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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) SETTLEMENT DEED**

**AND**

### **(2) ISSUANCE OF CONVERTIBLE NOTES**

#### **REFERENCE**

The Company acquired a vessel manufacturing business in 2007. While completion of the acquisition took place on 16 April 2008, a cash portion of the consideration for the acquisition in the amount of HK\$200 million which was originally needed to be paid on or before 31 December 2009 is still outstanding. Payment of that amount (“Deferred Consideration”) has been subsequently deferred to a date on or before 31 January 2012.

#### **SETTLEMENT DEED**

On 30 January 2012, the Company entered into a Settlement Deed. Pursuant to the Settlement Deed, the Company’s payment obligation of the Deferred Consideration shall be fully settled and discharged upon issuance of the Convertible Notes and the Promissory Notes from the Company to the Vendor and/ or its nominees and settlement of the relevant interests by the Company.

The Directors are of the view that the terms of the Settlement Deed are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares to be allotted and issued under the Convertible Notes pursuant to the Settlement Deed. The Conversion Shares will be issued under the General Mandate.

As completion of the Settlement Deed is conditional upon the satisfaction of its conditions precedent, it may or may not proceed. Therefore, Shareholders and investors are advised to exercise caution when dealing in the Shares.

## **BACKGROUND**

The Company acquired a vessel manufacturing business in 2007. While completion of the acquisition took place on 16 April 2008, a cash portion of the consideration for the acquisition in the amount of HK\$200 million which was originally needed to be paid on or before 31 December 2009 is still outstanding. Payment of the Deferred Consideration was subsequently deferred to a date on or before 31 January 2012.

## **SETTLEMENT DEED**

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### **1. Parties and Date**

Date: 30 January 2012 (after trading hours)

Parties: (a) the Company

(b) the Vendor

As at the date of this announcement, Mr. Kwan Shan holds HK\$30,000,000 convertible notes, at the conversion price of HK\$0.22, of the Company and Mr. Li Jun holds 7,340,297 Shares. Save as disclosed herein, the Vendor, its registered owners and beneficial owners do not hold any Shares or other securities in the Company as at the date of this announcement. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, each of the Vendor, its registered owners and beneficial owners is an Independent Third Party and is not acting in concert (within the meaning of the Takeovers Code) with any of them or with any of the Company's shareholders and existing noteholders as at the date of this announcement.

### **2. Conditions precedent**

Completion of the Settlement Deed shall take place upon fulfilment of the following conditions precedent:

(a) The Company being delivered with the following documents within thirty (30) days from the date of the Settlement Deed or such other date as may be agreed by the Parties:

(i) certain corporate documents of the Vendor;

- (ii) approval from the Listing Committee having granted (either conditionally or unconditionally) the listing of, and permission to deal in, the Shares to be allotted and issued under the Convertible Notes pursuant to the Settlement Deed; and
- (b) The Vendor and/ or its nominees be delivered with the following documents within five (5) Business Days from completion of the conditions precedent mentioned in sub-paragraph 2(a)(i) under the heading of “Settlement Deed” above (or such other date as may be agreed by the Parties):
- (i) payment of HK\$10 million as settlement of all outstanding interests in respect of the Deferred Consideration (*Note 1*);
  - (ii) issuance of the Convertible Notes; and
  - (iii) issuance of the Promissory Notes.

If the above conditions are not fulfilled on or prior to 5:00 p.m. on 31 March 2012 (or such other date and time as may be agreed between the Company and the Vendor), the Settlement Deed shall lapse and have no legal effect and no Party shall have any claim against the other for any costs, compensations or losses, save in respect of any antecedent breaches of the Settlement Deed.

*Note:*

1. Up to the signing of the Settlement Deed, a sum of HK\$17,755,572 is payable by the Company to the Vendor as interest payment of the Deferred Consideration. With the payment of HK\$10 million as mentioned in sub-paragraph 2(b)(i) under the heading of “Settlement Deed” above, the Vendor has agreed to forego (i) HK\$7,755,572, being the remaining outstanding interest that would otherwise need to be paid in the absence of the Settlement Deed, and (ii) any interest to be incurred from the date of the Settlement Deed to the Completion Date.

### **3. Principal terms of the Convertible Notes**

Total principal amount :	HK\$105 million
Maturity date :	The third anniversary from the relevant issue date
Interest rate :	Three per cent (3.0%) per annum accrued on a day to day basis on the principal amount of the Convertible Note outstanding, payable semi-annually in arrears.

Conversion price : HK\$0.15 per Conversion Share, which may be subject to adjustment in events such as sub-division or consolidation of the Shares, issue of Shares by way of capitalization of profits or reserves, capital distribution of the Company, rights issues of Shares or grant of options over Shares, right issues of other securities of the Company, issue of securities of the Company at less than its current market price, modification of rights of conversion and other offers to the Shareholders.

Conversion : The Noteholders may convert the whole or any part (in the authorized denominations) of the outstanding principal amount of the Convertible Notes into Conversion Share(s) at the then Conversion Price at any time following the date of issue of the Convertible Notes until the date seven (7) days before (and excluding) the Maturity Date.

Exercise of the conversion rights under the Convertible Notes is restricted as follows:

- (i) the maximum number (“MN”) of the Conversion Shares which falls to be issued upon exercise of such Conversion Rights is 700,000,000;
- (ii) if the aggregate number of the Conversion Shares which falls to be issued upon the exercise of such Conversion Rights would exceed the Maximum Number, the relevant conversion notice shall instead be deemed to relate to the Maximum Number. Subject to paragraph (i) above, the “Maximum Number” shall be “MN” as determined below rounded down to the nearest integral number; and

Where

$$\frac{MN + ES}{MN + IS} \times 100\% = 29.9\% \text{ or such other percentage that is } 0.1\% \text{ below the percentage as may be specified in the Takeovers Code as being the level for triggering a mandatory general offer}$$

whereby:-

“IS” means the total number of Shares (with voting rights) in issue as at the close of business on the Conversion Date;

“ES” means the total number of Shares held by the Noteholder and parties acting in concert with it (within the meaning of the Takeovers Code) on the Conversion Date;

(iii) if the Conversion Shares are to be issued to a connected person, the exercise of Conversion Rights would be subject to approval of the Shareholders in a general meeting (if required) and compliance with relevant requirements of the Listing Rules; and

(iv) the maintenance of public float as required under Rule 8.08 of the Listing Rules.

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 can be transferred (in an authorised denomination) without the prior written consent of the Company except that the Convertible Notes can only be transferred to a connected person of the Company if prior written consent of the Company is obtained.
- Redemption and Repurchase : The Convertible Notes are not redeemable at the option of the Noteholders. The Company may at any time and from time to time, by ten (10) Business Days prior written notice to a Noteholder elect to redeem or repurchase the whole or part (being an authorised denomination) of the then outstanding principal amount of its Convertible Notes during a period commencing the date of issue of the Convertible Notes until a day falling seven (7) days prior to (and excluding) the Maturity Date at 100% of the principal amount of the Convertible Notes outstanding and sought to be redeemed or repurchased.
- 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 of the principal amount for more than fourteen (14) days, an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any Subsidiary, proceedings shall have been initiated against the Company or any Subsidiary under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of sixty 60 days and the listing of the Company is withdrawn from the Stock Exchange) specified in the Convertible Notes, a Noteholder or Noteholder, together holding at least fifty-one percent 51% of the outstanding principal amount of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Notes.

Status of the Convertible Notes: The Convertible Notes constitute general, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, the Convertible Notes will be issued to the Vendor and/or its nominees who are Independent Third Parties and not acting in concert (within the meaning of the Takeovers Code) with any of them or with any of the Company's shareholders and existing noteholders as at the date of this announcement.

An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares to be allotted and issued under the Convertible Notes pursuant to the Settlement Deed. The Conversion Shares will be allotted and issued under the General Mandate.

#### **4. Principal Terms of the Promissory Notes**

Total principal amount: HK\$95 million

End date: 31 December 2014

Interest rate: three per cent (3.0%) per annum accrued on a day to day basis on the outstanding principal amount of the Promissory Notes outstanding, payable semi-annually in arrears and on the end date of the Promissory Notes.

Transferability: The Promissory Notes can be transferred on condition that the relevant principal amount and corresponding interest shall need to be transferred together.

To the best of the Director's knowledge, information and belief having made all reasonably enquiries, the Promissory Notes will be issued to the Vendor and/ or its nominees who are Independent Third Parties.

The Settlement Deeds does not constitute an event calling for adjustment to the price or number of the conversion shares with respect to the existing outstanding convertible notes of the Company.

## CONVERSION PRICE

The conversion price of HK\$0.15 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 2010 and for the six months ended 30 June 2011 and (iii) current financial position of the Company.

The Conversion Price represents:

- (a) a premium of approximately 30.43% over the closing price of HK\$0.115 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 45.63% over the average closing price of HK\$0.103 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 47.06% over the average closing price of approximately HK\$0.102 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day.

## CHANGES IN SHAREHOLDING STRUCTURE

Assuming there being no other change in the shareholding structure of the Company, the following table sets out the shareholding structure of the Company (i) as at the date of this announcement and before the Completion Date; and (ii) immediately after the allotment and issue of the maximum number of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price.

<b>Shareholders</b>	<b>As at the date of this announcement and before the Completion Date</b>		<b>Immediate after the allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes</b>	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Li Ming and his associate (Note 1)	270,797,500	7.38	270,797,500	6.20
Ng Leung Ho	450,000,000	12.27	450,000,000	10.30
<i>Public Shareholders</i>				
The Vendor and/or its nominees	7,340,297	0.20	707,340,297	16.19
Other public Shareholders	<u>2,939,857,089</u>	<u>80.15</u>	<u>2,939,857,089</u>	<u>67.31</u>
	<u>3,667,994,886</u>	<u>100.00</u>	<u>4,367,994,886</u>	<u>100.00</u>



*Note:*

1. Such Shares were held by Mr. Li Ming, an executive Director, of which 239,022,500 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.

## **REASONS FOR ENTERING INTO THE SETTLEMENT DEED**

The Directors consider the execution of the Settlement Deed is justifiable considering that it can assist the Group to reduce its net current liability, enhance its working capital and strengthen its capital base. Also, the Group believes that the interest rate of three per cent (3%) per annum payable under the Convertible Notes and Promissory Notes is quite competitive.

The issuance of the Convertible Notes and the Promissory Notes will allow the Group to retain the cash which is otherwise required to be repaid on or before 31 January 2012 and have more flexibility and time to plan for its funding requirement for its operation and repayment of debts. Given the stringent financial position of the Group and the volatile global economy on which the shipbuilding market is heavily dependent on, the signing of the Settlement Deed is definitely a welcoming move to the Group.

Pursuant to the terms and conditions of the Convertible Notes, if the total principal amount of HK\$105 million is converted in full, a total of 700 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 Settlement Deed are fair and reasonable and in the interests of the Company and the Shareholders as a whole for the reasons mentioned above.

## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company did not conduct any fund raising activities in the past twelve months before the date of this announcement:

<b>Nature of transaction</b>	<b>Date of initial announcement</b>	<b>Net proceeds</b>
Subscription of Shares	21 December 2010	Not applicable as the subscription monies were for settlement of the convertible notes of the Company which belonged to the subscribers of the Shares in concern

## GENERAL MANDATE

The Conversion Shares shall be allotted and issued under the General Mandate. The General Mandate was granted to the Directors at the annual general meeting of the Company held on 23 June 2010, which allows the Directors to issue up to 733,598,977 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date). The General Mandate has not been utilised as at the date of this announcement. The maximum number of the Conversion Shares to be allotted and issued under the Settlement Deed, being 700 million Shares, represents approximately 95% of the General Mandate.

## GENERAL

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

The Vendor is principally engaged in investment holding.

As the Settlement Deed is subject to the satisfaction of the conditions precedent therein, **it may or may not take effect. Therefore, Shareholders and investors are advised to exercise caution when dealing in the Shares.**

## DEFINITIONS

Unless the context requires otherwise, the following terms have the following meaning in this announcement:

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Business Day”	a day (excluding Saturday, Sunday and public holidays) on which banks in Hong Kong are open for business;
“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
“Completion Date”	the date on which all the conditions precedents stated in the Settlement Deed are fulfilled
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Date”	in respect of a Convertible Note the date on which the Conversion Rights attached to it are exercised in accordance with the terms and conditions of the Convertible Note
“Conversion Price”	initial at HK\$0.15 per Conversion Share, subject to adjustments in accordance with the terms and conditions of the Convertible Notes
“Conversion Rights”	the rights attached to the Convertible Notes to convert the principal amount or a part thereof into Shares
“Conversion Shares”	the Shares to be issued by the Company under the Convertible Notes
“Convertible Notes”	the three-year 3% coupon convertible notes in a total principal amount of HK\$105 million to be issued by the Company to the Vendor and/or its nominees pursuant to the Settlement Deed
“Directors”	directors of the Company

“General Mandate”	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 23 June 2011, pursuant to which a maximum of 733,598,977 new Shares may fall to be allotted and issued
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and connected persons of the Group in accordance with the Listing Rules
“Last Trading Day”	30 January 2012, 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 for considering applications for listing and the granting of listing
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	The third anniversary from the relevant issue date
“Noteholder(s) “	holder(s) of the Convertible Notes
“Parties”	the Company and the Vendor and the “Party” means anyone of them
“PRC”	the People’s Republic of China
“Promissory Notes”	The promissory notes in a total principal amount of HK\$95 million to be issued by the Company to the Vendor and/or its nominees pursuant to the Settlement Deed

“Settlement Deed”	the conditional deed of settlement dated 30 January 2012 entered into by the Company and the Vendor for full and final settlement of the Deferred Consideration
“Share(s) “	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Vendor”	Million King Investments limited, a company incorporated in the British Virgins Islands
“%”	per cent

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

Hong Kong, 30 January 2012

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