

The particulars of the Rig Assets are set out below:

Registered owner	SPV1	SPV2
Rig Assets name	SMS MARIAM ("Rig 1")	SMS FAITH ("Rig 2")
Nominated Flag State	Liberia	Liberia
Type of Rig Asset	CJ46-X100-D Mobile Offshore Drilling Unit Self-Elevating Drilling Unit	CJ46-X100-D Mobile Offshore Drilling Unit Self-Elevating Drilling Unit

Each of SPV1 and SPV2 has entered into a bareboat charter agreement with an independent third party charterer (the "**Charterer**"), pursuant to which Rig 1 and Rig 2, respectively, will be bareboat chartered to the Charterer 45 days from delivery of each of the Rigs to Abu Dhabi or on commencement date of drilling contract whichever is earlier for a period of three years with option to oil company to extend a further 2 years. Rig 1 and Rig 2 are newly built. As at the Latest Practicable Date, Rig 1 and Rig 2 are completed subject only to certain modifications required by the oil company which awarded the drilling contract to the Charterer.

Set out below are the major terms of the bareboat charter agreement in respect of Rig 1 and Rig 2:

Rig 1

Date	:	27 August 2018
Place	:	Shenzhen, China
Parties	:	(1) Owner: SPV1; and (2) Charterer: Selective Marine Service Limited (" Selective Marine ")
Commencement date	:	45 days from Rig Offloading from Heavy lift in Abu Dhabi or the Abu Dhabi National Oil Company (ADNOC) Contract commencement date, whichever is earlier unless any delay on account of latent defects in the primary structure of the vessel
Charter period	:	SPV1 has agreed to let and Selective Marine has agreed to hire the vessel for the period of 3 years firm, counting from the commencement date, plus 2 years' extension (optional) and plus time required to complete or abandon the well in progress at the end of contract term.

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- Name and flag of vessel : (1) Name: SMS MARIAM – IMO-9698513
(2) Nominated Flag: Liberia
- Type of vessel : CJ46-X100-D, Hull No. is CMHI-129-1
Mobile Offshore Drilling Unit
Self-Elevating Drilling Unit
- Port or place of delivery and redelivery : China Merchants Heavy Industry (Shenzhen) Co. Ltd
– Shipyard berth, Shenzhen, China
- Delivery date : 1 December 2018
- Cancelling date : 30 days after delivery date
- Charter Hire : (1) Selective Marine shall pay to SPV1 for the hire of the vessel on a lump sum basis of US\$900,000 for every forty-five (45) running days in arrears upon receipt of SPV1's invoice;
- (2) the amount is USD20,000 net per day (which is net of any applicable and/or withholding taxes) during the whole charter period. Payment of hire shall be made in cash without discount in the currency;
- (3) final payment of hire, if for a period of less than forty-five (45) running days, shall be calculated proportionally;
- (4) should the vessel be lost or missing, hire shall cease from the date and time when vessel was lost or last heard of;
- (5) any delay in payment of hire shall entitle SPV1 to interest at a rate of 6 month US Dollar Libor interest rate plus 2%; and
- (6) payment of interest due under (5) shall be made within seven (7) running days of the date of SPV1's invoice specifying the amount payable or, in the absence of an invoice, at the time of the next hire payment date.

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Risks or responsibilities : (1) Acceptance test: It is the sole responsibility of Selective Marine to ensure the vessel passes the ADNOC acceptance test in Abu Dhabi.

(2) Insurance: SPV1 takes the responsibility of Hull & Machinery insurance, and the value of the vessel is considered USD120 million; Selective Marine takes the responsibility of protection and indemnity insurance and war risk insurance; Selective Marine, SPV1 and ADNOC shall be included in respective policies as co-insured.

Rig 2

Date : 27 August 2018

Place : Shenzhen, China

Parties : (1) Owner: SPV2; and

(2) Charterer: Selective Marine

Commencement date : 75 days from Rig Offloading from Heavy lift in Abu Dhabi or the Abu Dhabi National Oil Company (ADNOC) Contract commencement date, whichever is earlier unless any delay on account of latent defects in the primary structure of the vessel

Charter period : SPV2 has agreed to let and Selective Marine has agreed to hire the vessel for the period of 3 years firm, counting from the commencement date, plus 2 years extension (optional) and plus time required to complete or abandon the well in progress at the end of contract term.

Name and flag of vessel : (1) Name: SMS FAITH – IMO-9698525

(2) Nominated Flag: Liberia

Type of vessel : CJ46-X100-D, Hull No. is CMHI-129-2
Mobile Offshore Drilling Unit
Self-Elevating Drilling Unit

Port or place of delivery and redelivery : China Merchants Heavy Industry (Shenzhen) Co. Ltd – Shipyard berth, Shenzhen, China

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- Delivery date : 1 December 2018
- Cancelling date : 30 days after delivery date
- Charter Hire : (1) Selective Marine shall pay to SPV2 for the hire of the vessel on a lump sum basis of US\$900,000 for every forty-five (45) running days in arrears upon receipt of SPV2's invoice;
- (2) the amount is USD20,000 net per day (which is net of any applicable and/or withholding taxes) during the whole charter period. Payment of hire shall be made in cash without discount in the currency;
- (3) final payment of hire, if for a period of less than forty-five (45) running days, shall be calculated proportionally;
- (4) should the vessel be lost or missing, hire shall cease from the date and time when vessel was lost or last heard of;
- (5) any delay in payment of hire shall entitle SPV2 to interest at a rate of 6 month US Dollar Libor interest rate plus 2%; and
- (6) payment of interest due under (5) above shall be made within seven (7) running days of the date of SPV2's invoice specifying the amount payable or, in the absence of an invoice, at the time of the next hire payment date.
- Risks or responsibilities : (1) Acceptance test: It is the sole responsibility of Selective Marine to ensure the vessel passes the ADNOC acceptance test in Abu Dhabi.
- (2) Insurance: SPV2 takes the responsibility of Hull & Machinery insurance, and the value of the vessel is considered USD120 million; Selective Marine takes the responsibility of protection and indemnity insurance and war risk insurance; Selective Marine, SPV2 and ADNOC shall be included in respective policies as co-insured.

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Possible financial effects of the Subscription on the Group

Upon the completion of the Subscription, the JV will be owned as to 50% by the Group and will be accounted for as a joint venture. The Group will equity account for its share of the results and financial position of the JV in its consolidated financial statements.

Set out below is a summary of the financial information of the Group as at 30 June 2018 before completion of the Subscription and the Rights Issue and the unaudited pro forma financial information of the Enlarged Group after the completion of the Subscription and the Rights Issue, as if the Subscription and the Rights Issue had been completed on 30 June 2018, prepared on the basis set out in Appendix IV to this circular:

	The Group before completion of the Subscription and the Rights Issue <i>US\$'000</i>	The Group after completion of the Rights Issue but before completion of the Subscription <i>US\$'000</i>	The Enlarged Group after completion of the Subscription and the Rights Issue <i>US\$'000</i>
Total assets	361,484	445,467	445,467
Total liabilities	306,141	306,141	306,141
Net assets	55,343	139,326	139,326
Gearing ratio (<i>Note</i>)	0.40	0.16	0.16

Note: Gearing ratio is calculated by dividing total bank loans and other borrowings by total equity.

In light of the future prospects of the JV, the Directors are of the view that the Subscription would likely to have a positive impact on the future earnings of the Enlarged Group.

As the above information is for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the results and financial position of the Enlarged Group for any future financial periods or dates.

For details of the unaudited pro forma financial information on the Enlarged Group immediately following the completion of the Subscription and the Rights Issue, please refer to Appendix IV to this circular.

LETTER FROM THE BOARD

Reason for and Benefits of Entering Into the Subscription and Joint Venture Agreement

Overall Oil & Gas Industry Landscape

Four years on from one of the toughest and longest downturn in the oil industry there are signs of recovery in the oil service industry. Both global oil demand and supply are now close to 100 million barrels per day (MMbpd) “and neither show signs of ceasing to grow any time soon,” according to the International Energy Agency (IEA). IEA also reported that market re-balancing is clearly moving ahead with key indicators – supply and demand becoming more closely aligned, OECD stocks falling close to average levels, the forward price curve in backwardation at prices that increasingly appear to be sustainable – pointing in the direction of a recovery. To meet the needs of a 100 MMbpd market is an extraordinary achievement for the global oil industry and the gap between the supply and demand curves is presently down to only days in terms of production or consumption per day. Even though recent production increases come at the expense of spare capacity, this spare capacity is already down to only 2% of global demand and likely to reduce further and would sustain higher levels of oil price. Additionally, petrochemicals are rapidly becoming the largest driver of global oil demand, ahead of transportation and will account for more than one-third of world oil demand growth to 2030 according to the IEA. Although oil price will fluctuate with geo-political uncertainties, the overall long term consumption of crude oil will continue to grow and sustain investments in exploration and production activities.

Rig Market Recovery

Utilization rates, charter rates and fixtures of new work contracts for offshore drilling rigs have improved and it is the general opinion of the industry that recovery will continue based on improving fundamentals. In addition to surviving the prolonged period of low prices, the Group has made concerted efforts during the low price period to transform and reposition its business to prepare for the recovery. These efforts and plans included developing prospects for charter or bareboat charter contracts, securing access to new built rigs at favorable terms at the opportune time and providing the capability to bring offshore rigs to market. Eventually as the capital expenditure cycle matures, the Group also stands to benefit from potential capital gains from early investments at the beginning of the recovery.

Developing Opportunities

During the low price period, the oversupply and availability of new built rigs in China added to the glut in supply when drilling activities were down to historically low levels. However, this also presented a unique opportunity for the Group. The jack up rig segment is approximately 43% of the overall rig market and is usually at the forefront of the oil recovery cycle as oil operators prioritize exploration and production activities on shallower offshore continental shelf oil fields.

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The Group's investment in the JV and the Rig Assets is the outcome of the Group's strategic intent. Such investment will allow the Company to execute its strategy as the key enabler to converting surplus idle inventory into competitive revenue generating assets. The Board therefore considers that the entering into of the Subscription and Joint Venture Agreement is a good opportunity for the Group to execute its long term strategy and expansion into a business which will benefit the Group in the long-run.

The Directors (excluding the views of the independent non-executive Directors which will be given after considering the views of the independent financial advisers to be appointed) are of the view that the Subscription and Joint Venture Agreement are on normal commercial terms, and that the terms of the Subscription and Joint Venture Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The Authorised Share Capital Increase

The Authorised Share Capital Increase is conditional upon, among other things, the approval by the Shareholders by way of an ordinary resolution at the EGM. As none of the Shareholders or their associates would have any interest in the Authorised Share Capital Increase, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Authorised Share Capital Increase at the EGM.

The Rights Issue and the Underwriting Agreement

Given that the Rights Issue will result in an increase of the number of issued Shares by more than 50%, the Rights Issue is subject to, among other things, the approval by the Independent Shareholders at the EGM. Pursuant to Rule 7.27A(1) of the Listing Rules, any controlling shareholder of the Company and their associates, or where there is no such controlling shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution relating to the Rights Issue.

As at the Latest Practicable Date, Prime Force is the controlling shareholder of the Company, holding 765,186,000 Shares, representing approximately 51.94% of the issued Shares of the Company. Prime Force and its associates shall abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

The Subscription and Joint Venture Agreement

Since the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Subscription and Joint Venture Agreement exceed 25% but is less than 100%, the transactions contemplated under the Subscription and Joint Venture Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

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Given the Fund is a controlling shareholder and therefore a connected person of the Company, the transactions contemplated under the Subscription and Joint Venture Agreement also constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Mr. Wang Hongyuan (our executive chairman and executive Director) and Ms. Li Rong (our former non-executive Director) declared that they were part of the management team of the manager of the Fund, and Mr. Lou Dongyang (our non-executive Director) declared that he is the chief financial officer of CM Industry, therefore, Mr. Wang Hongyuan, Ms. Li Rong and Mr. Lou Dongyang have abstained from voting on the board resolutions in relation to the Subscription and Joint Venture Agreement and the transactions contemplated thereunder to avoid any conflict of duties or interest. Save for Mr. Wang Hongyuan, Ms. Li Rong and Mr. Lou Dongyang, no other Directors have abstained from voting on the board resolutions in this regard.

The Fund and its associates (beneficially interested in an aggregate of 765,186,000 Shares, representing approximately 51.94% of the entire issued share capital of the Company as at the Latest Practicable Date) shall abstain from voting on the proposed resolution(s) to approve the Subscription and Joint Venture Agreement and the transactions contemplated thereunder.

EGM

A notice convening the EGM to be held at 10:00 a.m. on Friday, 28 December 2018 at Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong is set out on pages 137 to 139 of this circular for the purpose of considering and, if thought fit, approving, among other matters, the Authorised Share Capital Increase, the Rights Issue and the Subscription and Joint Venture Agreement together with the transactions contemplated thereunder.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

Subject to the approval of the Authorised Share Capital Increase by the Shareholders and the approval of the Rights Issue by the Independent Shareholders at the EGM, and the Authorised Share Capital Increase becoming effective, the Prospectus Documents are expected to be despatched to the Qualifying Shareholders on or before Friday, 11 January 2019 and the Prospectus (but not the PAL and the EAF) will be despatched to the Excluded Shareholders for information only.

LETTER FROM THE BOARD

RECOMMENDATION

The Company has established an Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong, to advise the Independent Shareholders with respect to the Rights Issue and the Subscription and Joint Venture Agreement and the transactions contemplated thereunder, and to provide recommendations as to voting. The Company has also appointed an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the terms of the Rights Issue and the Subscription and Joint Venture Agreement and as to voting.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 46 to 47 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue and the Subscription and Joint Venture Agreement and the transactions contemplated thereunder, and the letter from the Independent Financial Adviser set out on pages 48 to 82 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors consider that the Authorised Share Capital Increase is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the Authorised Share Capital Increase.

The Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee) are of the view that the terms of the Rights Issue and the Subscription and Joint Venture Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue and the Subscription and Joint Venture Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

The Rights Issue is conditional on, among other things, the Underwriting Agreement having become unconditional and not terminated in accordance with its terms. Accordingly, Shareholders and potential investors of the Company should note that if any of the conditions to the Rights Issue is not satisfied, the Rights Issue will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in securities of the Group.

LETTER FROM THE BOARD

Shareholders and potential investors contemplating buying or selling Shares from the Latest Practicable Date up to the date on which all the conditions of the Rights Issue are fulfilled (including the date on which Tonghai Securities' right of termination of the Underwriting Agreement ceases), and/or any dealings in the Rights Shares in their nil-paid form from 9:00 a.m. on Tuesday, 15 January 2019 to 4:00 p.m. on Tuesday, 22 January 2019 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise due caution when dealing in the Shares and/or the Rights Shares in their nil-paid form and if they are in any doubt about their position, they should consult their professional advisers.

By Order of the Board
TSC Group Holdings Limited
Wang Hongyuan
Executive Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue and the Subscription and Joint Venture Agreement and the transactions contemplated.



TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

11 December 2018

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE AND
MAJOR AND CONNECTED TRANSACTION RELATING TO
THE FORMATION OF JOINT VENTURE**

We refer to the circular of the Company dated 11 December 2018 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether (i) the terms of the Rights Issue, the Subscription and Joint Venture Agreement together with the transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Rights Issue, the Subscription and Joint Venture Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Lego Corporate has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Having taken into account the terms of the Rights Issue, the Subscription and Joint Venture Agreement and the transactions contemplated thereunder and the advice from the Independent Financial Adviser (together with the principal factors and reasons considered in arriving such advice), we are of the opinion that (i) the terms of the Rights Issue, the Subscription and Joint Venture Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned; (ii) the Rights Issue, the Subscription and Joint Venture

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and (iii) the Subscription and Joint Venture Agreement is on normal commercial terms or better and in ordinary and usual course of business of the Company. Accordingly, we recommend you to vote in favour of the relevant resolution to be proposed at the EGM to approve the Rights Issue, the Subscription and Joint Venture Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

**Mr. Chan Ngai Sang,
Kenny**

Mr. Zou Zhendong

Mr. Chen Weidong

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders, in respect of the Subscription and Joint Venture Agreement and the Rights Issue, which has been prepared for the purpose of inclusion in this circular.



11 December 2018

To the Independent Board Committee and Independent Shareholders

Dear Sirs or Madams,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY ONE SHARE
HELD ON THE RECORD DATE
AND
MAJOR AND CONNECTED TRANSACTION RELATING TO
THE FORMATION OF JOINT VENTURE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and Joint Venture Agreement and the Rights Issue details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 11 December 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Subscription and Joint Venture Agreement

Pursuant to the Subscription and Joint Venture Agreement, (i) AOG conditionally agreed to subscribe for, and the Fund will procure the JV to allot and issue, 50,000,000 shares of US\$1.00 each, representing 50% of the enlarged issued share capital of the JV after the Completion, at a total subscription price of US\$50 million, and (ii) the Fund conditionally agreed to contribute the Rig Assets to the JV at the total consideration of US\$150 million, out of which US\$50 million will be satisfied by the JV by the allotment and issue of 49,999,999 shares to the Fund, which together with the one share owned by the Fund will represent 50% of the enlarged share capital of the JV after the completion of the Subscription and Joint Venture Agreement, and the balance of the consideration of US\$100 million will be satisfied by a shareholder’s loan to be advanced by the Fund to the JV, in each case on the terms and subject to the conditions set out in the Subscription and Joint Venture Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Subscription and Joint Venture Agreement exceed 25% but is less than 100%, the transactions contemplated under the Subscription and Joint Venture Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Given the Fund is a controlling shareholder and therefore a connected person of the Company, the transactions contemplated under the Subscription and Joint Venture Agreement also constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

Rights Issue

On 8 November 2018 (after trading hours), the Company proposes, subject to the Authorised Share Capital Increase becoming effective and other conditions, to implement the Rights Issue on the basis of one Rights Share for every one Share held on the Record Date at the Subscription Price of HK\$0.45 per Rights Share. The Company proposes to raise gross proceeds of up to approximately HK\$662.92 million before expenses (assuming that there will be no change in the number of issued Shares on or before the Record Date) by way of the issue of up to 1,473,156,204 Rights Shares.

As at the Latest Practicable Date, the Company has no outstanding warrants, options, derivatives or securities convertible into or exchangeable for Shares. Assuming no new Shares are issued and no repurchase of the Shares takes place on or before the Record Date, up to 1,473,156,204 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 100% of the number of existing issued Shares and 50% of the number of issued Shares as enlarged immediately upon completion of the Rights Issue.

Given that the Rights Issue will result in an increase of the number of issued Shares by more than 50%, the Rights Issue is subject to, among other things, the approval by the Independent Shareholders at the EGM. Pursuant to Rule 7.27A(1) of the Listing Rules, any controlling shareholder of the Company and their associates, or where there is no such controlling shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution relating to the Rights Issue.

The Company has established an Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong, to advise the Independent Shareholders with respect to the Rights Issue and the Subscription and Joint Venture Agreement, and to provide recommendations as to voting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, we did not have any relationships or interest with the Company that could reasonably be regarded as relevant to our independence. Apart from normal professional fee paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Subscription and Joint Venture Agreement and the Rights Issue.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group, for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and including the date of the EGM. We have also assumed that all such statements of belief, opinions and intentions of the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and/or the advisers of the Company. We have also sought and received confirmation from the management of the Group that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Fund, the JV or any of their respective subsidiaries and associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Subscription and Joint Venture Agreement and the Rights Issue, we have considered the following principal factors and reasons:

1. Background information of the Group

Principal businesses and information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability, and the Shares have been listed on the Stock Exchange since 28 November 2005 with business focus on the provision of developing, manufacturing, marketing, installation and servicing a comprehensive line of products for the Onshore and Offshore Oil and Gas Exploration and Production (“E&P”) and Decommissioning industries. As at 9 February 2018, China Merchants Great Wall Ocean Technology Strategic Development Industry Fund completed the acquisition of the Group by the Subscription of new Shares and currently holds 51.94% equity interest of the Company, emerging as the controlling shareholder of the Company.

Historical financial information

The following table summarises the financial information of the Group for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018 as extracted from the annual report of the Company for the year ended 31 December 2017 (the “2017 Annual Report”) and the interim report of the Company for the six months ended 30 June 2018 (the “2018 Interim Report”), respectively.

	For the year ended		For the six months ended	
	31 December		30 June	
	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	142,531	76,552	45,881	29,556
Segment revenue:				
– Capital equipment and packages	76,067	26,540	16,272	11,662
– Oilfield expendables and supplies	60,874	45,135	26,747	15,564
– Engineering services	5,590	4,877	2,862	2,330
Gross profit	37,786	9,221	14,078	6,533
Gross profit margin	26.5%	12.0%	30.7%	22.1%
(Loss) for the year/period	(111,576)	(83,419)	(3,721)	(6,985)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December		As at
	2016	2017	30 June
	<i>US\$'000</i> (audited)	<i>US\$'000</i> (audited)	<i>US\$'000</i> (unaudited)
Cash at bank and on hand	9,952	15,287	34,523
Current assets	326,767	235,170	290,991
Current liabilities	275,359	286,619	293,794
Total assets	412,824	314,607	361,484
Total liabilities	316,750	300,940	306,141
Net assets	96,074	13,667	55,343

For the years ended 31 December 2016 and 2017

The revenue of the Group decreased from approximately US\$142.5 million for the year ended 31 December 2016 to approximately US\$76.6 million for the year ended 31 December 2017, representing a decrease of approximately 46.3% as compared to the prior year. As stated in the 2017 Annual Report, the decrease was mainly driven by (i) the decrease of approximately US\$49.5 million or 65.1% in the revenue of the capital equipment and packages segment due to the persisting lack of demand for drilling related equipment; and (ii) the decrease of approximately US\$15.7 million or 25.9% in the revenue of the oilfield expendables and supplies segment attributable to the lower drilling activities in North America. The decreases in the gross profit and gross profit margin were mainly due to the impairment loss for inventories raised and the under-utilisation of production capacity during the year.

The Group's loss position improved from approximately US\$111.6 million for the year ended 31 December 2016 to approximately US\$83.4 million for the year ended 31 December 2017. Such loss was primarily attributable to the impairment losses made on (i) gross amount due from customers for contract work of approximately US\$44.7 million, the impairment of which was made based on the Directors' assessment on the recoverable amount of individual construction contracts; and (ii) doubtful debts of US\$3.5 million in respect of the receivables related to customers that were in financial difficulties and the Directors assessed that only a portion of the receivables is expected to be recoverable. As a result, the Group incurred a loss of approximately US\$83.4 million for the year ended 31 December 2017.

As at 31 December 2017, total assets of the Group amounted to approximately US\$314.6 million, of which gross amount due from customers for contract work amounted to US\$133.1 million, representing approximately 42.3% of the total assets. Meanwhile, cash and cash equivalents amounted to approximately US\$15.3 million, representing approximately 4.9% of the total assets.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2017, total liabilities of the Group amounted to approximately US\$300.9 million, of which trade and other payables amounted to approximately US\$234.2 million, representing approximately 81.7% of the total liabilities, and total bank loans and other borrowings amounted to approximately US\$47.6 million, representing approximately 15.8% of the total liabilities.

For the six months ended 30 June 2017 and 2018

The revenue of the Group decreased from approximately US\$45.9 million for the six months ended 30 June 2017 to approximately US\$29.6 million for the six months ended 30 June 2018, representing a decrease of approximately 35.6% as compared to the corresponding period in 2017.

Such decrease was driven by (i) the decrease in the revenue of the oilfield expendables and supplies segment by approximately US\$11.2 million, mainly due to the decrease of the provision of maintenance, repair and operations supplies as a result of the drop in global drilling activities; and (ii) the decrease in the revenue of the capital equipment and packages segment by approximately US\$4.6 million, mainly due to the decrease of demand from upstream oil and gas companies and the market of related products.

The gross profit decreased from approximately US\$14.1 million for the six months ended 30 June 2017 to approximately US\$6.5 million for the six months ended 30 June 2018, representing a decrease of approximately 53.6%. Such decrease was in line with the decrease in the Group's revenue, and the decrease in gross profit margin was mainly due to the reduction in sales order and thus, the production facilities were not fully utilised for the six months ended 30 June 2018. The Group recorded a loss of approximately US\$7.0 million for the six months ended 30 June 2018. Such loss was mainly due to the decrease in revenue and gross profit as discussed above, and was partially net off with the decrease in the selling and distribution expenses of approximately US\$1.5 million.

As at 30 June 2018, total assets of the Group was approximately US\$361.5 million, representing an increase of approximately 14.9% as compared to the balance of approximately US\$314.6 million as at 31 December 2017. Such increase was mainly attributable to the combined effect of (i) the increase in trade and other receivables of approximately US\$24.6 million; (ii) the decrease in trade and other payables of approximately US\$25.3 million; and (iii) the increase in bank loans and other borrowings of approximately US\$39.5 million.

As at 30 June 2018, total liabilities of the Group was relatively stable at approximately US\$306.1 million as compared to approximately US\$300.9 million as at 31 December 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Subscription and Joint Venture Agreement

Date:

23 November 2018 (after trading hour)

Parties:

1. AOG;
2. the Fund; and
3. the JV

Subject Matter

Pursuant to the Subscription and Joint Venture Agreement, (i) AOG conditionally agreed to subscribe for, and the Fund will procure the JV to allot and issue, 50,000,000 shares of US\$1.00 each, representing 50% of the enlarged issued share capital of the JV after the completion of the Subscription and Joint Venture Agreement, at a total subscription price of US\$50 million, (ii) the Fund conditionally agreed to contribute the Rig Assets to the JV at the total consideration of US\$150 million, out of which US\$50 million will be satisfied by the JV by the allotment and issue of 49,999,999 shares of US\$1.00 each to the Fund, which together with the one share owned by the Fund will represent 50% of the enlarged issued share capital of the JV after the completion of the Subscription and Joint Venture Agreement, and the balance of the consideration of US\$100 million will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. The parties further agreed to regulate their respective rights and obligations towards the management and operation of the JV upon completion of the Subscription and Joint Venture Agreement.

The subscription price in the amount of US\$50 million shall be paid in cash upon the completion of the Subscription and was agreed after arm's length negotiations between the Company and the Fund taking into account the value of the Rig Assets.

Immediately after completion of the Subscription and Joint Venture Agreement, the JV will be owned as to 50% by AOG and 50% by the Fund.

Management of the JV

The parties agreed that the JV and its subsidiaries shall carry on the business of investing in and managing the Rig Assets and other offshore vessels.

AOG and the Fund shall each have the right to appoint the number of directors in proportion to their respective shareholdings in the JV, and each of them shall procure that, at all times during the continuance of the Subscription and Joint Venture Agreement, there shall be at least two persons appointed by it and maintained in office as directors. Each of AOG and the Fund shall have the right to remove any director appointed by it and appoint another director in his place.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Subscription and Joint Venture Agreement provides that all references made to the JV in the Subscription and Joint Venture Agreement is deemed to include reference to any subsidiary of the JV and is construed accordingly to apply equally to any subsidiary of the JV. Both SPV1 and SPV2 are entities formed for sole purpose of holdings registered title to the respective Rig Asset and business activities shall be managed by the JV and the respective board of directors of each of the SPV1 and SPV2.

The JV shall be jointly controlled by AOG and the Fund and all major decisions shall be subject to unanimous agreement of the parties.

Upon the completion of the Subscription and Joint Venture Agreement, the JV will be owned as to 50% by the Group and will be accounted for as a joint venture, and the financial result, the assets and liabilities of the JV will be stated in the consolidated financial statements at the Group's share of financial results and net assets under equity method of accounting.

Given the appointment of the directors of JV would be in proportion to their respective shareholdings in the JV, and the fact that the JV shall be jointly controlled by AOG and the Fund and all major decisions shall be subject to unanimous agreement of the parties, the Directors consider, and we concur that the management arrangement of the JV is fair and reasonable.

Restrictions on Equity Transfers

Neither party shall have the right to transfer any of its shares of the JV unless in accordance with the provisions of the Subscription and Joint Venture Agreement and the articles of association of the JV. In the event that a shareholder of the JV (the "Selling Shareholder") proposes to transfer its shares of the JV, the other shareholder of the JV shall have a right of first refusal and tag along, while the Selling Shareholder shall have a right of drag along.

Information about the JV

We were advised that the entire issued share capital of SPV1 and SPV2 have been transferred to the JV at the total consideration of US\$150 million, out of which (1) US\$50 million has been satisfied by the allotment and issue of shares by the JV to the Fund; and (ii) US\$100 million was outstanding as at Latest Practicable Date and will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. Save as disclosed above, the JV had no material assets or liabilities and has not carried out any business since its incorporation on 23 October 2017 up to the Latest Practicable Date. No profit/loss before and after taxation was recognised by the JV up to the date of the Subscription and Joint Venture Announcement. As disclosed in the accountant's report of the Target Group contained in Appendix III to the Circular, the net asset value of the Target Group as at 30 November 2018 was US\$50 million, which comprised the Rig Assets of US\$150 million and amount due to the controlling shareholder of US\$100 million.

3. Reasons for and benefits of entering into the Subscription and Joint Venture Agreement

Use of the Rig Assets

The Rig Assets that the JV possessed represent two units of self-elevating drilling units, which are mobile platforms that consist of a buoyant hull fitted with a number of movable legs, capable of raising its hull over the surface of the sea with facilities for well drilling to explore, extract, store, process petroleum and natural gas which lies in rock formations beneath the seabed.

According to the Letter from the Board, each of SPV1 and SPV2 has entered into a bareboat charter agreement with an independent third party charterer (the “Charterer”), pursuant to which Rig 1 and Rig 2, respectively, will be bareboat chartered to the Charterer 45 days from delivery of each of the Rigs to Abu Dhabi or on commencement date of drilling contract whichever is earlier for a period of three years with option to oil company to extend a further 2 years. As at the Latest Practicable Date, Rig 1 and Rig 2 are completed subject only to certain modifications required by the oil company which awarded the drilling contract to the Charterer.

Given that the Rig Assets had been chartered for an initial period of three years, the Directors are of the view and we concur that with the subscription of the JV shares, the Group can expand its existing rig fleet, and benefit from the potential profit sharing of income from the JV in the form of dividend income, which will in turn expand the income source of the Group.

Market Prospects

As disclosed in the Letter from the Board, there are signs of recovery in the oil service industry with both global oil demand and supply close to 100 million barrels per day. Utilisation rates, charter rates and fixtures of offshore drilling rigs have improved and it is the general opinion of the industry that recovery will continue based on improving fundamentals. Although oil price will fluctuate with geo-political uncertainties, the overall long term consumption of crude oil will continue to grow and sustain investments in exploration and production activities.

We have performed internet search on the rig market, and according to the report “RigOutlook 2018 H2” published by Westwood Global Energy Group which was found in January 2015 and has been providing business intelligence and market analytics for the oil and gas industry, worldwide competitive jackup rig utilisation has increased to approximately 56% in September 2018, since reaching its low point of approximately 50.1% in February 2017 and the utilisation rose by approximately 5.9%, representing a modest gain for a 19-month period. We had also reviewed a press release from Transparency Market Research, which is a global market research, analysis, and intelligence firm and was found in 2011, published in November 2018, and according to Transparency Market Research, the global offshore drilling rigs market is projected to attain value of US\$41,922.8 million by the end of 2022 with a CAGR of 3.5% over the forecast period from 2017 to 2022 from the value of US\$35,336.2 million in 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's strategy

As stated in the Letter from the Board, in addition to surviving the prolonged period of low-prices, the Group has made concerted efforts during the low price period to transform and reposition its business to prepare for the recovery. These efforts and plans included developing prospects for charter or bareboat charter contracts, securing access to new built rigs at favorable terms at the opportune time and providing the capability to bring offshore rigs to market. Eventually as the capital expenditure cycle matures, the Group also stands to benefit from potential capital gains from early investments at the beginning of the recovery.

The Group's long-term strategic objective is to be a full-service solution provider for the offshore marine industry. The Group plans to achieve this objective by expanding its operations vertically upstream and downstream, as well as horizontally throughout different segments of the oil & gas value chain. The Group's investment in the JV and the Rig Assets is the outcome of the Group's strategic intent. Such investment will allow the Company to execute its strategy as the key enabler to converting surplus idle inventory into competitive revenue generating assets. The Board therefore considers that the entering into of the Subscription and Joint Venture Agreement is a good opportunity for the Group to execute its long term strategy and expansion into a business which will benefit the Group in the long-run.

With the recovering oil service industry and rig market, we concur with the Directors' view that the investment in the JV and the Rig Assets may provide a good opportunity for the Group to execute its long-term strategy and benefit from the recovery of the oil service industry.

In light of the foregoing, we are of the view that the entering into of the Subscription and Joint Venture Agreement is in the interests of the Company and its shareholders as a whole.

4. Subscription Amount

The capital contribution by AOG is determined after arm's length negotiations between the Company and the Fund taking into account the value of the Rig Assets and the respective shareholding percentage held by AOG and the Fund in the JV. The capital contribution by AOG will be funded by proceeds from the Rights Issue, the internal resources of the Group and/or external debt financing if necessary.

The Company has engaged Clarkson Valuation Limited ("**Clarkson**"), an independent professional valuer to conduct the valuations (the "**Valuations**") on the market values of the Rig Assets as at 28 November 2018. Details of the reports of the Valuations (the "**Valuation Reports**") are set out in Appendices VA and VB to the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Valuations

Valuation methodologies

The Rig Assets were valued by Clarkson. We have conducted an interview with Clarkson regarding its experience in valuing similar rig asset, and its independence. We understand from Clarkson that it is part of Clarkson PLC Group, the world's leading supplier of integrated shipping services, employing some 1,500 staff globally across 48 offices. Clarkson PLC Group was founded in 1852, and has provided valuation service for over 65 years and is now publicly traded on the London Stock Exchange and a member of the FTSE 250. Clarkson further advised that it has provided valuations to a range of companies listed on stock exchanges around the world including companies on the Hong Kong Stock Exchange as well as other exchanges such as New York, Oslo and Singapore, and provided over 30,000 valuations in 2017 including valuations to the majority of the top shipping and offshore financing banks globally and is the leading supplier of appraisals to the maritime and offshore industries. We also understand that the valuer-in-charge of the Clarkson's valuation team has approximately 10 years' experience in the valuation of rig assets and the relevant valuation team members have valuation experience ranging from approximately 1 years to 10 years.

We have also reviewed the terms of engagement letter of Clarkson and noted that the purpose of which is to prepare valuation reports and provide the Company with the opinion on the market values of the Rig Assets. We were told by Clarkson that the engagement letter also contains standard valuation scopes that are typical for valuation carried out by independent ship valuers. There is no limitation of the scope of work which might have an adverse impact on the degree of assurance given by Clarkson in the Valuation Reports. We also understand from Clarkson that it has made relevant enquiries and obtained information for the purpose of the Valuations and no irregularities were noted during the course of the Valuations.

Valuation bases and assumptions

We noted that the Valuations are prepared with fair market value approach based on (i) collating shipbrokers' price estimate and/or idea and market knowledge through discussion with active and experienced shipbrokers who are involved in discussions with potential buyers and sellers of drilling rigs on a regular basis and whom have executed drilling rig transactions; and (ii) seeking to validate such price estimate and/or ideas with reference to both published and confidential information on the drilling rig market including but not limited to general oil and gas market conditions, day rates, utilisation and details of sale and purchase transactions.

We were also advised that the fair market value approach is a commonly adopted approach for assessing the market values of the rig assets. Alternative approaches such as replacement cost approach and income approach, would have limitation in terms of the difficulties to reflect current market condition and accurate estimation of future income.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted that Clarkson has made the following assumptions for the Valuations, including (a) the vessels are in good condition and seaworthy condition; and (b) on the basis of prompt charter-free delivery as between a willing seller and a willing buyer for cash payment under normal commercial term.

Details of the assumptions made by Clarkson for the Valuations are set out in Appendices VA and VB to the Circular. We have discussed with the Company and Clarkson and reviewed the key assumptions made and nothing has come to our attention that would lead us to doubt the fairness and reasonableness of the principal bases and assumptions adopted in the Valuation Reports.

After taken into account the above, we consider that the bases and assumptions adopted by Clarkson for the valuation methodologies as discussed above are reasonable and in line with market practice.

Comparison to net asset value of the JV

According to the Valuations, the Rig Assets were valued at not less than US\$170 million as at 28 November 2018. Comparatively, the Fund will contribute the Rig Assets to the JV at a total consideration of US\$150 million, representing a discount of approximately 11.8% to the market value of the Rig Assets. The aggregate of the original acquisitions costs of SPV1, SPV2 and the Rig Assets to the Fund amounted to approximately US\$150 million. Given that the Rig Assets will be transferred to the JV at a discount to their market values, we consider that the aggregate consideration at which the Fund will contribute the Rig Assets to the JV is fair and reasonable so far as the Company is concerned.

As stated in the accountant's report of the Target Group contained in Appendix III to the Circular, the net asset value of the Target Group was US\$50 million as at 30 November 2018. Pursuant to the Subscription and Joint Venture Agreement, AOG will control 50% of the enlarged issued share capital of the JV by contributing US\$50 million. The net asset value of the Target Group shall increase to US\$100 million as enlarged by the Subscription upon completion of the Subscription and Joint Venture Agreement. Given the equity interest in the JV and subscription amount of AOG are in proportion to the enlarged net asset value of the Target Group upon completion of the Subscription and Joint Venture Agreement, we are of the opinion that the subscription amount to be contributed by AOG pursuant to the Subscription is fair and reasonable.

5. Shareholders' loan

As stated in the Letter from the Board, US\$100 million out of the total consideration of the Rig Assets will be satisfied by a shareholder's loan to be advanced by the Fund to the JV pursuant to a loan agreement will be entered into between the Fund and JV upon completion of the Asset Injection. As advised by the Directors, as at the Latest Practicable Date, the aforementioned loan will have an indicative interest rate of 5.5% per annum upon the entering of the loan agreement, which is within the range of interests of the bank loans of the Group from 3.75% to 7.5% as disclosed in the 2017 Annual Report.

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We have discussed with the Company, and were given to understand that the Fund has no intention to call for the loan in the near future.

Given the above, the Directors considered, and we concur that the aforesaid proposed terms of the shareholder's loan from the Fund is fair and reasonable.

Having considered the above, in particular, (i) the gradually recovering oil and gas industry and the rig market; (ii) the reasons for and benefits of the formation of the JV to the Group's business; (iii) the fair management arrangement of the JV; (iv) that the Rig Assets will be transferred to the JV at a discount to their market values; and (v) the principal business of the Company, despite the Subscription and Joint Venture Agreement is not in the ordinary and usual course of business of the Company, we are of the view that the terms of the Subscription and Joint Venture Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the transactions contemplated under the Subscription and Joint Venture Agreement are in the interests of the Company and the Shareholders as a whole.

6. Proposed Rights Issue

Statistics of the Rights Issue

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) existing Share held on the Record Date
Subscription Price	:	HK\$0.45 per Rights Share
Net price per Rights Share	:	HK\$0.45 per Rights Share (assuming full subscription under the Rights Issue)
Number of Shares in issue as at the Latest Practicable Date	:	1,473,156,204 Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 1,473,156,204 Rights Shares (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)
Aggregate nominal value of the Rights Shares	:	Up to HK\$147,315,620 (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)
Total number of issued Shares upon completion of the Rights Issue	:	Up to 2,946,312,408 Shares (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)

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Number of Underwritten Shares : The underwriting obligations of Tonghai Securities and the obligations of CCBI to procure subscription for Untaken Shares are several.

Tonghai Securities has agreed to subscribe for, or procure the subscription for, up to 589,000,000 Rights Shares, being all the Underwritten Shares.

CCBI has agreed to procure the subscription for, on a best effort basis, up to 118,970,204 Shares, being any untaken Right Shares other than Rights Shares to be taken up by Prime Force pursuant to the Irrevocable Undertaking and the Underwritten Shares underwritten by Tonghai Securities.

For the avoidance of doubt, should CCBI fails to procure the subscription for any of the aforementioned Rights Shares, the underwriting obligations of Tonghai Securities shall remain unaffected.

Underwriters : (i) Tonghai Securities; and
(ii) CCBI

Background information of the Underwriters

China Tonghai Securities Limited

China Tonghai Securities Limited (“**Tonghai Securities**”), formerly known as Oceanwide Securities Company Limited is a company incorporated in Hong Kong with limited liability and is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. Tonghai Securities is independent of and not connected with the Company or its connected persons.

CCB International Capital Limited

CCB International Capital Limited (the “**CCBI**”) a company incorporated in Hong Kong with limited liability and is a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. CCBI is independent of and not connected with the Company or its connected persons.

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7. Reasons for and benefits of the Rights Issue and use of proceeds

Intended use of net proceeds from the Rights Issue

As set out in the Letter from the Board, the gross proceeds and the net proceeds from the Rights Issue are expected to be no less than approximately HK\$609.38 million and HK\$604.05 million, respectively. It is intended that the net proceeds from the Rights Issue will be used in the following manners:

- (i) as to approximately 70% or not less than HK\$422.8 million of the proceeds are intended to be used for, subject to the approval by the Independent Shareholders at the EGM and the fulfillment of the conditions under the Subscription and Joint Venture Agreement, settling the subscription price of not less than US\$50.0 million (equivalent to approximately HK\$390.0 million) to be payable by AOG, pursuant to the Subscription and Joint Venture Agreement, thereby acquiring the Rig Assets through the JV; and not less than US\$4.2 million (equivalent to approximately HK\$32.8 million) of the remaining proceeds are intended to be used in other investment opportunities in the oil and gas industry, including upstream and downstream of the industry value chain, by way of, among others, other joint ventures with its controlling shareholder in oil and gas production businesses and/or acquisition of other rig assets, which are expected to be utilised after 2019. As at the Latest Practicable Date, except the Subscription and Joint Venture Agreement and the transactions contemplated thereunder, no other agreement, arrangement, understanding or negotiation has been signed or made by the Company in relation to the application of the remaining 70% of the proceeds other than the Subscription;
- (ii) as to approximately 20% or not less than HK\$120.8 million of the proceeds are intended for be used to repayment of the existing debts of the Group, of which approximately HK\$78.3 million will fall due by 2019 and approximately HK\$42.5 million will fall due after 2019; and
- (iii) the remainder 10% or not less than HK\$60.4 million of the proceeds are intended to be used for general working capital of the Group, of which not less than HK\$20.4 million will be used for equipment expenditure and material procurement expenses for new orders, not less than HK\$30.0 million will be used for repayment of debts to suppliers and not less than HK\$10.0 million will be used for employees' salaries and office expenses.

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Capital requirements of the Group

(i) Existing financial position

As discussed in the section headed “1. Historical financial information”, the financial performance of the Group was susceptible given (i) the decrease in the revenue; (ii) the net loss position for the two years ended 31 December 2017 and the six months ended 30 June 2018; and (iii) the net current liabilities position of approximately US\$2.8 million as at 30 June 2018. As at 30 June 2018, the current assets of the Group mainly comprised inventories of approximately US\$172.0 million, gross amount due from customers for contract work of approximately US\$80.6 million and cash and cash equivalents of approximately US\$34.5 million. The current liabilities of the Group as at 30 June 2018 mainly comprised trade and other payables of US\$234.0 million and contract liabilities of approximately US\$45.3 million. Among the US\$234.0 million of trade and other payables, approximately US\$184.6 million were trade creditors and bill payables, while the remaining US\$52.4 million were other payables and accrued charges. As at 30 June 2018, the Group had non-current liabilities of approximately US\$12.3 million, of which bank loans and other borrowings amounted to approximately US\$12.0 million. Gearing ratio was approximately 84.7% as at 30 June 2018.

(ii) Previous fund-raising exercise

The table below sets out the fund-raising exercise conducted by the Company in the past 12 months immediately prior to the Latest Practicable Date:

Date of initial announcement	Fund raising activity	Net proceeds raised	Proposed use of the proceeds	Actual use of the proceeds
14 December 2017	Issue of 765,186,000 Shares under Specific Mandate	Approximately HK\$505.07 million	(1) Repayment of a portion of the debts of the Group (approximately HK\$101.01 million, representing approximately 20% of proceed) (2) Expansion of the Group’s business and/or potential acquisition to be decided by the Board after issue of the Shares (approximately HK\$136.55 million, representing approximately 27.04% of proceed)	(1) Expansion of the Group’s business in approximately HK\$178.5 million (2) Repayment of unsecured notes issued by the Company in approximately HK\$217.0 million (3) General working capital of the Group in approximately HK\$31.27 million

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Date of initial announcement	Fund raising activity	Net proceeds raised	Proposed use of the proceeds	Actual use of the proceeds
			(3) Repayment of unsecured notes issued by the Company (approximately HK\$217.0 million, representing approximately 42.96% of the proceed)	As at 30 November 2018, the amount of unutilised proceeds was approximately US\$10 million (equivalent to approximately HK\$78.3 million), it is intended that: <ul style="list-style-type: none"> • approximately US\$5 million (equivalent to approximately HK\$39.2 million) of which will be used for repayment of debts to the suppliers, commencing from December 2018; • US\$2 million (equivalent to approximately HK\$15.6 million) of which will be used for equipment expenditure and material procurement expenses for new orders, commencing from December 2018; and • US\$3 million (equivalent to approximately HK\$23.5 million) of which will be used for employees' salaries and office expenses for the two months ending January 2019.
			(4) General working capital of the Group (approximately HK\$50.51 million, representing approximately 10% of the proceed)	

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Further, on 15 March 2018, the Company issued 850,000 new Shares pursuant to the exercise of options under the share option scheme of the Company adopted on 20 October 2005.

It is noted that originally 70% or approximately HK\$353.55 million of the net proceeds (the “**Proceeds**”) raised from the issue of Shares under the Specific Mandate was to expand the Group’s existing business and/or potential acquisition to be decided by the Board. However, as advised by the management of the Group, having considered the finance cost, the Company decided and announced on 29 March 2018 that it would be more expedient and cost effective to utilise the Proceeds to repay unsecured notes issued by the Company of approximately HK\$217 million on the respective due dates. As such, only approximately HK\$178.5 million or 35.3% of the Proceeds was used in the expansion of the Group’s business.

It is noted that the remaining Proceeds was approximately HK\$78.3 million as at 30 November 2018.

(iii) The JV Subscription and other investment opportunities

As discussed above, we concur with the Directors’ view that the transactions contemplated under the Subscription and Joint Venture Agreement are in the interests of the Company and the Shareholders as a whole.

However, the Group only had cash and cash equivalents of approximately US\$34.5 million as at 30 June 2018, yet to mention the net current liabilities position of the Group as at 30 June 2018, which cast concern on the Group’s liquidity.

It is intended that approximately HK\$422.8 million (equivalent to US\$54.0 million) of the net proceeds from the Rights Issue will be used to settle the subscription price of US\$50.0 million (equivalent to approximately HK\$390.0 million) to be payable by AOG pursuant to the Subscription and Joint Venture Agreement, thereby acquiring the Rig Assets through the JV; and approximately US\$4.2 million (equivalent to approximately HK\$32.8 million) of the remaining proceeds are intended to be used in other investment opportunities in the oil and gas industry, including upstream and downstream of the industry value chain, by way of, among others, other joint ventures with its controlling shareholder in oil and gas production businesses and/or acquisition of other rig assets, which are expected to be utilised after 2019.

Given the Group currently does not have sufficient cash on hand, there is a need for the Group to obtain external funding to complete the Subscription in order to be able to enjoy the benefits that the transaction would bring about.

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As discussed in the section headed “3. Reasons for and benefits of entering into the Subscription and Joint Venture Agreement”, the Group’s long-term strategic objective is to be a full-service solution provider for the offshore marine industry. The Group plans to achieve this objective by expanding its operations vertically upstream and downstream, as well as horizontally throughout different segments of the oil & gas value chain. Therefore, the intention to allocate approximately US\$4.2 million (equivalent to approximately HK\$32.8 million) of the net proceeds from the Rights Issue for other investment opportunities in the oil and gas industry is in line with the Group’s long-term business strategy.

As at the Latest Practicable Date, except the Subscription and Joint Venture Agreement and the transactions contemplated thereunder, no other agreement, arrangement, understanding or negotiation has been signed or made by the Company in relation to the application of the remaining 70% of the net proceeds from the Rights Issue other than the Subscription. In view of the decrease in revenue, the net loss position for the two years ended 31 December 2017 and the six months ended 30 June 2018, and the net current liabilities position of approximately US\$2.8 million as at 30 June 2018, we consider there is no certainty that the Group could obtain alternative funding on a timely manner and on commercially acceptable terms when potential investment/acquisition opportunities arise, in the absence of the Rights Issue. In addition, if the Company only begins to seek funding after a concrete investment/acquisition target is identified, the time it requires for the Company to do so (including the time to complete necessary regulatory procedures/approvals, if applicable) may cause the Company to lose an investment opportunity to another potential buyer. In view of the above, we consider it is in the interest of the Company to raise capital now despite there is no potential investment target identified currently.

Accordingly, we consider it is fair and reasonable, and in the interest of the Company to allocate HK\$422.8 million of the net proceeds from the Rights Issue to settle the subscription price of the Subscription and for potential investment opportunities.

(iv) Repayment of debt

It is intended that approximately HK\$120.8 million (equivalent to approximately US\$15.4 million) of the net proceeds from the Rights Issue will be used to repay the existing debts of the Group. As at 30 June 2018, the Group had current bank loans and other borrowings of approximately US\$9.9 million. The Directors consider, and we concur that the repayment of the bank loans and other borrowings can improve the liquidity of the Group and in turn restore the Group’s financial position to net current asset, which may help the Group to bargain for better terms for future equity and debt financing.

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(v) Working capital need

It is intended that approximately HK\$60.4 million (equivalent to approximately US\$7.7 million) of the net proceeds from the Rights Issue for the Group's general working capital. The Group recorded a loss of approximately US\$7.0 million and net cash used in operating activities of approximately US\$11.2 million for the six months ended 30 June 2018. The Directors consider, and we concur that the Group will need to reserve fund as working capital to support the Group's operation under the gradually recovering oil and gas market. Adding the allocated net proceeds of approximately US\$7.7 million and the cash on hand of approximately US\$34.5 million as at 30 June 2018, the Group would have available funds of approximately US\$42.2 million, which is only equivalent to around four months of the average of cost of sales, selling and distribution expenses, general and administrative expenses, finance cost and other operating expenses of the Group based on the financial results for the year ended 31 December 2017.

(vi) Fund-raising alternatives of the Group

Upon enquiry with the management of the Group, we were given to understand that, other than the Rights Issue, the Company has also considered the feasibility of other fund-raising methods such as (a) debt financing; and (b) placement/subscription of new Shares as detailed below.

(a) Debt financing

The Group recorded a loss of approximately US\$83.4 million for the year ended 31 December 2017 and a loss of approximately US\$7.0 million for the six months ended 30 June 2018. The Directors are of the view that it would be difficult for the Group to obtain a significant amount of additional bank loans given that the Group has suffered losses in recent years and substantially all of its assets and properties are already secured or guaranteed for the current bank borrowings of the Group. Furthermore, debt financing may increase the Group's debt level and incur additional interest burden to the Group as well as subject to lengthy due diligence and negotiations with banks or financial institutions taking into account the Group's financial position as discussed above and the then financial market condition.

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(b) Placement/Subscription of new Shares or convertible bonds

Given the thin trading volume of the Shares during the Review Period as discussed under the sub-section headed “Review on trading liquidity of the Shares” in this letter, the Directors consider that it is difficult for a placing agent to seek independent third parties or for the Company to identify potential subscriber to subscribe for new Shares without a large discount as compared with the Subscription Price. In addition, based on the feedback from investors from roadshows and meetings conducted recently, the Directors are of the view that it would be difficult to raise sufficient funds in supporting the Company’s development plan using such method. Moreover, the Director considered that both methods does not allow the Shareholders to maintain their respective shareholdings in the Company.

Having considered the above, in particular the capital requirements of the Group, the Directors consider, and we concur that there is a need for external fund-raising to finance the Subscription and to improve the deteriorating financial performance of the Group. Given (i) the additional interest burden under debt financing; (ii) the difficulty in finding placing agent or subscriber with acceptable terms in view of the thin trading volume of the Shares in general; (iii) the dilution effect of the Right Issue is within the range of the Comparables as discussed in the below section headed “Market comparable analysis”; and (iv) the unutilised proceeds from the previous fund-raising exercise will not be sufficient for settling the subscription price of the Subscription, we concur with the view of the Directors that the Rights Issue is a more preferred method of fund-raising for the Group based on its circumstances and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

8. Principle terms of Rights Issue

Set out below are the major terms of Rights Issue:

Basis of the Rights Issue	:	One Rights Share for every one (1) existing Share held on the Record Date
Subscription Price	:	HK\$0.45 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	1,473,156,204 Shares
Number of Rights Shares	:	Up to 1,473,156,204 Rights Shares (assuming no change in the number of issued Shares on or before the Record Date and full subscription under the Rights Issue)

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Subscription Price

The Subscription Price represents:

- (i) a discount of approximately 6.3% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on 8 November 2018, the Last Trading Day;
- (ii) a discount of approximately 8.2% to the average closing price of approximately HK\$0.49 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 6.3% to the average closing price of approximately HK\$0.48 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 4.3% over the theoretical ex-rights price of approximately HK\$0.47 per Share after the Rights Issue, based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Lasting Trading Day; and
- (v) a premium of approximately 55.2% to the consolidated unaudited net asset value per Share of approximately US\$0.04 (equivalent to approximately HK\$0.29) (calculated by dividing the unaudited net asset value as at 30 June 2018 as shown in the interim report of the Company for the six months ended 30 June 2018 of approximately US\$55,343,000 divided by 1,473,156,204 Shares in issue as at the date of this announcement).

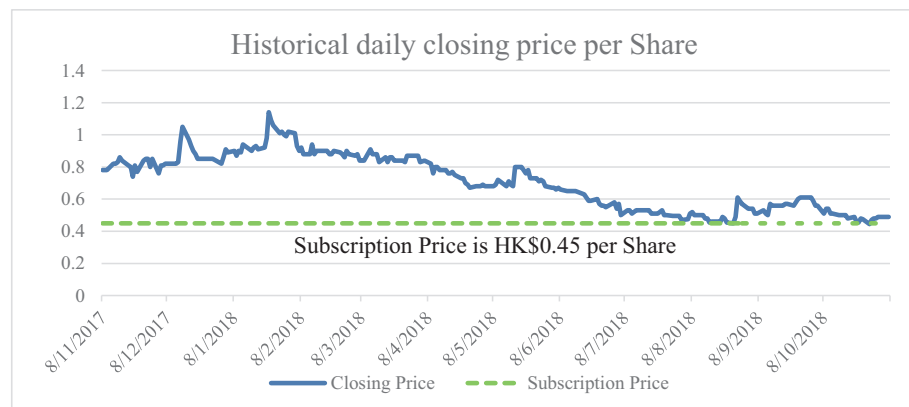
The cumulative value dilution within 12 months immediately preceding the date of the Right Issue Announcement is 11.0% based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day.

As set out in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriters and with reference to (i) market price of the Shares prior to and including the Last Trading Day; (ii) financial position of the Group; and (iii) the prevailing market conditions.

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(i) Review on Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 8 November 2017 up to and including the Last Trading Day (the “**Review Period**”), being approximately one year prior to the date of the Rights Issue Announcement. We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price since only the historical closing prices prior to the Rights Issue Announcement was relevant to the analysis of the fairness and reasonableness of the Subscription Price, as the share price before the Rights Issue Announcement represent a fair market value of the Company the Shareholders expected, while that after the Rights Issue Announcement, the value may have taken into account the potential upside of the Rights Issue and the Subscription which may distort the analysis. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:



Source: The website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing prices of the Shares followed a down trend in general with the lowest daily closing price per Share being HK\$0.45 on 27 August 2018 and the highest closing price per Share being HK\$1.14 on 24 January 2018 and the average daily closing price per Share being approximately HK\$0.71. It is noted that the Subscription Price (i) is the same as the lowest closing price of the Shares as quoted on the Stock Exchange during the Review Period; (ii) represents a discount of approximately 60.5% to the highest daily closing price during the Review Period; and (iii) a discount of approximately 36.2% to the average daily closing price per Share of HK\$0.71 during the Review Period.

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(ii) Review on trading liquidity of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of the average daily trading volume of the Shares to total number of issued Shares as at the end of the month:

	Total trading volume of the Shares	Number of trading days	Average daily trading volume of the Shares	Percentage of the average daily trading volume to total number of issued Shares as at the end of the month
2017				
November	1,729,000	4	432,250	0.06%
December	28,698,000	19	1,510,421	0.21%
2018				
January	26,849,600	22	1,220,436	0.17%
February	7,465,000	18	414,722	0.03%
March	7,930,000	21	377,619	0.03%
April	36,278,800	19	1,909,411	0.13%
May	17,586,000	21	837,429	0.06%
June	6,686,000	20	334,300	0.02%
July	4,697,000	21	223,667	0.02%
August	11,817,000	23	513,783	0.03%
September	3,912,000	19	205,895	0.01%
October	2,806,000	21	133,619	0.01%
November	5,151,000	17	303,006	0.02%
Maximum			1,909,411	0.21%
Minimum			133,619	0.01%
Average			647,427	0.06%

Source: The website of the Stock Exchange (www.hkex.com.hk)

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As illustrated in the above table, the average daily trading volume was low during the Review Period, with a range of approximately 134,000 Shares to approximately 1,909,000 Shares, representing approximately 0.01% to 0.21% of the number of Shares in issue as at the end of relevant month. It means the trading of the Shares is not considered as active therefore setting the Subscription Price at a discount could provide more incentive for the Shareholders to participate in the Rights Issue. As such, we are of the view that it is reasonable to set the Subscription Price at a discount to the latest Share prices to balance the low liquidity of the Shares during the Review Period.

Market comparable analysis

As part of our analysis, we have also identified from the website of the Stock Exchange an exhaustive list of rights issue transactions by companies listed on the Stock Exchange for the six months period immediately prior to the date of the Rights Issue Announcement (the “**Comparables**”). We consider that a sampling period of six months is adequate and appropriate given that such period is sufficient to capture the recent market conditions because the Comparables are considered for the purpose of taking a general reference for the recent market environment in relation to the subscription price under other transactions as compared to the relevant prevailing market share prices under the recent market conditions and sentiment.

As such, we are of the view that the Comparables as set out below are fair and representative samples for comparison purpose as they can provide the Independent Shareholders or potential investors of the Company a general trend and data of the subscription prices of rights issue transactions in the market for their further information to make decision with respect to the Rights Issue. In addition, Independent Shareholders should note that the business, operations, financial positions and prospects of the Company are not the same as the companies which make the Comparables. We have not conducted any independent investigation with regards to the business, operations, financial positions and prospects of the companies but it shall not affect our analysis as we are comparing the general trend of rights issue transactions in the market.

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Date of announcement	Company name	Stock code	Premium/ (Discount) of the subscription price to the closing price per share/ H share (%)	Premium/ (Discount) of the subscription price to the theoretical ex-rights price per share/ H share (%)	Premium/ (Discount) of the subscription price over/(to) net asset value (%)	Underwriting commission rate (%)
4 September 2018	Master Glory Group Limited	275	1.18	0.29	(92.66)	Non-underwrite basis
13 August 2018	Chong Hing Bank Limited	1111	(2.06)	(1.82)	(39.68)	Non-underwrite basis
14 August 2018	China Everbright International Limited	257	(31.43)	(25.09)	7.33	0.6
4 July 2018	China Grand Pharmaceutical and Healthcare Holdings Limited	512	(3.7)	(2.99)	387.7 (Note)	Non-underwrite basis
28 June 2018	Sunway International Holdings Limited	58	(12.15)	(8.29)	(80.02)	2.5
21 June 2018	Munsun Capital Group Limited	1194	(26.67)	(4.76)	(97.51)	2.5
21 June 2018	Shanghai Prime Machinery Company Limited (2345)	2345	2.40	2.00	(36.27)	Nil

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Date of announcement	Company name	Stock code	Premium/ (Discount) of the subscription price to the closing price per share/ H share (%)	Premium/ (Discount) of the subscription price to the theoretical ex-rights price per share/ H share (%)	Premium/ (Discount) of the subscription price over/(to) net asset value (%)	Underwriting commission rate (%)
13 June 2018	Shougang Concord Grand (Group) Limited (730)	730	(2.09)	(1.41)	(61.00)	3.5
8 June 2018	IDT International Limited (167)	167	(9.40)	(6.50)	122.82	Nil
5 June 2018	Renhe Commercial Holdings Company Limited	1387	(2.98)	(2.28)	3.16	Nil
30 May 2018	Champion Technology Holdings Limited	92	(43.66)	(34.06)	(48.16)	2.5
	Maximum		2.40	2.00	122.82	3.5
	Minimum		(43.66)	(34.06)	(97.51)	Nil
	Average		(11.87)	(7.72)	(32.20)	2.32
8 November 2018	The Company	206	(6.3)	(4.3)	55.2	0.8

Note: The historical premium/(discount) of the subscription price over/(to) net asset value is considered outlier and not included in the analysis.

As demonstrated by the above table, the subscription prices of the Comparables represented (i) a range from a discount of approximately (43.7)% to a premium of approximately 2.4% over their respective closing share price on their respective last trading day prior to/on the date of the announcement/agreement in relation to the relevant rights issue with an average of a discount of approximately (11.9)% (the “LTD Range”); and (ii) a range from a discount of approximately (34.1)% to a premium of approximately 2.0% over their respective theoretical ex-rights price per share on their respective last trading day prior to/on the date of the announcement/agreement in relation to the relevant rights issue with an average of a discount of approximately (7.7)% (the “TERP Range”).

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The table below set out the dilution impact of the Comparables with reference to note 1 to Rule 7.27B of the Listing Rules:

Date of announcement	Company name	Stock code	Dilution impact I (Note 1) (%)	Theoretical dilution effect with reference to Rule 7.27B of the Listing Rules (the "Theoretical Dilution Effect") (Note 2) (%)
4 September 2018	Master Glory Group Limited	275	-0.2	-0.2
13 August 2018	Chong Hing Bank Limited	1111	-2.0	-2.0
14 August 2018	China Everbright International Limited	257	-6.8	-6.8
4 July 2018	China Grand Pharmaceutical and Healthcare Holdings Limited	512	-0.7	-0.7
28 June 2018	Sunway International Holdings Limited	58	-5.9	-5.9
21 June 2018	Munsun Capital Group Limited	1194	-22.9	-24.9
21 June 2018	Shanghai Prime Machinery Company Limited (2345)	2345	0.4	0.1
13 June 2018	Shougang Concord Grand (Group) Limited (730)	730	-0.7	-0.7
8 June 2018	IDT International Limited (167)	167	-3.1	-3.1

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Date of announcement	Company name	Stock code	Dilution impact I (Note 1) (%)	Theoretical dilution effect with reference to Rule 7.27B of the Listing Rules (the "Theoretical Dilution Effect")
				Dilution Effect) (Note 2) (%)
5 June 2018	Renhe Commercial Holdings Company Limited	1387	-0.7	-0.7
30 May 2018	Champion Technology Holdings Limited	92	-14.6	-14.6
	Maximum		0.4	0.4
	Minimum		-22.9	-24.9
	Average		-5.2	-5.5
8 November 2018	The Company	206	-3.2	-11.0

Notes:

1. (Number of new shares to be issued x Percentage price discount)/ Number of issued shares as enlarged by the rights issue. Percentage price discount referred to premium/discount of the subscription price to the closing price per share/ H share (as the case may be) on the date of announcements in relation to the respective rights issue.
2. Refer to Notes 1 to Rule 7.27B of the Listing Rules for calculation.

As demonstrated by the above table, the dilution impact of the Right Issue falls within the range of dilution impact I (the "**Market Range of Dilution Impact I**") and theoretical dilution effect of right issues (the "**Market Range of Theoretical Dilution Impact**") as conducted by the Comparables, respectively. Hence, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

Given that (i) the Subscription Price falls within the LTD Range and the TERP Range which represented an acceptable price with reference to the recent market condition and recent comparable transactions and complies with Rule 7.27B of the Listing Rules; (ii) the liquidity of the Shares during the Review Period was low; (iii) the Rights Issue is a preferred means to raise funds given the Company's circumstance comparing to other fundraising methods; (iv) the deteriorating financial performance of the Group as discussed in section headed "1. Historical financial information"; and (v) the capital requirements of the Group, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Application for excess Rights Shares

As stated in the Letter from the Board, Qualifying Shareholders shall be entitled to apply, by way of excess application, for (i) the Rights Shares representing the entitlement of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders. Applications for excess Rights Shares may be made by completing the EAF for the excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (ii) subject to availability of the excess Rights Shares, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of excess Rights Shares applied for by them.

No reference will be made to Rights Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders. Beneficial owners of Shares whose shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Shares whose shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

The Rights Issue is only partially underwritten. Any Shareholder who applies to take up all or part of his entitlement under the PAL or apply for excess Rights Shares under EAF may also unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the Executive (as defined in the Takeovers Code) has been obtained.

Accordingly, the Rights Issue will be made on the term that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the applications of any Shareholder for his/her entitlement under the PAL or for excess Rights Shares under the EAF will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the number of Shares taken or underwritten by Prime Force and Tonghai Securities is closed to the maximum number of Rights Shares, the Directors are of the view, and we concur that the chance of the Right Shares been fully taken is high and there is no need to pay an extra cost in engaging another underwriter to commit hard underwriting of the untaken Right Shares.

The Directors are of the view and we concur that the Rights Issue has given the opportunity to all Qualifying Shareholders to maintain their proportionate interests in the Company should they apply for the Rights Shares in full and acquire additional nil-paid Rights Shares in the market and the Rights Issue is be fair and reasonable so far as the Independent Shareholders are concerned.

The Underwriting Agreement

- Date : 8 November 2018 (after trading hours)
- Parties : (i) the Company;
- (ii) Tonghai Securities (formerly known as Oceanwide Securities Company Limited). As at the Latest Practicable Date, Tonghai Securities is independent of and not connected with the Company or its connected persons. Tonghai Securities is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities; and
- (iii) CCBI. As at the Latest Practicable Date, CCBI is independent of and not connected with the Company or its connected persons. CCBI is a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and its ordinary course of business includes underwriting of securities.
- Number of Underwritten Shares : The underwriting obligations of Tonghai Securities and the obligations of CCBI to procure subscription for untaken Rights Shares are several.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Tonghai Securities has agreed to subscribe for, or procure the subscription for, up to 589,000,000 Rights Shares, being all the Underwritten Shares.

CCBI has agreed to procure the subscription for, on a best effort basis, up to 118,970,204 Shares, being any untaken Right Shares other than Rights Shares to be taken up by Prime Force pursuant to the Irrevocable Undertaking and the Underwritten Shares underwritten by Tonghai Securities.

For the avoidance of doubt, should CCBI fails to procure the subscription for any of the aforementioned Rights Shares, the underwriting obligations of Tonghai Securities shall remain unaffected.

Underwriting Commission : Underwriting commission equals to 0.8% of the aggregate Subscription Price in respect of the Underwritten Shares is payable to Tonghai Securities.

Underwriting commission equals to 0.8% of the aggregate Subscription Price in respect of the Rights Shares actually subscribed for through CCBI is payable to CCBI.

Any sub-underwriting fees and expenses relating to the sub-underwriting(s) shall be borne by the respective Underwriters.

The terms of the Underwriting Agreement, including the commission rate of 0.8%, were determined after arm's length negotiations between the Company and the Underwriters with reference to, among other things, the size of the Rights Issue, the current market conditions and the prevailing market rate for the underwriting commission of comparable transactions. The Directors consider that the terms of the Underwriting Agreement including the terms governing the underwriting commission are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, from the table under sub-section "Market comparable analysis", we noted that the commission rate is within the range of the commission rates from nil to 3.5% received by underwriters in the Comparables. We are of the view that the commission rate is fair and reasonable so far as the Shareholders are concerned.

9. Possible dilution effect on the shareholding interests of Shareholders

The Rights Issue provides all the Qualifying Shareholders an equal opportunity to participate in the Rights Issue and enables the Qualifying Shareholders to maintain their proportionate interests in the Company as well as to participate in the future business development of the Company should they wish to do so. For those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

For those Qualifying Shareholders do not accept the Rights Issue and assuming the Underwriters take up the unsubscribed Rights Shares, the shareholding interests of the existing public Shareholders in the Company will be diluted by a maximum of approximately 14.1 percent point assuming there is no change in the issued share capital of the Company since the Latest Practicable Date up to the Record Date. For the details of the dilution effect, please refer to the table under the section headed “Effect on the shareholding structure of the Company arising from the Rights Issue” from the Letter from the Board.

10. Financial effects of the Subscription and Rights Issue to the Group

Liquidity

The Group had cash and cash equivalents of approximately US\$34.5 million as at 30 June 2018. Upon completion of the Rights Issue, the liquidity and cash position of the Group will be improved as the Rights Issue will facilitate the Company to raise net proceeds of not less than approximately HK\$604.05 million. The total liabilities of the Group will also decrease after the repayment of part of outstanding debts of the Group using the net proceeds from the Rights Issue. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon completion of the Rights Issue and the repayment of the outstanding bank loans.

It is further noted that US\$50 million (equivalent to approximately HK\$390.0 million) of the net proceeds from the Rights Issue is designated for the settlement of the Subscription, as such, the Subscription, upon the completion of the Rights Issue will not have adverse effect to the Group’s liquidity.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, upon completion of the Rights Issue and the Subscription, the Group would recognise net current asset of approximately US\$30.7 million comparing to the net current liabilities position of approximately US\$2.8 million as at 30 June 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Gearing ratio

As at 30 June 2018, the Group's total borrowings were approximately US\$22.0 million and the gearing ratio was approximately 84.7%. Given that following completion of the Rights Issue and the repayment of the existing debts of the Group, the liabilities of the Group will be reduced, it is expected that the Rights Issue will have positive impact on the gearing ratio of the Group.

It is further noted that US\$50 million (equivalent to approximately HK\$390.0 million) of the net proceeds of the Rights Issue is designated for the settlement of the Subscription, as such, the Subscription, upon the completion of the Rights Issue will not have adverse effect to the Group's gearing.

Net Asset Value

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, upon completion of the Rights Issue and the Subscription, the net asset value of the Group would increase from approximately US\$55.3 million to US\$139.3 million.

As such, the Subscription and the Rights Issue may have an overall positive effect on the Group's financial position. It should be noted that the financial effects are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Subscription and the Rights Issue.

RECOMMENDATION

Having considered the principal factors and reasons, in particular:

- (i) the gradually recovery of the oil and gas industry and in turn the rig market and the potential income source from the JV in the form of dividend income;
- (ii) the need of external fund to support the settlement of the subscription price of the Subscription and repay certain existing debts of the Group to improve its liquidity;
- (iii) the Rights Issue is the more preferred means of raising additional capital;
- (iv) the terms of the Underwriting Agreement are considered fair and reasonable given the Subscription Price and the underwriting commission rate were within the range of that of the Comparables; and
- (v) the overall positive effect on the Group's financial position as a result of the Subscription and the Rights Issue,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we are of the opinion that (i) the terms of the Underwriting Agreement and the Subscription and Joint Venture Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Rights Issue, the Subscription and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Rights Issue, the Subscription and Joint Venture Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 12 years of experience in the finance and investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the three years ended 31 December 2017 and the six months ended 30 June 2018 together with the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.t-s-c.com):

- pages 84 to 174 in the annual report of the Company for the year ended 31 December 2017 published on 19 April 2018;
- pages 79 to 159 in the annual report of the Company for the year ended 31 December 2016 published on 18 April 2017;
- pages 56 to 130 in the annual report of the Company for the year ended 31 December 2015 published on 7 April 2016;
- pages 2 to 32 in the interim report of the Company for the six months ended 30 June 2018 published on 5 September 2018.

Each of the said consolidated financial statements of the Group is incorporated by reference to this circular and forms part of this circular.

2. INDEBTEDNESS STATEMENT

The Group

As at the close of business on 31 October 2018, being the latest practicable date for the purpose this indebtedness statement, the indebtedness of the Group was as follows:

- (i) Secured bank borrowings of approximately US\$17,292,000 of which approximately US\$9,078,000 was guaranteed; and
- (ii) Unsecured and guaranteed bank borrowings of approximately US\$1,441,000.

The Group's secured bank borrowings were secured by a legal charge on the Group's property, plant and equipment and land use rights.

Save as aforesaid or as otherwise mentioned herein, and apart from trade payables in the ordinary course of business, the Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

As at the Latest Practicable Date, the Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group including internally generated funds and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

5. BUSINESS TREND AND FINANCIAL PROSPECTS OF THE GROUP

The Group is a global product, services and solutions provider serving both the worldwide onshore and offshore oil and gas exploration and production industries. The Group is principally engaged in the two major segments: (1) Capital Equipment and Packages business, including design, manufacture, installation, and commissioning of capital equipment and packages for onshore and offshore rigs, (2) maintenance, repair and operations (“MRO”) of products and services, including MRO supplies and MRO services.

Revenue of the Group for the first six months of 2018 decreased by 35.6% to US\$29.6 million from US\$45.9 million in the corresponding period of 2017. The net loss for the first six months of 2018 was US\$6.8 million, while the net loss for the corresponding period in 2017 was US\$3.7 million. The increment of such loss was mainly due to the decreased revenue in the Capital Equipment and Packages segment as well as MRO supplies segment. The revenue from the Capital Equipment and Packages segment in the first half year of 2018 dropped by 28.3% compared with that in the first half year of 2017 and the revenue from MRO supplies dropped by 41.8%.

Though faced with incremental loss in the past, the financial performance of the Group is expected to improve gradually due to a more optimistic oil market: the price of Brent crude oil gradually increased by 7.7% compared with the price in January 2018 and 60% compared with the price in June 2017. With the rebound of oil prices, worldwide offshore drilling and capital expenditure on upstream have increased as well, which will gradually eliminate the burden of prevailing depressed drilling market on the Group's revenue. The Group's financial performance will gradually improve with oil prices remaining reasonable. Moreover, due to continuously decreased capital investment during the past four years, more than 40% of jack-up drilling rigs are more than 30 years. Due to the low demand for drilling rigs during the past four years, many of these aged rigs have been stacked with minimal maintenance and the cost of bringing these stacked rigs back into the market is at least similar or higher than bringing new built rigs into operations. This recovery in the trend will increase orders and enhance performance of the Group.

The future performance of the Group will further improve with the synergy between the Group and the Fund, who became the major shareholder of the Group in February 2018 through issuance of new shares. The fund brings financial advantage, a professional team, business network and, together with the Group's industry experience, insight and brand will help the Group expand and expand through investment opportunities in the oil and gas industry chain. Also, through the issuance of additional shares and settlement of due claims, the capital structure of the Group is optimized and liquidity risk has been significantly reduced.

Upon the completion of the Rights Issue, the Group will make use of the proceeds to expand its operating business through potential acquisition of offshore drilling rigs and related rig charter business. The Group will explore opportunities for forming strategic partnerships or other forms of co-operations with established operators with successful track record of offshore drilling rigs. The Group's long term strategic objective is to be a full service solution provider for the offshore marine industry.

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED
NET TANGIBLE ASSETS**

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the “**Unaudited Pro Forma Financial Information**”) which has been prepared to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group attributable to equity shareholders of the Company as if the Rights Issue had been completed on 30 June 2018.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net assets of the Group attributable to equity shareholders of the Company as at 30 June 2018 as extracted from the interim report of the Company for the six months ended 30 June 2018 and is adjusted for the effect of the Rights Issue as if the Rights Issue had been completed on 30 June 2018.

The Unaudited Pro Forma Financial Information is prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity shareholders of the Company immediately after completion of the Rights Issue or any future date after completion of the Rights Issue.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at 30 June 2018 <i>(Note 1)</i> US\$'000	Estimated net proceeds from the Rights Issue <i>(Note 2)</i> US\$'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company US\$'000	Consolidated net tangible assets attributable to equity shareholders of the Company per share as at 30 June 2018 <i>(Note 3)</i> US cents	Unaudited pro forma adjusted consolidated net tangible assets per share as at 30 June 2018 <i>(Note 4)</i> US cents <i>(Note 6)</i> HK cents	
Based on 1,473,156,204 Rights Shares to be issued at the Subscription Price of HK\$0.45 per Rights Share	54,841	83,983	138,824	3.7	4.7	36.8

Notes

- The consolidated net tangible assets attributable to equity shareholders of the Company of approximately US\$54,841,000 as at 30 June 2018 is based on consolidated net assets attributable to equity shareholders of the Company of approximately US\$55,549,000 after deducting intangible assets of approximately US\$708,000 as extracted from the interim report of the Company for the six months ended 30 June 2018.
- The estimated net proceeds from the Rights Issue of approximately US\$83,983,000 are calculated based on 1,473,156,204 Rights Shares to be issued at the Subscription Price of HK\$0.45 per Rights Share as at the Latest Practicable Date and after deduction of estimated related expenses, including among others, professional fees, which are directly attributable to the Rights Issue, of approximately US\$681,000.

3. The consolidated net tangible assets attributable to equity shareholders of the Company per share as at 30 June 2018 is based on the consolidated net tangible assets attributable to equity shareholders of the Company as at 30 June 2018 of approximately US\$54,841,000 divided by 1,473,156,204 ordinary shares of the Company in issue as at 30 June 2018.
4. The unaudited pro forma adjusted consolidated net tangible assets per share as at 30 June 2018 after completion of the Rights Issue is determined based on the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company of approximately US\$138,824,000 divided by 2,946,312,408 ordinary shares of the Company in issue after completion of the Rights Issue as at 30 June 2018, which comprises of 1,473,156,204 Rights Shares.
5. No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2018.
6. For the purpose of the Unaudited Pro Forma Financial Information, conversion of US\$ and HK\$ is calculated at the exchange rate of US\$1 to HK\$7.83. The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, may be exchanged at this or any other rate or at all.

(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the Directors of TSC Group Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of TSC Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 June 2018 and related notes as set out in Part A of Appendix II to the circular dated 11 December 2018 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed issue of 1,473,156,204 rights shares at HK\$0.45 each on the basis of one rights share for every one existing share held on the record date (the "**Rights Issue**") on the Group's financial position as at 30 June 2018 as if the Rights Issue had taken place at 30 June 2018. As part of this process, information about the Group's consolidated net tangible assets as at 30 June 2018 has been extracted by the Directors from the consolidated interim financial statements of the Company for the period then ended, on which no audit or review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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 HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2018 would have been as presented.

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

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

11 December 2018

The following is the text of a report set out on pages 91 to 106, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TSC GROUP HOLDINGS LIMITED

INTRODUCTION

We report on the historical financial information of Wealthy Marvel Enterprises Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages 93 to 106, which comprises the consolidated statement of financial position of the Target Group and the consolidated statement of changes in equity for the period from 23 October 2017 (date of incorporation) to 30 November 2018 (the "**Relevant Period**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 93 to 106 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 11 December 2018 (the "**Circular**") in connection with proposed subscription of shares of the Target Company.

DIRECTORS' RESPONSIBILITY FOR HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 30 November 2018 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 93 have been made.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 December 2018

A. HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Period, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States Dollars)

	<i>Note</i>	At 30 November 2018 US\$'000
Non-current asset		
Property, plant and equipment	6	150,000
Non-current liability		
Amount due to the controlling shareholder	7	<u>100,000</u>
NET ASSETS		<u>50,000</u>
CAPITAL AND RESERVE		
Share capital	9	1
Share premium		<u>49,999</u>
TOTAL EQUITY		<u>50,000</u>

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(Expressed in United States Dollars)*

	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Total <i>US\$'000</i>
Balance at 23 October 2017 (date of incorporation)	–	–	–
Change in equity for the period:			
Issue of shares	<u>1</u>	<u>49,999</u>	<u>50,000</u>
Balance at 30 November 2018	<u><u>1</u></u>	<u><u>49,999</u></u>	<u><u>50,000</u></u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP**1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

Wealthy Marvel Enterprises Limited (the “**Target Company**”) is a limited company incorporated in the British Virgin Islands (“**BVI**”) on 23 October 2017. The address of the registered office is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and the principal place of business is the British Virgin Islands.

The principal activity of the Target Company is investment holding. The Target Company and its subsidiaries (collectively referred to as the “**Target Group**”) are principally engaged in the leasing of jack-up drilling rigs.

The Historical Financial Information is presented in United States dollars, which is also the functional currency of the Target Company. Each entity comprising the Target Group determines its own functional currency.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and accounting principles generally accepted in Hong Kong. Further details of the significant accounting policies adopted are set out as follows.

The HKICPA has issued a number of new and revised HKFRSs. The Target Group has not applied any new standard or interpretation that is not yet effective for the Relevant Period. The revised and new accounting standards and interpretation issued but not yet effective for the Relevant Period are set out in Note 15.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

(b) Basis of preparation of the Historical Financial Information

The measurement basis used in the preparation of the Historical Financial Information is historical cost basis.

The Target Group did not earn any revenue nor incurred any expenses during the Relevant Period. In addition, the Target Group did not have any cash or cash equivalents at any point in time during the Relevant Period. Therefore, no consolidated statement of profit or loss and other comprehensive income or consolidated cash flow statement is presented in the Historical Financial Information.

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 11.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(e)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Jack-up drilling rigs	30 years
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Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(d) Subsidiaries

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Acquisition of a subsidiary that does not constitute a business is accounted for as acquisition of assets. In such cases, the Target Group recognises the individual identifiable assets acquired and liabilities assumed. The consideration of the acquisition is allocated to the identifiable assets and liabilities on their relative fair values basis.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Target Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 1(e)).

(e) Impairment of non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment and investments in subsidiaries in the Target Company's statement of financial position may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(f) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) **Translation of foreign currencies**

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Group initially recognise such non-monetary assets and liability. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(j) **Related parties**

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

- (i) has control or joint control over the Target Group;
- (ii) has significant influence over the Target Group; or
- (iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

- (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(k) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Target Group's management assesses the performance and allocates the resources of the Target Group as a whole, as all of the Target Group's activities are considered to be primarily the leasing of jack-up drilling rigs. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. Accordingly, no segment information is presented.

No geographic information is shown as no revenue or profit was derived from the Target Group's activities during the Relevant Period and all the non-current assets of the Target Group are located in the People's Republic of China.

2 REVENUE

The principal activity of the Target Group is the leasing of jack-up drilling rigs. During the Relevant Period, save for the acquisition of property, plant and equipment, no business has been carried out and therefore no revenue was earned by the Target Group.

3 INCOME TAX

No provision for income tax has been made in the Historical Financial Information as the Target Group did not earn any income during the Relevant Period.

4 DIRECTORS' EMOLUMENTS

No emoluments were paid by the Target Group to the directors of the Target Company, namely HUANG Xiaohua and WANG Hongyuan, during the Relevant Period.

5 INDIVIDUALS WITH HIGHEST EMOLUMENTS

No emoluments of the top 5 individuals with highest emoluments is disclosed as the Target Group did not pay any emoluments during the Relevant Period.

6 PROPERTY, PLANT AND EQUIPMENT

	Jack-up drilling rigs <i>US\$'000</i>
Cost:	
At 23 October 2017 (date of incorporation)	–
Additions	150,000
	<hr/>
At 30 November 2018	150,000
	<hr style="border-top: 1px dashed black;"/>
Accumulated depreciation:	
At 23 October 2017 (date of incorporation) and 30 November 2018	–
	<hr style="border-top: 1px dashed black;"/>
Net book value:	
At 30 November 2018	150,000
	<hr style="border-top: 3px double black;"/>

7 AMOUNT DUE TO THE CONTROLLING SHAREHOLDER

Amount due to the controlling shareholder is unsecured, interest-free and not expected to be settled within 12 months from the end of the reporting period.

8 INVESTMENTS IN SUBSIDIARIES

	At 30 November 2018 <i>US\$'000</i>
Unlisted investments, at cost	150,000
	<hr style="border-top: 3px double black;"/>

As at date of this report, the Target Company has direct interests in the following subsidiaries, particular of which are set out below:

Name	Place of incorporation/ operation	Particular of issued and paid up capital	Proportion of equity interest directly attributable to the Target Company	Principal activities
Well Target Five Limited	The BVI	US\$10,000	100%	Leasing of jack-up drilling rigs
Well Target Six Limited	The BVI	US\$10,000	100%	Leasing of jack-up drilling rigs

9 CAPITAL AND RESERVE

(a) Share capital

	No. of shares	Amount US\$'000
Authorised:		
At 30 November 2018	50,000	50
Ordinary share, issued and fully paid:		
At 23 October 2017 (date of incorporation)	–	–
Issue of shares	1,000	1
At 30 November 2018	1,000	1

The Target Company was incorporated on 23 October 2017 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. 1 ordinary share was issued to provide initial capital of the Target Company upon incorporation of the Company.

On 23 November 2018, 999 ordinary shares were issued to the controlling shareholder at a consideration of US\$50,000,000 to partially settle the consideration of the transfer of two jack-up drilling rigs from the controlling shareholder (see note 12).

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Target Company. All ordinary shares rank equally with regard to the Target Company's residual assets.

(b) Share premium

The share premium represents the difference between the par value of the shares of the Target Company and proceeds received from the issue of shares of the Target Company.

(c) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the reporting period are set out below:

Target Company

	Share capital US\$'000	Share premium US\$'000	Total US\$'000
Balance at 23 October 2017 (date of incorporation)	–	–	–
Change in equity for the period:			
Issue of shares	1	49,999	50,000
Balance at 30 November 2018	1	49,999	50,000

10 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Target Group is not exposed to significant credit, currency or interest rate risk. Exposure to liquidity risks arises in the normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Liquidity risk

The Target Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains adequate funding from the controlling shareholder to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Target Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group can be required to pay:

At 30 November 2018

	<u>Contractual undiscounted cash outflow</u>			Carrying amount US\$'000
	Within 1 year US\$'000	More than 1 year US\$'000	Total US\$'000	
Amount due to the controlling shareholder	-	100,000	-	100,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Fair value measurement

All financial instruments are carried at amounts not materially different from their fair values as at 30 November 2018, except for the amount due to the controlling shareholder, which is interest-free and has no fixed terms of repayment. Given these terms, it is not meaningful to disclose its fair value.

11 ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Note 10 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of property, plant and equipment

The Target Group has significant property, plant and equipment. The Target Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Target Group's strategies.

The Target Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Target Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(b) *Impairment losses on property, plant and equipment*

If circumstances indicate that the carrying value of property, plant and equipment may not be recoverable, this asset may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amount of this asset is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. This asset is tested for impairment whenever events or changes in circumstances indicate that its recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to estimate precisely fair value less costs of disposal because quoted market prices for the Target Group's assets are not readily available.

In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Target Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

12 MATERIAL RELATED PARTY TRANSACTIONS AND MAJOR NON-CASH TRANSACTIONS

On 23 November 2018, (i) China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the "**Fund**"), the controlling shareholder of the Target Company; (ii) Alliance Offshore Group Ltd. ("**AOG**"); and (iii) the Target Company entered into a share subscription and joint venture agreement (the "**Subscription and Joint Venture Agreement**"). Pursuant to the Subscription and Joint Venture Agreement, (i) AOG will subscribe for, and the Fund will procure the Target Company to allot and issue, 50,000,000 shares of US\$1 each, representing 50% of the enlarged issued share capital of the Target Company after the completion of the Subscription and Joint Venture Agreement, at a total subscription price of US\$50,000,000, (ii) the Fund will contribute two jack-up drilling rigs to the Target Company at a total consideration of US\$150,000,000, out of which US\$50,000,000 will be satisfied by the Target Company by the allotment and issue of 49,999,999 shares of US\$1 each to the Fund, which together with the one share owned by the Fund will represent 50% of the enlarged share capital of the Target Company after the completion of the Subscription and Joint Venture Agreement, and the balance of the consideration of US\$100,000,000 will be satisfied by a shareholder's loan to be advanced by the Fund to the Target Company.

During the Relevant Period, the Fund transferred the two jack-up drilling rigs to the Target Company. Of the total consideration of US\$150,000,000, US\$50,000,000 was satisfied by allotment and issuance of 999 shares of the Target Company to the Fund. The balance of US\$100,000,000 is included under amount due to the controlling shareholder as at 30 November 2018 (see note 7).

The issuance of additional shares by the Target Company and subscription of shares of the Target Company by AOG as set out in the Subscription and Joint Venture Agreement is expected to be completed in 2019.

Pursuant to the Sales and Purchase Agreement entered into between (i) the Fund; and (ii) China Merchants Industry Holdings Company Limited ("CMIH"), a limited partner of the Fund, on 15 November 2018, the Fund agreed to pay CMIH an amount of US\$16,000,000 for its services in connection with setting up and testing of the jack-up drilling rigs, which are required before bringing the rigs into use. The US\$16,000,000 is payable by the Target Company upon completion of the related services by CMIH and is disclosed as a capital commitment as at 30 November 2018 (see note 14).

13 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	At 30 November 2018 <i>US\$'000</i>
Non-current asset		
Investments in subsidiaries	8	150,000
Non-current liability		
Amount due to the controlling shareholder		<u>100,000</u>
NET ASSETS		<u>50,000</u>
CAPITAL AND RESERVE		
Share capital	9	1
Share premium		<u>49,999</u>
TOTAL EQUITY		<u>50,000</u>

14 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 November 2018 not provided for in the Target Group's consolidated financial statements were as follows:

	As at 30 November 2018 <i>US\$'000</i>
Contracted for	<u>16,000</u>

15 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 30 NOVEMBER 2018

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations, which are not yet effective for the period ended 30 November 2018 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 January 2019
Amendments to HKFRS 9, <i>Prepayment features with negative compensation</i>	1 January 2019
HK(IFRIC) Interpretation 23, <i>Uncertainty over income tax treatment</i>	1 January 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	<i>Note 1</i>
Annual Improvements to HKFRSs 2015 – 2017 Cycle	1 January 2019
HKFRS 17, <i>Insurance contracts</i>	1 January 2021

Note 1: The effective date will be determined by HKICPA at a future date.

The Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the Target Group's results of operations and financial position.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 30 November 2018.

Set out below is the management discussion and analysis of the Target Group for the period from 23 October 2017 (date of incorporation) to 30 November 2018.

The following discussion and analysis should be read in conjunction with the financial information of the Target Group as set out in the Appendix III of this Circular.

FOR THE PERIOD FROM 23 OCTOBER 2017 TO 30 NOVEMBER 2018

Business and finance review

The Target Group is principally engaged in the leasing of jack-up drilling rigs. During the Relevant Period, save for the acquisition of property, plant and equipment, no business has been carried out.

Prospects

The Company currently plans to expand its operating business through potential acquisition of offshore drilling rigs and related rig charter business. The Directors are of the view that this is conducive to the long-term growth and sustainable development of the Group as a whole and will enhance long-term Shareholders' value.

Revenue

During the Relevant Period, no revenue was earned by the Target Group.

Income tax

No provision for income tax has been made as the Target Group did not earn any income during the Relevant Period.

Profit/Loss

No profit or loss before and after taxation was recognised during the relevant Period.

Liquidity and financial resources

As at 30 November 2018, the non-current assets of the Target Group amounted to US\$150,000,000, which consisted of Property, plant and equipment. The non-current liabilities of the Target Group amounted to US\$100,000,000, which consisted of amount due to the controlling shareholder.

As at 30 November 2018, the current assets and current liabilities of the Target Group were nil.

Capital structure

As at 30 November 2018, the paid-up capital of the Target Group was US\$1,000.

Directors' emoluments

No emoluments were paid by the Target Group to the directors of the Target Group during the Relevant Period.

Charge on target group's assets

As at 30 November 2018, the Target Group did not have any charges on its assets.

Gearing ratio

The debt-to-equity ratio of the Target Group, as a ratio of total liabilities to total equity, was 2.0 as at 30 November 2018.

As at 30 November 2018, liquidity ratio, being the ratio of current assets to current liabilities, was not applicable to the Target Group as the Target Group did not have any current asset nor any current liabilities.

Significant investments and acquisitions

As at 30 November 2018, the Target Company had direct interests in the following subsidiaries, particular of which are set out below:

Name	Place of incorporation/ operation	Particular of issued and paid up capital	Proportion of equity interest directly attributable to the Target Company	Principal activities
Well Target Five Limited	The BVI	US\$10,000	100%	Leasing of jack-up drilling rigs
Well Target Six Limited	The BVI	US\$10,000	100%	Leasing of jack-up drilling rigs

Foreign currency exposure

All of the Target Group's assets, liabilities and transactions are mainly denominated in US dollars. The directors of the Target Group do not consider that the Target Group is exposed to any material foreign currency exchange risk. Therefore, no hedging derivatives or other alternative have been implemented.

Contingent liabilities

As at 30 November 2018, the Target Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 November 2018, the Target Group did not employ any employees and hence the Target Group did not incur any staff costs nor did it adopt any remuneration policies, bonus and share option schemes and training schemes.

FUTURE PLAN

Save as disclosed in this circular, there was no acquisition and investment plan as at the Latest Practicable Date.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the “**Unaudited Pro Forma Financial Information of the Enlarged Group**”) which has been prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Subscription and the Rights Issue as if these transactions had been completed on 30 June 2018.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018 as published in the Company’s interim report for the six months ended 30 June 2018 and is adjusted for the effect of the Subscription and the Rights Issue as if these transactions had taken place on 30 June 2018. The accounting policies and methods of computation used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group are consistent with those used in the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018.

The unaudited pro forma financial information has been prepared based on the currently available information and certain assumptions and estimates for illustrative purposes only. Given the hypothetical nature, the Unaudited Pro Forma Financial Information of the Enlarged Group may not give a true picture of the financial position of the Enlarged Group had the Subscription and the Rights Issue been completed as at 30 June 2018 or any future date.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group set out in the Company’s published interim report for the six months ended 30 June 2018 and other financial information included elsewhere in this circular.

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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Unaudited pro forma consolidated statement of assets and liabilities

	The Group as at 30 June 2018 <i>Note 1</i> US\$'000	Pro forma Adjustments <i>Note 2</i> <i>Note 3</i> US\$'000 US\$'000		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2018 US\$'000
NON-CURRENT ASSETS				
Property, plant and equipment	39,142	-	-	39,142
Investment properties	8,376	-	-	8,376
Interest in leasehold land held for own use under operating leases	7,530	-	-	7,530
Other intangible assets	708	-	-	708
Interest in a joint venture	-	-	50,469	50,469
Interest in associates	287	-	-	287
Other financial assets	1,355	-	-	1,355
Deferred tax assets	13,095	-	-	13,095
	70,493	-	50,469	120,962
CURRENT ASSETS				
Inventories	172,005	-	-	172,005
Trade and other receivables	80,580	-	-	80,580
Gross amount due from customers for contract work	-	-	-	-
Amounts due from a related company	101	-	-	101
Tax recoverable	2,117	-	-	2,117
Pledged bank deposits	1,665	-	-	1,665
Cash and cash equivalents	34,523	83,983	(50,469)	68,037
	290,991	83,983	(50,469)	324,505
CURRENT LIABILITIES				
Trade and other payables	236,996	-	-	236,996
Contract liabilities	45,326	-	-	45,326
Bank loans and other borrowings	9,975	-	-	9,975
Tax payable	1,497	-	-	1,497
	293,794	-	-	293,794
NET CURRENT (LIABILITIES)/ASSETS	(2,803)	83,983	(50,469)	30,711
TOTAL ASSETS LESS CURRENT LIABILITIES	67,690	83,983	-	151,673
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	11,988	-	-	11,988
Deferred tax liabilities	359	-	-	359
	12,347	-	-	12,347
NET ASSETS	55,343	83,983	-	139,326

Notes:

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2018, as set out in the Company's published interim report for the six months ended 30 June 2018.
2. The adjustment represents the effect of the estimated net proceeds from the Rights Issue of approximately US\$84,664,000 calculated based on 1,473,156,204 Rights Shares to be issued at the Subscription Price of HK\$0.45 per Rights Share as at the Latest Practicable Date and after deduction of estimated related expenses, including among others, professional fees, which are directly attributable to the Rights Issue, of approximately US\$681,000.
3. The adjustment represents the cash consideration of US\$50,000,000 paid for the subscription of shares in the JV and the related transaction costs of approximately US\$469,000.

According to the Subscription and Joint Venture Agreement, the Group proposed to subscribe 50,000,000 shares of US\$1 each in the JV, which represents 50% equity interest of the JV. The Group will have joint control over the JV upon completion of the Subscription. The Subscription is accounted for as acquisition of a joint venture in accordance with Hong Kong Accounting Standard ("HKAS") 28, *Investments in Associates and Joint Ventures*.

The recognition of pro forma interest in a joint venture as if the Subscription had been completed at 30 June 2018 is as follows:

	<i>US\$'000</i>
Consideration comprised:	
– Cash consideration	50,000
– Transaction related cost	469
	50,469
Less: The Group's 50% share of the fair value of identifiable net assets of the JV as at the acquisition date*	(50,000)
	469

* The amount represents 50% share of the fair value of identifiable assets and liabilities of the JV of US\$100,000,000, which comprises (i) the net asset value of the JV as at 30 November 2018 amounting of US\$50,000,000, which is extracted from the consolidated statement of financial position of the JV as at 30 November 2018 included in the Accountants' Report as set out in Appendix III to this circular; and (ii) cash consideration of the Subscription of US\$50,000,000 payable by the Group.

4. For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, conversion of US\$ and HK\$ is calculated at the exchange rate of US\$1 to HK\$7.83. The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, may be exchanged at this or any other rate or at all.
5. Save as aforesaid, no other adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2018.

**(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF TSC GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of TSC Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), and Wealthy Marvel Enterprises Limited (the "**JV**") (collectively the "**Enlarged Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2018 and related notes as set out in Part A of Appendix IV to the circular dated 11 December 2018 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of (i) the proposed subscription of 50,000,000 shares of US\$1 each in the JV (the "**Subscription**") and (ii) the proposed issue of 1,473,156,204 rights shares at HK\$0.45 each on the basis of one rights share for every one existing share held on the record date (the "**Rights Issue**") on the Group's financial position as at 30 June 2018 as if the Subscription and the Rights Issue had taken place at 30 June 2018. As part of this process, information about the Group's financial position as at 30 June 2018 has been extracted by the Directors from the consolidated interim financial statements of the Company for the period then ended, on which no audit or review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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 HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2018 would have been as presented.

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

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

11 December 2018

The following is the text of a valuation report prepared by Clarkson Valuations Limited, an independent valuer in connection with their valuation of the subject Rig 1 as at 28 November 2018.



TSC Group Holdings Limited
The Board of Directors
Units 2706-2709, 27th Floor, One Harbourfront
18 Tak Fung Street, Hunghom
Kowloon
Hong Kong

28th November 2018

Ref: cvl/23339-18

Dear Sirs,

In accordance with your request and subject to the terms and conditions we have agreed with you, we, Clarkson Valuations Limited (CVL), have prepared this Valuation by (i) collating shipbrokers' price estimates and/or ideas and market knowledge (ii) then seeking to validate such price estimates and/or ideas, where possible and appropriate, with details held on our database, information in relevant works of reference in our possession and particulars given to us for the preparation of this Valuation.

CVL has not physically inspected the Vessel, nor the shipyard in which she is being constructed, but we have assumed, for the purposes of this Valuation, that the Vessel will be constructed under full supervision by competent and qualified supervisors and will be in a position to give delivery in good and seaworthy condition and would be delivered free from all debts, registered encumbrances and maritime liens.

CVL is of the opinion that the approximate market value of the below mentioned newbuilding, as at 28th November 2018, on the basis of prompt charterfree delivery, as between a willing Seller and a willing Buyer for cash payment under normal commercial terms, is:

Vessel	Value
N/B CMHI HULL 129-1 tbn: 'SMS MARIAM'	US\$85,000,000 – US\$120,000,000
Jack-Up Drilling Rig Due to be delivered from China Merchants Heavy Industries, China P.R., Q1-2019 Design: GustoMSC CJ46-X100D Water Depth: 350 ft Drilling Depth: 30,000 ft	Eighty Five Million to One Hundred and Twenty Million United States Dollars

This Valuation is based solely on a subjective opinion of the approximate market value applying the methodology described above as at the above Valuation date only and should not be taken to apply to any other date.

PLEASE NOTE: There is a relative lack of liquidity in the Sale and Purchase market for offshore Vessels of this type and information on comparable Sale and Purchase transactions and market demand has, where available, been very limited or not available. In addition the oil price change and reduction in E&P spending has made the assessment of values more uncertain. This has resulted in a widening of the spread in price ideas and larger than normal confidence limits applying to this Valuation.

When making our assessment of the above mentioned newbuilding, we have presumed that the original building contract will remain in full force and effect and that all the benefits would accrue to any Buyer.

All statements made are statements of opinion and are not representations of fact. Any person contemplating entering a transaction of any nature whatsoever or otherwise having regard to this Valuation should satisfy himself by inspection of the Vessel and its records, or otherwise, as to the correctness of the statements which this Valuation contains.

No assurance or representation is given that the Valuation given will be sustained or that it would be realisable in any actual transaction.

This Valuation has been provided solely for the private use of the person to whom it is addressed or to such other person to whom we have consented that this Valuation may be provided. By accepting the provision of our services in respect of this Valuation or by otherwise using or relying on this Valuation, you have accepted either our terms and conditions as specifically agreed between us in writing or, in the event of no such agreement in writing, our terms and conditions including the limitation of liability provisions at www.clarksons.com/terms-of-business/.

No person other than the named addressee of this Valuation shall have any rights whatsoever as arising out of or relating to this valuation under the Contract (Rights of Third Parties) Act 1999 or otherwise.

For and on behalf of
CLARKSON VALUATIONS LIMITED

Director

Authorised Signatory

The following is the text of a valuation report prepared by Clarkson Valuations Limited, an independent valuer, in connection with their valuation of the subject Rig 2 as at 28 November 2018.



TSC Group Holdings Limited
 The Board of Directors
 Units 2706-2709, 27th Floor, One Harbourfront
 18 Tak Fung Street, Hunghom
 Kowloon
 Hong Kong

28th November 2018

Ref: cvl/23339-18

Dear Sirs,

In accordance with your request and subject to the terms and conditions we have agreed with you, we, Clarkson Valuations Limited (CVL), have prepared this Valuation by (i) collating shipbrokers' price estimates and/or ideas and market knowledge (ii) then seeking to validate such price estimates and/or ideas, where possible and appropriate, with details held on our database, information in relevant works of reference in our possession and particulars given to us for the preparation of this Valuation.

CVL has not physically inspected the Vessel, nor the shipyard in which she is being constructed, but we have assumed, for the purposes of this Valuation, that the Vessel will be constructed under full supervision by competent and qualified supervisors and will be in a position to give delivery in good and seaworthy condition and would be delivered free from all debts, registered encumbrances and maritime liens.

CVL is of the opinion that the approximate market value of the below mentioned newbuilding, as at 28th November 2018, on the basis of prompt charterfree delivery, as between a willing Seller and a willing Buyer for cash payment under normal commercial terms, is:

Vessel	Value
N/B CMHI HULL 129-2 tbn: 'SMS FAITH'	US\$85,000,000 – US\$120,000,000
Jack-Up Drilling Rig Due to be delivered from China Merchants Heavy Industries, China P.R., Q1-2019 Design: GustoMSC CJ46-X100D Water Depth: 350 ft Drilling Depth: 30,000 ft	Eighty Five Million to One Hundred and Twenty Million United States Dollars

This Valuation is based solely on a subjective opinion of the approximate market value applying the methodology described above as at the above Valuation date only and should not be taken to apply to any other date.

PLEASE NOTE: There is a relative lack of liquidity in the Sale and Purchase market for offshore Vessels of this type and information on comparable Sale and Purchase transactions and market demand has, where available, been very limited or not available. In addition the oil price change and reduction in E&P spending has made the assessment of values more uncertain. This has resulted in a widening of the spread in price ideas and larger than normal confidence limits applying to this Valuation.

When making our assessment of the above mentioned newbuilding, we have presumed that the original building contract will remain in full force and effect and that all the benefits would accrue to any Buyer.

All statements made are statements of opinion and are not representations of fact. Any person contemplating entering a transaction of any nature whatsoever or otherwise having regard to this Valuation should satisfy himself by inspection of the Vessel and its records, or otherwise, as to the correctness of the statements which this Valuation contains.

No assurance or representation is given that the Valuation given will be sustained or that it would be realisable in any actual transaction.

This Valuation has been provided solely for the private use of the person to whom it is addressed or to such other person to whom we have consented that this Valuation may be provided. By accepting the provision of our services in respect of this Valuation or by otherwise using or relying on this Valuation, you have accepted either our terms and conditions as specifically agreed between us in writing or, in the event of no such agreement in writing, our terms and conditions including the limitation of liability provisions at www.clarksons.com/terms-of-business/.

No person other than the named addressee of this Valuation shall have any rights whatsoever as arising out of or relating to this valuation under the Contract (Rights of Third Parties) Act 1999 or otherwise.

For and on behalf of
CLARKSON VALUATIONS LIMITED

Director

Authorised Signatory

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable 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.

2. SHARE CAPITAL

(a) As at the Latest Practicable Date:

	Nominal value per Share (HK\$)	Number of Shares	Nominal amount (HK\$)
Authorised:	0.10	<u>2,000,000,000</u>	<u>200,000,000.00</u>
Issued and fully paid:	0.10	<u>1,473,156,204</u>	<u>147,315,620.40</u>

(b) Immediately after completion of the Rights Issue (assuming the Authorised Share Capital Increase having been effective and there is no change in the issued share capital of the Company from the Latest Practicable Date up to completion of the Rights Issue):

	Nominal value per Share (HK\$)	Number of Shares	Nominal amount (HK\$)
Authorised:	0.10	<u>10,000,000,000</u>	<u>1,000,000,000.00</u>
Issued and fully paid:			
– As at the Latest Practicable Date	0.10	1,473,156,204	147,315,620.40
– Rights Shares to be issued pursuant to Rights Issue	0.10	<u>1,473,156,204</u>	<u>147,315,620.40</u>
Shares upon completion of the Rights Issue	0.10	<u>2,946,312,408</u>	<u>294,631,240.80</u>

All the Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

The Rights Shares, when allotted, issued and fully-paid, will rank *pari passu* with the Shares then in issue in all respects. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with a record date which falls on or after the date of allotment and issue of the fully-paid Rights Shares.

The issued Shares are listed on the Stock Exchange. None of the securities of the Company is listed or dealt in, and no listing or permission to deal in the securities of the Company is being or is proposed to be sought, on any other stock exchange.

As at the Latest Practicable Date, there is no arrangement under which future dividends are or will be waived or agreed to be waived.

3. DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Particulars of the Directors and senior management of the Company

Name	Address
<i>Executive Directors</i>	
Mr. Wang Hongyuan	Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong
Mr. Jiang Bing Hua	At the Intersection of Changjiang Road and Jingang Shan Road, Kong Gang Industrial Park, Chengyang District, Qingdao City, Shandong Province, China
Mr. Zhang Menggui, Morgan	13788 West Road – Ste.#100 Houston, TX 77041 USA
<i>Non-executive Directors</i>	
Mr. Wang Jianzhong	No. 33, Keji Road, Hi-tech Industrial Development Zone, Yantai 264670, Shandong, China
Mr. Lou Dongyang	No. 1-7, Sai Tso Wan Road, Tsing Yi Island, N.T., Hong Kong.

Name	Address
<i>Independent Non-executive Directors</i>	
Mr. Chan Ngai Sang, Kenny	Room 610, Grand City Plaza, 1 Sai Lau Kok Road, Tsuen Wan, New Territories
Mr. Zou Zhendong	28/F Jingguang Tower, Hujialou Chaoyang District, Beijing, China
Mr. Chen Weidong	Room 2-303, No. 9, Chegongzhuang Street, Xicheng District, Beijing, China
<i>Senior management</i>	
Mr. YANG Guohui, chief operating officer of the Company	Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong
Mr. XIE Shaohua, chief financial officer of the Company	Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong
Mr. WANG Yong, president of the Group	Suite 2003, 20/F Beichen Xinjiyuan, No.2 Office BLDG, Jia-13 Beiyuan Road Beijing, China

Biographies of the Directors

Executive Directors

Mr. WANG Hongyuan, aged 43, has been appointed as the executive chairman and chief executive officer of the Group since 9 February 2018. He is also a deputy general manager of China Merchants (“CM”) Industry, the general manager of China Merchant Great-Wall Capital Management Ltd and a supervisor of China International Marine Containers (Group) Co., Ltd. (A share Stock Code: 000039, H share Stock Code: 2039). Mr. Wang worked in the business development department of CM Group from 2003 to 2005, worked in China Merchants Holdings (International) Company Limited from 2005 to 2013, served as the general manager assistant of China Merchants Food Supply Chain Management Co., Ltd.* (招商局食品供應鏈管理有限公司) in 2014, and the director assistant of the capital management department of CM Group from 2015 to 2016. He has extensive experience in strategic planning, mergers and acquisitions, capital operations and investments in sectors such as offshore marine and shipping, port and bonded logistics, cold chain and food supply chain management. He obtained a bachelor’s degree in ocean vessel driving and a master’s degree in transportation management from Dalian Maritime University in the PRC in 1997 and 2004, respectively. He is one of the directors of each of the Subscriber or Prime Force Investment Corporation, China Merchants Great-Wall GP Limited and China Merchant Great-Wall Capital Management Ltd.

Mr. JIANG Bing Hua, aged 68, has been appointed as the Co-Chairman of the Group since 9 February 2018. He is a co-founder of the Group. He is an executive Director of the Group and he is responsible for the Group's overall strategy planning and business development. He obtained his bachelor's degree in offshore structure engineering from the Tianjin University (天津大學) in the PRC in 1980 and acquired his master's degree in business administration from the University of Dallas in the U.S.A. in 1993. He has 44 years of experience in the oil and gas industry. Prior to founding the Group, he worked for the Sinopec group, the group of China National Petroleum Corporation and China National Offshore Oil Corporation in various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. ZHANG Menggui, Morgan, aged 59, is a co-founder and has been appointed as an executive Director of the Group since 22 June 2017. He obtained his bachelor's degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master's degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989 and he received an executive master's in business administration ("EMBA") from China Europe International Business School in 2012. He has 35 years of experience in the oil and gas industry. Prior to founding the Group, he worked for a subsidiary of the group of China National Petroleum Corporation in China and for Cook Inlet Region Inc. in Alaska. He currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, Michael, the President of TSC Manufacturing and Supply, LLC. ("TSC M&S"), a subsidiary of the Group.

Non-executive Directors

Mr. WANG Jianzhong, aged 45, has been appointed as a non-executive Director with effect from 4 July 2016. He graduated from Beijing Normal University in China with a Master degree in Management, Business Administration in 1998. He started working in 1998 and he is currently the president of China International Marine Containers ("CIMC") Raffles Offshore (Singapore) Limited ("CIMC Raffles"). From 1998 to 2006, he was senior manager of capital operation department of China Ocean Shipping (Group) Corporation ("COSCO"). From 2006 to 2007, he was deputy general manager of Taicang CIMC Container Co., Ltd. From 2007 to 2014, he was general manager of the enterprise management department of CIMC, where he notably created and promoted the CIMC "LEAN ONE" management model – based on the LEAN concept which significantly improved the group's annual revenue. The LEAN ONE Concept attracted favourable reviews from the "Harvard Business Review" and "Tsinghua Business Review". From 2010 to 2014, he acted as secretary general of group leadership council of CIMC (中集集團升級領導委員會) to promote upgraded changes for CIMC. From June 2014 to December 2015, he was vice president of CIMC Raffles. From December 2015 to date, he has been president of CIMC Raffles.

Mr. LOU Dongyang, aged 43, is has been appointed a non-executive Director since April 2018. He is also the chief financial officer of China Merchants Industry Holdings Co., Ltd. Mr. Lou has served as an assistant engineer in the Chemical Engineering Office of the Institute of Standardization of Nuclear Industry and as secretary-general for the National Technical Committee for Standardization of Radioisotopes (全國放射性同位素標準化技術委員會) from July 1997 to October 2001, as an engineer in the Planning Department in China Isotope Company from October 2001 to August 2003, as a specialist of the board of supervisors for Key Large State-Owned Enterprises under the State Council from August 2003 to August 2004, as principal staff member of the board of supervisors for Key Large State-Owned Enterprises under the State Council from September 2008 to September 2012, as the assistant to the department director of the intellectual property administrative department of China Merchants Group Limited (“**CM Group**”) from September 2012 to May 2015, as the assistant to the department director of the finance department (intellectual property department) of CM Group from May 2015 to October 2015, and as the deputy general manager of the finance department (intellectual property department) of CM Group from October 2015 to November 2017. Mr. Lou obtained a bachelor’s degree in applied chemistry from Peking University in 1997 and a master’s degree in business administration also from Peking University in 2002.

Independent Non-executive Directors

Mr. CHAN Ngai Sang, Kenny, aged 54, has been appointed an independent non-executive Director since October 2005. He is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. He has over 27 years’ experience in accounting, taxation, auditing and corporate finance and has been involved in several mergers, acquisitions and initial public offering projects. He holds a bachelor of commerce degree from the University of New South Wales and is a member of Chartered Accountants Australia and New Zealand, the Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is also a fellow member of the Hong Kong Institute of Directors. He served as president of the Hong Kong Branch of the Association of International Accountants in the years 2012-2015 and also serves on several tribunals of the The Government of the Hong Kong Special Administrative Region including the Mandatory Provident Fund Schemes Appeal Board, Occupational Retirement Schemes Appeal Board, Youth Programme Co-ordinating Committee of the Commission on Youth and the Fight Crime Committee of Tsuen Wan District. He is an independent non-executive director of Convoy Financial Holdings Limited, Minsheng Education Group Company Limited & AMCO United Holding Limited, all are listed on the Main Board of the Stock Exchange, and Combest Holdings Limited, WLS Holdings Limited & Sing On Holdings Limited, all are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. ZOU Zhendong, aged 49, has been appointed an independent non-executive Director since May 2018. He is also serving as the independent director of Bestsun Energy Co. Ltd., an A share company listed in the Shanghai Stock Exchange, the senior partner of Sinowing Law LLP, Legal Representative of Sinowing (Beijing) AMC Co., Ltd., and further and concurrently as a member of the High-tech and E-Commerce Committee & International Business Committee of All China Lawyers Association. Mr. Zou used to work as the officer for the Chinese People's Association for Friendship with Foreign Countries, as the staff for China Native Produce & Animal By-Products Import & Export Corp., as the director of the 4th Department for China Commercial Foreign Trade Corporation, and as the partner in charge of international business department and IPR department for Beijing Dacheng Law Firm (aka Dentons for the moment). Mr. Zou was awarded a Bachelor Degree by the Renmin University of China in 1992, with major in international politics and minor in international economics. As being jointly elected by the Ministry of Justice of the People's Republic of China and Lord Chancellor's Office of the United Kingdom, Mr. Zou has worked and trained himself in London.

Mr. CHEN Weidong, aged 63, has been appointed as an independent non-executive Director with effect from June 2018. Mr. Chen has over 30 years' experience in offshore oil and gas industry. He supervised and organized 4 published books on petroleum economics and geopolitics. Mr. Chen is now serving as Guest Professor at Renmin University of China, Invited Researcher at Energy Security Center of Graduate School of Chinese Academy of Social Sciences, Dean of Minde Institute and Chair of DFS Energy Consultant (Beijing) Ltd. Mr. Chen used to work as Chief Energy Researcher of CNOOC Energy Economics Inst. Executive Vice President, Secretary of Board of Directors, and Chief Strategy Officer of China Oilfield Services Limited (a H-share company listed on the main board of the Stock Exchange of Hong Kong Limited from 2002, stock code: 2883). Mr. Chen obtained a bachelor's degree in geophysical exploration studies from Ocean University of China (formerly as Shandong College of Oceanology) in the People's Republic of China in 1982 and an MBA from Peking University in July 2001. He graduated from China University of Political Science and Law with a master diploma in July 2005.

Biographies of the senior management of the Company

Mr. YANG Guohui, aged 45, appointed as an executive Director and chief operating officer of the Company with effect from 9 February 2018 and he has resigned as an executive Director with effect from 1 April 2018 due to work reallocation. Mr. Yang remains as the chief operating officer of the Group. He is also an executive director of China Merchants Capital Management (International) Limited. He worked for various positions such as an engineer, a manager in workforce planning and a manager in assets transactions under the group companies of Transocean Ltd. during the period from 2001 to 2013. He then worked as the general manager of ESSM Pte Ltd. from September 2013 to October 2014 and chief operating officer for Scott & English Energy Pte Ltd. in Singapore from August 2015 to 2017. He obtained a master's degree in engineering from University of Petroleum in 1999. He also obtained a master's degree in business administration from Nanyang Technological University, Singapore in 2017. He is part of the management team of China Merchant Great-Wall Capital Management Ltd, which holds in aggregate 81% beneficial interests in Meris Global Investments Limited. Meris Global Investments Limited is a co-investment vehicle of the management team of China Merchant Great-Wall Capital Management Ltd.

Mr. XIE Shaohua, aged 47, appointed as chief financial officer of the Company with effect from 1 July 2018. Mr. Xie graduated from Central University of Finance and Economics in 1993 and received master degrees at the University of International Business and Economics and The Chinese University of Hong Kong in 2003 and 2005 respectively. Mr. XIE is a Chinese senior accountant. In 2016, he was awarded by the Ministry of Finance as a national leading accounting talents. From November 1998 to October 2002, he worked in the finance department of SINOTRANS & CSC Group Company. From November 2002 to May 2007, he served as the deputy general manager of the finance department of Sinotrans Limited (H shares, stock code: 00598). From September 2007 to June 2018, he was appointed as deputy general manager and chief financial officer of Sinotrans Shipping Co., Ltd. (red chip, stock code: 00368).

Mr. WANG Yong, aged 56, is the President of the Group with effect from 28 April 2016. He is responsible for the daily operations and business activities of the Group. He is also the director and chief executive officer of a subsidiary, OIM Pte. Ltd. He joined the Company in April 2012 as the senior Group vice president and Group chief operations officer. Prior to joining the Company, he was the general manager for Weatherford International China. In his 17 years with Weatherford International, he held several managerial roles including global business alignment manager and business development manager. He started his career in the oil industry as a drilling engineer for China National Petroleum Corporation after graduating from the China Petroleum University in 1982. He also spent five years in the China Petroleum University teaching drilling engineering courses before completing his first master's degree in petroleum engineering from the Louisiana State University in 1993. He also holds an EMBA from the China Europe International Business School.

4. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors or the chief executive of our Company or their respective associates had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Long Position in the Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding in the Company ⁽²⁾
Mr. Zhang Menggui, Morgan ⁽¹⁾	Corporate interest	120,046,200	8.15%
	Beneficial interest	4,656,000	0.31%
Mr. Jiang Bing Hua ⁽¹⁾	Corporate interest	120,046,200	8.15%
	Beneficial interest	4,656,000	0.31%
Mr. Chan Ngai Sang, Kenny	Beneficial interest	500,000	0.03%

Notes:

- Global Energy Investors, LLC. is the beneficial owner of 120,046,200 Shares. The entire share capital of Global Energy Investors, LLC. is beneficially owned as to 50% each by Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua, both executive Directors. Accordingly, Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua are deemed to be interested in the 120,046,200 Shares beneficially owned by Global Energy Investors, LLC. under Part XV of the SFO.
- The percentage is calculated on the basis of 1,473,156,204 Shares in issue as at the Latest Practicable Date.

(b) Substantial Shareholders' interests and other persons' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, save as disclosed in this circular, so far as was known to the Directors, persons other than a Director or chief executives of the Company who had, or were deemed to have, interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register maintained by the Company under Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Long Position in Shares and underlying Shares

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding in the Company ⁽⁹⁾
China Great Wall AMC (International) Holdings Company Limited ⁽¹⁾	Corporate	765,186,000	51.94%
China Great Wall Asset Management Co., Ltd ⁽¹⁾	Corporate	765,186,000	51.94%
Fund ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	Corporate	765,186,000	51.94%
China Merchants Great-Wall GP Limited ⁽²⁾	Corporate	765,186,000	51.94%
Great Wall International Investment V Limited ⁽³⁾	Corporate	765,186,000	51.94%
Prime Force ⁽⁴⁾	Corporate	765,186,000	51.94%
China Merchants Group Limited ⁽⁴⁾	Corporate	765,186,000	51.94%
Madam Chen Fengying ⁽⁵⁾	Interest of spouse	124,702,200	8.46%
Madam Zhang Jiuli ⁽⁶⁾	Interest of spouse	124,702,200	8.46%
Global Energy Investors, LLC. ⁽⁷⁾	Corporate	120,046,200	8.15%

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares/ underlying Shares held	Approximate percentage of shareholding in the Company ⁽⁹⁾
China International Marine Containers (Group) Company Limited ⁽⁸⁾	Corporate	92,800,000	6.30%
China International Marine Containers (Hong Kong) Limited ⁽⁸⁾	Corporate	92,800,000	6.30%

Notes:

1. China Great Wall AMC (International) Holdings Company Limited (“**GWAMC International**”) holds 25% of the equity interest in China Merchants Great-Wall GP Limited (“**Fund GP**”) and is a wholly owned subsidiary of China Great Wall Asset Management Co., Ltd. (“**GW Asset Management**”). Therefore, both GWAMC International and GW Asset Management are both deemed to be interested in the 765,186,000 Shares that the Fund is interested in under Part XV of the SFO.
2. Fund GP is the general partner of the Fund and is therefore deemed to be interested in the 765,186,000 Shares that the Fund is interested in under Part XV of the SFO.
3. Great Wall International Investment V Limited holds approximately 39.986% of the limited partnership interests in the Fund and is therefore deemed to be interested in the 765,186,000 Shares that the Fund is interested in under Part XV of the SFO.
4. China Merchants Capital Management (International) Limited holds 45% of the equity interest in Fund GP and is a wholly owned subsidiary of China Merchants Capital Management Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd. China Merchants Capital Holdings (International) Limited holds approximately 9.996% of the limited partnership interests in the Fund and is a wholly owned subsidiary of China Merchants Capital Holdings Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd.

China Merchants Industry Holdings Co., Ltd. (“**CM Industry**”) holds 30% of the equity interest in Fund GP and approximately 29.989% of the limited partnership interests in the Fund and is a wholly owned subsidiary of China Merchants Holdings (Hong Kong) Company Ltd. (“**CM HK**”).

Both China Merchants Capital Investment Co., Ltd. and CM HK are wholly owned subsidiaries of China Merchants Steam Navigation Company Limited, which is the wholly owned subsidiary of China Merchants Group Limited* (招商局集團有限公司) (“**CM Group**”).

Therefore, each of China Merchants Capital Management (International) Limited, China Merchants Capital Management Co. Ltd., China Merchants Capital Investment Co., Ltd., China Merchants Capital Holdings (International) Limited, China Merchants Capital Holdings Co. Ltd., CM Industry, CM HK, China Merchants Steam Navigation Company Limited, CM Group are deemed to be interested in the 765,186,000 Shares that the Fund is interested in under Part XV of the SFO.

Prime Force is a company incorporated in the British Virgin Islands and is wholly-owned by the Fund and the Fund is therefore deemed to be interested in the 765,186,000 Shares that Prime Force is interested in under Part XV of the SFO.

5. These interests represent the same block of Shares and share options held by Mr. Zhang Menggui, Morgan as shown in the above sub-section headed “(a) Directors’ and chief executives’ interests and short positions in Shares, underlying Shares and debentures”. Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, Morgan, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
6. These interests represent the same block of Shares and share options held by Mr. Jiang Bing Hua as shown in the sub-section headed “(a) Directors’ and chief executives’ interests and short positions in Shares, underlying Shares and debentures” above. Since Madam Zhang Jiuli is the spouse of Mr. Jiang Bing Hua, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
7. This interest represents the same block of corporate interest held by Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua as shown in the sub-section headed “(a) Directors’ and chief executives’ interests and short positions in Shares, underlying Shares and debentures” above.
8. China International Marine Containers (Hong Kong) Limited (“**CIMC HK**”) is the beneficial owner of 92,800,000 Shares. CIMC HK is a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited (“**CIMC Group**”). Therefore, CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company held by CIMC HK under Part XV of the SFO.
9. The percentage is calculated on the basis of 1,473,156,204 Shares in issue as at the Latest Practicable Date.

Long Position in shares of a subsidiary of the Company

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
Jurun Limited	Xingbo Limited	21%
TSC Manufacturing and Supply De Colombia S.A.S	Independence Drilling S.A.	40%
ATS Energy LLC	Axion Services Inc.	33%
	Petromax Industry Inc.	16%
Texas Unconventional Resources LLC	Mr. Yang Anping	20%
OIM Pte. Ltd.	Offshore CC FZE	5%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or a proposed Director was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executives of the Company who had, or were deemed to have, interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register maintained by the Company under Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which would not expire or would not be determinable by such member of the Group within one year without payment of compensation other than statutory compensation.

6. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular, as at the Latest Practicable Date:

- (a) none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2017, being the date of the latest published audited accounts of the Group, up to the Latest Practicable Date, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims of material importance to the Group and no litigation, arbitration or claims of material importance to the Group was known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (being contracts entered into outside the ordinary course of business carried by the Group) had been entered into by members of the Group within the two years immediately preceding the date of this circular and up to the Latest Practicable Date:

- (a) the subscription agreement dated 14 December 2017 entered into between the Company and the Fund as the subscriber, pursuant to which the Company had conditionally agreed to allot and issue to the Fund or Prime Force, the nominee of the Fund, and the Fund had conditionally agreed to subscribe for, or nominate Prime Force to subscribe for, at the completion of the subscription contemplated under the subscription agreement, 765,186,000 subscription Shares at the subscription price of HK\$512,674,620, being HK\$0.67 per subscription Share;
- (b) the Underwriting Agreement;
- (c) agreement between the Company and Beijing He Ju Tian Yang Investment Management Centre* (北京合聚天揚投資管理中心(有限合伙)) dated 21 July 2017, upon which the Company will transfer 40,000,000 ordinary shares of RMB1.00 (One) each, which is equivalent to 21.05% of TSC Oil and Gas Services Group Holdings Ltd. (青島天時油氣裝備服務集團股份有限公司) at a consideration of RMB25,684,000. The completion of the agreement has not yet taken place; and
- (d) agreement between the Company and Zheng Yuan Heng Tong (Tianjin) Petroleum Technology Limited* (正源恆通(天津)石油科技有限合夥公司) dated 21 July 2017, upon which the Company will transfer 53,200,000 ordinary shares of RMB1.00 (One) each, which is equivalent to 28.00% of TSC Oil and Gas Services Group Holdings Ltd. (青島天時油氣裝備服務集團股份有限公司) at a consideration of RMB34,159,720. The completion of the agreement has not yet taken place.

10. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the expert whose name, opinions and/or reports are contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants
Lego Corporate Finance Limited	a licensed corporation to carry on business in Type 6 (advising on corporate finance) regulated activity under the SFO
Clarkson Valuations Limited	Professional valuer

Each of the experts named above has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, valuation certificate, advice, opinion and/or references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) had no direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group; and (iii) had given and had not withdrawn its consent to the issue of this circular with the inclusion of its letter, opinions and/or reports and the reference to its name included herein in the form and context in which they respectively appear.

11. CORPORATE INFORMATION AND THE PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office: Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Operation headquarters: 13788 West Road
Suite 100
Houston
Texas 77041
United States of America

Principal place of business in Hong Kong:	Units 2706-2709, 27/F One Harbourfront 18 Tak Fung Street Hungghom Kowloon, Hong Kong
Underwriters:	China Tonghai Securities Limited CCB International Capital Limited
Financial adviser to the Company:	CCB International Capital Limited
Independent financial adviser to the Independent Board Committee and the Independent Shareholders:	Lego Corporate Finance Limited Room 1601, 16/F China Building 29 Queen's Road Central Hong Kong
Legal adviser to the Company as to Hong Kong law in relation to the Rights Issue:	Luk & Partners In Association with Morgan, Lewis & Bockius Suites 1902-09, 19th Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Reporting accountant:	KPMG 8th Floor Prince's Building 10 Chater Road, Central Hong Kong
Principal bankers:	Industrial and Commercial Bank of China, Qingdao Branch China CITIC Bank International Ltd. Standard Chartered Bank Industrial and Commercial Bank of China (Asia) Limited China Construction Bank, Qingdao Branch China Construction Bank, Shaanxi Branch Hi-Tech Development Zone Sub-branch Bank of Communications, Qingdao Branch Agricultural Bank of China, Qingdao Branch Evergrowing Bank East West Bank The Royal Bank of Scotland

Principal share registrar:	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office:	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives:	Mr. Zhang Menggui, Morgan 1139 Villa Bergamo Ct., Houston, TX77094, U.S.A. Mr. Jiang Bing Hua 2018 Crescent Palm Ct., Houston TX 77077, U.S.A.
Company secretary:	Ms. Cheung Wai Sze, Candy (a fellowship member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries)

12. MISCELLANEOUS

This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail over its Chinese text unless otherwise specified.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. on any weekday (except public holidays) at the offices of the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM:

- (1) the memorandum and articles of association of the Company;
- (2) annual reports of the Group for the financial years ended 31 December 2016 and 2017 and the interim report of the Group for the six months ended 30 June 2018;
- (3) the letter from the Independent Board Committee as set out in this circular;
- (4) the letter from the Independent Financial Adviser as set out in this circular;
- (5) the report on the unaudited pro forma financial information of the Group from KPMG, the text of which is set out in Appendix II to this circular;

- (6) the accountant's report of the Target Group from KPMG, the text of which is set out in Appendix III to this circular;
- (7) the report on the unaudited pro forma financial information of the Enlarged Group from KPMG, the text of which is set out in Appendix IV;
- (8) the written consents referred to in the paragraph headed "10. Experts' qualification and consents" in this appendix;
- (9) the service contracts and letters of appointment referred to in the section headed "5. Directors' service contracts" in this appendix;
- (10) the material contracts referred to in the section headed "9. Material contracts" in this appendix;
- (11) the Subscription and Joint Venture Agreement;
- (12) the valuation report set out in Appendix VA to this circular;
- (13) the valuation report set out in Appendix VB to this circular; and
- (14) this circular.

* *For identification purpose only*

NOTICE OF EGM



TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of TSC Group Holdings Limited (the “**Company**”) will be held at Units 2706-2709, 27/F, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong at 10:00 a.m. on Friday, 28 December 2018, for the purposes of considering and, if thought fit, passing with or without amendment, the following resolutions of the Company as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT**
 - (a) the authorised share capital of the Company be increased from HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.1 each (each a “**Share**”) to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 8,000,000,000 new Shares (the “**Authorised Share Capital Increase**”); and
 - (b) any one of the directors of the Company (each a “**Director**”) be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Authorised Share Capital Increase.”
2. **“THAT**, conditional upon the passing of the resolution numbered 1 as set out above and subject to the conditions set out in the Underwriting Agreement (as defined below) having been satisfied (or waived, as the case may be):
 - (a) the underwriting agreement dated 8 November 2018 (the “**Underwriting Agreement**”) in respect of the Rights Issue (as defined below) and the transactions contemplated thereunder entered into between the Company, China Tonghai Securities Limited (“**Tonghai Securities**”) and CCB International Capital Limited (“**CCBI**” and together with Tonghai Securities, the “**Underwriters**”) (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the EGM for the purpose of identification), and the transactions contemplated thereunder and all actions taken or to be taken by the Company pursuant to or incidental to the Underwriting Agreement be and are hereby approved, confirmed and ratified;

NOTICE OF EGM

- (b) the issue by way of rights (“**Rights Issue**”) of not more than 1,473,156,204 Shares (the “**Rights Shares**” and each a “**Rights Share**”) at a subscription price of HK\$0.45 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on Thursday, 10 January 2019 or such other date as may be agreed between the Company and the Underwriters in writing for the determination of the entitlements under the Rights Issue (the “**Record Date**”) (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors of the Company, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) on the basis of one (1) Rights Share for every one (1) existing Share then held on the Record Date and pursuant to the terms and conditions as set out in the Underwriting Agreement, as described in further details in a circular issued by the Company dated 11 December 2018 of which this notice convening the EGM forms part, be and is hereby approved;
- (c) any one of the Directors be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid form and fully-paid form) pursuant to and in connection with the Rights Issue notwithstanding the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Director be and is hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Excluded Shareholders as he deems necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (d) any one of the Directors be and is hereby authorised to do all such acts and things, as he may in his discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Underwriting Agreement, the Rights Issue and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Underwriting Agreement, the Rights Issue and the issue of the Rights Shares and the implementation of all transactions contemplated thereunder, including but not limited to the issue and allotment of Rights Shares and to agree with such variation, amendment or waiver as, in his opinion, appropriate and in the interests of the Company and its shareholders as a whole.”

NOTICE OF EGM

3. “**THAT** the Subscription and Joint Venture Agreement (as defined below) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and the Directors be and are hereby authorised to perform all such acts, deeds and things and execute all documents as they consider necessary or expedient to effect and implement the subscription and joint venture agreement dated 23 November 2018 entered into between the China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) and Alliance Offshore Group Ltd. (the “**Subscription and Joint Venture Agreement**”), and the transactions contemplated thereunder.”

By Order of the Board
TSC Group Holdings Limited
Wang Hongyuan
Executive Chairman

Hong Kong, 11 December 2018

Notes:

- (a) The register of members of the Company will be closed from Thursday, 20 December 2018 to Friday, 28 December 2018, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the meeting, all transfer documents, accompanied by the relevant share certificates, must be duly completed and lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 19 December 2018.
- (b) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company, but must attend the meeting in person to represent you.
- (c) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. The proxy form is published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.t-s-c.com.
- (d) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (e) Where there are joint holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (f) Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the meeting shall be voted by poll.

As at the date of this Notice of EGM, the Board comprises three executive Directors, namely Mr. Wang Hongyuan, Mr. Jiang Bing Hua and Mr. Zhang Menggui, Morgan; two non-executive Directors, namely Mr. Lou Dongyang and Mr. Wang Jianzhong; and three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong.