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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)

PROPOSED SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

THE SUBSCRIPTION

On 30 July 2014 (after trading hours), the Company entered into the conditional Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue to the Subscriber a total of 1,200,000,000 Subscription Shares at HK\$0.23 per Subscription Share.

The 1,200,000,000 Subscription Shares are to be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM as the Subscription Price per Subscription Share represents:

- (a) a discount of approximately 43.9% to the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 41.6% to the average closing price of approximately HK\$0.3940 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and

(c) a discount of approximately 40.6% to the average closing price of approximately HK\$0.3870 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

If approved by the Shareholders at the SGM, the Subscription Shares to be allotted and issued to the Subscriber represent (i) approximately 19.61% of the existing issued share capital of the Company of 6,120,722,155 Shares as at the date of this announcement; (ii) approximately 16.39% of the issued share capital of 7,320,722,155 Shares as enlarged by the issue and allotment of the Subscription Shares; and (iii) approximately 9.42% of the issued share capital of the Company as enlarged by the allotment and issue of (a) Subscription Shares and (b) Shares as a result of exercise of subscription rights under 2017 Convertible Bonds and the Share Option Schemes.

The gross proceeds arising from the Subscription will amount to approximately HK\$276 million and the net proceeds arising from the Subscription will amount to approximately HK\$269 million. The net proceeds arising from the Subscription will be approximately HK\$0.22 per Subscription Share.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

SPECIFIC MANDATE

The Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of its associates hold any Share as of 30 July 2014. As such, the Subscriber and its associates are not required to abstain from voting at the SGM in respect of the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate. No other Shareholders will be required to abstain from voting at the SGM in respect of the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate.

Completion of the Subscription is subject to the satisfaction of all the Conditions Precedent as set out below under the heading of "Conditions Precedent" of this announcement. As the Subscription may or may not proceed, Shareholders and investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION

On 30 July 2014 (after trading hours), the Company entered into the conditional Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for all (but not part) of the Subscription Shares and the Company has conditionally agreed to allot and issue all of the Subscription Shares at the Subscription Price.

THE SUBSCRIPTION AGREEMENT

Details of the Subscription Agreement are set out as follows:

Date : 30 July 2014 (after trading hours)

Issuer : the Company

Subscriber : Asia Pacific Resources Development Investment Limited, an investment holding company incorporated in the British Virgin Islands with limited liability wholly owned by Mr. Cheng Kin Ming

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, the Subscriber and its ultimate beneficial owner(s) are Independent Third Parties

Number of Subscription Shares : 1,200,000,000 Subscription Shares with an aggregate nominal value of HK\$60,000,000

Conditions Precedent

Subscription Completion is conditional upon the following conditions having been fulfilled on or before 31 October 2014 (or such other date as the Parties may agree):

- (a) the Shareholders having passed the necessary resolution(s) at the SGM in accordance with the Listing Rules to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Subscription Shares under the Specific Mandate;

- (b) the Listing Committee of the Stock Exchange having granted approval for the listing of and permission to deal in the Subscription Shares on the main board of the Stock Exchange;
- (c) the Company and the Subscriber having signed a supplementary letter, pursuant to which the Company shall undertake to the Subscriber that upon Subscription Completion, the Subscriber will be entitled to issue a written notice to the Company requesting the nomination of a person to be a Director; and
- (d) the Company having obtained all the necessary consents and approvals for the transactions contemplated under the Subscription Agreement, and having complied with in all respects all relevant laws or regulations (including but not limited to the Listing Rules and the relevant laws or regulations of Hong Kong). Such consents and approvals shall remain effective until the date of the Subscription Completion, and the relevant authorities have not implemented any rules or regulations which may prohibit or seriously delay the performance and completion of the Subscription Agreement.

Lock-up Period

Unless prior consent is obtained from the Company, the Subscriber shall not decrease its holding of, transfer or sell any of the Subscription Shares during the period of 6 months from the date on which the Subscription Completion and the allotment and issue of Subscription Shares to the Subscriber take place.

Subscription Completion

Subscription Completion shall take place on the 5th Business Day after all the Conditions Precedent have been fulfilled (or such other date as the Parties may agree).

Subscription is subject to the satisfaction of all the Conditions Precedent as set out above under the heading of “Conditions Precedent” of this announcement. As the Subscription may or may not proceed, Shareholders and investors are advised to exercise caution when dealing in the Shares.

Subscription Price

The Subscription Price of HK\$0.23 per Subscription Share represents:

- (a) a discount of approximately 43.9% to the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 41.6% to the average closing price of approximately HK\$0.3940 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 40.6% to the average closing price of approximately HK\$0.3870 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the financial position of the Group. As disclosed in the 2013 Annual Report, the Group had net liabilities of approximately HK\$1,037 million as at 31 December 2013 and incurred loss of approximately HK\$337 million for the year ended 31 December 2013. The Directors consider that the Subscription Price and the other terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The gross proceeds arising from the Subscription will amount to approximately HK\$276 million and the net proceeds arising from the Subscription will be amount to approximately HK\$269 million. The net proceeds arising from the Subscription will be approximately HK\$0.22 per Subscription Share.

Number of Subscription Shares

An aggregate of 1,200,000,000 new Shares will be allotted and issued under the Subscription, which represents:

- (i) approximately 19.61% of the existing issued share capital of the Company as at 30 July 2014;

- (ii) approximately 16.39% of the issued share capital of the Company as enlarged by the allotment and issue of Subscription Shares; and
- (iii) approximately 9.42% of the issued share capital of the Company as enlarged by the allotment and issue of (a) Subscription Shares and (b) Shares as a result of exercise of subscription rights in full under 2017 Convertible Bonds and the Share Option Schemes.

Placing Agent

The Company entered into the Placing Agreement with the Placing Agent on 30 July 2014, pursuant to which the Company has engaged the Placing Agent to act as the placing agent for the private placement of the Subscription Shares. Under the Placing Agreement, the Company has agreed to pay the Placing Agent an aggregate placement commission of HK\$3,000,000 within 5 Business Days after the date of the Subscription Completion. To the best of the Directors' knowledge, information and belief, the Placing Agent and its ultimate beneficial owner are Independent Third Parties.

Advisory Services

The Company entered into a service contract with Partners Capital International Limited on 30 July 2014, pursuant to which Partners Capital International Limited shall, among other things, provide advisory services to the Company in respect of the scheme of the Company's proposed fund raising exercise by way of placing of the Subscription Shares for a service fee in the sum of HK\$3,000,000 payable within 5 Business Days after the date of the Subscription Completion. To the best of the Directors' knowledge, information and belief, Partners Capital International Limited and its ultimate beneficial owner are Independent Third Parties.

EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structures of the Company (i) as at the date of this Announcement, (ii) immediately after the allotment and issue of Subscription Shares and (iii) immediately after the allotment and issue of Subscription Shares and Shares as a result of exercise of subscription rights in full under 2017 Convertible Bonds and the Share Option Schemes are as follows (assuming there being no other change in the share capital of the Company):

Shareholder	At the date of the Announcement		Immediately after the allotment and issue of Subscription Shares		Immediately after the allotment and issue of Subscription Shares, Shares which may be allotted and issued as a in full result of exercise of subscription rights under 2017 Convertible Bonds and the Share Option Schemes	
	<i>No. of shares</i>	<i>Approximate percentage %</i>	<i>No. of shares</i>	<i>Approximate percentage %</i>	<i>No. of shares</i>	<i>Approximate percentage %</i>
	A Director and his associate (<i>Note</i>)	296,302,500	4.84	296,302,500	4.05	336,302,500
Other directors	–	–	–	–	90,434,600	0.71
The Subscriber	–	–	1,200,000,000	16.39	1,200,000,000	9.42
Public Shareholders	5,824,419,655	95.16	5,824,419,655	79.56	11,106,434,835	87.23
Total:	<u>6,120,722,155</u>	<u>100.00</u>	<u>7,320,722,155</u>	<u>100.00</u>	<u>12,733,171,935</u>	<u>100.00</u>

Note: Such Shares were held by Mr. Li Ming, an executive Director, of which 261,852,000 Shares were directly held by him and 34,450,000 Shares were held through Lead Dragon Limited, a company incorporated in the British Virgin Islands and wholly owned by him.

Specific Mandate

The Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Subscriber and its associates hold any Share as of 30 July 2014. As such, the Subscriber and its associates will not be required to abstain from voting at the SGM in respect of the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate. No other Shareholders will be required to abstain from voting at the SGM in respect of the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate.

Application for listing

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

As disclosed in the 2013 Annual Report, the Company has been in a difficult financial position. It had net liabilities of approximately HK\$1,037 million as at 31 December 2013 and incurred loss of approximately HK\$337 million for the year ended 31 December 2013. The Group continued to operate in a challenging environment in 2014 as a result of the lack of liquidity.

Against this background, the Company has been considering and exploring opportunities to diversify its business and expand into the business of providing financial services, such as finance leases and factoring services to enterprises in the PRC. The Board expects to invest approximately HK\$450 million in this new business segment. The Subscription represents a suitable opportunity for the Group to raise approximately HK\$269 million for the Company, approximately HK\$150 million is intended to be used for the expansion into the financial services business, whilst the remaining part of the fund raised will be used as the general working capital (including repayment of debts) of the Group. In view of volatile market conditions and uncertain global economy, the Directors consider that it is a good timing and opportunity to enter into the Subscription Agreement in order to raise additional funds so as to broaden the Company's capital and shareholder base. Accordingly, the Directors considered the transactions contemplated under the Subscription are in the interest of the Company and the Shareholders as a whole.

POSSIBLE VARIATION OF THE USE OF BOND PROCEEDS

Reference is made to the announcement of the Company dated 14 May 2014 in respect of the issue of 2017 Convertible Bonds. As disclosed in the aforesaid announcement, the Group has raised approximately HK\$985 million from the issue of 2017 Convertible Bonds and it intended to use part of the Bond Proceeds amounting to approximately HK\$800 million to increase its production capability by, among other things, acquire or construct new shipyards near the coast allowing the Group to build ships with a displacement of exceeding 20,000 tonnes and to upgrade the existing production facilities of the Company.

However, if the Company has come across opportunity to better use the fund for its business development, the Company will consider to vary the use of the Bond Proceeds. Since there is a shortfall of approximately HK\$300 million for the investment of financial service business as aforesaid after the Group receives the net proceeds from the Subscription, the Board decides to re-allocate approximately HK\$300 million of the Bond Proceeds for that purpose.

Reference is also made to the announcement of the Company dated 16 June 2014 in relation to strategic co-operation agreement with Zhoushan Investment Company for development of shipbuilding business in the new district of Zhoushan, the PRC. The Company is currently in advanced negotiation for entering into certain joint venture arrangements for investment of similar kind and has earmarked HK\$500 million from the Bond Proceeds for the use of such new venture. If such joint venture arrangements are materialised, the use of Bond Proceeds for financing the new venture will amount to a variation to the use of Bond Proceeds.

FUND RAISING EXERCISE OF THE COMPANY WITHIN 12 MONTHS PRIOR TO THE DATE OF THIS ANNOUNCEMENT

Date of Announcement	Description of the fund raising activities	Funds raised	Intended use of proceeds	Actual use of proceeds
23 July 2013	Subscription of 200,000,000 Shares at HK\$0.102 each under general mandate (completed on 31 July 2013)	Net proceeds of about HK\$20.35 million	General working capital	Fully utilized as intended
6 March 2014	Subscription of 530,000,000 Shares at HK\$0.107 each under general mandate	Net proceeds of about HK\$56.61 million	Repayment of debts and general working capital	Fully utilized as intended

Date of Announcement	Description of the fund raising activities	Funds raised	Intended use of proceeds	Actual use of proceeds
14 May 2014	Issue of 2017 Convertible Bonds in a principal amount of HK\$1 billion	Net proceeds of about HK\$985 million	80% of the net proceeds be used to fund capital expenditure projects; and remaining 20% of which be used for general working capital purposes (including repayment of debts)	Approximately HK\$175 million has been utilized, of which approximately HK\$120 million was used to repay debts, approximately HK\$42 million was used to repayment of loans from banks, approximately HK\$10 million was used as direct costs of production and approximately HK\$3 million was used as daily operating costs of the Group. The remaining amount of approximately HK\$810 million is currently deposited with licensed banking and financial institution in Hong Kong and may be used for the purposes as described under the section “POSSIBLE VARIATION OF THE USE OF BOND PROCEEDS” in this announcement

ADJUSTMENT TO CONVERSION PRICE OF 2017 CONVERTIBLE BONDS

The allotment and issue of the Subscription Shares at the Subscription Price constitutes an event of adjustment under the terms and conditions of 2017 Convertible Bonds. The Company will arrange its auditors to compute the adjusted conversion price and inform the bondholders accordingly.

GENERAL

Information of the Company

The Company is principally engaged in the production and operation of shipbuilding and securities trading business.

Information of the parties relevant to the Subscription

All of Partners Capital International Limited, the Placing Agent, and the Subscriber are indirectly wholly-owned by Mr. Cheng Kin Ming.

DEFINITIONS

In this announcement, unless the context otherwise required, the following terms and expressions shall have the following meaning:

“2017 Convertible Bonds”	the convertible bonds issued by the Company which will be expired on 27 June 2017
“associate(s)”	has the meaning ascribed therein in the Listing Rules
“Board”	the board of Directors
“Bond Proceeds”	the proceeds from the issue of 2017 Convertible Bonds as disclosed in the announcements of the Company dated 14 May 2014 and 27 June 2014
“Business Day(s)”	means day(s) (other than Saturdays) on which banks in Hong Kong generally are open for business
“Company”	China Ocean Shipbuilding Industry Group Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the main board of the Stock Exchange
“Conditions Precedent”	the conditions precedent for the Subscription Completion
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its Subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a party which is a third party independent of the Company and its connected persons as defined under the Listing Rules/ a person who is not a connected person of the Company or an associate of such connected person
“Last Trading Day”	30 July 2014, being the last trading day of the Shares immediately before entering into of the Subscription Agreement
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party(ies)”	the Company, the Subscriber and their respective successors and transferees; and each a “Party” shall be construed accordingly
“Placing Agent”	Partners Capital Securities Limited, a company incorporated in Hong Kong with limited liability indirectly wholly owned by Mr. Cheng Kin Ming
“Placing Agreement”	the placing agreement dated 30 July 2014 entered into between the Company and the Placing Agent
“PRC”	People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Specific Mandate, the Subscription Agreement and the transactions contemplated thereunder and the allotment and issue of the Subscription Shares

“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)
“Share Option Schemes”	the share option schemes adopted respectively by the Company on 27 May 2002 and 27 June 2012
“Specific Mandate”	the specific mandate to be sought from Shareholders at the SGM to consider, and if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder and the allotment and issue of the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Asia Pacific Resources Development Investment Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription”	the subscription by the Subscriber of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 30 July 2014 entered into between the Company and the Subscriber
“Subscription Completion”	the completion of the Subscription Agreement
“Subscription Price”	HK\$0.23 per Subscription Share
“Subscription Share(s)”	a total of 1,200,000,000 new Share(s) to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
“Subsidiary”	has the meaning ascribed to it under sections 15 and 16 of Companies Ordinance of Hong Kong (Cap. 622)

“Zhoushan Investment
Company”

Zhoushan Marine Comprehensive Development and
Investment Company Limited (舟山海洋綜合開發投資有公
司)

“%”

per cent.

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

Hong Kong, 30 July 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.