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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)

DECISION OF THE SUBSCRIBER NOT TO PROCEED WITH SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

Reference is made to the circular of China Ocean Shipbuilding Industry Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 3 October 2014 relating to, among other things, the Subscription Agreement and the transactions contemplated thereunder, and the announcement of the Company dated 21 October 2014 relating to the poll results of the SGM held on 21 October 2014. Unless otherwise specified, capitalised terms used in this announcement shall have the same meaning as those defined in the Circular.

THE SUBSCRIBER’S DECISION NOT TO PROCEED WITH THE SUBSCRIPTION

The Board announces that on 30 October 2014 (after trading hours), the Company received a letter dated 22 October 2014 from the Subscriber in which the Subscriber expressed that:

- (1) it considers the Company’s development strategies for its future business excessively diversified;
- (2) as a general investor, it is difficult for the Subscriber to provide contribution and support in the Company’s development;
- (3) it hopes to explore further cooperation opportunities with the Company when there is consensus after sufficient communication has been made on the development strategy of the Company;

- (4) it is still interested in the future development of the Company; and
- (5) accordingly, the Subscriber decided not to proceed with the Subscription (the “**Decision**”).

The Board expressed regret over the Decision, and the Company is now reviewing the background and events leading to the Decision and may publish a further announcement as and when necessary.

EFFECT AND IMPACT ON THE COMPANY

As a result of the Decision, the gross proceeds of approximately HK\$276 million and net proceeds of approximately HK\$269 million arising from the Subscription will not come through to the Company.

As disclosed in the Circular, the Board intended to utilise:

- (1) the proceeds arising from the Subscription as follows:
 - (a) approximately RMB52.4 million (approximately HK\$66 million) as to the potential acquisition by the Group of a minority stake in a company established in the PRC which principally engages in financial leasing business in Zhejiang Province in the PRC (“**Zhejiang Acquisition**”);
 - (b) approximately HK\$180 million as to repayment of debts; and
 - (c) approximately HK\$23 million as to operating expenses of the Company including salaries, rent and rates and travelling expenses and others to be incurred.
- (2) the then remaining Bond Proceeds of approximately HK\$292 million as at the Latest Practicable Date in the following manner:
 - (a) approximately RMB200 million (equivalent to approximately HK\$252 million) as to fulfillment of the initial capital requirement of COSFL; and
 - (b) approximately HK\$40 million as to repayment of debts.

Since the Latest Practicable Date, the Group had further utilised approximately HK\$170 million of the Bond Proceeds, of which (i) approximately HK\$126 million has been applied as the first tranche of initial capital requirement of COSFL, (ii) approximately HK\$41 million has been used in repayment of bank loans and part of loans from employees originally due in August 2014 but the due date has been extended to 30 September 2014, and (iii) approximately HK\$3 million has been used as general working capital. As at the date of this announcement, the remaining Bond Proceeds amount to approximately HK\$122 million, which was intended to be applied as the second tranche of the initial capital requirement of COSFL as disclosed in the Circular.

In light of the Decision and having evaluated the Group's repayment obligations and business plans, the Directors decided to withhold the second tranche of initial capital requirement of COSFL but to proceed with the Zhejiang Acquisition as negotiation therefor has entered into final stage. Accordingly, the Board decided to reallocate the remaining Bond Proceeds of approximately HK\$122 million in the following manner:

- (1) approximately RMB45 million (approximately HK\$57 million) as to the Zhejiang acquisition which is expected to take place in November 2014;
- (2) approximately HK\$60 million as to repayment of debts and other borrowings due in the fourth quarter of 2014; and
- (3) approximately HK\$5 million as to operating expenses of the Company.

The Company is actively identifying and considering appropriate fund raising methods to raise funds for debt repayment and implementing the business plans as stated in the Circular, including the venture into financial leasing business through COSFL.

Save as disclosed above, the Board considers that the Decision has no material adverse impact on the financial and operational position of the Company.

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

Hong Kong, 2 November 2014

For the purpose of illustration only and unless otherwise stated, conversion of RMB to HK\$ in this circular is based on the exchange rate of RMB1.00 to HK\$1.26. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate

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