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CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE

ISSUE OF CONVERTIBLE BONDS

On 10 August 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the Convertible Bonds in the aggregate principal amount of HK\$189 million.

Assuming the conversion rights attaching to the Convertible Bonds are exercised in full at the initial Conversion Price of HK\$0.070, a maximum of 2,700,000,000 Conversion Shares will be allotted and issued, representing (i) approximately 19.80% of the total number of issued Shares as at the date of this announcement; and (ii) approximately 16.53% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares under the Convertible Bonds. The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue.

The Conversion Shares will be allotted and issued under the General Mandate. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No listing of the Convertible Bonds will be sought on the Stock Exchange or any other exchanges.

The net proceeds from the issue of Convertible Bonds are expected to be approximately HK\$189 million. The Company intends to apply such net proceeds towards repayment of debts owed by the Group and the remaining for general working capital.

As the issue of the Convertible Bonds is subject to the fulfillment of certain conditions precedent and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

The Board is pleased to announce that on 10 August 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber in relation to the issuance of the Convertible Bonds in the aggregate principal amount of HK\$189 million.

SUBSCRIPTION AGREEMENT

Details of the terms of the Subscription Agreement are summarised below:

1. Parties and Date

Date	:	10 August 2017
Parties	:	The Company as issuer Pacific Ocean Marine Limited (i.e. the Subscriber) as subscriber
Subject matter	:	Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, Convertible Bonds in principal amount of HK\$189 million

2. Principal terms of Convertible Bonds

The principal terms of the Convertible Bonds were arrived at after arm's length negotiations between the Company and the Subscriber which are summarised below:

Issuer	:	The Company
Principal amount	:	HK\$189,000,000
Issue price	:	100% of the principal amount of the Convertible Bonds
Interest	:	The Convertible Bonds shall carry an interest of 10% per annum from the Issue Date, payable annually in arrears in RMB based on the agreed exchange rate of RMB1 to HK\$1.163 (“ Agreed Exchange Rate ”).
Maturity date	:	The 2nd anniversary of the Issue Date
Redemption upon maturity	:	Unless previously converted in accordance with the terms and conditions thereof, any outstanding Convertible Bonds shall be redeemed by the Company at its principal amount (together with any accrued but unpaid interests) on the Maturity Date in RMB based on the Agreed Exchange Rate.
		The Convertible Bonds shall not be redeemed by the Company at any time prior to the Maturity Date.
Ranking of Convertible Bonds	:	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 period : The Conversion Rights attaching the whole or part of any outstanding principal amount of Convertible Bonds may be exercised, at the option of the Bondholder, at any time on and after the Issue Date up to but excluding the Maturity Date so long as:

(1) the exercise of the Conversion Rights will not result in the relevant Bondholder(s), its associates and parties acting in concert with it (as defined under the Takeovers Code) 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 total number of issued Shares are being held in public hands.

Conversion price : Initially HK\$0.070 per Conversion Share subject to usual adjustment provisions customary for convertible bonds of similar kind as described in the “Adjustment provision” paragraph below.

The Conversion Price was arrived at after arm’s length negotiation between the Company and the Subscriber with reference to recent performance of the Shares, the Group’s existing financial position and current market sentiment and represents:

(a) a discount of approximately 2.78% to the closing price of HK\$0.072 per Share as quoted on the Stock Exchange on 10 August 2017, being the date of the Subscription Agreement;

- (b) a discount of approximately 6.67% to the average of the closing price of HK\$0.075 per Share for the last 5 Trading Days up to and including 9 August 2017, being the last Trading Day immediately prior to the date of the Subscription Agreement; and
- (c) a discount of approximately 1.41% to the average of the closing price of HK\$0.071 per Share for the last 10 Trading Days up to and including 9 August 2017, being the last Trading Day immediately prior to the date of the Subscription Agreement.

Ranking of Conversion Shares : The Conversion Shares, when allotted and issued, will rank pari passu in all respects among themselves and with other Shares in issue on the conversion date of the Convertible Bonds.

Adjustment provisions : The Conversion Price shall from time to time be adjusted upon occurrence of the following events:

- (1) consolidation or sub-division of Shares;
- (2) capitalisation of profits or reserves;
- (3) scrip dividend in lieu of cash dividend and the market price of such Share exceeds the relevant cash dividend;
- (4) capital distribution;

- (5) offer of new Shares for subscription by way of rights, or grant to Shareholders any options or warrants to subscribe for new Shares at a price which is less than 95% of the then current market price at the date of the announcement of the terms of such offer;
- (6) issue of Shares or options, warrants or any securities which carry rights of subscription for or acquisition of new Shares (save for shares issued under the Convertible Bonds, the 2017 Convertible Notes, 2018 Convertible Notes and options granted under the Share Option Schemes), at a price which is less than 95% of the then current market price at the date of the announcement of the terms of such issue; and
- (7) issue of Shares (other than as mentioned in (5) and (6) above) by the Company or any of its subsidiaries, or issue of securities (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) by any other company, person or entity which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares (save for shares issued under the Convertible Bonds, the 2017 Convertible Notes, 2018 Convertible Notes and options granted under the Share Option Schemes), at a price which is less than 95% of the then current market price at the date of the announcement of the terms of such issue.

The adjustment mentioned in (2) to (7) above are not applicable to:

- (1) an issue of Shares or other securities of the Company wholly or partly convertible into, or rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries or other eligible participants pursuant to any share scheme adopted in accordance with and in compliance with the Listing Rules;
- (2) an issue of Shares pursuant to the exercise of conversion rights under the 2017 Convertible Notes, 2018 Convertible Notes and the Convertible Bonds; and
- (3) an issue of Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights to acquire Shares for the acquisition of any securities, assets or business provided that an adjustment (if required) has been made pursuant to the aforesaid adjustment provisions in respect of the issue of such securities or granting of such rights (as the case may be).

- Events of default : If, among others, any of the following events occurs, the Bondholder(s) may give notice to the Company that the Convertible Bonds are, and they shall accordingly thereby become, immediately due and payable at an amount equal to the sum of the aggregate principal amount of the Convertible Bonds then outstanding and the interest accrued thereon:
- (1) the Company fails to pay the principal amount of the Convertible Bonds on the due date, save and except for administrative or technical error and payment has been made within 5 Business Days after the due date; or
 - (2) 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, and such default (a) is incapable of remedy or (b) being a default which is, in the opinion of the Bondholder(s), capable of remedy, remains unremedied for 14 days after the Bondholder(s) have given written notice thereof to the Company; or
 - (3) 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

- (4) save and except for the liabilities under the 2017 Convertible Notes, the Company or its major subsidiaries is (a) unable to pay its debts as and when they fall due or (b) 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 (c) initiates any proceeding under any law for a readjustment or deferment of its obligations or any part of them or (d) makes or enters into a general assignment or compromise with or for the benefit of its creditors, which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or
- (5) an order is made or an effective resolution passed for the dissolution or winding-up of the Company or any of its major subsidiaries except in the case of dissolution or winding-up of subsidiaries in the course of internal reorganisation; or
- (6) suspension of trading of the Shares on the Stock Exchange or a recognised stock exchange for a continuous period of 14 Trading Days which constitutes a material adverse effect on the Group's business, operations, assets, financial condition.

- Right to distribution in specie : In the event the Company makes any distribution in specie in lieu of cash dividend during the conversion period, the Bondholder(s) shall be entitled to the following:
- (1) on the date of announcement of such distribution, the Company and the Bondholder(s) may appoint an approved commercial bank or auditors of the Company to determine the value of distribution the Bondholder(s) is entitled to (“**Entitlement**”) based on the outstanding principal amount of the Convertible Bonds;
 - (2) upon determination of the Entitlement (which shall be final and binding upon the Company and the Bondholder(s)), the Company shall, in accordance with the Bondholder(s)’ election, distribute the Entitlement to the Bondholder(s) in cash or in specie.
- Voting : The Bondholder(s) 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.
- Transferability : Subject to the restricted transfer period described below, the Convertible Bonds are freely transferable at any time during the period from the date on which the Bondholder 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.

The Company will not register any transfer of Convertible Bonds: (i) during the 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 Bondholder(s); or (iii) during the 7 days prior to and including the date of interest payment pursuant to the terms of the Convertible Bonds.

Application for listing : No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

3. Conditions precedent

Completion is conditional upon satisfaction of the following conditions:

- (1) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares; and
- (2) each of the Company and Subscriber having obtained all necessary consents and approvals required to be obtained on their respective part in respect of the Subscription Agreement and the transactions contemplated thereunder (if applicable), and fully complied with relevant laws and regulations (including but not limited to the Listing Rules and applicable laws of Hong Kong). All such consents and approvals shall remain valid up to the date of Completion and there being no rules or regulations imposed by relevant authorities to prohibit or substantially delay the performance and completion of the Subscription Agreement.

In the event that the above conditions are not fulfilled on or before 10 October 2017, the Subscription Agreement shall automatically terminate and lapse, and the Subscriber and the Company shall forthwith be released from their respective rights and obligations under the Subscription Agreement, except for the obligations in relation to confidentiality.

4. Completion

Subject to the fulfillment of the above conditions, Completion shall take place on the 20th Business Day after the satisfaction of all of the conditions precedent or such other date as all parties to the Subscription Agreement may agree in writing.

As the issue of the Convertible Bonds is subject to the fulfillment of certain conditions precedent and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

GENERAL MANDATE

The Conversion Shares are to be issued under the General Mandate pursuant to which a maximum of 2,727,367,768 Shares (including the issue of any securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares) can be issued and allotted. As at the date of this announcement, the General Mandate has not been utilised since it was granted. Accordingly, the maximum number of 2,700,000,000 Conversion Shares to be allotted and issued based on the initial Conversion Price will utilise as to approximately 99.00% of the General Mandate. Hence no Shareholders' approval is required for the issue of Convertible Shares.

Based on the initial Conversion Price of HK\$0.070 per Conversion Share, a maximum number of 2,700,000,000 Conversion Shares will be allotted and issued upon exercise of the Conversion Rights attached to the Convertible Bonds in full, which represent: (i) approximately 19.80% of the total number issued Share as at the date of this announcement; and (ii) approximately 16.53% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds.

The Company confirms that it will not take any action which will reasonably be expected to constitute or result in any adjustment of the Conversion Price, following which the maximum number of Conversion Shares to be issued and allotted upon conversion of the Convertible Bonds will exceed the limit under the General Mandate, unless and until the Company shall have obtained such approval by the Shareholders at any general meeting(s) in respect of the issue and allotment of such additional Conversion Shares in excess.

INFORMATION OF THE SUBSCRIBER

The Subscriber is a private company in Hong Kong.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaging in the shipbuilding related business, securities trading, provision of financial services and intelligent car-parking and automotive device business.

The gross proceeds and net proceeds of the Subscription will be approximately HK\$189 million, which is intended to be applied towards repayment of debts owed by the Group and the remaining for general working capital.

The net price per Conversion Share based on the above net proceeds is approximately HK\$0.070.

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

SHAREHOLDING STRUCTURE

The shareholding structures of the Company (i) as at the date of this announcement, and (ii) immediately after the allotment and issue of Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.070 per Share are as follows (assuming there being no other change in the share capital of the Company):

Shareholder	At the date of this announcement		Immediately after full conversion of the Convertible Bonds	
	<i>No. of Shares</i>	<i>Approximate percentage</i>	<i>No. of Shares</i>	<i>Approximate percentage</i>
Mr. Li Ming	1,137,577,954	8.34%	1,137,577,954	6.96%
Lead Dragon Limited (<i>Note 1</i>)	505,845,000	3.71%	505,845,000	3.10%
Mr. Zhang Shi Hong	227,600,000	1.67%	227,600,000	1.39%
The Subscriber	–	0%	2,700,000,000	16.53%
Public Shareholders	<u>11,765,815,886</u>	<u>86.28%</u>	<u>11,765,815,886</u>	<u>72.02%</u>
Total:	<u><u>13,636,838,840</u></u>	<u><u>100.00%</u></u>	<u><u>16,336,838,840</u></u>	<u><u>100.00%</u></u>

Notes:

1. Lead Dragon Limited is wholly-owned by Mr. Li Ming, the chairman and an executive Director.
2. The shareholding structure set out in this column is shown for illustration purposes only. The Conversion Rights shall only be exercisable so long as not less than 25% of the then total number of issued Shares as enlarged by the issue of the Conversion Shares are being held in public hands and will not result in the relevant Bondholder, 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.

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

The Company has conducted the following fund raising activities during the past twelve (12) months immediately preceding the date of this announcement:

Date of announcement	Fund raising activity	Fund raised	Intended use of net proceeds as announced	Actual use of net proceeds as of the date of this announcement
6 December 2016, 8 December 2016, 9 December 2016, 15 December 2016	Issue of convertible notes	Net proceeds of about HK\$376 million <i>(Note 1)</i>	<p>(1) approximately HK\$200 million for financing the acquisition as disclosed in the announcement of the Company dated 16 November 2016 and other possible acquisitions;</p> <p>(2) approximately HK\$150 million for the development of the Group's intelligent car-parking and automotive device business;</p> <p>(3) approximately HK\$26 million for general working capital of the Group.</p>	<p>The actual proceeds of approximately HK\$94 million raised as at the date of this announcement <i>(Note 1)</i> has been utilised as follows:</p> <p>(1) approximately HK\$20 million was used for the development of intelligent car-parking business;</p> <p>(2) approximately HK\$11 million was used for general working capital of the Group;</p> <p>(3) approximately HK\$63 million was repaid to the noteholder upon the noteholder's request for early redemption of the convertible bonds as disclosed in the Company's announcement dated 27 July 2017.</p>

Notes:

- As at the date of this announcement, only the first tranche of convertible notes in an aggregate principal amount of HK\$100 million was issued. Accordingly the actual proceeds raised as at the date of this announcement was approximately HK\$94 million.

DEFINITIONS

Unless the context otherwise required, the following terms shall have the meaning set opposite to them in this announcement:

“2017 Convertible Notes”	the 7.5% convertible notes in principal amount of HK\$200,000,000 due 7 July 2017 issued by the Company
“2018 Convertible Notes”	the 2% convertible notes of a principal amount of up to HK\$400,000,000 due 2018 which may be issued by the Company
“Board”	Board of Directors
“Bondholder(s)”	any person who is the registered holder of any Convertible Bonds then outstanding
“Business Day(s)”	a day(s) on which commercial banks in Hong Kong are generally open for business other than Saturday and Sunday or a public holiday, or a day on which commercial banks do not open for business owing to a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal being in force in Hong Kong
“Completion”	completion of the issue of the Convertible Bonds by the Company and subscription for the Convertible Bonds by the Subscriber in accordance with the terms and conditions of the Subscription Agreement
“Company”	China Ocean Industry Group Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange (Stock code: 651)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

“Convertible Bonds”	the convertible bonds which may be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Conversion Price”	the initial conversion price of HK\$0.070 per Conversion Share (subject to adjustment)
“Conversion Rights”	the rights attached to the Conversion Bonds for the conversion of the Convertible Bonds into the Conversion Shares at the Conversion Price
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the Conversion Rights
“General Mandate”	the general mandate from the Shareholders granted to the Directors at the annual general meeting of the Company held on 29 June 2017 to allot and issue Shares (including the issue of any securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares) up to an aggregate number of 2,727,367,768 Shares which represented 20% of the number of issued Shares as at 29 June 2017, in accordance with the relevant provisions of the Listing Rules
“Group”	the Company and its subsidiaries from time to time and “Group member” shall be construed accordingly
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons

“Issue Date”	the date of issue of the Convertible Bonds
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the 2nd anniversary from the Issue Date
“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“RMB”	renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company
“Share Option Schemes”	the share option schemes adopted respectively by the Company on 27 May 2002 and 27 June 2012
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Pacific Ocean Marine Limited (太平洋海運有限公司), a private company incorporated in Hong Kong
“Subscription”	the subscription for the Convertible Bonds by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 10 August 2017 entered into between the Company and the Subscriber in relation to the Subscription
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs

“Trading Day(s)” means a day on which trading of the Shares is conducted on the Stock Exchange in accordance with the rules and regulations of the Stock Exchange promulgated from time to time

“%” per cent

By order of the Board
China Ocean Industry Group Limited
LI Ming
Chairman

Hong Kong, 10 August 2017

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