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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

AND

(2) AMENDMENTS TO THE TERMS AND CONDITIONS OF THE CONVERTIBLE NOTES

Financial advisor to China Ocean Shipbuilding Industry Group Limited



KINGSTON CORPORATE FINANCE LTD.

REFERENCE

The Company refers to its announcement dated 14 November 2007 and its circular dated 6 February 2008, which relate to acquisition of the vessel manufacturing business. The consideration for the acquisition comprises, among others, issuance of the Convertible Notes. References are also made to the Company's announcement dated 27 April 2010 and circular dated 9 June 2010, which relate to amendment of the maturity date of the Convertible Notes from 15 April 2011 to 15 April 2012.

SUBSCRIPTION AGREEMENTS

On 21 December 2010, the Company entered into the Subscription Agreements with the 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, representing the aggregate outstanding principal amount of the Convertible Notes to be surrendered by the Subscribers. An application will be made to the Listing Committee for listing of, and permission to deal in, the Subscription Shares to be issued pursuant to the Subscription Agreements.

AMENDMENT DEED

On the same date, the Company and the Noteholders entered into the Amendment Deed. Highlights of the proposed Amendments to the terms and conditions of the Convertible Notes contemplated by the Amendment Deed are 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 Existing Conversion Price per Conversion Share will be changed from HK\$4.30 to HK\$0.22.
3. A new Condition will be added to govern the meetings of the Noteholders.
4. The Condition in relation to amendments of the Convertible Notes will 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% in principal amount of the outstanding Convertible Notes in writing or persons entitled to vote not less than 75% of the outstanding principal amount of the Convertible Notes represented and voting at a meeting of Noteholders duly called.

To avoid any changes to be made to the register of the Noteholders prior to the Amendment Deed becoming unconditional, it is stipulated in the Amendment Deed that the Noteholders could not transfer any of the Convertible Notes from execution of the Amendment Deed to the Amendment Completion Date.

Also, it is agreed that the Subscription and the transactions contemplated under the Subscription Agreements do not constitute an event calling for adjustment to the Conversion Price of the Convertible Notes 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.

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 listing of, and permission to deal in, the Conversion Shares to be issued pursuant to the terms and conditions of the Convertible Notes as amended by the Amendment Deed.

The Directors are of the view that the 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.

The SGM will be convened to consider and, if thought fit, to approve the Subscription Agreements, the Amendment Deed and the transactions contemplated thereunder. A circular containing, among others, further details of the Subscription Agreements and the Amendment Deed and a notice for the SGM is expected to be despatched to the Shareholders on or before 11 January 2011.

BACKGROUND

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

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

Principal amount : HK\$507,549,152

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 then 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 (as defined in the Takeovers Code) 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 (as defined in the Takeovers Code) with them shall not become a controlling Shareholder (as defined in the Takeovers Code).

Existing Conversion price :	HK\$4.30 (after adjustment upon completion of an open offer with bonus issue of the Company closed on 3 September 2010) 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\$360,000,000.00 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.
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.

SUBSCRIPTION AGREEMENTS

Introduction

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.

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. 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; and
- (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.

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.

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 Existing Conversion Price per Conversion Share will be changed from HK\$4.30 to HK\$0.22.
3. A new Condition will be added to govern the meetings of Noteholders:
 - 3.1. a meeting of Noteholders may be called by 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 Noteholders, except that 5 days' notice can be given for reconvening of any adjourned meeting;
 - 3.3. the quorum required for any meeting of 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 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 Noteholders duly called.

To avoid any changes to be made to the register of 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.

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;
- (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; and

(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.

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 Shares to be issued pursuant to the Convertible Notes as amended by the Amendment Deed.

The Amendment Deed was 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.

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 terms and conditions of the Convertible Notes as amended by the Amendment Deed.

The Subscription Agreements and the Amendment Deed are not inter-conditional upon each other. Accordingly, subject to 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.

Liu Bing, Zheng Min and Yang Li, being the Shareholders as at the date of this announcement, have consented to not to vote at the SGM on resolutions relating to the Subscription Agreements and the Amendment Deed.

EFFECT ON THE SHAREHOLDING STRUCTURES OF THE COMPANY

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

1. as at the Last Trading Day;
2. upon issuance of the Conversion Shares assuming full conversion of the Convertible Notes at the Existing Conversion Price of HK\$4.3;
3. 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\$4.3;
4. upon issuance of the Conversion Shares assuming full conversion of the Convertible Notes at the New Conversion Price of HK\$0.22; and
5. 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 announcement.

	Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5	
	Number of Shares	Approx %	Number of Share	Approx %	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %
A Director and his associate (<i>Note 1</i>)	231,762,500	10.28%	231,762,500	9.77%	231,762,500	6.23%	231,762,500	5.08%	231,762,500	4.94%
Noteholders who are the Subscribers	16,144,689	0.72%	81,853,794	3.45%	1,428,890,449	38.41%	1,300,459,016	28.50%	1,428,890,449	30.46%
Noteholders who are not the Subscribers	0	0.00%	52,325,581	2.20%	52,325,581	1.41%	1,022,727,271	22.42%	1,022,727,271	21.80%
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>53.95%</u>	<u>2,007,341,937</u>	<u>44.00%</u>	<u>2,007,341,937</u>	<u>42.80%</u>
Total	<u><u>2,255,249,126</u></u>	<u><u>100.00%</u></u>	<u><u>2,373,283,812</u></u>	<u><u>100.00%</u></u>	<u><u>3,720,320,467</u></u>	<u><u>100.00%</u></u>	<u><u>4,562,290,724</u></u>	<u><u>100.00%</u></u>	<u><u>4,690,722,157</u></u>	<u><u>100.00%</u></u>

Notes:

1. Such Shares were held by Mr. 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.

2. This scenario is for illustrative purpose only. Pursuant to the terms and conditions of the Convertible Notes, 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 (as defined in the Takeovers Code) with them shall not become a controlling Shareholder (as defined in the Takeovers Code). Unless there is a breach of the Condition, the situation as described herein is expected not to occur.

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.

Earlier this year, 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\$7.5 per Share to HK\$4.3 per Share after close of an open offer with bonus issue of the Company in September 2010 this year, 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 with bonus issue closed in September 2010. Given the substantial 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 offered the Subscription arrangement as stipulated in the Subscription Agreements to all the Noteholders. Given some of the Noteholders do not find the offer attractive, the Company as a result negotiates 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 of 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 Subscriptions Price or the New Convertible Price are much lower than the Existing Conversion Price upon completion of the Subscription Agreements and the Amendment Deed, much 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 announcement. 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.

GENERAL

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

The SGM will be convened to consider and, if thought fit, to approve the Subscription Agreements, the Amendment Deed and the transactions contemplated thereunder. A circular containing, among others, further details of the Subscription Agreements and the Amendment Deed and a notice for the SGM is expected to be despatched to the Shareholders on or before 11 January 2011.

DEFINITIONS

“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
“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

“Conversion Price”	the price to be paid by the Noteholders to the Company on conversion of the Convertible Notes into Shares
“Conversion Share(s)”	the new 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
“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
“Last Trading Day”	21 December 2010, being the last day on which the Shares were traded on the Stock Exchange before the release of this 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)
“Remaining Convertible Note(s)”	the Convertible Note(s) other than the Convertible Notes to be surrendered to the Company for cancellation on the Subscription Completion Date
“SGM”	the special general meeting of the Company to be convened and held 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
“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 Independent Third Parties
“Subscription”	subscription by the Subscribers of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreements
“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 consideration to be paid by the Subscribers for the Subscription Shares, the aggregate amount of which is HK\$282,549,152.00
“Subscription Price”	HK\$0.20, being the price per Subscription Share
“Subscription Shares”	the Shares to be subscribed by the Subscribers under the Subscription Agreements

“Takeovers Code”

the Hong Kong Code on Takeovers and Mergers

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

By order of the Board

China Ocean Shipbuilding Industry Group Limited

CHAU On Ta Yuen

Chairman

Hong Kong, 21 December 2010

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