
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Ocean Shipbuilding Industry Group Limited, you should at once hand this circular and the accompany form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

**(1) SUBSCRIPTION AGREEMENTS;
(2) AMENDMENTS TO THE TERMS AND CONDITIONS
OF THE CONVERTIBLE NOTES;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

Financial advisor to China Ocean Shipbuilding Industry Group Limited



KINGSTON CORPORATE FINANCE LTD.

A notice convening the SGM to be held at Units 1702-03, 17th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 January 2011 at 10:00 a.m. is set out on pages 18 to 20 of this circular.

Whether or not you are able to attend and/or vote at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

11 January 2011

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acting in Concert”	the meaning ascribed thereto in the Takeovers Code
“Amendment Completion Date”	the third business day immediately after the date when all the conditions precedent stipulated in the Amendment Deed have been fulfilled, or such other date as may be agreed between the Noteholders and the Company
“Amendment Deed”	the deed of amendment entered into between the Company and the Noteholders on 21 December 2010
“Amendments”	amendments to the terms and conditions of the Convertible Notes pursuant to the Amendment Deed
“Announcement”	the announcement of the Company dated 21 December 2010 relating to the Subscription Agreements and the Amendment Deed
“associate (s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“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
“Condition(s)”	terms and conditions of the Convertible Notes
“connected person(s)”	the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Conversion Price”	the price to be paid by the Noteholders to the Company on conversion of the Convertible Notes into Conversion Shares
“Conversion Share(s)”	the Shares that are to be issued and allotted upon conversion of Convertible Notes
“Convertible Note(s)”	the convertible note(s) issued by the Company on 16 April 2008, the outstanding aggregate principal amount of which is in the sum of approximately HK\$507.55 million
“Director(s)”	the director(s) of the Company
“Existing Conversion Price”	HK\$4.30 per Conversion Share
“Existing Maturity Date”	15 April 2012, being three years from the date of issue of the Convertible Notes and as extended by the Extension Letters

DEFINITIONS

“Extension Letters”	the extension letters entered into between the Company and the Noteholders on 27 April 2010 in relation to the extension of the maturity date of the Convertible Notes from 15 April 2011 to 15 April 2012
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	an independent third party(ies) not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Latest Practicable Date”	10 January 2011, being the last trading date on which the Shares were traded on the Stock Exchange prior to the issue of this circular
“Last Trading Day”	21 December 2010, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Conversion Price”	HK\$0.22 per Conversion Share
“New Maturity Date”	15 April 2014
“Noteholder(s)”	the holder(s) of the Convertible Note(s)
“Open Offer”	the open offer with bonus issue of the Company closed in September 2010
“Remaining Convertible Note(s)”	the Convertible Note(s) other than the Convertible Notes to be surrendered to the Company pursuant to the Subscription Agreements for cancellation on the Subscription Completion Date
“SGM”	the special general meeting of the Company to be convened and held on 28 January 2011 at 10:00 a.m. for the purpose of considering, and if thought fit, approving the Subscription Agreements and the Amendment Deed
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	the seven subscribers who are individuals and independent from and not connected with the Company and its connected persons
“Subscription”	subscription by the Subscribers of the Subscription Shares in accordance with the Conditions
“Subscription Agreements”	seven separate independent and conditional subscription agreements dated 21 December 2010 entered into by each of the Subscribers with the Company relating to the Subscription
“Subscription Completion Date”	the third business day immediately after the date when all the conditions precedent stipulated in the Subscription Agreements have been fulfilled, or such other date as may be agreed between the Subscribers and the Company
“Subscription Consideration”	the aggregate consideration to be paid by the Subscribers for the Subscription Shares, which amounts to HK\$282,549,152.00
“Subscription Price”	HK\$0.20, being the price per Subscription Share
“Subscription Shares”	the total number of Shares to be subscribed by the Subscribers under the Subscription Agreements
“Substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“\$”	Hong Kong dollars, the lawful currency of Hong Kong

LETTER FROM THE BOARD

CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

Executive Directors:

Mr. Chau On Ta Yuen (*Chairman*)
Mr. Li Ming (*Deputy Chairman & Chief Executive Officer*)
Mr. Zhang Shi Hong
Mr. Wang San Long

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Zhang Xi Ping
Ms. Xiang Siying
Mr. Hu Bai He
Ms. Xiang Ying

*Principal place of business
in Hong Kong:*

Units 1702-03, 17th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

11 January 2011

To the Shareholders,

Dear Sirs or Madams,

**(1) SUBSCRIPTION AGREEMENTS;
(2) AMENDMENTS TO THE TERMS AND CONDITIONS
OF THE CONVERTIBLE NOTES;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to the Subscription Agreements and the Amendment Deed. The purpose of this circular is to provide you with details of the Subscription Agreements and the Amendment Deed and the notice of SGM.

BACKGROUND

The Company refers to its announcement dated 14 November 2007 and its circular dated 6 February 2008, which related to the acquisition of the vessel manufacturing business. The consideration for the acquisition involves, among others, issuance of the Convertible Notes. As at the Latest Practicable Date, Convertible Notes in the principal amount of approximately HK\$507.55 million remained outstanding, of which an outstanding principal amount of approximately HK\$147.55 million are restricted Convertible Notes whereas the remaining balance of HK\$360 million are unrestricted Convertible Notes.

LETTER FROM THE BOARD

Existing principal terms of the Convertible Notes

The existing principal terms of the Convertible Notes are summarised below for Shareholders' ease of reference:

Principal amount: HK\$507,549,152.00

Conversion: The Noteholders may convert the whole or any part of the outstanding principal amount of the Convertible Notes into Conversion Share(s) at the Conversion Price at any time prior to the Existing Maturity Date.

The conversion rights under the Convertible Notes shall only be exercisable to the extent that (i) the public float of at least 25% of the issued share capital of the Company as enlarged by the issue of Conversion Shares can be maintained; (ii) the aggregate shareholdings of the Noteholders, their associates and parties Acting in Concert with them immediately after such exercise will not be or exceed 30% of the then issued share capital of the Company; and (iii) the Noteholders together with parties Acting in Concert with them shall not become a controlling shareholder.

Existing Conversion Price: HK\$4.30 (after adjustment upon completion of an Open Offer) per Conversion Share, which is subject to further adjustment for, sub-division or consolidation of new Shares, bonus issues, rights issues, issue of securities which carry rights for conversion, capitalization issue and distribution of dividend in cash or specie and other dilutive events.

Interest rate: The restricted Convertible Notes in the outstanding principal amount of HK\$147,549,152.00 bear no interest.

The unrestricted Convertible Notes in the outstanding principal amount of HK\$360 million bear interest calculated at the rate of 1.5% per annum accrued on a day-to-day basis, payable semi-annually in arrears.

Existing Maturity Date: 15 April 2012 as extended by the Extension Letters.

Voting: A Noteholder will not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of it being a Noteholder.

LETTER FROM THE BOARD

- Listing:** The Convertible Notes are not listed on the Stock Exchange. No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange.
- Ranking:** The Conversion Shares to be allotted and issued as a result of the exercise of the conversion rights attached to the Convertible Notes will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.
- Transferability:** The Convertible Notes are freely transferable to third party(ies), provided that the Noteholders must inform and obtain written consent from the Company of each transfer or assignment made by them and the proposed assignee or transferee shall have given the Company a written confirmation that he is not a connected person, and the Company will notify the Stock Exchange if it becomes aware of any dealing in the Convertible Notes by any connected person of the Company.
- Redemption:** The Convertible Notes are not redeemable at the option of the Noteholders. The Company shall have the right to redeem any portion of the Convertible Notes outstanding at an amount equals to the principal amount of the Convertible Notes together with any interest accrued thereon in its sole and absolute discretion at any time prior to the maturity date of the Convertible Notes. Unless previously converted or redeemed as provided in the Conditions, the Company shall redeem all outstanding Convertible Notes on the Existing Maturity Date.
- Events of default:** The Convertible Notes contain an event of default provision which provides that on occurrence of certain events of default (e.g. repayment overdue, insolvency, liquidation and suspension of trading on the Stock Exchange for a continuous period of 30 trading days due to the fault of the Company) specified in the Convertible Notes, each Noteholder shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Notes.

LETTER FROM THE BOARD

SUBSCRIPTION AGREEMENTS

On 21 December 2010, the Company entered into seven Subscription Agreements with seven independent Subscribers, pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue the Subscription Shares at the Subscription Consideration of HK\$282,549,152.00, representing the aggregate outstanding principal amount of the Convertible Notes to be surrendered by the Subscribers.

Parties Involved

- (i) the Company, as the issuer of the Subscription Shares;
- (ii) Liu Bing, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$30,000,000.00 and 10,725,189 Shares, will subscribe for 150,000,000 Subscription Shares with total subscription consideration in the amount of HK\$30,000,000.00;
- (iii) Zheng Min, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$34,549,152.00 and 4,828,965 Shares, will subscribe for 172,745,760 Subscription Shares with total subscription consideration in the amount of HK\$34,549,152.00;
- (iv) Ng Leung Ho, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$90,000,000.00, will subscribe for 450,000,000 Subscription Shares with total subscription consideration in the amount of HK\$90,000,000.00;
- (v) Yang Li, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$75,000,000.00 and 590,535 Shares, will subscribe for 150,000,000 Subscription Shares with total subscription consideration in the amount of HK\$30,000,000.00;
- (vi) Li Zi Zhong, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$30,000,000.00, will subscribe for 150,000,000 Subscription Shares with total subscription consideration in the amount of HK\$30,000,000.00;
- (vii) Sun Yi, an Independent Third Party, currently holding Convertible Notes of outstanding principal amount in the sum of HK\$33,000,000.00, will subscribe for 165,000,000 Subscription Shares with total subscription consideration in the amount of HK\$33,000,000.00; and
- (viii) Zhou Qing, an Independent Third Party, currently holding Convertible Notes of principal amount in the sum of HK\$35,000,000.00, will subscribe for 175,000,000 Subscription Shares with total subscription consideration in the amount of HK\$35,000,000.00.

LETTER FROM THE BOARD

Number of Subscription Shares

The number of Subscription Shares is arrived at by dividing the outstanding principal amount of the Convertible Notes to be surrendered by the Subscribers for cancellation by the Subscription Price. Pursuant to the Subscription Agreements, an aggregate of 1,412,745,760 Subscription Shares will be allotted and issued to the Subscribers. The 1,412,745,760 Subscription Shares represent approximately 62.64% of the existing issued share capital of the Company and approximately 38.52% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. After deducting the related expenses in the Subscription, the net price of the Subscription Share is approximately HK\$0.199. The aggregate nominal value of the Subscription Shares is HK\$70,637,288.00.

Subscription Price

The Subscription Price of HK\$0.20 per Share was determined after arm's length negotiations between the Company and the Subscribers with reference to (i) the recent traded prices of the Shares, (ii) the financial results of the Company for the year ended 31 December 2009 and for the six months ended 30 June 2010, (iii) current financial position of the Company, and (iv) the substantial outstanding amount of the Convertible Notes. Payment of the Subscription Consideration shall be effected by surrendering by the Subscribers to the Company for cancellation of the Convertible Notes with outstanding principal amount equivalent to the Subscription Consideration. Upon cancellation of the Convertible Notes, all payment and other obligations of the Company under the Convertible Notes shall be discharged absolutely, except for payment of outstanding accrued interest (if applicable). For Subscribers holding unrestricted Convertible Notes, the Company will pay in cash the outstanding interest accrued to them on the Subscription Completion Date.

The Subscription Price of HK\$0.20 per Share represents:

- (a) a premium of approximately 29.03% over the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 23.30% over the average closing price of HK\$0.1622 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 21.36% over the average closing price of approximately HK\$0.1648 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 14.29% over the closing price of HK\$0.175 per Share as quoted on the Stock Exchange on the Last Practicable Date.

LETTER FROM THE BOARD

Completion of the Subscription is conditional upon:

1. the listing of and permission to deal in the Subscription Shares being granted by the Listing Committee (either unconditionally or subject to conditions to which neither the Company nor the Subscribers reasonably object); and
2. the Shareholders (other than those (if any) who are required to abstain from voting under the Listing Rules) having approved at the SGM the entering into of the Subscription Agreements and performance by the Company of all transactions contemplated thereunder pursuant to the Listing Rules and the relevant laws and regulations including but not limited to the issue and allotment of the Subscription Shares to the Subscribers.

If any of the conditions precedent mentioned above are not fulfilled on or before 31 March 2011 (or such later date as the Company and Subscribers may agree), the Subscription Agreements shall forthwith become null and void and cease to have any effect and neither party shall have any claims, obligation or liability against the other for costs, damages, compensations or otherwise (save for liabilities for any antecedent breaches of the Subscription Agreements). Against fulfillment of the conditions precedent mentioned above, completion of the Subscription Agreements will take place on the Subscription Completion Date.

Assuming no conversion of the outstanding Convertible Notes from the date of this circular, a principal amount of approximately HK\$225 million of the Convertible Notes will remain outstanding upon completion of the Subscription.

An application will be made to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares to be allotted and issued pursuant to the Subscription Agreements.

AMENDMENT DEED

On 21 December 2010, the Company and the Noteholders entered into the Amendment Deed. The principal proposed Amendments to the terms and conditions of the Convertible Notes contemplated by the Amendment Deed are summarised as follows:

1. The maturity date of the Convertible Notes will be extended from the Existing Maturity Date of 15 April 2012 to the New Maturity Date of 15 April 2014.
2. The Conversion Price per Conversion Share will be changed from the Existing Conversion Price of HK\$4.30 each to the New Conversion Price of HK\$0.22 each.
3. A new Condition will be added to govern the meetings of the Noteholders:
 - 3.1. a meeting of the Noteholders may be called by the Noteholders or by the Company;
 - 3.2. not less than 21 but not more than 180 days' notice has to be given to convene every meeting of the Noteholders, except that 5 days' notice can be given for reconvening of any adjourned meeting;

LETTER FROM THE BOARD

- 3.3. the quorum required for any meeting of the Noteholders shall be the persons entitled to vote two-thirds in principal amount of the outstanding Convertible Notes. Notwithstanding the above, the persons entitled to vote one-third in principal amount of the outstanding Convertible Notes shall constitute a quorum for reconvening of any meeting adjourned for a lack of a quorum;
 - 3.4. at any meeting each Noteholders or proxy shall be entitled to one vote for each HK\$10,000 principal amount of outstanding Convertible Notes held or represented by him; and
 - 3.5. any modification, amendment or waiver validly approved shall be binding on all the Noteholders, whether or not present or represented at the meeting.
4. The Condition in relation to amendments of the Convertible Notes will also be amended such that no amendment or modification can be made to the Convertible Notes unless it is approved by holders of not less than 90% of outstanding principal amount of the Convertible Notes in writing or persons entitled to vote not less than 75% of the principal amount of the outstanding Convertible Notes represented and voting at a meeting of the Noteholders duly called.

To avoid any changes to be made to the register of the Noteholders, the Noteholders shall not transfer any of the Convertible Notes from execution of the Amendment Deed to the Amendment Completion Date.

It is also agreed that the Subscription and the transactions contemplated under the Subscription Agreements do not constitute an event calling for adjustment to the Conversion Price and no adjustment is required to be made to the Conversion Price as a result of the Subscription and the transactions contemplated thereunder.

Save as aforesaid, the terms and conditions of the Convertible Notes shall substantially remain unchanged and valid.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, the Noteholders are Independent Third Parties and are not Acting in Concert with each of the other Noteholders.

New Conversion Price

The New Conversion Price of HK\$0.22 per Conversion Share was determined after arm's length negotiations between the Company and the Noteholders with reference to (i) the recent traded prices of the Shares, (ii) the financial results of the Company for the year ended 31 December 2009 and for six months ended 30 June 2010, (iii) current financial position of the Company, and (iv) substantial outstanding amount of the Convertible Notes. The New Conversion Price represents:

- (a) a premium of approximately 41.94% over the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (b) a premium of approximately 35.64% over the average closing price of HK\$0.1622 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 33.50% over the average closing price of approximately HK\$0.1648 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 25.71% over the closing price of HK\$0.175 per Share as quoted on the Stock Exchange on the Last Practicable Date.

Completion of the Amendment Deed is conditional upon:

1. passing of resolution(s) by the Shareholders (other than those (if any) who are required to abstain from voting under the Listing Rules) approving, authorising and ratifying the entering into of the Amendment Deed and performance by the Company of all transactions contemplated thereunder pursuant to the Listing Rules and the relevant laws and regulations at the SGM; and
2. approval from the Stock Exchange of the Amendments in accordance with Rule 28.05 of the Listing Rules and the Listing Committee having granted (either unconditionally or subject to conditions to which the Company does not reasonably object) the listing of, and permission to deal in, the Conversion Shares to be issued pursuant to the Convertible Notes as amended by the Amendment Deed.

Terms of the Amendment Deed were arrived at after arms length negotiation between the Company and the Noteholders.

If any of the conditions precedent of the Amendment Deed are not fulfilled on or before 31 March 2011 (or such later date as the Company and the Noteholders may agree), the Amendment Deed will lapse and become null and void and all of the parties thereto will be released from all obligation thereunder, save the liabilities for any antecedent breaches thereof.

If only the Amendment Deed proceeds and assuming full conversion of the Convertible Notes outstanding at completion of the Amendment Deed, approximately 2,307.04 million Conversion Shares will be allotted and issued. If both the Subscription Agreements and the Amendment Deed proceed and complete at the same time and assuming full conversion of the Convertible Notes then outstanding at completion of the Amendment Deed, approximately 1,022.73 million Conversion Shares will be allotted and issued.

An application will be made to the Listing Committee for approval of the Amendments in accordance with Rule 28.05 of the Listing Rules and for the listing of, and permission to deal in, the Conversion Shares to be issued pursuant to the Conditions as amended by the Amendment Deed.

LETTER FROM THE BOARD

The Subscription Agreements and the Amendment Deed are not inter-conditional upon each other. Accordingly, subject to the fulfillment of the conditions precedent, the Company may or may not proceed with the Subscription Agreements and/or the Amendment Deed. Shareholders and investors are advised to exercise caution when dealing in the Shares.

As at the Latest Practicable Date, except for Li Ming, an executive Director, and his associate, who in aggregate owned 231,762,500 Shares, representing approximately 10.28% of the existing issued shares capital of the Company, the Company had no controlling shareholders and substantial shareholders. Liu Bing, Zheng Min and Yang Li, and their respective associates, who respectively in aggregate owned 10,725,189 Shares, 4,828,965 Shares and 590,535 Shares as at the Latest Practicable Date, representing approximately 0.48%, 0.21% and 0.03% of the existing issued share capital of the Company, have consented not to vote at the SGM on resolutions relating to the Subscription Agreements and the Amendment Deed.

EFFECTS ON THE SHAREHOLDING STRUCTURES OF THE COMPANY

To illustrate the effects of the Subscription Agreements and the Amendment Deed on the shareholding structures of the Company as well as of the Noteholders, set out below are the shareholding structures of the Company under the following scenarios:

1. as at the Latest Practicable Date;
2. upon issuance of the Conversion Shares assuming full conversion of the Convertible Notes at the Existing Conversion Price of HK\$4.30;
3. upon issuance of the Subscription Shares;
4. upon issuance of the Subscription Shares and the Conversion Shares assuming full conversion of the Remaining Convertible Notes at the Existing Conversion Price of HK\$4.30;
5. upon issuance of the Conversion Shares assuming full conversion of the Convertible Notes at the New Conversion Price of HK\$0.22; and
6. upon issuance of the Subscription Shares and the Conversion Shares assuming full conversion of the Remaining Convertible Notes at the New Conversion Price of HK\$0.22,

assuming that there is no other change in the issued share capital and shareholding structure of the Company from the date of this circular.

LETTER FROM THE BOARD

	Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5		Scenario 6	
	Number of Shares	Approx %	Number of Shares	Approx %	Number of Shares	Approx %	Number of Shares	Approx %	Number of Shares	Approx %	Number of Shares	Approx %
Li Ming and his associate												
<i>(Note 1)</i>	231,762,500	10.28	231,762,500	9.77	231,762,500	6.32	231,762,500	6.23	231,762,500	5.08	231,762,500	4.94
Noteholders who are Subscribers												
Liu Bing	10,725,189	0.48	17,701,932	0.76	160,725,189	4.38	160,725,189	4.32	147,088,825	3.22	160,725,189	3.43
Zheng Min	4,828,965	0.21	12,863,652	0.55	177,574,725	4.84	177,574,725	4.77	161,870,565	3.55	177,574,725	3.78
Ng Leung Ho	—	—	20,930,233	0.88	450,000,000	12.27	450,000,000	12.10	409,090,909	8.96	450,000,000	9.59
Yang Li	590,535	0.03	18,032,395	0.76	150,590,535	4.11	161,055,651	4.33	341,499,626	7.49	355,135,989	7.57
Li Zi Zhong	—	—	6,976,744	0.29	150,000,000	4.09	150,000,000	4.03	136,363,636	2.99	150,000,000	3.20
Sun Yi	—	—	7,674,419	0.32	165,000,000	4.50	165,000,000	4.44	150,000,000	3.29	165,000,000	3.52
Zhou Qing	—	—	8,139,535	0.34	175,000,000	4.77	175,000,000	4.70	159,090,909	3.49	175,000,000	3.73
Sub-total	<u>16,144,689</u>	<u>0.72</u>	<u>92,318,910</u>	<u>3.90</u>	<u>1,428,890,449</u>	<u>38.96</u>	<u>1,439,355,565</u>	<u>38.69</u>	<u>1,505,004,470</u>	<u>32.99</u>	<u>1,633,435,903</u>	<u>34.82</u>
												<i>(Note 2)</i>
Noteholders who are not Subscribers												
Di Yun Fei	—	—	20,930,233	0.88	—	—	20,930,233	0.56	409,090,909	8.96	409,090,909	8.72
Kwan Shan	—	—	6,976,744	0.29	—	—	6,976,744	0.19	136,363,636	2.99	136,363,636	2.91
Ho Kam Hung	—	—	6,976,744	0.29	—	—	6,976,744	0.19	136,363,636	2.99	136,363,636	2.91
Lee Ming Hin	—	—	6,976,744	0.29	—	—	6,976,744	0.19	136,363,636	2.99	136,363,636	2.91
Sub-total	<u>—</u>	<u>—</u>	<u>41,860,465</u>	<u>1.75</u>	<u>—</u>	<u>—</u>	<u>41,860,465</u>	<u>1.13</u>	<u>818,181,817</u>	<u>17.93</u>	<u>818,181,817</u>	<u>17.45</u>
												<i>(Note 2)</i>
Other public Shareholders	<u>2,007,341,937</u>	<u>89.00</u>	<u>2,007,341,937</u>	<u>84.58</u>	<u>2,007,341,937</u>	<u>54.72</u>	<u>2,007,341,937</u>	<u>53.95</u>	<u>2,007,341,937</u>	<u>44.00</u>	<u>2,007,341,937</u>	<u>42.79</u>
	<u>2,255,249,126</u>	<u>100.00</u>	<u>2,373,283,812</u>	<u>100.00</u>	<u>3,667,994,886</u>	<u>100.00</u>	<u>3,720,320,467</u>	<u>100.00</u>	<u>4,562,290,724</u>	<u>100.00</u>	<u>4,690,722,157</u>	<u>100.00</u>

Notes:

- Such Shares were held by Li Ming, an executive Director, of which 199,987,500 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.
- This scenario is for illustrative purpose only. Pursuant to the Conditions, the conversion rights shall only be exercisable if the shareholdings of the Noteholders, their respective associates and parties Acting in Concert with them immediately upon such exercise will not reach or exceed 30% of the then issued share capital of the Company and the Noteholders together with the parties Acting in Concert with them shall not become a controlling shareholder. Unless there is a breach of the Condition, the situation as described herein is expected not to occur.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS

Save as disclosed below, the Company had not conducted any other fund raising activities in the past twelve months before the date of this circular:

Nature of transaction	Date of initial announcement	Net proceeds	Intended use of net proceeds as announced	Actual use of net proceeds
Open offer	15 June 2010	Approximately HK\$220 million	Repayment of debts and general working capital of the Group	Approximately HK\$192 million (in which HK\$60 million has been pledged to a bank as security for a loan granted to the Group) has been utilized as intended and the remaining balance has been retained as a reserve for repayment of debts and general working of the Group

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENTS AND THE AMENDMENT DEED

The terms of the Subscription Agreements and the Amendment Deed were agreed by the parties thereto following arm's length negotiation.

In April 2010, the Noteholders agreed to extend the maturity date of the Convertible Notes from 15 April 2011 to 15 April 2012. Although the Conversion Price has been adjusted downward from HK\$7.50 per Share to HK\$4.30 per Share after close of the Open Offer, it is still nearly 26 times over the average closing price of HK\$0.162 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day. As such, it is unlikely that the Noteholders would convert the outstanding Convertible Notes into Shares and the Convertible Notes are reasonably considered as a pure debt, which the Company has to settle on or before the Existing Maturity Date.

The auditors of the Company in the financial statements of the Company for the year ended 31 December 2009 has drawn Shareholders' attention to the tightened financial position of the Company. The Company has been implementing various operating and financing measures (including the extension of the maturity date of the Convertible Notes by one year) to improve its financial position. The Company has also explored various ways to improve its financial position such as negotiating for bank facilities and considering other fund raising exercises, however, no further feasible fund raising plan of similar scale can be materialised after completion of the Open Offer. Given the substantial

LETTER FROM THE BOARD

outstanding amount of the Convertible Notes, the Company is cautiously seeking financing arrangements to settle the Convertible Notes. The Company considers that issuance of new Shares to the Noteholders for settlement of outstanding Convertible Notes is a good alternative method of fund raising which can improve the financial position of the Company.

The Company therefore negotiated the Subscription arrangement with all the Noteholders. Given some of the Noteholders did not wish to subscribe for the Shares at this stage, the Company as a result negotiated with the Noteholders for possible amendments of the Conditions. Further extension of the maturity date of the Convertible Notes will give the Company more time to source adequate funding to settle the Convertible Notes in future. Accordingly, the Directors consider that it would be in the best interests of the Company and its Shareholders as a whole to have come to some arrangements with the Noteholders for the settlement of debt and / or extending the Existing Maturity Date.

The Shares have been trading at prices substantially lower than the Existing Conversion Price. In order to induce the Noteholders to come to an agreement with the Company, the Company considers that it would be reasonable to agree to set the Subscription Price or to reduce the Existing Conversion Price to a price which is more in line with the current traded prices of the Shares.

The Subscription Agreements and future conversion of the Convertible Notes at the New Conversion Price would have the benefit of further strengthening the equity capital reserves of the Company and reducing debt levels and the Company's gearing ratio. The Subscription will enable the Group to reduce the principal amount of the outstanding Convertible Notes by HK\$282,549,152.00 and save approximately HK\$2 million per annum that will otherwise need to be paid as interest under the Convertible Notes. The Conversion Shares will also enlarge the capital base of the Company and improve the gearing position and possibly liquidity of trading of the Shares. Although additional interests would be paid as a result of the extension of time for repayment the Remaining Convertible Notes, the extension of the Existing Maturity Date as well as the Subscription will allow the Group to retain the cash which is otherwise required for repayment of the Convertible Notes for future development and the Company will have more flexibility and time to plan for its funding requirement for its operation and repayment of debts.

Pursuant to the existing terms and conditions of the Convertible Notes, if the outstanding principal amount of HK\$507,549,152.00 is converted in full, a total of approximately 118.03 million Conversion Shares will be issued. Given the Subscription Price and the New Conversion Price are much lower than the Existing Conversion Price upon completion of the Subscription Agreements and the Amendment Deed, more Shares will be issued. If both the Subscription Agreements and the Amendment Deed proceed, approximately 1,412.75 million Subscription Shares and approximately 1,022.73 million Conversion Shares will be issued, making a total of 2,435.48 million Shares to be issued. If only the Amendment Deed proceeds and all the outstanding Convertible Notes are converted in full at the New Conversion Price of HK\$0.22, approximately 2,307.04 million Conversion Shares will be issued. The above dilution effect is calculated based on the assumption that there is no other change in the issued share capital and shareholding structure of the Company from the date of this

LETTER FROM THE BOARD

circular. Notwithstanding the dilution effect as mentioned above, in the view of the reasons and benefits stated above, the Directors consider that terms of the Subscription Agreements and the Amendment Deed are fair and reasonable and in the interests of the Company and the Shareholders as a whole for the reasons mentioned above.

INFORMATION OF THE GROUP

The Group is principally engaged in shipbuilding related business and investments in securities.

SGM

A notice convening the SGM to be held at Units 1702-03, 17th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 28 January 2011 at 10:00 a.m. is set out on pages 18 to 20 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief that the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

RECOMMENDATION

The Board considers that the terms of the Subscription Agreements and the Amendment Deed are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions approving the Subscription Agreements, the Amendment Deed and the transactions contemplated thereunder as set out in the notice of SGM.

LETTER FROM THE BOARD

GENERAL

The English text of this circular and the proxy form shall prevail over the Chinese text.

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

NOTICE OF SGM

CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED

中海船舶重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of China Ocean Shipbuilding Industry Group Limited (the “**Company**”) will be held at Units 1702-03, 17th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 28 January 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- a. the subscription agreements (the “Subscription Agreements”) dated 21 December 2010 and entered into between the Company and each of the Subscribers (as defined in the circular of the Company dated 11 January 2011) in relation to subscription of an aggregate of 1,412,745,760 shares of HK\$0.05 each in the share capital of the Company (the “Subscription Shares”) at a price of HK\$0.20 per Subscription Share (a copy of the Subscription Agreements have been produced to the Meeting marked “A”-“G” respectively and initialed by the chairman of the Meeting for identification purpose), the transactions contemplated thereunder and the performance by the Company thereof be and are hereby confirmed, ratified and approved;
- b. subject to fulfillment of the conditions precedent set out in the Subscription Agreements, the allotment and issue of the Subscription Shares to the Subscribers pursuant to the Subscription Agreements be and is hereby approved; and
- c. any one or more of the directors of the Company (the “Directors”) be and are hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Subscription Agreements and completing the transactions contemplated by the Subscription Agreements with such changes as any such Director(s) may consider necessary, desirable or expedient.”

2. “**THAT**

- a. the amendment deed dated 21 December 2010 (the “Amendment Deed”) (a copy of which is marked as “H” and initialed by the Chairman of the Meeting for the purpose of identification has been produced to the Meeting) entered into between the Company and the Noteholders (as defined in the circular of the Company dated 11 January

NOTICE OF SGM

2011) to amend certain terms and conditions of the convertible notes (the “Convertible Notes”) issued by the Company on 16 April 2008, the outstanding aggregate principal amount of which is approximately HK\$507.55 million, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

- b. subject to fulfillment of the conditions precedent set out in the Amendment Deed, the allotment and issue of new shares of the Company up to the maximum number which may be required to be issued on conversion in full of the conversion rights under the Convertible Notes as amended by the Amendment Deed be and is hereby approved; and
- c. any one or more of the Directors be and are hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Amendment Deed and completing the transactions contemplated by the Amendment Deed with such changes as any such Director(s) may consider necessary, desirable or expedient.”

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

Hong Kong, 11 January 2011

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Units 1702-03, 17th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

NOTICE OF SGM

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he is the holder of more than one share, more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

As at the date hereof, (i) the executive Directors are Mr. Chau On Ta Yuen, Mr. Li Ming, Mr. Zhang Shi Hong and Mr. Wang San Long; and (ii) the independent non-executive Directors are Mr. Zhang Xi Ping, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying.