THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect about this circular, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your Shares in **CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED**, you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase, or subscribe for securities.

CHINA OCEAN SHIPBUILDING INDUSTRY GROUP LIMITED
中海船舶重工集團有限公司

(Incorporated in the Bermuda with limited liability)

(Stock code: 00651)

PROPOSED SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND NOTICE OF SPECIAL GENERAL MEETING

A letter from the Board is set out on pages 5 to 29 of this circular.

A notice convening the SGM of China Ocean Shipbuilding Industry Group Limited to be held at Units 1702-03, 17/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 21 October 2014, Tuesday at 10:00 a.m. is set out on pages 30 to 31 of this circular.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed on the form and return it to the Hong Kong branch share registrar of the Company, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment of SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment of SGM should you so wish.

3 October 2014

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DEFINITIONS

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

"2013 Annual Report"	the annual report of the Company for the year ended 31 December 2013
"2013-2015 Proposal"	Proposal for Accelerating Structural Adjustment and Promoting Transition and Upgrade of the Shipping Industry* (2013-2015) (《船舶工業加快結構調整促進轉型升級實施方案 (2013-2015年）》)
"2014 Interim Report"	the interim report of the Company for the six months ended 30 June 2014
"2017 Convertible Bonds"	the convertible bonds issued by the Company expiring on 27 June 2017
"Announcement"	the announcement of the Company dated 30 July 2014 relating to the Subscription
"associate(s)"	has the meaning ascribed in it under the Listing Rules
"Board"	the board of Directors
"Bond Proceeds"	the proceeds from the issue of 2017 Convertible Bonds as disclosed in the announcement of the Company dated 14 May 2014
"Business Day(s)"	means day(s) (other than Saturdays) on which banks in Hong Kong generally are open for business
"Company"	China Ocean Shipbuilding Industry Group Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the main board of the Stock Exchange
"Conditions Precedent"	the conditions precedent for the Subscription Completion

"connected person(s)"	has the meanings ascribed to it under the Listing Rules
"COSFL"	China Ocean Shipbuilding (Shenzhen) Financial Leasing Limited* (中海船舶(深圳)融資租賃有限公司), a company established in Qianhai, Shenzhen, the PRC
"Director(s)"	director(s) of the Company
"Financial Advisor"	Partners Capital International Limited, a company incorporated in Hong Kong with limited liability, and indirectly wholly owned by Mr. Cheng Kin Ming
"Group"	the Company and its Subsidiaries
"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)"	a party which is a third party independent of the Company and its connected persons
"Last Trading Day"	30 July 2014, being the last trading day of the Shares immediately before entering into of the Subscription Agreement
"Latest Practicable Date"	29 September 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Party(ies)"	the Company, the Subscriber and their respective successors and transferees; and each a "Party" shall be construed accordingly
"Placing Agent"	Partners Capital Securities Limited, a company incorporated in Hong Kong with limited liability, and indirectly wholly owned by Mr. Cheng Kin Ming

"Placing Agreement"	the placing agreement dated 30 July 2014 entered into between the Company and the Placing Agent
"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular
"RMB"	Renminbi, the lawful currency of PRC
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Specific Mandate, the Subscription Agreement and the transactions contemplated under that agreement and the allotment and issue of the Subscription Shares
"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company
"Shareholders"	holder(s) of the Share(s)
"Share Option Schemes"	the share option schemes adopted respectively by the Company on 27 May 2002 and 27 June 2012
"Specific Mandate"	the specific mandate to be sought from Shareholders at the SGM for the purpose of the allotment and issue of the Subscription Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Asia Pacific Resources Development Investment Limited, a company incorporated in the British Virgin Islands with limited liability
"Subscription"	the subscription by the Subscriber of the Subscription Shares pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 30 July 2014 entered into between the Company and the Subscriber

"Subscription Completion"	the completion of the Subscription Agreement
"Subscription Price"	HK$0.23 per Subscription Share
"Subscription Share(s)"	a total of 1,200,000,000 new Shares to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
"Subsidiary"	has the meaning ascribed to it under sections 15 and 16 of Companies Ordinance (Cap. 622)
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs
"US$"	United States Dollar, the lawful currency of the United States of America
"%"	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of (i) RMB to HK$ in this circular is based on the exchange rate of RMB1.00 to HK$1.26 and (ii) US$ to RMB and HK$ in this circular is based on the exchange rate of US$1.00 to RMB6.15 and HK$7.75 respectively. 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.

The English transliteration of the Chinese name(s) in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.

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)

Executive Directors:
Mr. CHAU On Ta Yuen *(Chairman)*
Mr. LI Ming
(Deputy Chairman & Chief Executive Officer)
Mr. ZHANG Shi Hong
Mr. WANG San Long
Dr. TSE Kwing Chuen
Mr. CHEN Hong

Independent Non-executive Directors:
Ms. XIANG Siying
Mr. HU Bai He
Mr. XIANG Ying

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

Principal Place of Business in Hong Kong:
Units 1702-03, 17/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

3 October 2014

To the Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

Reference is made to the Announcement in relation to the subscription of a total of 1,200,000,000 Subscription Shares at HK$0.23 per Subscription Share by the Subscriber from the Company.

The purpose of this circular is to provide you with (i) further details relating to the Subscription and (ii) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Details of the Subscription Agreement are set out as follows:

Date	:	30 July 2014 (after trading hours)
Issuer	:	the Company
Subscriber	:	Asia Pacific Resources Development Investment Limited, an investment holding company incorporated in the British Virgin Islands with limited liability indirectly wholly owned by Mr. Cheng Kin Ming To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, the Subscriber and its ultimate beneficial owner(s) are Independent Third Parties
Number of Subscription Shares	:	1,200,000,000 Subscription Shares with an aggregate nominal value of HK$60,000,000

Conditions Precedent

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

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

(b) the Listing Committee of the Stock Exchange having granted approval for the listing of and permission to deal in the Subscription Shares on the main board of the Stock Exchange;

(c) the Company and the Subscriber having signed a supplementary letter, pursuant to which the Company shall undertake to the Subscriber that upon Subscription Completion, the Subscriber will be entitled to issue a written notice to the Company requesting the nomination of a person to be a Director; and

(d) the Company having obtained all the necessary consents and approvals for the transactions contemplated under the Subscription Agreement, and having complied with in all respects all relevant laws or regulations (including but not limited to the Listing Rules and the relevant laws or regulations of Hong Kong). Such consents and approvals shall remain effective until the date of the Subscription Completion, and the relevant authorities have not implemented any rules or regulations which may prohibit or seriously delay the performance and completion of the Subscription Agreement.

If any of the conditions precedent set out in the Subscription Agreement are not fulfilled on or before 31 October 2014 (or such other date as the Parties may agree in writing), the Subscription Agreement will automatically cease and terminate and the Parties will be released from all obligations thereunder, save for the liabilities for any antecedent breaches thereof.

Lock-up Period

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

Subscription Completion

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

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

Subscription Price

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

(a) a discount of approximately 43.9% to the closing price of HK$0.41 per Share as quoted on the Stock Exchange on the Last Trading Day;

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

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

(d) a discount of approximately 30.3% to the average closing price of approximately HK$0.3300 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the financial position of the Group. As disclosed in the 2013 Annual Report, the Group had net liabilities of approximately HK$1,037 million as at 31 December 2013 and incurred loss of approximately HK$337 million for the year ended 31 December 2013. Furthermore, the average closing price of the Shares as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day was approximately HK$0.20 per Share with the highest closing price at HK$0.44 per Share and the lowest closing price at HK$0.083 per Share during such period. Taking into account (i) the continuous operating loss-making results and the net liability position of the Company as at 31 December 2013; (ii) and the volatility of the trading prices of the Shares; and (iii) the 6-month lock-up period which the Subscriber will be subject to, the Directors consider that the prevailing market prices of the Shares may not be an appropriate benchmark for assessing the reasonableness and fairness of the Subscription Price, without support of a corresponding level of performance of the Group which is expected to attain upon substantial recovery of the shipbuilding industry and obtain favourable results from carrying out the new business plans.

As described under the section "**FUND RAISING EXERCISE OF THE COMPANY WITHIN 12 MONTHS PRIOR TO THE LATEST PRACTICABLE DATE**" in this circular, part of the proceeds from the previous fund raising exercise of the Company had been utilised to repay debts, which has improved the liquidity of the Company. However, the Group is still in an urgent need to raise approximately HK$260 million to implement its business plans and repay its debt.

In terms of financing options, the Directors considered that equity financing methods on a pre-emptive basis, such as rights issue or open offer, require an additional amount of underwriting commission. Besides, given the volatility of the trading prices of the Shares, the Company may take a longer period of time to complete the negotiation of the underwriting terms with potential underwriters when choosing to raise funds through rights issue or open offer. As the Placing Agent had been able to introduce investors to the Company to cater for the Company's urgent funding needs, the Company did not approach other placing agents for the current fund raising exercise. In view of the above, the Directors consider that the Placing was the best available option for the Company to raise funds and that the Subscription Price and the other terms of the Subscription Agreement, the Placing Agreement and the service contract with the Financial Advisor are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Number of Subscription Shares

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

(i) approximately 19.61% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 16.39% of the issued share capital of the Company as enlarged by the allotment and issue of Subscription Shares; and

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

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, will rank pari passu among themselves and with the Shares then in issue at the time of allotment and issue of the Subscription Shares.

Placing Agent

The Company entered into the Placing Agreement with the Placing Agent on 30 July 2014, pursuant to which the Company has engaged the Placing Agent to act as the placing agent for the private placement of the Subscription Shares and to introduce subscribers to subscribe for the Subscription Shares. Under the Placing Agreement, the Company has agreed to pay the Placing Agent an aggregate placement commission of HK$3,000,000 within 5 Business Days after the date of the Subscription Completion. The placing commission under the Placing Agreement was determined after arm's length negotiation between the Company and the Placing Agent. The Directors are of the view that paying commission to any placing agents for introducing subscribers to subscribe for the Subscription Shares on success basis is reasonable industry practice. The placing commission of HK$3,000,000 under the Placing Agreement represents approximately 1.1% of the gross proceeds arising from the Subscription that the Directors consider to be fair and reasonable, on normal commercial terms, and conform to the market rate. To the best of the Directors' knowledge, information and belief, the Placing Agent and its ultimate beneficial owner are Independent Third Parties.

Advisory Services

The Company entered into a service contract with the Financial Advisor, which is indirectly wholly owned by Mr. Cheng Kin Ming, on 30 July 2014, pursuant to which the Financial Advisor shall, among other things, provide advisory services for the Company in respect of the scheme of the Company's proposed fund raising exercise by way of placing of the Subscription Shares for a service fee in the sum of HK$3,000,000 payable within 5 Business Days after the date of the Subscription Completion. The advisory services provided by the Financial Advisor under the service contract include advising the Company on the scheme of the proposed placing of the Subscription Shares, reviewing the relevant transaction documents, assisting the Company in obtaining the necessary consents and approvals for the transactions contemplated under the Subscription Agreement from the relevant authorities, and coordinating with other professional parties engaged by the Company in respect of the transaction. To the best of the Directors' knowledge, information and belief, the Financial Advisor and its ultimate beneficial owner are Independent Third Parties.

Given (i) the services provided to the Company by the Placing Agent and the Financial Advisor; and (ii) paying commission to any placing agents for introducing subscribers to subscribe for the Subscription Shares on success basis is reasonable industry practice, the Directors considered that the placing commission and the advisory service fee payable were fair and reasonable notwithstanding that the Subscription Price, after taking into account the fees payable to the Placing Agent and the Financial Advisor, arguably represents a further discount to the prevailing trading prices of the Shares since the Placing Agent and the Financial Advisor were ultimately and indirectly wholly owned by the Subscriber.

EFFECTS ON SHAREHOLDING STRUCTURE

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

Shareholder	At the Latest Practicable Date		Immediately after the allotment and issue of Subscription Shares		Immediately after the allotment and issue of Subscription Shares and Shares which may be allotted and issued as a result of the exercise of subscription rights in full under 2017 Convertible Bonds *(Note 3)*		Immediately after the allotment and issue of Subscription Shares and Shares which may be allotted and issued as a result of exercise of subscription rights in full under 2017 Convertible Bonds and the Share Option Schemes *(Note 3)*	
	No. of shares	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*	*No. of shares*	*Approximate percentage*
A Director and his associate *(Note 1)*	296,302,500	4.84	296,302,500	4.05	296,302,500	2.40	336,302,500	2.64
Other directors	–	–	–	–	–	–	98,434,600	0.77
The Subscriber	–	–	1,200,000,000	16.39	1,200,000,000	9.74	1,200,000,000	9.42
Bondholder 1	–	–	–	–	1,000,000,000	8.12	1,000,000,000	7.86
Bondholder 2 *(Note 2)*	42,500,000	0.70	42,500,000	0.58	4,042,500,000	32.81	4,042,500,000	31.75
Public Shareholders	5,781,919,655	94.46	5,781,919,655	78.98	5,781,919,655	46.93	6,055,934,835	47.56
Total:	6,120,722,155	100.00	7,320,722,155	100.00	12,320,722,155	100.00	12,733,171,935	100.00

Notes:

1. Such Shares were held by Mr. Li Ming, an executive Director, of which 261,852,500 Shares were directly held by him and 34,450,000 Shares were held through Lead Dragon Limited, a company incorporated in the British Virgin Islands and wholly owned by him.

2. Such 2017 Convertible Bonds and Shares were ultimately held by Mr. Wang Ping, an Independent Third Party, of which 2017 Convertible Bonds carrying rights to convert into 4,000,000,000 Shares were held through Kingwin Capital Group Limited, a company incorporated in the British Virgin Islands and wholly owned by him.

3. The shareholding structure set out in these columns is shown for illustration purposes only. The conversion rights under the 2017 Convertible Bonds shall only be exercisable so long as not less than 25% of the then issued share capital of the Company as enlarged by the issue of the Shares as a result of exercise of subscription rights under the 2017 Convertible Bonds being held in public hands and will not result in the relevant holder of the 2017 Convertible Bonds, 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.

Taking no account of the exercise of subscription rights in full at the initial conversion price under 2017 Convertible Bonds and the Share Option Schemes and assuming there is no other change in the Share capital of the Company, the Subscriber will become a Substantial Shareholder of the Company upon Subscription Completion.

Immediately after (i) the allotment and issue of Subscription Shares and Shares as a result of exercise of subscription rights in full at the initial conversion price under 2017 Convertible Bonds and (ii) the allotment and issue of Subscription Shares and Shares as a result of exercise of subscription rights in full at the initial conversion price under 2017 Convertible Bonds and the Share Option Schemes (assuming there being no other change in the share capital of the Company), Kingwin Capital Group Limited will become a Substantial Shareholder of the Company.

Specific Mandate

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

Application for Listing

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

BUSINESS PLANS

The Group is principally engaging in shipbuilding related business and had been in a difficult financial position over the last few years when the shipbuilding industry in the PRC suffered a prolonged depression aggravated by an excess capacity in shipbuilding. As disclosed in the 2013 Annual Report, the Company had net liabilities of approximately HK$1,037 million as at 31 December 2013 and incurred loss of approximately HK$337 million for the year ended 31 December 2013. The Group continued to operate in a challenging environment in 2014 as a result of the lack of liquidity and saw an urgent need to explore and diversify into profitable new business models to improve the business operation. Therefore, it is in need of immediately available funds to enable the Group to venture into such new business opportunities should they arise.

Having considered and evaluated various options available to the Group, the Directors identified the following new business opportunities to diversify and expand the Group's business:

Shipbuilding and related ocean engineering business

Reference is made to the announcement of the Company dated 6 August 2014 in respect of the formation of a joint venture which will engage in, among others, the business of equity investment in the PRC and providing management consultancy services to investee companies and provision of consultancy services for setting up enterprises. The joint venture company obtained business licence on 15 August 2014. According to the relevant joint venture agreement, the details of which is disclosed in the announcement of the Company dated 6 August 2014, within 2 months from the date on which the joint venture has been granted the business licence (i.e. by 15 October 2014), the Group is required to contribute a sum of RMB400 million (equivalent to approximately HK$504 million) as part of the initial registered capital, and such capital fund has been contributed by the Group to the joint venture on 3 September 2014 out of part of the Bond Proceeds as described in the section "**VARIATION OF THE USE OF BOND PROCEEDS**" in this circular.

As at the Latest Practicable Date, the joint venture had commenced its business by identifying suitable shipbuilding enterprises in Zhoushan, the PRC for equity investment. Depending on the results of such identification and subsequent negotiations, the joint venture may invest in those shipbuilding enterprises.

Financial Services Business

As disclosed in the announcement of the Company dated 16 June 2014, the Company has been exploring opportunities to expand into the business of provision of financial services, such as finance leases, in particular, to shipbuilding and related enterprises in the PRC.

Establishment of financial leasing business venture in Qianhai

On 2 September 2014, the Group obtained the business licence for COSFL, whose business scope includes the businesses of financial leasing and leasing, acquisition of lease properties in the PRC; maintenance of lease properties and handling of the scalp value of such properties; consultation and guarantee of leasing transactions*（融資租賃業務；租賃業務；向國內購買租賃財產；租賃財產的殘值處理及維修；租賃交易諮詢和擔保）.

Business Scale

The Directors currently estimated that the Group will invest approximately RMB200 million (equivalent to approximately HK$252 million) as initial investment for COSFL to commence financial leasing business. In determining the capital investment required for COSFL, the Group considered the fund, the expertise and resources which the Group may have for developing this new segment of business, the potential demand for financial leasing in shipbuilding industry, and the number of competitors engaging in financial leasing and their scale, in particular those which also targets the same industry. Given (i) the Group expects to seek at least 2 target customers to enter into arrangements with COSFL within 6 months after commencement of its business for the acquisition or sales and leaseback of heavy equipment and machineries with costs ranging from RMB50 million to RMB150 million each (equivalent to approximately HK$63 million to HK$189 million); and (ii) depending on the funds available to it, the Group has a strategy of expanding the business of COSFL when the market condition is favourable, the Directors considered that an initial investment of roughly RMB200 million (equivalent to approximately HK$252 million) is right and appropriate for the Group to commence financial leasing business in the circumstances.

Pursuant to the Articles of COSFL, the Group is required to invest RMB100 million (equivalent to approximately HK$126 million) on or before 20 December 2014 and the remaining RMB100 million (equivalent to approximately HK$126 million) on or before 20 September 2016. Failure in making the requisite capital contribution in accordance with such timetable would constitute a breach of the relevant provision of the Articles of COSFL by the Group and may result in the revocation of the business licence of COSFL.

Moreover, the Directors considered that the Group should seize the opportunity in a timely manner created by the favourable policies promulgated by the PRC authorities, such as the Opinion concerning the Promotion of Starting Financial Leasing Business in the Trial Spots of Qianhai Bay Bonded Zone* (《關於推進前海灣保稅港區開展融資租賃業務的試點意見》) in January 2014, which allows financial leasing companies registered in Qianhai to (i) use RMB across the border from financial institutions conducting RMB business in Hong Kong to finance its business operation and (ii) with valid supporting transaction documents, raise funds in foreign currencies outside PRC after applying to the relevant PRC authorities. The interest rate for cross border RMB loans is usually determined between the borrower and the lender on a case-by-case basis. Based on the Directors' understanding from banks providing cross border RMB loans for financial leasing companies, the prevailing interest rate and the related costs for cross border RMB loan is around 5-6%, which is lower than the prevailing interest rate for PRC domestic loan which ranges from 7-8%. It is expected that the new policy enables financial leasing companies like COSFL to raise funds with lower finance cost. Thus, the Directors believed that the sooner the Group enter into the financial leasing market, the earlier it will gain from the economic benefits from the operation of COSFL to improve the business performance of the Group.

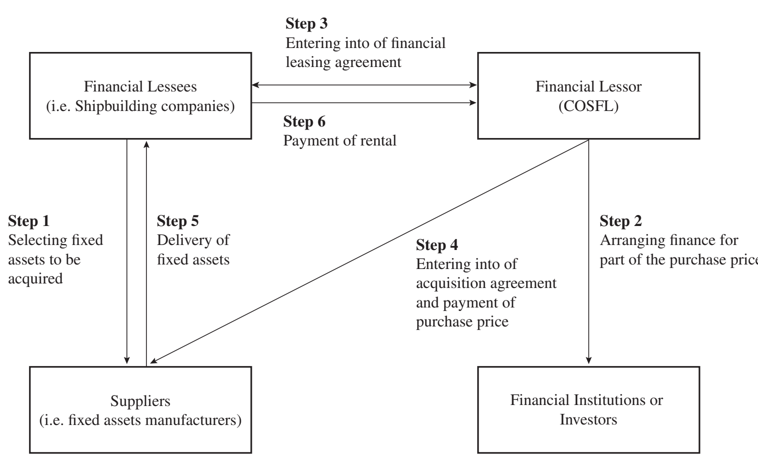
The Group had been conducting negotiations with two potential customers for financial leasing arrangements and such negotiations are expected to conclude in two to three months' time after the incorporation of COSFL. As discussed in the preliminary negotiations, COSFL will be required to make payment for the purchase of fixed assets which is expected to be of about RMB 70-80 million (equivalent to approximately HK$88-101 million) in both cases. Since it may be difficult for a newly established financial leasing company to obtain substantial financing from financial institutions in its early stage of operation, COSFL will have to rely on funds provided by the Group for its initial operation. Further, banks and financial institutions will take into account whether the capital of COSFL has been fully paid-up in considering whether to provide financial facilities for COSFL. Hence, the Directors considered that the Group should make the RMB200 million (equivalent to approximately HK$252 million) capital contribution in whole as soon as practicable notwithstanding the Articles of COSFL provide a flexible schedule with a 2-year span for capital contribution. Having considered the imminent need to commence the financial leasing business, the current financial position of the Group, and the resources available for the Group to develop this new segment of business, the Directors considered the two-stage capital contribution schedule of COSFL provides the Group with flexibility and is therefore appropriate. As disclosed in the section of "**VARIATION OF THE USE OF BOND PROCEEDS**" below, the Group is going to satisfy the initial capital requirements of the new financial leasing business from the Bond Proceeds.

Target Customers

The business licence obtained by COSFL has no restriction as to which type of enterprises it may lend to. However, given the Group is familiar with corporations engaging in shipbuilding, marine engineering and the supply chain of special vessels and quality ships, the Group targets to provide financial leasing for those corporations at the initial stage.

Business Model

At the initial stage of COSFL's operation, the financial leasing business to be conducted by COSFL will mainly involve provision of financing services, which comprise financial leasing and sale and leaseback, for shipbuilding companies as financial lessees. Normally, COSFL will (i) purchase fixed assets to be used in the production of ships from fixed assets manufacturers and lease the same property to those financial lessees to use for the duration of the lease, or (ii) acquire fixed assets from shipbuilding companies which are in need of funds and then lease such assets back to the financial lessees for use in the production of ships (as the case may be). A typical financial leasing transaction normally involves a financial lessor, financial lessee and the supplier. The following diagram illustrates the major features of one of the basic business models involving financial leasing of COSFL:–

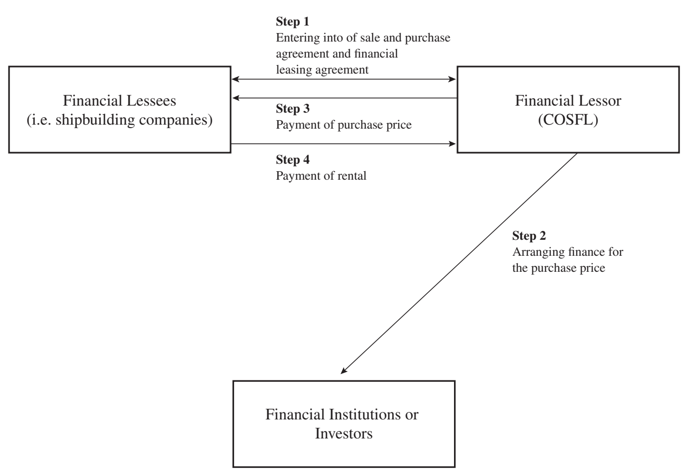


COSFL will, according to the customers' requirements of the fixed assets to be acquired, purchase the fixed assets from the suppliers. In acquiring the relevant asset, the customers (i.e. the financial lessees) will be required to contribute part of the purchase price while COSFL will provide financing services for the relevant financial lessee by contributing the remaining part of the purchase price by instalments. COSFL may arrange its own financing from financial institutions or investors to settle part of the purchase price. COSFL will purchase the relevant asset from the supplier and will become the owner of the relevant asset. However, the supplier will deliver the relevant asset to the financial lessee directly for their use.

Around the same time when COSFL agrees to buy the fixed assets with supplier, COSFL will also enter into with financial lessees financial leasing arrangements pursuant to which the financial lessees will pay rental to COSFL for the use of the relevant assets for a term ranging from 3 to 5 years; COSFL may also request the financial lessees or their owners to give guarantee or security assets in favour of COSFL. Throughout the term of the financial lease, the legal ownership of the relevant asset will remain with COSFL. The financial lessees are granted an option to buy the relevant assets upon the expiry of the financial lease.

Depending on each individual case, COSFL may apply the rental to pay the balance of the purchase price, or repay the borrowings from financial institutions. In some cases, COSFL may factor its rental receivable to the financial institutions for immediately available fund.

In certain cases, the financial lessees may, instead of seeking finance to acquire new assets, sell their assets to COSFL to satisfy their financing needs. The financial lessee will then lease such assets back from COSFL for a term ranging from 3 to 5 years such that it can continue to use the asset as a lessee whilst COSFL will become the legal owner of the asset. The financial lessee will pay a monthly or quarterly rental to COSFL under the lease. A sale and leaseback transaction is largely similar to a financial leasing arrangement as explained above, save and except that it only involves financial lessor and a financial lessee in most of the cases. The following diagram illustrates the major features of the basic business model involving sale and leaseback of COSFL:–



Similar to the first business model as illustrated above, the financial lessees in a sale and leaseback transaction are also granted an option to buy the fixed assets relevant to the particular financial leasing arrangement upon the expiry of the financial lease.

By conducting financial leasing business via COSFL, the Group expects to generate revenue through interest, and intermediary services provided by COSFL such as service fee and commission fee.

As mentioned above, *the Opinion concerning the Promotion of Starting Financial Leasing Business in the Trial Spots of Qianhai Bay Bonded Zone* allows COSFL to obtain cross border RMB loans, which generally carries a lower interest rate than domestic RMB loans. COSFL may therefore lower its cost of borrowing. The Group intends to fix the rental with reference to the RMB loan base rate(s) of financial institutions announced by the People's Bank of China at the time of entering into the financial leasing arrangements or from time to time plus margin and will secure source of funding at reasonable costs through debt and/or equity financing and maintain good relationship with banks. In view of the aforesaid, the Directors consider the market and interest rate risks to be faced by COSFL to be relatively small.

The Group will select customers for COSFL based on its understanding on the shipbuilding market. The Group intends to provide financial leasing services for reputable corporations involved in the shipbuilding industry chain with substantial assets, in particular those shipbuilding enterprises fulfilling the requirements under *Regulatory Conditions for Shipbuilding Industry** 《船舶行業規範條件》. The *Regulatory Conditions for Shipbuilding Industry* sets out objective benchmarks in relation to machinery and equipment, production capacity, quality control, health, safety, environment management and corporate social responsibility that shipbuilding enterprises are required to fulfil, and a list of first batch qualified shipbuilding enterprises ("**Qualified Enterprise List**") has been published on 3 September 2014.

Further, the Group will monitor the credit risk by assessing the repayment ability of the prospective lessees or lessees on a regular basis with reference to their creditworthiness, financial condition (in particular cashflow and profitability), business operation and financial performance by reviewing the financial statements of the lessees or its parent company at least annually.

With the above measures in place, the Company believes that the credit risk associated with the financial leasing services is significantly reduced.

Potential acquisition of minority stake in financial leasing company in Zhejiang Province

As at the Latest Practicable Date, the Group had commenced negotiation with an independent third party, in respect of a 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 and was conducting due diligence on that company. The Directors considered that the acquisition would allow the Group to cooperate with the target company's existing management with about 10-20 years of experience in banking and financial leasing industry and further the business development and diversification of the Group's own financial leasing business. Should the negotiation proceed and such potential acquisition materialise, the Group expects to utilise proceeds from Subscription amounting to approximately RMB52.4 million (equivalent to approximately HK$66 million) to acquire the minority stake. Since (i) the target company is operating a profitable business and will enter into expansion stage as revealed in the preliminary review and (ii) the Group is aware that there are other potential purchasers who are also interested in acquiring the minority stake, in order to seize this opportunity, the Directors considered that the Group should have funds readily available for completing this potential acquisition should it materialise.

Debt Repayment

Current financial position

The table below shows the breakdown of the current debt payable by the Group as at 30 June 2014 and 31 December 2013 as shown in the 2014 Interim Report and the 2013 Annual Report:

	Type of debts	Approximate outstanding amount shown in the 2014 Interim Report	Approximate outstanding amount shown in the 2013 Annual Report	Due date
(i)	trade and bills payables	HK$345 million	HK$432 million	The average due date for trade payables is 60 days from the invoice date while the average due date for bills payable is 6 months from the issued date.
(ii)	bank and other borrowings	HK$595 million	HK$611 million	The due date for bank and other borrowings is usually one year from the date of drawdown, of which the loan advances from employees of approximately HK$44 million and approximately HK$13 million of bank borrowing is due in September 2014 while approximately HK$125 million of bank borrowing and approximately HK$27 million of other borrowings are due in the fourth quarter of 2014.
(iii)	accrual of government funds	HK$121 million	HK$85 million	There is no fixed repayment date for the accrual of government funds.

	Type of debts	Approximate outstanding amount shown in the 2014 Interim Report	Approximate outstanding amount shown in the 2013 Annual Report	Due date
(iv)	promissory notes payable, stated at fair value	HK$86 million	HK$80 million	The due date for the outstanding promissory notes (and interest) of approximately HK$43 million as at the Latest Practicable Date is 31 December 2014.
(v)	other payables	HK$406 million	HK$398 million	There is no fixed repayment date or open to negotiations for the other payables.
	Total:	HK$1,553 million	HK$1,606 million	

Improvement of current financial position

As shown in the table above, the current debt payable by the Group amounted to approximately HK$1,553 million as at 30 June 2014. Subsequent to 30 June 2014, the Company applied part of the Bond Proceeds amounting to HK$175 million to repay part of its debts (including partial repayment of the promissory notes at a discount). As at the Latest Practicable Date, the Group had cash and cash equivalents (excluding pledged deposits) of approximately HK$295 million, and the current debt payable by the Group amounted to approximately HK$1,378 million, out of which approximately HK$252 million is due in September 2014 and the final quarter of 2014. In order to improve the liquidity of the Group and to satisfy its repayment obligations, and taking into account the amount of funds required to diversify its business into financial leasing, the Company intended to use (i) approximately HK$13 million from the Bond Proceeds to repay its bank borrowings due in September 2014, (ii) approximately HK$27 million from the Bond Proceeds to repay part of the loans from employees originally due in August 2014 but the due date was extended to 30 September 2014, (iii) approximately HK$180 million from part of the proceeds from the Subscription to repay most of its debts due in the final quarter of 2014 and the remainder (i.e. approximately HK$32 million) will be satisfied by obtaining new loans from the banks shortly after repayment of pre-existing loans. According to its past experience, the Group would negotiate with lenders to extend the due date conditional upon (i) partial settlement of the debt or (ii) settlement of interest payment at the maturity date. In respect of the trade and bills payables, the Group will utilise its internal resources (including such cash deposited with banks as a pledge to secure the bills payables) and borrowings to satisfy those payables due from time to time. Therefore, the Directors considered that the Company has sufficient available funds to meet its repayment obligations when the loan falls due.

Prospects

Notwithstanding that the overall shipbuilding market is difficult, the Company considered that there is a great potential for development in the financial leasing business due to the following reasons:

1. Rising contract price and number of orders for newly built ships

The Chinese New Shipbuilding Price Index* (中國新造船價格指數, "**CNSPI**"), which is determined with reference to the valuation of 15 kinds of major ship models and indicates the contract price for newly built ships, has been increasing to 950.42 for the six months ended 30 June 2014 after the downturn in the second half of 2012 and first half of 2013 with the average CNSPI hitting its lowest at 862.00 for the six months ended 30 June 2013. The gradual increase of CNSPI reflects the increase in contract price for newly built ships, and is a precursor for the possible recovery of the shipbuilding industry. Besides, according to a report issued by the China Association of the National Shipbuilding Industry* (中國船舶工業行業協會), the number of orders for newly built ships for Chinese shipbuilding companies in the first 7 months of 2014 increased by 42.5% compared to that of the corresponding period in 2013, whereas the orders on hand increased by 36.4% compared to that of the corresponding period in 2013. Therefore, shipbuilding enterprises are expected to invest more capital to manufacture more ships and are likely to have greater financing needs, and the Directors believe that it would boost the demand for financial leasing.

2. Favourable national policies for shipping industry

The State Council of the PRC published the *Certain Opinion of the State Council concerning the Promotion of the Healthy Development of Maritime Industry** (《國務院關於促進海運業健康發展的若干意見》) on 3 September 2014. The Opinion is the first policy document setting down strategic development directions for the maritime industry in the PRC at national level with emphasis on the reform of the maritime industry. The Central Government aims at building a modern maritime system with high energy and economic efficiency and international competitiveness by 2020. The policy encourages the development of fleets for transporting crude oil, liquidated natural gas, containers etc. Further, as stated in the 2013-2015 Proposal also published by the State Council in 2013, the PRC Government encourages the development of shipping and shipbuilding-related financing, including encouraging (i) early retirement of out-modelled ships in return for new environmentally-friendly ships constructed in accordance with international standards, (ii) renovation and reform of fishing and public service vessels as well as (iii) implementation of shipbuilding financing services. The Directors believe that (i) both policy documents will stimulate the demand for renewing the existing fleets which are inefficient or energy consuming and (ii) the modernisation of maritime industry will effectively enhance the research and development capability and technology level of the shipbuilding industry. The shipbuilding enterprises will need to invest greater financial resources to facilitate the transition and upgrade of the shipbuilding industry as well as building more technically advanced ships, and support the development of shipping related finance and insurance business. Based on the above, the Directors are optimistic about the future development of the overall shipbuilding industry and the financial leasing business for the shipbuilding industry.

3. Established network of potential customers

As a shipbuilding company, the Company has established and developed network with ship owners and shipbuilding companies throughout the years and well understands the fund raising needs and difficulties of shipbuilding enterprises in the PRC. Shipbuilding is a capital intensive industry. Shipbuilding enterprises in the PRC are experiencing funding difficulties arising from a change in payment model for the purchase price of ships in the shipbuilding industry. Previously, the purchase price for a new ship was usually settled in several instalments in advance of the start of the relevant shipbuilding process. However, current practice across the industry has been changed. Ship buyers now normally settle the 10-30% of the purchase price at the early stage and deferred the payment for the rest of the purchase price to completion of the shipbuilding. Such payment model exerted considerable financial strain on shipbuilding enterprises at the initial stage of ship construction. As a result, shipbuilding enterprises will have greater financial needs in order to support their operations. By supplying financial leasing services to the shipbuilding enterprises, the Group will relieve their financing needs in the course of manufacturing ships by acquiring fixed assets from such shipbuilding enterprises and leasing them back to the shipbuilding enterprises under a sale and leaseback arrangement as described in the section headed “**BUSINESS PLANS**” in this circular.

Competitive Advantage for the Company to carry out the Financial Services Businesses

Notwithstanding the Company may not have sufficient expertise in the financial services business save for Mr. Zhang Shi Hong, an executive Director who has about nine years’ experience in credit management for the head office of a leading bank in the PRC, given the Company is principally engaged in the production and operation of shipbuilding, the Directors consider that the Company has the relevant knowledge of business trend of the shipbuilding market and that the Company will be able to recruit a management team comprised of experts in the relevant field to work with Mr. Zhang Shi Hong upon achieving a more favourable financial position. In addition, shipbuilding professionals employed by the Group can also provide tailor-made solutions and advisory services for the target customers. Further, as the Group has established business relationships with various financial institutions such as banks, guarantee companies, trust companies, insurance companies, securities firms and asset management companies, the Board believes the Company can utilise these resources to provide high quality services for the target customers. Besides, the financial services segment of the Group is expected to help improve the operations of shipbuilding segment of the Group by having more opportunities for the Group to procure funds from the banks. Based on the above, the Directors consider that it is in the interest of the Company and its Shareholders as a whole to enter into this new business.

Risk Factors Associated with the Financial Services Business

Credit risk and liquidity risk

The Group may sustain losses and the Group's liquidity may be adversely affected if financial lessees fail to make timely and full payment of rentals or perform other obligations under the financial leasing agreements.

Market risk and interest rate risk

Given the success of shipbuilding financial services largely depends on the macro-economic environment as well as the business environment of the shipbuilding market, any prolonged unfavourable condition may adversely affect the performance of the Company in the financial services business.

It is expected that business performance of COSFL depends on the interest rate margin, which is affected by our funding costs and movements in interest rate we charge our target customers which in turn can be affected by a number of factors such as the prevailing interest rate in the lending market, our credit positions, level of competition in the market and government policies of financial leasing business. In view of the above, interest rates under the financial leasing agreements will be determined with reference to the RMB loan base rate of financial institutions announced by the People's Bank of China from time to time and the credit profile of the target customers to minimise the risk. However, such measures may not be effective in averting such risk in the event of a monetary contraction or when we are unable to pass our increased funding costs to our target customers under fierce market competitions.

Adverse change of political, economic and social conditions, laws, regulations and policies in the PRC

As the financial services businesses are to be operated in the PRC, the Group is exposed to the local economic and political conditions of the PRC which include additional regulations to be imposed on the shipbuilding industry. Despite the favourable policy on the overall shipping and shipbuilding industry as implemented by the State Council of the PRC in the 2013-2015 Proposal and the *Opinion on the Healthy Development of Maritime Industry*, it is uncertain whether changes in the PRC's political and social conditions, laws, regulations, policies and diplomatic relationships with other countries will have any adverse effect on the current or future financial services businesses. Further, the shipbuilding industry is highly sensitive to general economic conditions. An economic recession or other worsening of the economic conditions could have an adverse effect on the ability of the target customers to meet their financial and other obligations under the leases of the Group.

FUNDING NEEDS

The table below shows the particulars of funding required (i) to carry out business plans of the Group as described under the section "**BUSINESS PLANS**" above; and (ii) for repayment of debts:

Part	Approximate amounts needed *(HK$ million)*	Timing of fund contribution
Capital investment in the financial leasing business venture	252	Approximately HK$126 million will be contributed in early October 2014 and the remaining HK$126 million will be contributed as soon as practicable after the approval of Subscription and receipt of the Subscription monies
Proposed acquisition of a minority stake in a finance lease company in the PRC (the actual amounts needed is subjected to the negotiation)	66	As soon as the acquisition is materialised, expected to be in October 2014
Repayment of various debts due in September 2014 and the final quarter of 2014	252	Approximately HK$57 million (comprising (i) approximately HK$44 million of loan advances from employee, and (ii) approximately HK$13 million of bank borrowings) is due in September 2014; Approximately HK$195 million (comprising (i) approximately HK$125 million of bank borrowing, (ii) approximately HK$27 million of other borrowings, and (iii) approximately HK$43 million of outstanding promissory notes and accrued interest) is due in the fourth quarter of 2014
Total	570	

As shown from the table above, the Company has urgent needs to raise fund to implement the business plan as described in the section "**BUSINESS PLANS**" of this circular, including developing the financial leasing business, and repaying its current debt as soon as practicable. As explained in the section "**VARIATION OF THE USE OF BOND PROCEEDS**" below, the Group received net proceeds amounting to HK$985 million in relation to the issue of 2017 Convertible Bonds. As at the Latest Practicable Date, the Group has utilised (i) RMB400 million (equivalent to approximately HK$504 million) in establishment of the joint venture, (ii) HK$189 million for the repayment of debts and general working capital, and has reallocated approximately HK$252 million and approximately HK$40 million, which together represent the entire sum of the Bond Proceeds yet to be used, to fund the financial leasing business and repayment of loans due in September 2014 respectively. The Directors are of the view that unless the Company raise further fund to accomplish the business plan, it is difficult for the Group to (i) achieve significant improvement in its performance out of its existing business; (ii) spare additional and adequate cash to conduct financial leasing business; and (iii) meet the upcoming liabilities and obtain further borrowings to support its business operation. Therefore, the Board considered that it is necessary for the Company to raise fund at this stage despite the difficult financial position of the Group and the great discount provided to the Subscriber.

VARIATION OF THE USE OF BOND PROCEEDS

Reference is made to the announcement of the Company dated 14 May 2014 in respect of the issue of 2017 Convertible Bonds. As disclosed in the aforesaid announcement, the Group has raised approximately HK$985 million from the issue of 2017 Convertible Bonds and it intended to use (i) approximately HK$800 million of the Bond Proceeds to increase its production capability by, among other things, acquire or construct new shipyards near the coast allowing the Group to build ships with a displacement of exceeding 20,000 tonnes and to upgrade the existing production facilities of the Company and (ii) approximately HK$185 million of the Bond Proceeds for general working capital purposes.

As at the Latest Practicable Date, the Group had utilised approximately HK$693 million of the Bond Proceeds, of which (i) RMB400 million (equivalent to approximately HK$504 million) has been utilised as part of the initial registered capital of the joint venture as described in the section headed "**BUSINESS PLANS**" in this circular, and (ii) HK$189 million has been used in repayment of debt and as general working capital. As at the Latest Practicable Date, the Board considered it more appropriate to reallocate the use of the remaining Bond Proceeds of HK$292 million for the diversification of the Group's business into the financial leasing business and debt repayment in the following manner:

(i) approximately RMB200 million (equivalent to approximately HK$252 million) as to fulfillment of the initial capital requirement of COSFL. Please refer to the section "**BUSINESS PLANS – Financial Services Business**" above for further information; and

(ii) approximately HK$40 million as to repayment of debts out of which (a) HK$27 million is intended to be applied to repay part of the loans from employees originally due in August 2014 but the due date has been extended to 30 September 2014; (b) approximately HK$13 million is intended to be applied to settle bank borrowings due in September 2014.

REASONS FOR THE SUBSCRIPTION AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT

As described under the sections "**FUND RAISING EXERCISE OF THE COMPANY WITHIN 12 MONTHS PRIOR TO THE LATEST PRACTICABLE DATE**" and "**BUSINESS PLANS**", the Company has applied part of the proceeds from the previous fund raising exercises to repay debts, which have partly improved the liquidity position of the Group.

However, as disclosed in the section "**FUNDING NEEDS**", the total amount required for the Group to carry out its business plans (including repaying its debts) amounted to approximately HK$570 million and the Group has urgent funding needs to accomplish such plans (including debt repayment). Taking into account (i) the favourable policies of the financial leasing market in the PRC and (ii) the maturity profile of the current debt of the Group, the Directors believed that the Group should have immediately available funds to meet any investment opportunities should they arise and meet the liabilities as they fall due. After taking account of such Bond Proceeds yet to be used in the sum of HK$292 million, there is a shortfall of approximately HK$278 million and the Company is in an urgent need of such amount of funds to carry out its business plans. The Subscription represents a suitable opportunity for the Company to raise approximately HK$269 million for the Group. The details of the use of proceeds from Subscription are disclosed in the section "**USE OF PROCEEDS**" in this circular.

In view of the urgent funding needs of the Group, volatile market conditions and uncertain global economy, the Directors consider that it is a good timing and opportunity to enter into the Subscription Agreement in order to raise additional funds and broaden the Company's capital base. Accordingly, the Directors considered the transactions contemplated under the Subscription Agreement are in the interest of the Company and the Shareholders as a whole.

According to the Subscriber, it currently intends to nominate an individual with extensive experience and knowledge in the maritime industry, investment management as well as PRC government policies and rules and regulations to be a Director. The Directors believe that a potential nominee with such experience and knowledge would help the Group to strengthen its existing operations in the shipbuilding industry and to expand into the financial services business. As at the Latest Practicable Date, the Subscriber had yet nominated any individual to be a Director. The Company will issue further announcement(s) in respect of the appointment of Director as and when appropriate pursuant to the Listing Rules.

USE OF PROCEEDS

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

The Board currently intends to use the proceeds arising from the Subscription as follows:

(i) approximately RMB52.4 million (approximately HK$66 million) as to the potential acquisition by the Group of a minority stake in a company established of the PRC which principally engages in financial leasing business in Zhejiang Province in the PRC as disclosed in the section "**BUSINESS PLANS**" in this circular;

(ii) approximately HK$180 million as to repayment of debts out of which (a) approximately HK$17 million is intended to be applied to repay part of loans from employees originally due in August 2014 but the due date has been extended to 30 September 2014; (b) approximately HK$43 million is intended to be applied to settle the outstanding promissory note and the accrued interest due in December 2014; and (c) the remainder to be applied to repay the bank borrowing other borrowings due in the fourth quarter of 2014; and

(iii) approximately HK$23 million as to operating expenses of the Company including salaries, rent and rates and travelling expenses and others to be incurred.

Taking into account (i) the current business plans of the Company; (ii) the change of use of Bond Proceeds to support the urgent need for development of the financial leasing business; (iii) the necessity to contribute capital upon the completion of business registration of COSFL on or before 20 December 2014; and (iv) the debt to be payable by the Group by the end of 2014 as mentioned above, the Directors considered that the aggregate sum of around HK$260 million is sufficient to meet its urgent funding needs. However, should any business opportunities arise which results in change of future business plans, further fund raising activities may be required in the future.

FUND RAISING EXERCISE OF THE COMPANY WITHIN 12 MONTHS PRIOR TO THE LATEST PRACTICABLE DATE

Date of Announcement	Description of the fund raising activities	Funds raised	Intended use of proceeds	Actual use of proceeds
6 March 2014	Subscription of 530,000,000 Shares at HK$0.107 each under general mandate	Net proceeds of about HK$56.61 million	Repayment of debts and general working capital	Fully utilized as intended with breakdown as follows: (i) approximately HK$29.57 million was used to repay debts; (ii) approximately HK$27.04 million was used as general capital of the Company, including settlement of trade payables and operating expenses.

Date of Announcement	Description of the fund raising activities	Funds raised	Intended use of proceeds	Actual use of proceeds
14 May 2014	Issue of 2017 Convertible Bonds in a principal amount of HK$1 billion	Net proceeds of about HK$985 million	80% of the net proceeds be used to fund capital expenditure projects; and remaining 20% of which be used for general working capital (including repayment of debts)	Approximately HK$693 million has been utilized: (i) approximately HK$120 million was used to repay debts; (ii) approximately HK$55 million was used to repay loans from banks; (iii) approximately HK$10 million was used as direct costs of production; (iv) approximately HK$4 million was used as daily operating costs of the Group; and (v) approximately HK$504 million was used as formation of a joint venture entity. The remaining amount of approximately HK$292 million is deposited with banks and may be used for the purposes as described under the section "**VARIATION OF THE USE OF BOND PROCEEDS**" in this circular.

Save as disclosed above, the Company has not conducted any fund raising activity in the past 12 months immediately preceding the Latest Practicable Date.

ADJUSTMENT TO CONVERSION PRICE OF 2017 CONVERTIBLE BONDS

The allotment and issue of the Subscription Shares at the Subscription Price constitutes an event of adjustment under the terms and conditions of 2017 Convertible Bonds. The Company will arrange its auditors to compute the adjusted conversion price and inform the bondholders accordingly. The Company will issue further announcement(s) in respect of the adjustment to conversion price of 2017 Conversion Bonds as and when appropriate pursuant to the Listing Rules.

VARIATION OF TERMS OF SUBSCRIPTION AGREEMENT

As at the Latest Practicable Date, the Company and the Subscriber had no intention to materially vary the terms of the Subscription Agreement. In the unlikely event that material variation shall be made, the Company will re-comply with the Listing Rules requirements, including obtaining Shareholders' approval.

GENERAL

Information of the Company

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

Information of the parties relevant to the Subscription

All of the Financial Advisor, the Placing Agent, and the Subscriber are indirectly wholly-owned by Mr. Cheng Kin Ming.

SPECIAL GENERAL MEETING

A notice convening the SGM at Units 1702-03, 17/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 21 October 2014, Tuesday at 10:00 a.m., at which resolution will be proposed for the purposes of considering and if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate, is set out on pages 30 to 31 of this circular.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have any material interest in the Subscription and no Shareholders are required to abstain from voting if the Company is to convene a general meeting to approve the Subscription.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, please complete the form of proxy in accordance with the instructions printed on the form and return the same to the Hong Kong branch share registrar of the Company, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment of the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjourned meeting of SGM should you so wish.

RECOMMENDATION

Having considered the reasons set out above, the Board considers that the terms of the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Board considers that the resolution proposed in the notice of SGM are in the best interests of the Company and the Shareholders and therefore recommends you to vote in favour of all the relevant resolution to be proposed at the SGM.

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 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.

Yours faithfully,
By order of the Board
CHAU On Ta Yuen
Chairman

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)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of China Ocean Shipbuilding Industry Group Limited (the "**Company**") will be held at Units 1702-03, 17/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 21 October 2014, Tuesday, at 10:00 a.m., to consider and, if thought fit, pass the following ordinary resolution (with or without modifications):

ORDINARY RESOLUTION

1. "**THAT**

(a) the conditional subscription agreement dated 30 July 2014 (the "**Subscription Agreement**") (a copy of which is marked "A" now produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company and Asia Pacific Resources Development Investment Limited in respect of the issue of 1,200,000,000 new shares ("**Subscription Shares**") and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to fulfilment of the conditions precedent set out in the Subscription Agreement, the allotment and issue of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement be and is hereby approved;

(c) the directors of the Company (the "**Directors**") be and are hereby granted a specific mandate ("**Specific Mandate**") to exercise the powers of the Company to allot and issue the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement, such Subscription Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue. The specific mandate is in addition to, and shall not prejudice nor revoke any general or special mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution;

(d) any one or more of the Directors be and are hereby authorised to do all such other acts and take all such other actions on behalf of the Company, including but not limited to the signing or execution of all such other documents under seal (where applicable) as he/she/they may consider necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the exercise or enforcement of any of the Company's rights under the Subscription Agreement and to make and agree to such variation of the terms of the Subscription Agreement as any such Director(s) may consider to be appropriate and in the interests of the Company and the Shareholders as a whole."

By order of the Board
CHAU On Ta Yuen
Chairman

Hong Kong, 3 October 2014

Notes:

1. A member of the Company who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.

2. A form of proxy for the SGM is enclosed with the notice of the SGM. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment of the meeting.

3. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the above resolution will be voted by way of poll. As at the date of this notice, none of shareholders of the Company are required to abstain from voting in respect of the above ordinary resolution above.

As at the date of this notice, the Board comprises (i) executive Directors namely CHAU On Ta Yuen, LI Ming, ZHANG Shi Hong, WANG San Long, TSE Kwing Chuen and CHEN Hong and (ii) independent non-executive Directors namely XIANG Siying, HU Bai He and XIANG Ying.