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CHINA OCEAN INDUSTRY GROUP LIMITED

中海重工集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00651)

**(1) SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE AND
(2) PROPOSED CAPITAL REORGANISATION**

Financial Adviser



Draco Capital Limited

SUBSCRIPTION OF CONVERTIBLE BONDS

On 19 July 2019 (after trading hours), the Company and each of the Subscribers entered into the Subscription Agreements, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, the Convertible Bonds with an aggregate principal amount of HK\$110,000,000 due 3 years from the date of issue of the Convertible Bonds at the Conversion Price of HK\$0.64 per Conversion Share upon the Capital Reorganisation becoming effective. Completion of the Subscription under the Subscription Agreements is subject to the conditions set out in the paragraph headed “Conditions Precedent” below. Detailed terms of the Convertible Bonds are set out in the paragraph headed “Terms and conditions of the Convertible Bonds” below.

Upon full conversion of the Convertible Bonds at the Conversion Price, a total of 171,875,000 Conversion Shares will be issued, representing approximately 33.53% of the issued share capital of the Company had the Capital Reorganisation become effective and as enlarged by the issue of the Conversion Shares (assuming that there is no change in the issued share capital of the Company and subject to adjustments to the Conversion Price).

The gross proceeds and net proceeds of the Subscription will be approximately HK\$110,000,000 and HK\$109,000,000 respectively. The net proceeds is intended to be applied towards repayment of debts owed by the Group and the remaining for general working capital.

Completion of the Subscription is subject to fulfilment of the conditions precedent under the Subscription Agreements and the Capital Reorganisation becoming effective. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which will involve the Capital Reduction and the Share Consolidation, details of which are as follows:

(A) Capital Reduction

- (i) the cancellation of HK\$0.049 paid up capital on each issued Existing Share by way of reduction of capital so that the nominal or par value of each issued Existing Share will be reduced from HK\$0.05 to HK\$0.001; and
- (ii) the credit arising from the Capital Reduction in the amount of HK\$668,205,103 will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit (if any) will be transferred to the distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve subject to compliance with applicable law.

(B) Share Consolidation

Immediately upon the Capital Reduction becoming effective, every 40 Reduced Shares of HK\$0.001 each in the then issued share capital of the Company will be consolidated into one Consolidated Share of HK\$0.04 in the share capital of the Company and the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation.

The credits arising from (a) such reduction of the paid-up capital and (b) the cancellation of any fractional Consolidated Share in the issued share capital of the Company which may arise from the Share Consolidation will be credited to the contributed surplus account of the Company within the meaning of the Companies Act.

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Capital Reorganisation”. Therefore, the Capital Reorganisation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve (i) the Subscription Agreements and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate; (iii) the Capital Reorganisation and (iv) a notice of the SGM. To the best information, knowledge and belief of the Board having made all reasonable enquiries, as at the date of this announcement, no Shareholder has any interest in the Subscription Agreements, the transactions contemplated thereunder and the Capital Reorganisation that is materially different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the resolutions to be proposed at the SGM.

A circular containing, among other things, (i) further details of the Subscription Agreements; (ii) further details of the Capital Reorganisation; and (iii) the notice of the SGM, will be despatched to the Shareholders on or before 2 August 2019.

SUBSCRIPTION OF CONVERTIBLE BONDS

On 19 July 2019 (after trading hours), the Company and each of the Subscribers entered into the Subscription Agreements on substantially the same terms, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, the Convertible Bonds with an aggregate principal amount of HK\$110,000,000 due 3 years from the date of issue of the Convertible Bonds at the Conversion Price of HK\$0.64 per Conversion Share upon the Capital Reorganisation becoming effective. Details of the Subscription Agreements and the terms of the Convertible Bonds are set out below.

THE SUBSCRIPTION AGREEMENTS

Date: 19 July 2019 (after trading hours)

Parties:

Subscription Agreement I: (1) The Company as issuer; and
(2) Hong Kong Tong Ji Investment Holding Ltd. (香港同濟投資控股有限公司) as Subscriber 1

Subscription Agreement II: (1) The Company as issuer; and
(2) Wise Benefit Investments Limited (智益投資有限公司) as Subscriber 2

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, the Subscribers and each of their ultimate beneficial owner(s) are Independent Third Parties of the Company under the Listing Rules.

Set out below are the principal terms of the Subscription Agreements:

Subscription of Convertible Bonds

Pursuant to the Subscriptions Agreements, each of the Subscribers conditionally agreed to subscribe for Convertible Bonds as follows:

Subscribers	Principal amount of Convertible Bonds to be subscribed (HK\$)
Subscriber 1	50,000,000
Subscriber 2	<u>60,000,000</u>
	<u><u>110,000,000</u></u>

Terms and conditions of the Convertible Bonds

Issue Price: 100% of the principal amount of the Convertible Bonds

Interest: 10% per annum on the outstanding principal amount of the Convertible Bonds from the first issue date up to the Maturity Date which is payable in arrears on each anniversary of the issue date of the Convertible Bonds

Maturity Date: The date falling on the third (3rd) anniversary of the date of issue of the Convertible Bonds

Redemption upon maturity: Unless previously converted in accordance with the terms and conditions thereof, any outstanding Convertible Bonds shall be redeemed by the Company at its principal amount (together with any accrued but unpaid interests) on the Maturity Date. No interest shall be paid on the amount of the Convertible Bonds which has been converted into Conversion Shares prior to the maturity date of the Convertible Bond.

Conversion Price: Initially HK\$0.64 per Conversion Share, subject to usual adjustment provisions customary for convertible bonds of similar kind as described in the “Adjustment provision” paragraph below.

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

1. no discount to the closing price of HK\$0.64 per New Share, based on the closing price of HK\$0.016 per Existing Share as quoted on the Stock Exchange on the date of the Subscription Agreements and adjusted for the effect of the Share Consolidation;
2. a premium of approximately 3.90% to the average closing price of HK\$0.616 per New Share, based on the average of the closing prices of HK\$0.0154 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation; and

3. a premium of approximately 4.58% to the average closing price of HK\$0.612 per Share, based on the average of the closing prices of HK\$0.0153 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation.

Adjustment provisions:

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

- (1) consolidation or sub-division of Shares;
- (2) capitalisation of profits or reserves;
- (3) scrip dividend in lieu of cash dividend and the market price of such Share exceeds the relevant cash dividend;
- (4) capital distribution;
- (5) offer of new Shares for subscription by way of rights, or grant to Shareholders any options or warrants to subscribe for new Shares at a price which is less than 95% of the then current market price at the date of the announcement of the terms of such offer;
- (6) issue of Shares or options, warrants or any securities which carry rights of subscription for or acquisition of new Shares (save for shares issued under the Convertible Bonds, the Existing CB and options granted under the Share Option Schemes), at a price which is less than 95% of the then current market price at the date of the announcement of the terms of such issue; and

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

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

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

Conversion Shares: 171,875,000 Conversion Shares would be in issue on full conversion of the Convertible Bonds at the Conversion Price, had the Capital Reorganisation become effective.

Conversion period: The Conversion Rights attaching the whole or part of any outstanding principal amount of Convertible Bonds may be exercised, at the option of the Bondholder, at any time on and after the Issue Date up to but excluding the Maturity Date so long as:

- (1) the exercise of the Conversion Rights will not result in the relevant Bondholder(s), its associates and parties acting in concert with it (as defined under the Takeovers Code) will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirement of the Takeovers Code; or (ii) a general offer is made in accordance with the requirement of the Takeovers Code; and
- (2) not less than 25% of the then total number of issued Shares are being held in public hands.

Events of default: If, among others, any of the following events occurs, the Bondholder(s) may give notice to the Company that the Convertible Bonds are, and they shall accordingly thereby become, immediately due and payable at an amount equal to the sum of the aggregate principal amount of the Convertible Bonds then outstanding and the interest accrued thereon:

- (1) the Company fails to pay the principal amount of the Convertible Bonds on the due date, save and except for administrative or technical error and payment has been made within 5 Business Days after the due date; or

- (2) in respect of any amount owed by any member of the Group to the Bondholder(s) and/or its subsidiary(ies), such member of the Group fails to repay such amount to the Bondholder(s) and/or its subsidiary(ies) pursuant to the relevant agreement in writing;
- (3) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Convertible Bonds which default will constitute a material adverse effect on the Group's business, operations, assets, financial condition, and such default (a) is incapable of remedy or (b) being a default which is, in the opinion of the Bondholder(s), capable of remedy, remains unremedied for 14 days after the Bondholder(s) have given written notice thereof to the Company; or
- (4) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking property, assets or revenues of the Company or its major subsidiaries and which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or

- (5) unless otherwise agreed in writing by the Bondholder(s), the Company or its major subsidiaries is (a) unable to pay its debts as and when they fall due or (b) applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or its subsidiaries or the whole or any part of the undertaking, property, assets or revenues of the Company or its subsidiaries or (c) initiates any proceeding under any law for a readjustment or deferment of its obligations or any part of them or (d) makes or enters into a general assignment or compromise with or for the benefit of its creditors, which will constitute a material adverse effect on the Group's business, operations, assets, financial condition; or
- (6) an order is made or an effective resolution passed for the dissolution or winding-up of the Company or any of its major subsidiaries except in the case of dissolution or winding-up of subsidiaries in the course of internal reorganisation;
- (7) suspension of trading of the Shares on the Stock Exchange or a recognised stock exchange for a continuous period of 5 Trading Days;
- (8) there having been a material adverse change in the business, financial position or operation of the Company;
- (9) it becomes illegal for the Company to perform or comply with any one or more of its obligations under the Convertible Bonds;
- (10) a false or misleading representation in respect of the Convertible Bonds is made or has been made by the Company or any of its subsidiary;

- (11) the Company or any of its subsidiary cases to carry on or threatens to cease to carry on the whole or part of its business or operation has been terminated or threatened to be terminated;
- (12) any legal representative, controller, senior officer, director of the Group is involved in or will be involved in material litigation, arbitral proceedings or other legal disputes; or
- (13) any breach, default or cross-default by the Company or any of its subsidiary in respect of any indebtedness, or any indebtedness of the Company or any of its subsidiary becomes due and payable prior to its stated maturity;
- (14) in the opinion of the Bondholder(s), there having been a material litigation, lost in arbitration, operation or financial crisis, failure to pay debts when they fall due, winding up, insolvency etc. which may or has affected or prejudice the rights of the Bondholder(s) under the Subscription Agreements and the Convertible Bonds, or other matters which may affect the Bondholder(s)'s recovery of the principal of and interest on the Convertible Bonds.

**Right to distribution
in specie:**

In the event the Company makes any distribution in specie in lieu of cash dividend during the conversion period, the Bondholder(s) shall be entitled to the following:

- (1) on the date of announcement of such distribution, the Company and the Bondholder(s) may appoint an approved commercial bank or auditors of the Company to determine the value of distribution the Bondholder(s) is entitled to (“**Entitlement**”) based on the outstanding principal amount of the Convertible Bonds;

- (2) upon determination of the Entitlement (which shall be final and binding upon the Company and the Bondholder(s)), the Company shall, in accordance with the Bondholder(s)' election, distribute the Entitlement to the Bondholder(s) in cash or in specie.

Voting:

The Bondholder(s) will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bonds.

Transferability:

Subject to the restricted transfer period described below, the Convertible Bonds are freely transferable at any time during the period from the date on which the Bondholder is registered as the holder of the Convertible Bonds provided that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company and its associates without the Company's prior written consent.

The Company will not register any transfer of Convertible Bonds: (i) during the 7 days prior to and including the date of payment of any principal amount in respect of the Convertible Bonds; (ii) after the delivery of a conversion notice by the Bondholder(s); or (iii) during the 7 days prior to and including the date of interest payment pursuant to the terms of the Convertible Bonds.

**Ranking of
Conversion Shares:**

The Conversion Shares issued upon conversion of the Convertible Bonds will in all respects rank pari passu with the New Shares already in issue on the conversion date.

Application for listing:

No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The Board considers that the terms and conditions of the Convertible Bonds, which were arrived at after arm's length negotiations between the Company and each of the Subscribers, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon satisfaction of the following conditions:

- (1) the Shareholders having passed all necessary resolutions at a special general meeting of the Company according to applicable laws (including but not limited to the Listing Rules) to approve the Subscription Agreements and transactions contemplated thereunder, including but not limited to the Specific Mandate;
- (2) the Capital Reorganisation becoming effective;
- (3) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares; and
- (4) the Company and the Subscribers having obtained all necessary consents and approvals required to be obtained on their respective part in respect of the Subscription Agreements and the transactions contemplated thereunder (if applicable), and fully complied with relevant laws and regulations (including but not limited to the Listing Rules and applicable laws of Hong Kong). All such consents and approvals shall remain valid up to the date of Completion and there being no rules or regulations imposed by relevant authorities to prohibit or substantially delay the performance and completion of the Subscription Agreements.

In the event that the above conditions are not fulfilled on or before 30 September 2019 (the "**Long Stop Date**"), or such other date as the Company and the relevant Subscriber may agree in writing, the relevant Subscription Agreement shall automatically terminate and lapse, and the relevant Subscriber and the Company shall forthwith be released from their respective rights and obligations under the relevant Subscription Agreement, except for the obligations in relation to confidentiality.

Completion of each of the Subscription Agreements is not inter-conditional upon each other.

Specific Mandate

The Subscription Agreements and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the SGM.

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

Completion

Subject to the fulfillment of the above conditions, Completion shall take place whereby the Convertible Bonds shall be issued to the Subscribers in 5 tranches in the respective amount to be agreed between the Company and the Subscribers within two months after the satisfaction of all of the conditions precedent or such other date as the relevant parties to the relevant Subscription Agreement may agree in writing.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the following fund raising activities, the Company did not carry out any equity fund raising activities during the past 12 months prior to the date of this announcement.

INFORMATION OF THE SUBSCRIBERS

The Subscriber 1 is a private company incorporated in British Virgin Islands with limited liability and its principal activities is investing holding. The Subscriber 1 is ultimately owned by Mr. Qian Jin (錢進). Mr. Qian is a PRC resident and a sophisticated investor.

The Subscriber 2 is a private company incorporated in British Virgin Islands with limited liability and its principal activities is investing holding. The Subscriber 2 is ultimately owned by Mr. Yu Yang. Mr. Yu is a New Zealand resident and a sophisticated investor.

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, each of the Subscribers and each of their respective ultimate beneficial owners are Independent Third Parties of (i) the Company and (ii) the holder of the Existing CB.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is a company incorporated in Bermuda with limited liability and is an investment holding company. Its subsidiaries are principally engaging in the shipbuilding related business, trading business, finance leasing business, intelligent car-parking and automotive device business and steel structure engineering and installation business.

The Directors consider that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group upon exercise of the conversion rights attached to the Convertible Bonds so as to facilitate its future development.

The Directors consider that the terms of the Subscription Agreements, which were arrived at arm's length negotiations between the Company and each of the Subscribers, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

The gross proceeds and net proceeds of the Subscription will be approximately HK\$110,000,000 and HK\$109,000,000 respectively. The Company intends to apply net proceeds (after the expense of the issue of Convertible Bonds) for the followings purposes:

- approximately HK\$89,000,000 for repayment of the outstanding loans and interest owed by the Group; and
- approximately HK\$20,000,000 for working capital of the Group.

The net price per Conversion Share based on the above net proceeds is approximately HK\$0.634.

Completion of the Subscription is subject to fulfilment of the conditions precedent under each of the Subscription Agreements and the Capital Reorganisation becoming effective. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

PROPOSED CAPITAL REORGANISATION

As at the date of this announcement, the authorised share capital of the Company is HK\$2,500,000,000 comprising 50,000,000,000 Existing Shares of HK\$0.05 each, of which 13,636,838,840 Existing Shares have been issued and are fully paid or credited as fully paid. The Board proposes to carry out the Capital Reorganisation involving the following:

(A) Capital Reduction

- (i) the cancellation of HK\$0.049 paid up capital on each issued Existing Share by way of reduction of capital so that the nominal or par value of each issued Existing Share will be reduced from HK\$0.05 to HK\$0.001; and
- (ii) the credit arising from the Capital Reduction in the amount of HK\$668,205,103 will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit (if any) will be transferred to the distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve subject to compliance with applicable law.

(B) Share Consolidation

Immediately upon the Capital Reduction becoming effective, every 40 Reduced Shares of HK\$0.001 each in the then issued share capital of the Company will be consolidated into one Consolidated Share of HK\$0.04 in the share capital of the Company and the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation.

Effect of the Capital Reorganisation

As at the date of this announcement, the authorised share capital of the Company is HK\$2,500,000,000 divided into 50,000,000,000 Existing Shares of HK\$0.05 each, of which 13,636,838,840 Existing Shares have been allotted and issued as fully paid or credited as fully paid. Upon the Capital Reorganisation becoming effective and assuming that no Existing Shares are repurchased or issued from the date hereof until the effective date of the Capital Reorganisation, the authorised share capital of the Company shall become HK\$50,000,000 divided into 1,250,000,000 Consolidated Shares of HK\$0.04 each, of which 340,920,971 Consolidated Shares will be in issue.

Assuming there will be no change in the issued share capital of the Company from the date of this announcement up to the date on which the Capital Reorganisation becomes effective, the share capital structure of the Company will be as follows:

	As at the date of this announcement	Immediately upon the Capital Reorganisation taking effect
Nominal or par value	HK\$0.05 per Existing Share	HK\$0.04 per New Share
Amount of the authorised share capital	HK\$2,500,000,000	HK\$50,000,000
Number of authorised shares	50,000,000,000 Existing Shares	1,250,000,000 New Shares
Number of issued shares	13,636,838,840 Existing Shares	340,920,971 New Shares
Amount of the issued share capital	HK\$681,841,942	HK\$13,636,839

Status of the New Shares

All New Shares in issue immediately following the Capital Reorganisation becoming effective will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (i) the passing of a special resolution by the Shareholders to approve the Capital Reorganisation at the SGM;
- (ii) compliance with section 46(2) of the Companies Act, including (a) publication of a notice in relation to the Capital Reduction in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the effective date of the Capital Reduction and (b) that on the effective date of the Capital Reduction, there are no reasonable grounds for believing the Company is, or after the proposed Capital Reduction would be, unable to pay its liabilities as they become due; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the New Shares to be in issue. An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the New Shares to be in issue upon the Capital Reorganisation becoming effective.

Assuming the above conditions are fulfilled, the Capital Reorganisation is expected to become effective on the next Business Day after the last of the aforesaid conditions are fulfilled.

Listing application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares to be issued upon the Capital Reorganisation becoming effective.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of the HKSCC, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

OTHER ARRANGEMENTS

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Odd lots arrangement and matching services

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint a securities firm to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Details of the odd lot arrangement will be set out in the circular to be despatched to the Shareholders.

Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed.

Free exchange of Consolidated Shares' certificates and trading arrangement

Subject to the Share Consolidation becoming effective, Shareholders may, on or after Wednesday, 28 August 2019 until Friday, 4 October 2019 (both days inclusive), submit existing share certificates for the Shares to the Hong Kong Branch Share Registrar, Tricor Abacus Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, to exchange, at the expense of the Company, for new share certificates of the Consolidated Shares (on the basis of Forty (40) Shares for one (1) Consolidated Share). Thereafter, existing share certificates of Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each existing share certificate for the Shares submitted for cancellation or each new share certificate issued for the Consolidated Shares, whichever the number of certificates cancelled/issued is higher. After close of business on Friday, 4 October 2019, existing share certificates for the Shares will only remain effective as documents of title and may be exchanged for certificates for Consolidated Shares at any time but will not be accepted for delivery, trading and settlement purposes.

The colour of the new share certificates for the Consolidated Shares will be announced by the Company in due course.

REASON FOR THE CAPITAL REORGANISATION

According to Rule 13.64 of the Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities. In view of the recent trading prices of the Shares, the Board proposed to implement the Share Consolidation. It is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price of the Consolidated Shares. In addition, the Company is prohibited from issuing new shares at below their par value under the Companies Act. The Capital Reorganisation will give greater flexibility to the Company in future fund raising to accommodate its future expansion and growth, should the Board consider it prudent or advisable to do so, through the issue of New Shares in the future. Save for the Subscription, the Company currently has no other concrete plan to raise funds by way of issuing new Shares.

Upon the Capital Reduction becoming effective, the credit arising from the Capital Reduction will be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The Board is of the view that the elimination of the Company's accumulated losses will therefore facilitate any dividend payment by the Company, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. The Company currently has no concrete plan to declare or pay any dividend. As at the date of this announcement, besides the Capital Reorganisation, to the best knowledge of the Directors, the Company has no intention to carry out any corporate action or arrangement, including share consolidation, share subdivision and change in board lot size, in the next 12 months which would have a contradictory effect to the Capital Reorganisation.

Save for the expenses to be incurred by the Company in implementing the Capital Reorganisation, the Board considers that the Capital Reorganisation will have no impact on the underlying assets, business operations, management or financial position of the Group or the proportionate interests of the Shareholders and their respective voting rights. Further, the Capital Reorganisation does not involve the diminution of any liability in respect of any unpaid capital of the Company nor does it involve the repayment to the Shareholders of any paid up capital of the Company. The Board considers that the Capital Reorganisation will not have any material adverse effect on the financial position of the Company.

In view of the above, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

EFFECTS OF THE SUBSCRIPTION AND THE CAPITAL REORGANISATION OF SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is the shareholding structure of the Company (a) as at the date of this announcement; (b) immediately after the Capital Reorganisation becoming effective but before full conversion of the Convertible Bonds at the Conversion Price; (c) after the Capital Reorganisation becoming effective and immediately upon full conversion of the Existing CB and Convertible Bonds at the Conversion Price (without adjustment), assuming there being no other change in the issued share capital and shareholding structure of the Company since the date of this announcement:

Shareholder	At the date of this announcement		Immediately after the Capital Reorganisation becoming effective but before full conversion of the Convertible Bonds		After the Capital Reorganisation becoming effective and immediately upon full conversion of the Existing CB and Convertible Bonds (without adjustment)	
	No. of Shares	Approximately %	No. of New Shares	Approximately %	No. of New Shares	Approximately %
	Mr. Li Ming	1,248,777,954	9.16%	31,219,449	6.09%	31,219,449
Lead Dragon Limited (Note 1)	542,005,000	3.97%	13,550,125	2.65%	13,550,125	2.34%
Mr. Zhang Shi Hong (Note 2)	216,400,000	1.59%	5,410,000	1.06%	5,410,000	0.94%
Mr. Zhang Weibing (Note 3)	30,000,000	0.22%	750,000	0.15%	750,000	0.13%
Existing CB Holder	-	-	-	-	67,500,000	11.64%
The Subscriber 1	-	-	78,125,000	15.24%	78,125,000	13.47%
The Subscriber 2	-	-	93,750,000	18.29%	93,750,000	16.16%
Public Shareholders	11,599,655,886	85.06%	289,991,397	56.52%	289,991,397	49.94%
Total:	<u>13,636,838,840</u>	<u>100.00%</u>	<u>512,795,971</u>	<u>100.00%</u>	<u>580,295,971</u>	<u>100.00%</u>

Notes:

1. Lead Dragon Limited is wholly-owned by Mr. Li Ming, the chairman and an executive Director.
2. Mr. Zhang Shi Hong is an executive Director.
3. Mr. Zhang Weibing is an executive Director.

4. The above shareholding structure of the Company is shown for illustration purposes only. The Conversion Rights shall only be exercisable so long as not less than 25% of the then total number of issued Shares as enlarged by the issue of the Conversion Shares are being held in public hands and will not result in the relevant Bondholder, its associates and parties acting in concert with it will, in aggregate, control or be interested in 30% or more of the voting rights of the Company unless: (i) a whitewash waiver is obtained in accordance with the requirements of the Takeovers Code; or (ii) a general offer is made in accordance with the requirements of the Takeovers Code.

The Share Options

As at the date of this announcement, Share Options granted under the Share Option Scheme carrying rights to subscribe for an aggregate of 326,000,000 Shares remain outstanding. Under the relevant terms and conditions thereof, the Share Consolidation may lead to adjustments to the exercise price and/or the number of shares of the Company falling to be issued upon exercise of the Share Options pursuant to the terms thereof. Assuming there is no other adjustment event under the relevant share option scheme other than the Share Consolidation becoming effective, the Share Options will entitle the holders thereof to subscribe for up to 8,150,000 Consolidated Shares in aggregate. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

The Existing Convertible Bonds

As at the date of this announcement, the Existing CB in aggregate principal amount of HK\$189,000,000 issued by the Company to the holder(s) of the Existing CB (“**Existing CB Holder(s)**”) on 10 November 2017 remains outstanding. Subject to the confirmation of the auditors of the Company or (as the case may be) an independent financial advisers, the Capital Reorganisation may cause adjustments to the conversion price of the Existing CB. The Company will inform the Existing CB Holder(s) of the relevant adjustment(s), and make appropriate announcement on the Stock Exchange as and when appropriate. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

Save as the aforesaid, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares as at the date of this announcement.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Capital Reorganisation is as follows:

Event

Despatch of circular with notice of SGM and form of proxy. Friday, 2 August 2019

Latest time for lodging transfer of Shares in order
to qualify for attending and voting at the SGM. 4:30 p.m. on
Friday, 16 August 2019

Register of members of the Company closed. Monday, 19 August 2019
to Monday, 26 August 2019
(both days inclusive)

Latest time and date for lodging forms of proxy for the SGM
(not less than 48 hours prior to the time of the SGM) 9:30 a.m. on
Saturday, 24 August 2019

Time and date of the SGM 9:30 a.m. on
Monday, 26 August 2019

Publication of announcement of poll results of the SGM Monday, 26 August 2019

The following events are conditional on the fulfilment of the conditions for the
implementation of the Capital Reorganisation:

Effective date of the Capital Reorganisation Wednesday, 28 August 2019

Dealing in Consolidated Shares commences 9:00 a.m. on
Wednesday, 28 August 2019

First day for free exchange of existing share certificates for
new share certificates for the Consolidated Shares Wednesday, 28 August 2019

Original counter for trading in the Existing
Shares in board lots of 5,000 Existing Shares
(in the form of existing share certificates) temporarily closes 9:00 a.m. on
Wednesday, 28 August 2019

Temporary counter for trading in the Consolidated Shares in
board lots of 125 Consolidated Shares (in the form of
existing share certificates) opens 9:00 a.m. on
Wednesday, 28 August 2019

Original counter for trading in the Consolidated
Shares in board lots of 5,000 Consolidated
Shares (in the form of new share certificates) re-opens 9:00 a.m. on
Wednesday, 11 September 2019

Parallel trading in the Consolidated Shares
(in form of new share certificates and
existing share certificates) commences 9:00 a.m. on
Wednesday, 11 September 2019

Designated broker starts to stand in the market to
provide matching services for odd lots of the
Consolidated Shares 9:00 a.m. on
Wednesday, 11 September 2019

Temporary counter for trading in the Consolidated Shares in
board lots of 125 Consolidated Shares (in the form of
existing share certificates) closes. 4:00 p.m. on
Wednesday, 2 October 2019

Parallel trading in Consolidated Shares (in form of
new share certificates and existing share certificates) ends 4:00 p.m. on
Wednesday, 2 October 2019

Designated broker ceases to stand in the market to
provide matching services for odd lots of
the Consolidated Shares4:00 p.m. on
Wednesday, 2 October 2019

Last day for free exchange of existing share certificates for
new share certificates for the Consolidated SharesFriday, 4 October 2019

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Capital Reorganisation”. Therefore, the Capital Reorganisation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve (i) the Subscription Agreements and the transactions contemplated under it; (ii) the grant of the Specific Mandate; (iii) the Capital Reorganisation and (iv) a notice of the SGM. To the best information, knowledge and belief of the Board having made all reasonable enquiries, as at the date of this announcement, no Shareholder has any interest in the Subscription Agreements, the transactions contemplated thereunder and the Capital Reorganisation that is materially different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the resolutions to be proposed at the SGM.

A circular containing, among other things, (i) further details of the Subscription Agreements; (ii) further details of the Capital Reorganisation; and (iii) the notice of the SGM, will be despatched to the Shareholders on or before 2 August 2019.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	any person who is the registered holder of any Convertible Bonds then outstanding
“Business Day(s)”	a day (excluding Saturday, Sunday, public holiday or any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted between 9:00 a.m. and 5:00 p.m. in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Capital Reduction”	the reduction of the paid-up capital of each of the issued Shares by cancelling the paid-up capital to the extent of HK\$0.049 per issued Share, thereby reducing the nominal or par value of each issued Share from HK\$0.05 to HK\$0.001 and the reduction of the nominal or par value of each authorised but unissued Share from HK\$0.05 to HK\$0.001
“Capital Reorganisation”	the proposed capital reorganisation of the Company comprising (i) the Capital Reduction; and (ii) the Share Consolidation
“Companies Act”	the Companies Act 1981 of Bermuda

“Company”	China Ocean Industry Group Limited (中海重工集團有限公司) , a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board (Stock Code: 0651)
“Completion”	completion of the issue of the Convertible Bonds by the Company and subscription for the Convertible Bonds by the Subscribers in accordance with the terms and conditions of each of the Subscription Agreements
“connected person(s)”	has the meaning as ascribed thereto under the Main Board Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.04 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Convertible Bonds”	the convertible bonds in aggregate principal amount of HK\$110,000,000 which may be issued by the Company to the Subscribers pursuant to the Subscription Agreements
“Conversion Price”	the initial conversion price of HK\$0.64 per Conversion Share
“Conversion Rights”	the rights attached to the Conversion Bonds for the conversion of the Convertible Bonds into the Conversion Shares at the Conversion Price
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the Conversion Rights
“Director(s)”	the director(s) of the Company

“Existing CB”	the existing 2-year convertible bond in aggregate principal amount of HK\$189,000,000 issued by the Company on 10 November 2017, details of which are set out in the announcements of the Company dated 10 August 2017
“Existing Shares”	ordinary share(s) of the Company with a nominal value of HK\$0.05 each prior to the Capital Reorganisation
“Group”	the Company and its subsidiaries from time to time and “Group member” shall be construed accordingly
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Last Trading Day”	19 July 2019, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Subscription Agreements
“Issue Date”	the date of issue of the Convertible Bonds
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange

“New Shares”	ordinary share(s) with par value of HK\$0.04 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
“Reduced Share(s)”	ordinary shares of HK\$0.001 each in the issued share capital of the Company immediately upon the Capital Reduction becoming effective
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan
“SGM”	a special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, the Specific Mandate and Capital Reorganisation
“Share(s)”	the ordinary share(s) in the issued share capital of the Company
“Share Consolidation”	the proposed consolidation of every 40 issued and unissued Existing Shares into 1 Consolidated Share and the proposed rounding down of the total number of Consolidated Shares to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation
“Share Option Schemes”	the share option schemes adopted respectively by the Company on 27 May 2002 and 27 June 2012
“Share Options”	the share options granted under the Share Option Scheme
“Shareholder(s)”	the holder(s) of the Share(s)

“Specific Mandate”	the mandate to be sought from the Shareholders at the SGM to allot and issue the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber 1”	Hong Kong Tong Ji Investment Holding Ltd. (香港同濟投資控股有限公司), which is independent to Subscriber 2 and the holder of the Existing CB
“Subscriber 2”	Wise Benefit Investments Limited (智益投資有限公司), which is independent to Subscriber 1 and the holder of the Existing CB
“Subscribers”	Subscriber 1 and Subscriber 2
“Subscription”	the subscription of the Convertible Bonds by the Subscribers pursuant to the terms of the Subscription Agreements
“Subscription Agreement I”	the subscription agreement dated 19 July 2019 entered into between the Company and Subscriber 1 in relation to the subscription of Convertible Bonds in the principal amount of HK\$50,000,000
“Subscription Agreement II”	the subscription agreement dated 19 July 2019 entered into between the Company and Subscriber 2 in relation to the subscription of Convertible Bonds in the principal amount of HK\$60,000,000
“Subscription Agreements”	the Subscription Agreement I and Subscription Agreement II
“Takeover Code”	the Codes on Takeovers and Mergers and Share Buybacks

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

“%” per cent.

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

Hong Kong, 19 July 2019

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

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