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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)**

**VARIATION OF USE OF BOND PROCEEDS  
AND  
DISCLOSEABLE TRANSACTION  
FORMATION OF JOINT VENTURE**

On 6 August 2014, the First Limited Investor (an indirect wholly-owned Subsidiary of the Company) entered into the JV Agreement with the Required Investor and the Second Limited Investor for the formation of the Joint Venture to invest in shipbuilding and related ocean engineering business in Zhoushan, the PRC.

Pursuant to the JV Agreement, the initial investment amount in the Joint Venture will be RMB508,000,000 contributed as to RMB400,000,000 by the First Limited Investor, RMB100,000,000 by the Second Limited Investor and RMB8,000,000 by the Required Investor. The Required Investor needs to assume liabilities of the Joint Venture if the assets of the Joint Venture are insufficient to discharge its liabilities, while the First Limited Investor and the Second Limited Investor are not liable for any of the debts of the Joint Venture, other than to the extent of the value of their respective investment in the Joint Venture.

Since the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the formation of the Joint Venture exceed 5% but less than 25%, the entering into of the JV Agreement constitutes a discloseable transaction and is subject to the reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

Reference is made to the announcement of the Company dated 16 June 2014 in respect of the strategic cooperation with the Second Limited Investor. As disclosed, the Company entered into a strategic cooperation agreement, pursuant to which the parties agree to seek to integrate their respective strength to jointly develop ocean related business in Zhoushan.

After arm's length negotiation of the parties, on 6 August 2014, the First Limited Investor (an indirect wholly-owned Subsidiary of the Company) entered into the JV Agreement with the Required Investor (which was not a party to the strategic cooperation agreement) and the Second Limited Investor for the formation of the Joint Venture. The principal terms of the JV Agreement are as follows:–

## **THE JV AGREEMENT**

Date: 6 August 2014

Parties:

- (1) Zhoushan Zhouyi Investment Management Partnership Enterprise (Limited Partnership) as the required investor, which needs to assume liabilities of the Joint Venture if the assets of the Joint Venture are insufficient to discharge its liabilities
- (2) China Ocean Shipbuilding (Hong Kong) Limited as the limited investor
- (3) Zhoushan Marine Comprehensive Development and Investment Co., Ltd as the limited investor

The limited investors are not liable for any of the debts of the Joint Venture, other than for the value of their respective investment amount in the Joint Venture.

Scope of Business: The Joint Venture will engage in (i) equity investment using its own capital fund through investment in newly established enterprises, existing enterprises, acquisition of equity interest from corporate investors and any other investment modes as allowed by PRC laws and regulations; (ii) provision of management consultancy services to investee companies and provision of consultancy services for setting up enterprises; and (iii) any other business approved by the relevant PRC authorities.

Term of operation of Joint Venture: 8 years from the date of issue of the business license of the Joint Venture. Subject to the approval of all the parties, the term of operation may be extended for a further period of 2 years.

The first 5 years will be the investment period of the Joint Venture and no new investments may be made by the Joint Venture after this investment period.

Investment Amount:

- (1) RMB8,000,000 to be contributed by the Required Investor, representing 1.575% of the interests in the Joint Venture
- (2) RMB400,000,000 to be contributed by the First Limited Investor, representing 78.74% of the interests in the Joint Venture
- (3) RMB100,000,000 to be contributed by the Second Limited Investor, representing 19.685% of the interests in the Joint Venture

The aforesaid investment amounts are to be paid to the Joint Venture in cash in full at the later of and after fulfilment of all the Conditions Precedent and within 2 months from the date of issue of the business license (營業執照) of the Joint Venture.

The aforesaid investment amounts are determined after arm's length negotiation of the parties and with reference to the initial funding needs of the Joint Venture and the agreed share of each party in the interest in the Joint Venture.

Conditions Precedent The JV Agreement will take effect upon the satisfaction of the following conditions:

- (1) the approval of JV Agreement has been obtained from the relevant government authorities; and

- (2) each of the parties to the JV Agreement has obtained the necessary internal and/or external consent and approval required under the laws and regulations (including but not limited to the Listing Rules) applicable to such party, if any, for the entering into of the JV Agreement.

Management of the  
Joint Venture

In general, the Joint Venture shall be managed by the Management Committee, save that the Required Investor, which will be employed by the Joint Venture as the management enterprise, shall be responsible for and shall have the power to carry out, among others, the following matters:

- (1) seeking investment opportunities and potential investment projects for the Joint Venture and for the Management Committee to approve;
- (2) conducting due diligence and gathering information in respect of the investment projects and the entities being invested;
- (3) employing suitable professionals for the Joint Venture;
- (4) management of capital of Joint Venture;
- (5) exercising the rights in relation to the investment projects approved by the Management Committee;
- (6) opening bank accounts and issuing cheque for and on behalf of the Joint Venture; and
- (7) entering into agreements in relation to the business of Joint Venture for and on behalf of the Joint Venture.

For items (5), (6) and (7) above (save for (a) (i) issuing cheques involving an amount not more than RMB0.5 million or (ii) paying an aggregate accumulated amount of less than RMB1 million within one year to a single person or enterprise; (b) the entering into of the agreements involving a consideration of less than HK\$3 million and (c) exercising the voting right of the Joint Venture in the invested entities in relation to the approval of various loan transactions and the related transactions providing securities and guarantees for the same), the Required Investor shall give each member of the Management Committee 10 Business Days' prior notice. The Required Investor may proceed with the matter provided that no written disagreement on the stipulated matter is received from any member of the Management Committee within 10 Business Days after the issuance of the notice. If there is any such written disagreement within the aforesaid period, the Required Investor may only proceed with the matter subject to the approval of 80% of the members of the Management Committee.

The Required Investor, as the management enterprise, will receive the following fees and return:–

- (1) if the annualised return rate of each party to the Joint Venture is lower than 8.5%, the management fee will be 0.2% of the then total investment amount in the Joint Venture per annum;
- (2) if, after a particular investment project is withdrawn, the annualised return rate of each party to the Joint Venture is higher than 8.5% having taking into account the management fee, the management fee will be the difference between the actual annualised return rate and 8.5% (the “Enlarged %”) of the then total investment amount in the Joint Venture per annum, provided that the Enlarged % shall not be less than 0.2% nor exceed 1%; and

- (3) notwithstanding the above, if any particular investment project is withdrawn through the receipt of shares by each party to the Joint Venture, each party shall pay 1% of the then total investment amount in the Joint Venture per annum as management fee.

#### Management Committee

The Management Committee consists of five members, of which the First Limited Investor will be entitled to appoint two members; the Required Investor will be entitled to appoint two members and the Second Limited Investor will be entitled to appoint one member.

The following shall be subject to the unanimous consent of the Management Committee:

- (1) amending the constitution of the Joint Venture;
- (2) termination of business, dissolution and winding up of the Joint Venture; and
- (3) any structural change of the Management Committee.

Save as the aforesaid, the other key matters to be approved by the Management Committee shall be subject to consent of at least 80% of the members thereof, while other matters shall be subject to the consent of the majority of the members thereof.

#### Profit Distribution Arrangement

The principal and revenue after expenses of each of the investment projects of the Joint Venture are required to be distributed to each party to the Joint Venture within 30 Business Days after the withdrawal of the Joint Venture from the relevant investment projects according to the following distribution order:

- (1) first, each of the parties to the Joint Venture shall, in proportion to their respective investment amounts in the Joint Venture, receives all the distributions until each of them has received 100% of the investment amounts it contributes to the Joint Venture;

- (2) secondly, after each party has received 100% of its investment amounts pursuant to (1) above, the First Limited Investor and the Second Limited Investor shall, in proportion to their respective investment amounts in the Joint Venture, receive all distributions until each of them has received a 8.5% annualised return on their respective investment amounts;
- (3) thirdly, after the distribution pursuant to (1) and (2) above, the Required Investor shall receive 20% of the remaining amount of the principal and revenue after expenses of the investment projects of the Joint Venture; and
- (4) fourthly, in respect of the remaining amount (i.e. 80% of the remaining amount of the principal and revenue after expenses of the investment projects), each of the parties to the Joint Venture shall be entitled to receive such remaining amount in proportion to their respective investment amounts in the Joint Venture.

The following are also required to be distributed to the parties to the Joint Venture as soon as possible according to the aforesaid distribution order unless it is otherwise approved by 80% of the members of the Management Committee:

- (1) cash income from the acquisition and disposal of shares in each investment project after deducting the costs of such disposal;
- (2) dividends and other cash incomes from the investment projects; and
- (3) if the Joint Venture obtain shares in a listed company (“the Listed Shares”) after the listing of an investment project, the cash income from the disposal of the Listed Shares (or a party to the Joint Venture may request for the distribution of the Listed Shares).

The Joint Venture has not been established and it has no assets or business as at the date of signing of the JV Agreement.

Since the First Limited Investor will be entitled to appoint only two of the five members in the Management Committee, the Joint Venture will not become a Subsidiary of the Company.

## **RELATIONSHIP OF THE PARTIES**

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of the Required Investor and the Second Limited Investor and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Kingwin is the holder of convertible bonds of the Company in the principal amount of HK\$1,000,000,000 ("2017 Convertible Bonds"), which entitled it to convert up to 5,000,000,000 Shares ("Conversion Rights") based on the conversion price of HK\$0.20 per conversion share subject to the restriction that it, its associates and parties acting in concert with it cannot be interested in an aggregate of 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.

Kingwin is wholly-owned by Mr. Wang Ping who directly holds 42,500,000 Shares of the Company representing approximately 0.69% of the existing issued share capital of the Company as at the date of this announcement.

Mr. Wang Ping is also the general partner holding 1% interest in \*Shenzhen China Science & Kingwin Venture Capital Partnership Enterprise (深圳市中科宏易創業投資合夥企業), which together with Mr. Wang Ping hold over 90% interest in Shenzhen China Science & Kingwin Venture Capital Co., Ltd which in turn holds 33% interest in the Required Investor and is the general partner thereof.

As at the date of this announcement, there has been no conversion of the convertible bonds by Kingwin.

## **SOURCE OF FUND FOR THE JOINT VENTURE**

The Group will use the Bond Proceeds to finance the investment amount which it will contribute to the Joint Venture.



Reference is made to the Announcements in respect of the issue of convertible bonds. As disclosed in the Announcements, the Group has raised approximately HK\$985 million from the issue of convertible bonds and it intended to use part of the Bond Proceeds to 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.

Given the reasons discussed in the part “Reasons for and Benefits of the Formation of Joint Venture” below, the Directors are of the view that investment in the Joint Venture would be a better use of the Bond Proceeds, thus variation to the use of Bond Proceeds as aforesaid would be in the interests of the Company and the Shareholders as a whole.

## **REASONS FOR AND BENEFITS OF THE FORMATION OF JOINT VENTURE**

The Group is principally engaged in shipbuilding related business. The Company will contribute to the Joint Venture by providing capital fund.

The Required Investor is a partnership enterprise established in the PRC in 2013. Its principal business is providing asset management services in shipbuilding and related sectors, it also provides investment consultancy, information consultancy, corporate management consultancy services.

The Second Limited Investor is a state-owned enterprise established in Zhoushan, the PRC with the principal business of investing in core promotion and supporting large-scale projects in Zhoushan, aiming at integration, transformation and upgrading of resources.

The Directors believe that the shipbuilding and the ocean engineering industry in Zhoushan holds potential, given that (a) the PRC government has started to adopt favourable national policies to, among other things, facilitate structural adjustment, promote corporate mergers, reorganisation and transformation of the shipbuilding industry; (b) Zhoushan is situated in a favourable geographical location, being near to the coast and Shanghai, a shipbuilding and ship-trading centre, and hence facilitating the shipbuilding and ocean engineering industry; (c) after Zhoushan has become the first new national strategic district in the PRC as a marine economic zone, various supporting facilities in the integration and upgrading of construction sites in the ocean engineering, shipbuilding and related industries will follow; and (d) the shipbuilding industry is recovering from the bottom, evidenced by a steady increase in new orders and building prices. Since shipbuilding business demands substantial investment amount and the Group may not have necessary funds to make use of the rising opportunities

to develop its business, the investment in the Joint Venture would put the Company in a very unique position to invest in the shipbuilding industry. With investment experience of the Required Investor and the Second Limited Investor, it is expected that the Group will obtain reasonable gain from its investment in the Joint Venture.

The general partner of the Required Investor, has substantial experience in making investments in various industries, including but not limited to the shipbuilding and the ocean engineering industry. All its core members of management have more than 10 year experience in investment and management. A number of investment projects that it manages have performed much better under its investment or management.

In view of the background of the Second Limited Investor, it has a good connection in the shipbuilding, ocean engineering and related industries.

Thus, the Joint Venture can make use of the experience, expertise and connections of the aforesaid parties to make appropriate investment and establish a platform in Zhoushan for engaging in the shipbuilding and the ocean engineering industry. The Group, by investing in the Joint Venture, may share the investment income of the Joint Venture in the future and seize the opportunities to develop and expand its business in the shipbuilding and the ocean engineering industry in Zhoushan. By establishing a cooperative relationship with the Required Investor and the Second Limited Investor through the formation of the Joint Venture, the Group may also, rather by its own, rely on the local experiences of the Required Investor and the Second Limited Investor to invest in Zhoushan, which is expected to be more cost and time efficient.

Based on the aforesaid and having taken into account, among others, (1) the proportion of the investment amounts contributed by the parties in the Joint Venture; (2) the management role and the unlimited liability of the Required Investor; (3) the limited liability of the First Limited Investor and the Second Limited Investor in the Joint Venture; and (4) other similar formation of joint ventures in the shipbuilding and ocean engineering industry in the market, the Directors consider that the terms of the JV Agreement (including the profit distribution arrangement and the management of the Joint Venture) are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## IMPLICATIONS OF LISTING RULES

As the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules for the transaction contemplated under the JV Agreement (including the contribution of the investment amount of RMB400,000,000 by the First Limited Investor to the Joint Venture) are more than 5% but less than 25%, such transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under the Listing Rules.

## DEFINITIONS

The following words and phrases used in this announcement have the following meaning:

“Announcements”	the announcements of the Company dated 14 May 2014 and 27 June 2014
“Board”	the board of Directors
“Bond Proceeds”	the proceeds from the issue of convertible bonds of the Company as disclosed in the Announcements
“Business Day”	means a day (other than Saturdays, Sundays and statutory public holidays of the PRC)
“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
“Director(s)”	director(s) of the Company
“First Limited Investor”	China Ocean Shipbuilding (Hong Kong) Limited (中海船舶(香港)有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned Subsidiary of the Company
“Group”	the Company and its Subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JV Agreement”	the joint venture agreement dated 6 August 2014 entered into amongst the First Limited Investor, the Second Limited Investor and the Required Investor in relation to the formation of the Joint Venture
“Joint Venture”	Zhoushan China Ocean Investment Fund (舟山中海投創業投資企業), a non-legal person foreign invested venture capital enterprise (外商投資創業投資企業) proposed to be established in Zhoushan, Zhejiang Province of the PRC pursuant to the JV Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Kingwin”	*Kingwin Capital Group Limited (宏易資本集團有限公司), a company incorporated in British Virgin Islands with limited liability and wholly-owned by Mr. Wang Ping
“Management Committee”	the management committee of the Joint Venture
“PRC”	People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“Required Investor”	*Zhoushan Zhouyi Investment Management Partnership Enterprise (Limited Partnership) (舟山舟易投資管理合夥企業(有限合伙)), a partnership enterprise established in PRC, of which the Second Limited Investor is a limited partner holding 34% of the interests therein

“RMB”	renminbi, the lawful currency of the PRC
“Second Limited Investor”	Zhoushan Marine Comprehensive Development And Investment Co., Ltd (舟山海洋綜合投資開發有限公司), a state-owned enterprise incorporated in PRC and funded by prefecture level Zhoushan government and its subordinate governments of various Districts and a County
“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
“Subsidiary”	Any entity within the meaning of the term “Subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly
“%”	per cent

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

Hong Kong, 6 August 2014

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

*As at the date of this announcement, the Board of the Company comprises four executive directors, namely, Mr. 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.*