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CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

Placing Agent



博大證券有限公司
Partners Capital Securities Limited

ISSUE OF CONVERTIBLE BONDS

ISSUE OF CONVERTIBLE BONDS

On 14 May 2014 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement in respect of the issue of the Convertible Bonds in the principal amount of not more than HK\$1,000,000,000. Completion is subject to all conditions as set out in the paragraph headed “Conditions precedent” below. Detailed terms of the Convertible Bonds are set out in the paragraph headed “Principal terms of the Convertible Bonds”.

Detailed terms regarding the use of proceeds from the issuance of the Convertible Bonds are set out in the paragraph headed “Reasons for the issue of Convertible Bonds and use of proceeds”.

LISTING RULES IMPLICATIONS

The Convertible Bonds and the Conversion Shares will be allotted and issued by the Company pursuant to the specific mandate sought to be granted to the Directors at the SGM. Therefore, the subscription of the Convertible Bonds and the issue of the Conversion Shares by the Company are subject to Shareholders’ approval.

The SGM will be convened at which resolution(s) will be proposed to seek approval of the Placing Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. To the best of the Directors' information, belief and knowledge, as confirmed by the Placing Agent, each of the Placing Agent and the Subscriber is an Independent Third Party.

A circular containing, among other matters, further information on the issue of the Convertible Bonds and the notice convening the SGM are expected to be despatched to the Shareholders on or before 3 June 2014.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 3:31 p.m. on 14 May 2014 pending the release of this announcement.

Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 15 May 2014.

Completion of the Placing Agreement is subject to Shareholder's approval and the satisfaction of the conditions precedent therein. As the Placing Agreement may or may not be completed, the Convertible Bonds may or may not be issued and/or the Conversion Shares may or may not be issued or listed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

PLACING AGREEMENT

1. Parties and Date

Date: 14 May 2014 (after trading hours)
Issuer: The Company
Placing Agent: Partners Capital Securities Limited

Pursuant to the Placing Agreement, the Placing Agent shall use its best endeavours to procure the Subscriber to subscribe for the Convertible Bonds in the principal amount of not more than HK\$1,000,000,000.

To the best of the Directors' knowledge, information and belief, as confirmed by the Placing Agent, each of the Placing Agent and the Subscriber is an Independent Third Party.

2. Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds were arrived at after arm's length negotiations between the Company and the Placing Agent and are summarized as follows:

Principal amount:	HK\$1,000,000,000
Interest rate:	7.5% per annum payable annually in arrear (interest to be repaid in RMB based a fixed exchange rate)
Maturity date and redemption:	Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Bonds shall be redeemed at its principal amount (plus any accrued but unpaid interests) on the Maturity Date.
Ranking:	The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and at all times ranks pari passu among any part thereof and equally with all other present and future unsecured and unsubordinated obligations of the Company.
Conversion:	The conversion rights under the Convertible Bonds shall only be exercisable so long as: (1) the exercise of the conversion rights under the Convertible Bonds will not result in the relevant holder of the Convertible Bonds, its associates and parties acting in concert with it will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirement of the Takeovers Code; or (ii) a general offer is made in accordance with the requirement of the Takeovers Code; and

- (2) not less than 25% of the then issued share capital of the Company as enlarged by the issue of the Conversion Shares being held in public hands.

Conversion period:	The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares on any Business Day from the date of issue of the Convertible Bonds up to and including the date falling one (1) day prior to the Maturity Date at the then prevailing Conversion Price.
Conversion Price:	<p>The Conversion Price is initially HK\$0.20 per Share, subject to customary adjustment for, among other matters, subdivision or consolidation of Shares, capitalisation of profits or reserves, capital distributions and rights issue.</p> <p>Adjustment(s) to the Conversion Price will be reviewed either by the auditor of the Company for the time being or a merchant bank.</p>
Voting:	The holder(s) of the Convertible Bonds will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bonds.
Transfer:	Subject to the restricted period described below, the Convertible Bonds are freely transferable at any time during the period from the date on which the Subscriber is registered as the holder of the Convertible Bonds provided that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company and its associates without the Company's prior written consent.
Restricted transfer period:	The Company will not register any transfer of Convertible Bonds: (i) during the seven (7) days prior to and including the date of payment of any principal amount in respect of the Convertible Bonds; (ii) after the delivery of a conversion notice by the holder of the Convertible Bonds; or (iii) during the seven (7) days prior to and including the date of interest payment pursuant to the terms of the Convertible Bonds.

Events of Default:

If, among others, any of the following events occurs, the holder(s) of the Convertible Bonds may give notice to the Company that the Convertible Bonds are due and payable at its principal amount:

- (i) the Company fails to pay the principal when due unless non-payment of such amount is due solely to administrative or technical error and payment is made within five (5) Business Days of the due date for the payment thereof; or
- (ii) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Convertible Bonds which default will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or
- (iii) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking, property, assets or revenues of the Company or its major subsidiaries and which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or
- (vi) the Company or its major subsidiaries is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or its subsidiaries or the whole or any part of the undertaking, property, assets or revenues of the Company or its subsidiaries or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors and which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or

- (v) an order is made or an effective resolution passed for winding-up of the Company or any of its major subsidiaries except in the case of winding-up of subsidiaries in the course of internal reorganisation; or
- (vi) suspension of trading of the Shares on the Stock Exchange or a recognised stock exchange for a continuous period of fourteen trading days and which will constitute a material adverse effect on the Group's business, operations, assets, financial condition.

Based on the Conversion Price of HK\$0.20 per Conversion Share, subject to adjustments, a maximum number of 5,000,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 111.1% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 52.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full.

The Conversion Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

No application will be made for listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Company will seek a specific mandate from the Shareholders for the allotment and issue of the Conversion Shares.

The Conversion Price of HK\$0.20 per Conversion Share was arrived at after arm's length negotiation between the Company and the Placing Agent with reference to the past trading prices of the Company. The Conversion Price equals approximately 89.29% of the average closing prices of the last twenty trading days up to and including the Last Trading Day. The Conversion Price represents:

- (i) a discount of approximately 33.33% to the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on 14 May 2014, being the Last Trading Day;
- (ii) a discount of approximately 21.26% to the average of the closing prices per Share of HK\$0.254 for the last five trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 10.71% to the average of the closing prices per Share of HK\$0.224 for the last twenty trading days up to and including the Last Trading Day.

3. Conditions precedent

Completion is conditional upon the fulfillment of the following conditions precedent:

- (i) the passing of the necessary resolution(s) by the Shareholders at the SGM to approve the Placing Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds, in accordance with the requirements of the Listing Rules and applicable laws and regulations;
- (ii) the Listing Committee granting listing of and permission to deal in the Conversion Shares;
- (iii) the entering into of a side letter between the Company and the Subscriber that the Subscriber shall have the right to nominate a candidate for appointment as a Director on the Board upon Completion; and

- (iv) all necessary consents and approvals required to be obtained on the part of the Company, the Placing Agent and the Subscriber in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained, and such consents and approvals shall remain valid up to the date of Completion.

If any of the above conditions are not fulfilled on or before 31 August 2014 or such other date as the Company and the Placing Agent may agree, the Placing Agreement will cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Placing Agreement, save in respect of any antecedent breach of any obligation thereof.

4. Completion

Subject to the fulfillment of the above conditions, Completion shall take place on the tenth (10th) business day after the satisfaction of all of the conditions precedent.

REASON FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

The gross proceeds from the issue of the Convertible Bonds will be approximately HK\$1,000,000,000.

The Group is principally engaging in shipbuilding related business. At present, the Group's existing facilities allow the Group to construct vessels with displacement of up to approximately 20,000 tonnes. The shipbuilding industry in the PRC has suffered from prolonged recession since late 2008. As a result, many private shipyards were struggling with plummeting orders and soaring debts. While the condition of the shipbuilding industry in the PRC remains difficult in the first half of 2014, based on a steady increase in new orders and building prices since late 2013 and the favourable policies adopted by the PRC government in 2013 to, among other things, mitigate overcapacity, facilitate structural adjustment, and promote corporate mergers, reorganisation and transformation of the shipbuilding industry, the Board believes that the prolonged recession faced by the industry is expected to come to an end in the near future.

The Board currently intends to use the proceeds from the issue of the Convertible Bonds as follows:

- (i) approximately 80% of the net proceeds to fund capital expenditure projects to increase the production capability by, among other things, acquiring or constructing new shipyards near the coast which allows the Group to build ships with a displacement of exceeding 20,000 tonnes and to upgrade the existing production facilities of the Company. While the production capacity of the Group's shipyard did not reach its full capacity during 2013, the Group has secured four orders for heavy lift vessels and six orders for multi-purposes vessels since early 2014 and the Group has been negotiating certain constructing contracts with various parties. In light of the Group's plan to enhance its shipbuilding capability to construct larger vessels which it currently is unable to build, the steady increase in new orders and in anticipation of the further increase in demand when the industry revives, the Board expects that the enhancement and increase of the Group's production capability will enable the Group to capture business growth in the long run. As at the date of this announcement, the Company has not identified any targets to be acquired but the Company will continue to explore; and
- (ii) approximately 20% of the net proceeds will be used for general working capital purposes.

Taking into account the terms of the Convertible Bonds, the Company believes that it is in the interests of the Company. In addition, the Directors consider that the issue of the Convertible Bonds will provide the Company with immediate funding without immediate dilution of the shareholding of the existing Shareholders. Having considered that (i) the interest rate payable on the Convertible Bonds is fair and reasonable as compared with the prevailing interest rates generally offered by banks and financial institutions for similar loan facilities; and (ii) if the Convertible Bonds are exercised, the financial position of the Group will be strengthened with the conversion of debt into further equity capital, the Directors consider that the issue of the Convertible Bonds is an appropriate means of fund raising for the Company.

The Directors consider that the terms of the Placing Agreement and the Convertible Bonds, which were arrived at after arm's length negotiations between the Company and the Placing Agent, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and immediately after the full conversion of the Convertible Bonds is as follows (assuming there being no other change in the share capital of the Company):

Shareholder	At the date of this announcement		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds (Note 2)	
	<i>No. of shares</i>	<i>Approximate percentage %</i>	<i>No. of shares</i>	<i>Approximate percentage %</i>
A Director and his associate (Note 1)	285,287,500	6.34	285,287,500	3.00
The Subscriber	0	0.00	5,000,000,000	52.62
Public Shareholders	<u>4,216,574,052</u>	<u>93.66</u>	<u>4,216,574,052</u>	<u>44.38</u>
Total	<u>4,501,861,552</u>	<u>100.00</u>	<u>9,501,861,552</u>	<u>100.00</u>

Notes:

- Such Shares were held by Mr. Li Ming, an executive Director, of which 253,512,500 Shares, were directly held by him and 31,775,000 Shares were indirectly held by Lead Dragon Limited, a company incorporated in the British Virgin Islands and wholly owned by him.
- The shareholding structure set out in this column is shown for illustration purposes only. As mentioned in the paragraph headed "Principal terms of the Convertible Bonds" above, the conversion rights under the Convertible Bonds shall only be exercisable so long as not less than 25% of the then issued share capital of the Company as enlarged by the issue of the Conversion Shares being held in public hands and will not result in the relevant holder of the Convertible Bonds, its associates and parties acting in concert with it will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirements of the Takeovers Code; or (ii) a general offer is made in accordance with the requirements of the Takeovers Code.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS PRIOR TO THE DATE OF THIS ANNOUNCEMENT

Save as disclosed below, the Company has not conducted any other fund raising activities in the past twelve months before the date of this announcement.

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
23 July 2013	Subscription of 200,000,000 new Shares	Approximately HK\$20.35 million	For general working capital of the Group	have been fully utilized as intended
6 March 2014	Subscription of 530,000,000 new Shares	Approximately HK\$56.61 million	For repayment of debts and general working capital	HK\$44.61 million has been fully utilized as intended. The remaining amount of HK\$12 million will be used as intended.

LISTING RULES IMPLICATIONS

The Convertible Bonds and the Conversion Shares will be allotted and issued by the Company pursuant to the specific mandate sought to be granted to the Directors at the SGM. Therefore, the subscription of the Convertible Bonds and the issue of the Conversion Shares by the Company are subject to Shareholders' approval.

SGM

The SGM will be convened at which resolution(s) will be proposed to seek approval of the Placing Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. To the best of the Directors' information, belief and knowledge, and as confirmed by the Placing Agent, each of the Placing Agent and the Subscriber is an Independent Third Party.

GENERAL

A circular containing, among other matters, further information on the issue of the Convertible Bonds and the notice convening the SGM are expected to be despatched to the Shareholders on or before 3 June 2014.

INFORMATION OF THE SUBSCRIBER

Kingwin Victory Investment Limited, is an investment holding company wholly-owned by Mr. Wang Ping.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 3:31 p.m. on 14 May 2014 pending the release of this announcement.

Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 15 May 2014.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are open for business
“Company”	China Ocean Shipbuilding Industry Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Placing Agreement
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules

“Conversion Price”	the initial conversion price of HK\$0.20 (subject to adjustment) per Conversion Share upon conversion of the Convertible Bonds
“Conversion Share(s) “	the Share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the convertible Bonds in principal amount of HK\$1,000,000,000 to be issued by the Company to the Placing Agent pursuant to the Placing Agreement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	a person who is not a connected person of the Company or an associate of such connected person
“Last Trading Day”	14 May 2014, being the last trading day immediately before the entering into of the Placing Agreement
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the third (3rd) anniversary of the date of issue of the Convertible Bonds
“PRC”	People’s Republic of China

“Placing Agent” or “Partners Capital”	Partners Capital Securities Limited
“Placing Agreement”	the placing agreement dated 14 May 2014 entered into between the Company and the Placing Agent
“RMB”	renminbi, the lawful currency of the People’s Republic of China
“SGM”	the special general meeting of Company to be convened to consider and, if thought fit, approve the Placing Agreement and the transactions contemplated thereunder, the issue of the Convertible Bonds and the Conversion Share
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Kingwin Victory Investment Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
China Ocean Shipbuilding Industry Group Limited
CHAU On Ta Yuen
Chairman

Hong Kong, 14 May 2014

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