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中船海洋与防务装备股份有限公司
CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED

(a joint stock company with limited liability incorporated in the People's Republic of China)
(H Shares Stock Code: 00317)

PROPOSED ARTICLES AMENDMENTS TO THE ARTICLES OF ASSOCIATION, CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE ENTERING INTO OF THE LAND RESUMPTION COMPENSATION AGREEMENT

**Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders**

VINC  **城高**
Vinco Capital Limited

Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined under the section "Definitions" of this circular.

A letter from the Board is set out on pages 6 to 25 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 26 to 27 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 40 of this circular.

The EGM will be held at Conference Room, 15/F Shipping Building, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m. on Tuesday, 24 December 2019. Shareholders who intend to attend the EGM are requested to send a written reply, whether in person, by post, by fax to the registered office of the Company at least 20 days before the EGM (i.e. before 3 December 2019). In order to ensure validity, holders of A Shares must deliver the completed proxy form and other authorization documents (if any) to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the EGM (or any adjournment thereof). Holders of H Shares must deliver the completed proxy form and other authorization documents (if any) to the Company's H shares registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time scheduled for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish. Notice of the EGM together with the reply slip and a proxy form for use at the EGM have already been sent to Shareholders.

9 December 2019

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DEFINITIONS

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

“2017-2019 Framework Agreement”	framework agreement for the continuing connected transactions for the period from 1 January 2017 to 31 December 2019 (both days inclusive) entered into between the Company and CSSC on 30 August 2016 and approved by the independent Shareholders on 18 October 2016, as amended and supplemented
“A Share(s)”	domestic shares of the Company with nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Business Day”	a day on which banks are open for business in the PRC, other than Saturdays, Sundays or public holidays in the PRC
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated on 21 August 2014 in the British Virgin Islands with limited liability
“Company”	CSSC Offshore & Marine Engineering (Group) Company Limited, a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Consideration Shares”	has its meaning as defined in the circular of the Company dated 4 October 2019
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules

DEFINITIONS

“CSSC”	China State Shipbuilding Corporation (中國船舶工業集團有限公司), a state-owned enterprise and a state-authorized investment institution directly supervised and administered by the SASAC. As at the Latest Practicable Date, CSSC holds 847,685,990 Shares of the Company, representing 59.97% of the issued Shares of the Company, and is a controlling shareholder of the Company
“CSSC Group”	CSSC and its subsidiaries
“CSSC Holdings”	China CSSC Holdings Limited* (中國船舶工業股份有限公司), a joint-stock company incorporated in the PRC with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 600150, abbreviated stock name: 中國船舶 (CSSC Holdings*))
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of 27.4214% equity interests currently held by the Company in GSI to CSSC Holdings
“EGM”	the second extraordinary general meeting of 2019 of the Company to be convened by the Company at Conference Room, 15/F Shipping Building, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m. on Tuesday, 24 December 2019
“Group”	the Company and its subsidiaries
“GS Shipping”	GS Shipping Co., Ltd.* (廣州廣船船業有限公司), a company established on 18 November 2014 in the PRC and is directly wholly-owned by Shanghai Lingxiang
“GS Shipping Land”	a land parcel located at 40 South Fangcun Main Road, Liwan District, Guangzhou, of approximately 393,793 sq.m. owned by GS Shipping
“GS Shipping Land Phase One”	part of the GS Shipping Land of approximately 44,800 sq.m. that will soon be put up for auction

DEFINITIONS

“GSI”	Guangzhou Shipyard International Company Limited* (廣船國際有限公司), a company established on 25 May 2006 in the PRC and as at the Latest Practicable Date, a non-wholly owned subsidiary of the Company
“H Shares”	overseas listed foreign shares of the Company listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in connection with the terms of the Land Resumption Compensation Agreement
“Independent Financial Adviser” or “Vinco Capital”	Vinco Capital Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Land Resumption Compensation Agreement
“Independent Shareholders”	Shareholders other than CSSC and its associates, none of them will be required to abstain from voting at the EGM to be convened for approval of the relevant transactions
“Independent Third Party(ies)”	party who is a third party independent of the Company and its connected person(s)
“Land Resumption Compensation Agreement”	the land resumption compensation agreement dated 18 November 2019 entered into between GSI and GS Shipping in relation to the fees payable by GS Shipping to GSI in respect of the Liaising Work

DEFINITIONS

“Latest Practicable Date”	9 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Major Asset Restructuring Plan”	has its meaning ascribed to it pursuant to the announcement of the Company dated 4 April 2019
“PRC”	the People’s Republic of China
“Proposed Articles Amendments”	the proposed articles amendments to the Articles of Association, details of which are set out in Appendix I of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFO”	Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong
“Shanghai Lingxiang”	Shanghai Lingxiang Investment Co. Ltd.* (上海凌翔投資有限公司), a company established on 30 October 2014 in the PRC and is wholly owned by Shanghai Ruibo
“Shanghai Ruibo”	Shanghai Ruibo Properties Co., Ltd.* (上海瑞博置業有限公司), a company established on 28 June 2004 in the PRC and is owned as to 50% by CITIC Pacific and 50% by CSSC
“Shareholder(s)”	holder(s) of Shares
“Shares”	shares of RMB1.00 each in the share capital of the Company
“%”	per cent.

* *The English names of the PRC entities referred to in this circular are translations from their Chinese names and are for identification purpose only. If there are any inconsistencies, the Chinese names shall prevail.*

DEFINITIONS

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

LETTER FROM THE BOARD



中船海洋与防务装备股份有限公司

CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED

(a joint stock company with limited liability incorporated in the People's Republic of China)

(H Shares Stock Code: 00317)

Executive Directors:

Mr. Han Guangde (*Chairman*)
Mr. Chen Zhongqian (*Vice-chairman*)
Mr. Chen Liping
Mr. Sheng Jigang
Mr. Xiang Huiming
Mr. Chen Ji

Registered Office:

40 South Fangcun Main Road
Liwan District
Guangzhou
The PRC
Post Code: 510382

Non-Executive Director:

Mr. Shi Jun

Independent Non-Executive Directors:

Mr. Wang Yichu
Mr. Min Weiguo
Mr. Liu Renhuai
Mr. Yu Shiyong

9 December 2019

To the H Shareholders

Dear Sir or Madam,

**PROPOSED ARTICLES AMENDMENTS TO THE ARTICLES OF
ASSOCIATION, CONNECTED AND DISCLOSEABLE TRANSACTION IN
RELATION TO THE ENTERING INTO OF THE LAND RESUMPTION
COMPENSATION AGREEMENT**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 7 November 2019 and 18 November 2019 in relation to, among other things, the Proposed Articles Amendments and the Land Resumption Compensation Agreement.

LETTER FROM THE BOARD

Vinco Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Land Resumption Compensation Agreement and whether such transactions are in the interests of the Company and the Shareholders as a whole. The letter from the Independent Board Committee to the Independent Shareholders is also included in this circular.

The purpose of this circular is to provide you with, among other things, further details of (i) the Proposed Articles Amendments; (ii) the Land Resumption Compensation Agreement; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding terms of the Land Resumption Compensation Agreement; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Land Resumption Compensation Agreement.

2. PROPOSED ARTICLES AMENDMENTS TO CERTAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 7 November 2019.

The Company intends to change the registered address according to the needs of business development. The specific is as follows:

1. Before the proposed change: 40 Fang Cun Main Road South, Liwan District, Guangzhou, Guangdong, China;
2. After the proposed change: 15th Floor, No. 137 Gexin Road, Haizhu District, Guangzhou, China.

The change of the registered address of the Company still needs to be handled after the consideration and approval of the Company's 2nd extraordinary general meeting of 2019 on the Proposal to Amend Certain Articles of the Articles of Association.

Based on the above, and combined with the Company Law of the People's Republic of China, the Code of Corporate Governance for Listed Companies in China, and other laws and regulations, the Company intends to amend certain provisions of the Company's Articles of Association, details of which are set out in Appendix I of this circular.

The Proposed Articles Amendments in relation to share repurchase and treasury shares are made in accordance with the relevant requirements under the PRC laws and regulations and will only apply to repurchase of A shares (but not H Shares) by the Company. In conducting repurchase of A Shares and/or H Shares, the Company undertakes to comply with all relevant laws and regulations including the Hong Kong Listing Rules.

LETTER FROM THE BOARD

According to the amendments as detailed in Appendix I of this circular, the Company will accordingly amend the relevant serial number in the current Articles of Association, and the Procedure at General Meeting, the Board Meeting Procedures and the Rules of Procedures for the Supervisory Committee in the Bylaws of the Articles of Association.

The Chairman of the Board or its authorized person shall, with the authorization of the general meeting, have the full authority to handle the amendments to the Articles of Association and the registration of industrial and commercial changes.

Except for the above amendments, the other articles of the Articles of Association remain unchanged.

This proposed articles amendments will take effect upon approval by Shareholders by way of special resolution at the EGM.

3. RESOLUTION ON THE CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE ENTERING INTO OF THE LAND RESUMPTION COMPENSATION AGREEMENT

Reference is made to the announcement of the Company dated 18 November 2019 regarding the Land Resumption Compensation Agreement and the announcements of the Company dated 14 August 2015, 5 November 2015, and 16 December 2015, and the circular dated 21 October 2015 regarding the disposal of the GS Shipping from the Group. The production base of GSI was originally located in the GS Shipping Land. In late 2015, GSI transferred 100% equity interest in GS Shipping through listing-for-sale process to Shanghai Lingxiang and commence the relocation gradually. The relocation was completed in February 2018.

A. Background

On 11 August 2017, upon negotiations between GSI with the relevant authorities, Guangzhou Land Development Center* (廣州市土地開發中心) entered into the Compensation Agreement regarding the Resumption of Land Use Right in respect of GS Shipping Land* (廣船國際荔灣廠區地塊國有土地使用權收儲補償協議) with GS Shipping, pursuant to which the parties plan to complete the land resumption of the GS Shipping Land Phase One through listing-for-sale process in 2019.

LETTER FROM THE BOARD

On 29 September 2017, the Company, the People's Government of Liwan District of Guangzhou City and CITIC Investment entered into the Strategic Cooperation Memorandum in respect of the District of Headquarters of Central Enterprises at the GS Shipping Land* (荔灣區廣船地塊央企總部集聚區戰略合作備忘錄), pursuant to which the parties would progress the alteration of the use of the GS Shipping Land and jointly develop the GS Shipping Land into a central district of headquarters of state-owned enterprises in order to construct a national park for science and innovation industries (“**Land Development**”). This Memorandum only governed the strategic framework of the parties' cooperation but did not contain provisions as to the actual cooperation among the parties.

Pursuant to the relocation arrangement agreement dated 17 November 2017, which constitutes a connected and discloseable transaction as disclosed in the announcements of the Company dated 17 November 2017, 20 November 2017 and 27 December 2017 and the circular of the Company dated 8 December 2017, GS Shipping has paid GSI a one-off lump sum in the amount of RMB826,965,300 in cash on 28 December 2017 as remuneration for the liaising work performed by GSI before 30 December 2017.

As the production base for shipbuilding of GSI was previously located in the GS Shipping Land over the past years prior to the relocation and the production base of GSI was relocated subsequently, the condition of the soil of GS Shipping Land was affected. In order to cause the listing-for-sale of GS Shipping Land which usage has been altered from industrial use to commercial and residential use and as part of the Land Development, the control of soil pollution and work to restore the contaminated soil which was resulted from the production and relocation of production base of GSI previously are required pursuant to the relevant PRC laws and regulations, such as Soil Pollution Control Act* (《土壤污染防治法》).

On 20 July 2018, GSI and GS Shipping entered into the Land Restoration Agreement regarding the GS Shipping Land* (廣州廣船荔灣區地塊土壤治理與修復委託合同), pursuant to which GSI has agreed to provide the soil pollution control and contaminated soil restoration work (the “**Land Works**”) for the entire GS Shipping Land. The Land Works include, among others, preparing reports of relevant laws and regulations in relation to the environment and Land Development, engaging professional construction unit, supervision unit and third party inspection unit and other units and planning and filing in relation to the soil pollution control and contaminated soil restoration of the GS Shipping Land. It was originally expected that such work in relation to GS Shipping Land Phase One will be completed on or before 27 December 2018.

However, due to the change in the Government's environmental policy, there is delay in the completion of the Land Works of GS Shipping Land Phase One. As such, on 5 November 2019, GSI and GS Shipping entered into a supplemental agreement in relation to postponement of the Land Works for the GS Shipping Land Phase One for one year and the postponement of the Land Works for the entire GS Shipping Land to 7 July 2021.

LETTER FROM THE BOARD

The on-site construction of GS Shipping Land Phase One has been completed in October 2019 and an application was made to the Department of Ecology and Environment of Guangdong Province* (廣東省生態環境廳) in November 2019 for the assessment of soil engineering effect and it is expected that the filing of the soil engineering work of GS Shipping Land Phase One by the Department Ecology and Environment of Guangdong Province can be completed in due course. GSI and GS Shipping are actively negotiating and discussing with the relevant government authority to speed up the Land Works, and to obtain the approval from the relevant government authority to commence the listing-for-sale of GS Shipping Land Phase One in 2019.

As at the Latest Practicable Date, GS Shipping is the holder of the land use right of the GS Shipping Land. GSI was the tenant of the GS Shipping Land prior to the relocation of the production base of the GSI. Hence, GSI implemented the relocation of production base of the GSI and was responsible for the Land Works. As GSI understands the soil condition of GS Shipping Land Phase One and GSI was involved in the negotiation between GS Shipping and the government authorities in relation to the Land Work, the government authorities only recognised GSI, but not other entity, as the implementer for the relocation of production base of the GSI and the Land Works. Hence, GS Shipping requires the cooperation from GSI in order to fulfil the Land Development.

Since the land price and base land price of the GS Shipping Land have increased significantly while there is a delay in the Land Development, in order to speed up the land restoration work and the settlement of land resumption compensation, GS Shipping would require the assistance of GSI to liaise with the relevant government authorities and proceed with the land restoration and land auction works at the same time. As such, GSI and GS Shipping entered into the Land Resumption Compensation Agreement to facilitate the Land Development.

The chronology of the events are as follows:

Date	Agreement/Document	Subject Matter and Role of the parties	Consideration/ Costs incurred	Latest Status
11 August 2017	Compensation Agreement regarding the Resumption of Land Use Right in respect of GS Shipping Land* (廣船國際荔灣廠區地塊國有土地使用權收儲補償協議)	Guangzhou Land Development Center* (廣州市土地開發中心) and GS Shipping plan to complete the land resumption of the GS Shipping Land Phase One through listing-for-sale bidding process in 2019.		

LETTER FROM THE BOARD

Date	Agreement/Document	Subject Matter and Role of the parties	Consideration/ Costs incurred	Latest Status
29 September 2017	Strategic Cooperation Memorandum in respect of the District of Headquarters of Central Enterprises at the GS Shipping Land* (荔灣區廣船地塊央企總部集聚區戰略合作備忘錄)	The Company, the People's Government of Liwan District of Guangzhou City and CITIC Investment would progress the Land Development.		As at the Latest Practicable Date, the Land Development is at the stage of land restoration, and when the conditions for Land Development is satisfied, the parties will enter into a formal agreement in relation to certain specific matters.
17 November 2017	Relocation arrangement agreement	GSI shall proactively liaise with the relevant authorities and procure that the Detailed Regulatory Plan* (控制性詳細規劃) in respect of the GS Shipping Land can be approved by the relevant government authorities before 30 December 2017 and GS Shipping shall pay GSI a consideration of RMB826,965,300.	GS Shipping has paid GSI a one-off lump sum in the amount of RMB826,965,300 in cash on 28 December 2017 as remuneration for the liaising work performed by GSI. The actual unaudited costs involved in the provision of the liaising work pursuant to the relocation arrangement agreement is approximately RMB3.5 million, including labour costs and disbursement.	The obligations of the parties under the said agreement were completed.

LETTER FROM THE BOARD

Date	Agreement/Document	Subject Matter and Role of the parties	Consideration/ Costs incurred	Latest Status
20 July 2018	Land Restoration Agreement regarding the GS Shipping Land* (廣州廣船荔灣區地塊土壤治理與修復委託合同)	GSI has agreed to provide the Land Works for the GS Shipping Land and GS Shipping shall pay GSI a consideration of RMB150 million.	<p>The consideration amounted to RMB150 million. The payment of 97% of the consideration of RMB150 million, which is RMB145.5 million, will be paid at different intervals in accordance with the stage of construction for the Land Works (which is expected to be completed in the end of July 2021) while 3% of the consideration of RMB150 million, which is RMB4.5 million will serve as retention fee which will be paid within 2 months (without interest) after the completion of the Land Work and the payment to all third parties are settled. As of November 2019, an unaudited revenue of approximately RMB11.68 million from the provision of Land Works was received and confirmed by GSI.</p> <p>The preliminary estimate of the actual unaudited cost incurred by GSI as of November 2019 for the on-site construction work of the Land Works of GS Shipping Land Phase One during the period from August 2019 to October 2019 is approximately RMB45.5 million.</p>	The on-site construction work of the GS Shipping Land Phase One is completed in October 2019 and the construction summary report and inspection report was formally submitted to the relevant government authority for review and it is expected that the expert review will be held when appropriate.

LETTER FROM THE BOARD

Date	Agreement/Document	Subject Matter and Role of the parties	Consideration/ Costs incurred	Latest Status
7 August 2019	Conditional Agreement on the Acquisition of Part of the Equity Interests in Guangzhou Shipyard International Company Limited by China State Shipbuilding Corporation Limited by way of Issuance of Shares to CSSC Offshore & Marine Engineering (Group) Company Limited (《中國船舶工業股份有限公司向中船海洋與防務裝備股份有限公司發行股份購買廣船國際有限公司部分股權之附條件生效協議》)	The Company entered into the disposal agreement with CSSC Holdings in relation to the disposal of 27.4214% interest in GSI. The Company and CSSC Holdings agreed that all profits and losses of GSI during the transition period prior to the completion of the Disposal shall belong to and shall be borne by CSSC Holdings in proportionate to its shareholdings in GSI respectively.	The consideration of the Disposal amounted to approximately RMB2,858 million, which was determined with reference to the appraised values of the total shareholders' interests of GSI of RMB10,541 million according to the valuation report as at 30 April 2019.	The Disposal was approved by the Company's independent shareholder at the EGM held on 23 October 2019.
12 September 2019	Supplemental Conditional Agreement on the Acquisition of Part of the Equity Interests in Guangzhou Shipyard International Company Limited by China State Shipbuilding Corporation Limited by way of Issuance of Shares to CSSC Offshore & Marine Engineering (Group) Company Limited (《中國船舶工業股份有限公司向中船海洋與防務裝備股份有限公司發行股份購買廣船國際有限公司部分股權之附條件生效之補充協議》)			
5 November 2019	Supplemental Agreement in relation to the Land Restoration Agreement regarding the GS Shipping Land* (《關於《廣州廣船荔灣廠區地塊土壤治理與修復委託合同》延期完成的情況說明》)	GSI and GS Shipping have agreed to postpone the completion date of Land Works for the GS Shipping Land Phase One for one year to 27 December 2019 and the completion date of Land Works for the GS Shipping Land to 7 July 2021.		

LETTER FROM THE BOARD

Date	Agreement/Document	Subject Matter and Role of the parties	Consideration/ Costs incurred	Latest Status
18 November 2019	Land Resumption Compensation Agreement	GS Shipping will pay GSI a sum of RMB1,427 million for the Liaising Work.	The consideration for the provision of the Liaising Work is RMB1,427 million. The actual unaudited cost incurred by GSI to date for the Liaising Work and the Land Resumption Compensation Agreement is approximately RMB5 million.	The proposal in relation to the transfer of GS Shipping Land Phase One has been submitted to Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃與自然資源局業務會) for review and through discussion with the Guangzhou Land Development Center, it is expected the listing-for-sale of GS Shipping Land Phase One will commence prior to the end of 2019.

B. The Land Resumption Compensation Agreement

On 18 November 2019, GSI and GS Shipping entered into the Land Resumption Compensation Agreement, pursuant to which GS Shipping agreed to pay a sum of RMB1,427 million as fees for the Liaising Work to be performed by GSI as specified in the Land Resumption Compensation Agreement.

The effectiveness of the Land Resumption Compensation Agreement shall be subject to the Shareholders' approval.

Key terms of the Land Resumption Compensation Agreement are summarized below:

Date

18 November 2019

Parties

- (1) GSI; and
- (2) GS Shipping.

LETTER FROM THE BOARD

Subject matter

Pursuant to the Land Resumption Compensation Agreement, GSI and GS Shipping agreed that:

- GSI shall proactively liaise with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Land Phase One, so that the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and can take place before the end of 2019 aiming for completion of the transaction (the “**Liaising Work**”);
- the Land Works of the GS Shipping Land performed by GSI will not affect the land auction of the GS Shipping Land Phase One^(note);
- GS Shipping shall pay GSI a total amount of RMB1,427 million which was calculated on the basis of the current land premium at RMB3,625 per sq.m. and was determined and agreed after arm’s length negotiations between the parties based on normal commercial terms, of which (i) an amount of RMB714 million (representing approximately 50% of the Total Fee) is payable before the end of 2019; and (ii) an amount of RMB713 million (representing the remaining approximately 50% of the Total Fee) is payable within three months after receipt of monies from the sale of the GS Shipping Land Phase One (“**Total Fee**”); and
- in the event that GS Shipping fails to pay the agreed Total Fee according to the terms of the Land Resumption Compensation Agreement, GSI shall be entitled to liquidated damages in the amount of 0.05% of the outstanding amount per day.

C. Basis for the consideration

The Total Fee of RMB1,427 million is the fee for the Liaising Work only and does not cover the Land Works.

The fee for the Land Works was under the Land Restoration Agreement regarding the GS Shipping Land entered into between GSI and GS Shipping on 20 July 2018 and the consideration for the Land Restoration Agreement is RMB150 million.

The Liaising Work involves, among others, liaising with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Phase One so as to meet the schedule for the Land Development which was already delayed. GSI shall ensure the listing-for-sale of the GS Shipping Land Phase One can be

Note: Completion of the Land Works is not a precondition for the land auction of the GS Shipping Land Phase One

LETTER FROM THE BOARD

approved by the relevant government authorities and can take place before the end of 2019. In addition, GSI speeds up the construction process through arranging project management team to station at the construction site round the clock for supervising the Land Works progress and project management. Furthermore, GSI has set up internal policy such as preparing daily progress report, organising weekly production progress meeting and conducting weekly on-site inspection so as to ensure that the Land Works is on schedule.

The Total Fee was calculated on the basis of the current land premium at RMB3,625 per sq.m..

On 15 August 2018, the Guangzhou Land Use and Development Center* (廣州市土地利用發展中心) issued the Reply on the Coordination and Enquiry of the Base Land Price* (關於協調查詢基準地價的復函), and pursuant to the projection of base land price, the price for land sale of GS Shipping Land Phase One is RMB1,726 million.

Taking into account of the land price of land for commercial and residential use near the GS Shipping Land pursuant to Announcement on Online Listing-For-Sale of State-owned Land Use Rights issued by Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃和自然資源局國有土地使用權網上掛牌出讓公告), the Directors expected that the proceeds from the listing-for-sale of GS Shipping Land Phase One is approximately RMB4,897 million and represents an increase of approximately RMB3,171 million from the price for land sale based on the projection of base land price.

After negotiation between GSI and GS Shipping at arm's length, the Total Fee is approximately 45%, of the increase of approximately RMB3,171 million, i.e. RMB1,427 million. As the Total Fee is the fees of GSI for providing the Land Works for the entire GS Shipping Land (covers an area of 393,793 sq.m.) instead of GS Shipping Land Phase One (covers an area of 44,800 sq.m.) only, the land premium of approximately RMB3,625 per sq.m. is calculated by RMB1,427 million being divided by 393,793 sq.m.. The parties adopted 45% of the increase in the land price to determine the Total Fee was based on arm's length negotiation between GSI and GS Shipping.

The Total Fee payable to GSI is subject to the commencement of the listing-for-sale process of GS Shipping Land Phase One in 2019. If the listing-for-sale cannot be commenced in 2019, GSI will not be able to receive the Total Fee but will not be subject to any penalty clause.

As the Total Fee is the fee for the Liaising Work only and does not cover the Land Work, after taking into account of the amount contributed to the Liaising Work, the Board is of the view that the Total Fee under the Land Resumption Compensation Agreement is fair and reasonable and is in the interest of the Company on the basis that (i) the Liaising Work is to significantly speed up the Land Works with the expectation that the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and can take place before the end of 2019, (ii) the revenue from the provision of the Liaising Work (which includes liaising with the relevant government authorities so as to speed up the Land Works)

LETTER FROM THE BOARD

is greater than the costs for the provision of the Liaising Work, and (iii) if the listing-for-sale of GS Shipping Land Phase One cannot be commenced in 2019, the GSI will not be able to receive the Total Fee but will not be subject to any penalty clause pursuant to the Land Resumption Compensation Agreement.

D. Reasons for and Benefit of the Transaction

The Board is of the view that the Liaising Work under the Land Resumption Compensation Agreement will not bring any impact to the normal business operations of the Company.

Furthermore, the fees to be received in accordance with the Land Resumption Compensation Agreement can potentially increase the income of the GSI, which in turn might bring positive impact on the annual financial performance of the Company for the year ended 2019, notwithstanding that if it is proceeding according to the Land Resumption Compensation Agreement, the Total Fees of RMB1,427 million to be received by GSI pursuant to the Land Resumption Compensation Agreement and the expenses for the provision of Liaising Work will belong to and will be borne by the shareholders of GSI in proportionate to their shareholdings in GSI respectively after the completion of the Disposal. In addition, immediately after the Disposal, the CSSC Holdings, the Company and CSSC will be interested in 51%, 46.3018% and 2.6982% in GSI, respectively. As such, the Company might still benefit through its 46.3018% interest in GSI immediately after the Disposal.

Upon the entering into of the Land Resumption Compensation Agreement and subject to the completion of the same in the financial year ended 31 December 2019, the non-operating income of GSI and the total profit of the Company is expected to increase by an amount equivalent to the Total Fee after deducting the applicable tax respectively.

Shareholders should note that the expected financial impact is shown for reference only since the actual accounting treatment shall be subject to the review and confirmation by the auditors of the Company and the sale of the GS Shipping Land Phase One by the end of 2019 is subject to the approval from the relevant government authority.

In order to promote liaising work with the relevant government authority, GSI has established a working committee, which includes the management of the Company and the relevant department, in relation to the liaising work under the Land Resumption Compensation Agreement in order to facilitate the listing-for-sale of GS Shipping Land Phase One can be approved by the relevant government authorities and can take place by the end of 2019 and the actual unaudited cost incurred by GSI to date for the Liaising Work under the Land Resumption Compensation Agreement is approximately RMB5 million, including labour costs and disbursement and the Liaising Work is substantially completed. The reason for entering into the Land Resumption Compensation Agreement is to speed up the Land Works are to facilitate the listing-for-sale of GS Shipping Land Phase One can be made by the end of 2019. The relevant parties were involved in a series of negotiation with the relevant government authorities for their approval to allow the listing-for-sale to proceed in 2019 before the completion of the Land

LETTER FROM THE BOARD

Works for GS Shipping Land Phase One. The Land Resumption Compensation Agreement was instrumental to the negotiation process as GSI is heavily involved in the liaison with the relevant government authorities and needs to provide relevant information to the authorities, pursuant to the Land Resumption Compensation Agreement, GSI shall proactively liaise with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Land Phase One, so that the listing-for-sale can be approved by the relevant government authorities before the end of 2019.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice to be obtained from an independent financial adviser) are of the view that the terms of the Land Resumption Compensation Agreement, which were arrived at after arm's length negotiations between GSI and GS Shipping, are fair and reasonable and are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and its Shareholders as a whole.

E. Further information in relation to the Land Work

In relation to the Land Restoration Agreement of 20 July 2018, the consideration amounted to RMB150 million. The payment of 97% of the consideration of RMB150 million, which is RMB145.5 million, will be paid at different intervals in accordance with the stage of construction for the Land Works (which is expected to be completed in the end of July 2021) while 3% of the consideration of RMB150 million, which is RMB4.5 million will serve as retention fee which will be paid within 2 months (without interest) after the completion of the Land Work and the payment to all third parties are settled.

The Land Works to be performed by GSI (and the relevant consideration of RMB150 million) covers the entire GS Shipping Land.

The Land Works is part of the Land Development and the Land Development also includes the removal of the existing building, cleaning up of the pile foundation, site perimeter, relocation of cables, etc..

The status of the Land Works is that the on-site construction work of the GS Shipping Land Phase One is completed in October 2019 and the construction summary report and inspection report was formally submitted to the relevant government authority for review and it is expected that the expert review will be held in due course.

The Land Works is expected to be completed by three phases. The preliminary estimate of the actual unaudited cost incurred by GSI as of November 2019 for the Land Works of the on-site construction work of GS Shipping Land Phase One during the period from August 2019 to October 2019 is approximately RMB45.5 million, while the original budget cost is approximately RMB34 million, there is an additional cost of approximately RMB11.5 million incurred. As of November 2019, an unaudited revenue of approximately RMB11.68 million from the provision of Land Works was received and confirmed by GSI. The implementation of the Land Works cannot affect the schedule for the listing-for-sale of GS Shipping Land Phase

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One thus additional labour and equipment was deployed in order to speed up the Land Works. Taking into account of the construction experience gained from the works conducted for the GS Shipping Land Phase One and the complexity of the Land Works, it is expected that the time to be incurred for the Land Works would be more manageable. The expected total cost for the Land Works for the GS Shipping Land to be incurred by GSI is approximately RMB130 million (the consideration of the Land Restoration Contract is RMB150 million) and will not exceed the original budget. The Land Works for the remaining GS Shipping Land (i.e. other than GS Shipping Land Phase One) have yet to commence. No costs have been incurred by GSI to date for the Land Works for the remaining GS Shipping Land. If additional cost will be incurred for the Land Works due to additional work scope or change of work schedule as requested by GS Shipping, GSI will negotiate with GS Shipping for compensation for additional cost incurred in accordance with the industry practice in the PRC. Based on the best knowledge of the Company, the listing-for-sale of GS Shipping Land Phase One could commence before the completion of the Land Works after the relevant government authorities have inspected and are satisfied with the progress of the Land Works for GS Shipping Land Phase One, provided that the Land Works for GS Shipping Land Phase One could be completed within six months after the sale of the GS Shipping Land Phase One. The outstanding matters relating to the Land Works of GS Shipping Land Phase One that GSI is required to complete/speed up are: (i) the listing-for-sale of GS Shipping Land Phase One obtaining approval from the relevant government authorities and the listing-for-sale to take place by the end of 2019; (ii) pursuant to the request of the relevant government authorities, the Land Works for GS Shipping Land Phase One must be completed within six months after the sale of the GS Shipping Land Phase One. The Land Works for GS Shipping Land Phase One must be completed to the satisfaction of the relevant government authorities upon inspection. The expected completion date of those matters is July 2020.

Pursuant to supplemental agreement dated 5 November 2019, the deadline for GSI to complete the Land Works for the entire GS Shipping Land is 7 July 2021. GSI will not be subject to any penalty or consequences if it fails to complete the Land Works before the deadline.

The Directors are of the view that the consideration of RMB150 million under the Land Restoration Agreement is in the ordinary and usual course of business and is fair and reasonable and in the interest of the Company and its shareholders as a whole, it was entered into after arm's length negotiation between all parties thereto and determined on normal commercial terms, after taking into account of the actual unaudited cost incurred for the Land Works on the basis that the Company has the business need to expand the environmental-related service in relation to land restoration, accumulate relevant experience, technical services and branding in addition to the profit from the provision of the Land Works.

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F. Further information in relation to the liaising work and relocation arrangement agreement

The liaising work performed by GSI under the Relocation Arrangement Agreement of 17 November 2017 is (i) through negotiation between GSI and the relevant government authority, Guangzhou Land Development Center* (廣州市土地開發中心) entered into the Compensation Agreement regarding the Resumption of Land Use Right in respect of GS Shipping Land* (廣船國際荔灣廠區地塊國有土地使用權收儲補償協議) with GS Shipping, (ii) through liaising work performed by GSI with the relevant government authority, GS Shipping shall ensure that the Government Detailed Planning* (控制性詳細規劃) to be approved by the relevant government authority on or before 30 December 2017 and to promote the land ratio (construction area/land area) of the GS Shipping Land to raise from 1.06 to 2.23 and the value of land to increase. GSI has established a working committee, which includes the management of the Company and the relevant department, in relation to the relocation work. The actual unaudited cost incurred to date in relation to the liaising work pursuant to the relocation arrangement agreement is approximately RMB 3.5 million, including labour costs and disbursement.

The liaising work under the Relocation Arrangement Agreement of 17 November 2017 has been duly completed, and is not the same as the Liaising Work under the Land Resumption Compensation Agreement of 18 November 2019 and the differences are that the Liaising Work under the Land Resumption Compensation Agreement of 18 November 2019 is referring to the proactively liaising work to be performed by GSI with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Land Phase One, so that the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and the listing-for-sale can take place before the end of 2019.

The Land Resumption Compensation Agreement of 18 November 2019 did not supersede the Relocation Arrangement Agreement of 17 November 2017 as the liaising work under the Relocation Arrangement Agreement of 17 November 2017 is different from the Liaising Work under the Land Resumption Compensation Agreement of 18 November 2019.

G. Further information in relation to the listing-for-sale of GS Shipping Land Phase One

Taking into account (i) certain new rules and regulations, including Soil Pollution Control of the People's Republic of China Law* (中華人民共和國土壤污染防治法), Guangdong Province Procedures for the Evaluation of Construction Land Soil Pollution Risk Assessment Reports (for Trial Implementation) (Consultation Draft)* (廣東省建設用地土壤污染風險評估報告評審工作程式規定(試行)(徵求意見稿)) and Guangdong Province Procedures for the Evaluation of Construction Land Soil Pollution Risk Management and Remediation Effect Reports (for Trial Implementation) (Consultation Draft)* (廣東省建設用地土壤污染風險管控和修復效果評估報告評審工作程式規定(試行)(徵求意見稿)), that have come into effect, (ii) the relevant procedures of the local government have not been completely clarified, and (iii)

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the needs for renewal and economic development for the region, the relevant government authorities agreed the GS Shipping Land Phase One to be put for auction through listing-for-sale after the evaluation of the progress of the land restoration, subject to the GS Shipping agrees to deliver the GS Shipping Land Phase One within six months after the successful bidder of the GS Shipping Land Phase One through listing-for-sale.

The Directors are of the view that it is feasible for the listing-for-sale of the GS Shipping Land Phase One can obtain approval from the relevant government authorities and to take place by the end of 2019 as the transfer of GS Shipping Land Phase One has been submitted to Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃與自然資源局業務會) for review. On 2 December 2019, the sale proposal for the sale of GS Shipping Land Phase One has been approved by the Guangzhou Land Resources and Planning Commission. Through discussion with the Guangzhou Land Development Center, it is expected the listing-for-sale of GS Shipping Land Phase One will commence prior to the end of 2019.

GSI will not be subject to any penalty if it fails to complete the Land Works before the end of 2019 and the additional cost for the Land Works will be further liaised between GSI and GS Shipping.

H. Disposal

The Disposal has been approved at the first extraordinary general meeting of 2019 of the Company on 23 October 2019 and the Disposal involves the issuance of consideration shares by China CSSC Holdings Limited* (中國船舶工業股份有限公司) (“**CSSC Holdings**”) which is subject to the approval by Examination Committee for Mergers, Acquisitions and Restructurings of Listing Companies of the China Securities Regulatory Commission* (中國證券監督管理委員會上市公司併購重組審核委員會) (“**PRC Committee for M&A and Restructuring**”).

The PRC Committee for M&A and Restructuring has accepted the application for the issuance of consideration shares by CSSC Holdings on 7 November 2019 and in general, the PRC Committee for M&A and Restructuring will take around one to two months to grant approval for an application. It is currently expected that the Disposal will be completed in the first half year of 2020.

As disclosed in the circular of the Company dated 4 October 2019, the consideration for the Disposal was based on the valuation on the sale shares conducted by the valuer using an asset-based approach and the respective valuation report, with the date of valuation of 30 April 2019, was submitted to the competent authority of State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The Land Resumption Compensation Agreement was entered into after the date of valuation of 30 April 2019.

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Moreover, since the consideration for the Disposal was based on valuation using an asset-based approach as at 30 April 2019 which was the cut-off date as agreed by the parties, pursuant to the Conditional Agreement on the Acquisition of Part of the Equity Interests in Guangzhou Shipyard International Company Limited by China State Shipbuilding Corporation Limited by way of Issuance of Shares to CSSC Offshore & Marine Engineering (Group) Company Limited (《中國船舶工業股份有限公司向中船海洋與防務裝備股份有限公司發行股份購買廣船國際有限公司部分股權之附條件生效協議》) (“**Conditional Agreement**”), the parties agreed that all profits and losses of GSI during the transition period prior to the completion of the Disposal shall belong to and shall be borne by CSSC Holdings proportionate to its shareholding in GSI respectively. Hence, if proceeds with the Land Resumption Compensation Agreement, the Total Fees to be received by GSI in the amount of RMB1,427 million pursuant to the Land Resumption Compensation Agreement and the expenses for the provision of Liaising Work will belong to and will be borne by the relevant shareholdings of GSI in proportion to the respective shareholding of CSSC Holdings, the Company and CSSC in GSI respectively after the completion of the Disposal.

Given the aforesaid principles agreed and adopted in the Disposal, the Directors consider that the estimated value of GSI should not be seen to have increased after receiving the Total Fee under the Land Resumption Compensation Agreement. Therefore, the consideration of the Disposal will not be adjusted as a result of the Land Resumption Compensation Agreement.

As disclosed in the announcement of the Company dated 4 April 2019 in relation to the proposed adjustments to Major Asset Restructuring Plan, it was originally proposed to exchange the assets in relation to shipbuilding of the Group’s controlling shareholders and the assets in relation to marine power of the Group’s controlling shareholder and its subsidiary as approved at the 13th meeting of the 9th Session of the Board of Directors of the Company and the Disposal was not originally proposed. However, subsequently, as there are significant changes to the Major Asset Restructuring Plan, the Disposal was proposed. The substantial amount of fee from GS Shipping for the Liaising Work under the Land Resumption Compensation Agreement was not reasonably expected by the Board at the time of the entering into the agreement between the Company and CSSC Holdings in relation to the Disposal on 7 August 2019, and the Board, the accountants of the Company and the valuer involved in the Disposal have not taken into account of receiving a substantial amount of fee from GS Shipping for the Liaising Work since during the material time, as (i) GS Shipping Land and GSI have not reached an agreement on the Liaising Work and relevant fees (ii) the agreed cut-off date for passing of all profits and losses of GSI in regards to the Disposal was at 30 April 2019 (iii) the valuation as at 30 April 2019 has been submitted to the competent authority of State-owned Assets Supervision and Administration Commission of the State Council of the PRC and (v) the listing-for-sale of the GS Shipping Land Phase One involves approval to be obtained from relevant government authority and the status of the Land Works, there are relatively high uncertainty.

LETTER FROM THE BOARD

After due and reasonable enquiry, the Directors are of the view that the Disposal (including the amount of the consideration) is still fair and reasonable and in the interests of the Company and its shareholders as a whole, taking into account the principles and impact of the Disposal and the Land Resumption Compensation Agreement, since (i) the Land Resumption Compensation Agreement was entered into after the date of valuation (ii) pursuant to the Conditional Agreement, the parties agreed that all profits and losses of GSI during the transition period prior to the completion of the Disposal shall belong to and shall be borne by CSSC Holdings proportionate to its shareholding in GSI if the Disposal is completed. The Company will hold 46.3018% interest in GSI after the Disposal. (iii) there is no penalty clause in relation to the failure of the Liaising Work to facilitate the obtaining of approval from the relevant government authorities as to the listing-for-sale and the listing-for-sale of the GS Shipping Land Phase One taking place by the end of 2019; (iv) there were reasons for the Disposal as disclosed in the circular of the Company dated 4 October 2019.

After due and reasonable enquiry, and having considered that (i) CSSC Holdings, the Company and CSSC will hold 51%, 46.3018% and 2.6982% interests in GSI after the Disposal and that (ii) if proceeds with the Land Resumption Compensation Agreement, the Total Fees to be received by GSI in the amount of RMB1,427 million pursuant to the Land Resumption Compensation Agreement and the expenses for the provision of Liaising Work will be consolidated into the statement of profit and loss of the Company, and will belong to and will be borne by the relevant shareholders of GSI in proportion to their shareholdings in GSI respectively after the completion of the Disposal, the Directors are of the view that it is still fair and reasonable and in the interests of the Company and its shareholders as a whole to conduct the Liaising Work under the Land Resumption Agreement since the Directors consider that GSI as a current subsidiary of the Group shall still continue its normal operations/projects during the transition period as the Disposal has not yet been completed.

I. Information about the Parties

The Company

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in Southern China. As at the Latest Practicable Date, the Company has two major non-wholly owned subsidiaries, namely GSI and CSSC Huangpu Wenchong Shipbuilding Company Limited and their principal activities cover four major segments including defense equipment, shipbuilding, offshore engineering and non-ship business, with principal products of shipbuilding and marine products including military ships, special supporting ships, public services ships, oil tankers, feeder container ships, ro-ro passenger ships, semi-submerged ships and polar module carriers, offshore platform, as well as non-ship products including steel structures and sets of electromechanical equipment.

GSI

GSI was established in the PRC on 25 May 2006. As at the Latest Practicable Date, it is a non-wholly owned subsidiary of the Company. The principal activities of GSI are technical design, manufacture, repair of ships, electrical machinery, general machinery, steel structure.

LETTER FROM THE BOARD

GS Shipping

GS Shipping was established in the PRC on 18 November 2014. As at the Latest Practicable Date, GS Shipping is non-wholly owned by Shanghai Lingxiang, which in turn is wholly-owned by Shanghai Ruibo. Shanghai Ruibo is owned as to 50% by CITIC Pacific and 50% by CSSC, a controlling shareholder of the Company. The principal activities of GS Shipping are metal ship building, site leasing (excluding warehousing), marine equipment manufacturing and property management.

4. LISTING RULES IMPLICATION

Land Resumption Compensation Agreement

Since one or more of the applicable percentage ratios in respect of the transaction contemplated under the Land Resumption Compensation Agreement exceed 5% but are less than 25%, the transaction contemplated under the Land Resumption Compensation Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to announcement, reporting and Shareholders' approval requirements.

As at the Latest Practicable Date, GS Shipping is wholly-owned by Shanghai Lingxiang, which in turn is wholly-owned by Shanghai Ruibo. Shanghai Ruibo is owned as to 50% by CITIC Pacific and 50% by CSSC, a controlling shareholder of the Company. Accordingly, GS Shipping is a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules and the transaction contemplated under the Land Resumption Compensation Agreement also constitutes a connected transaction of the Company. Since one or more of the applicable percentage ratios in respect of the transaction contemplated under the Land Resumption Compensation Agreement exceed 5%, the transaction contemplated under the Land Resumption Compensation Agreement is, in addition to the reporting and announcement requirements, subject to the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

5. EGM

The EGM will be held at the Conference Room, 15/F Shipping Building, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m. on 24 December 2019.

The second supplemental notice of the EGM and the proxy form are sent to the holders of H shares on 9 December 2019.

Any Shareholder who is entitled to attend and vote at the EGM has the right to appoint one or more proxies to do so on behalf of himself. The proxy need not be a Shareholder. In order to ensure validity, a completed proxy form and other authorization documents (if any) must be delivered to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the EGM. Shareholders of H shares must deliver the completed proxy forms and other authorization documents (if any) to the Company's H share Registrar,

LETTER FROM THE BOARD

Hong Kong Registrars Limited at Hopewell Center at 17M Floor, 183 Queen's Road East, Wan Chai, Hong Kong. A Shareholder who has completed and delivered a proxy form can still attend the EGM and vote in person.

All resolutions to be proposed at the EGM will be voted on by way of poll in accordance with the Hong Kong Listing Rules.

6. RECOMMENDATIONS

The Board considers that the resolutions to be proposed at the EGM are in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommend all Shareholders to vote in favor of all resolutions to be proposed at the EGM.

7. FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board

CSSC Offshore & Marine Engineering (Group) Company Limited

Han Guangde

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中船海洋与防务装备股份有限公司

CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED

(a joint stock company with limited liability incorporated in the People's Republic of China)

(H Shares Stock Code: 00317)

9 December 2019

To the Independent Shareholders

Dear Sir or Madam

CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE ENTERING INTO OF THE LAND RESUMPTION COMPENSATION AGREEMENT

We refer to the circular dated 9 December 2019 (the “**Circular**”) issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Land Resumption Compensation Agreement and the transactions contemplated thereunder as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the Land Resumption Compensation Agreement and the transactions contemplated thereunder. Vinco Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 25 of this Circular and the text of a letter from the Independent Financial Adviser, as set out on pages 28 to 40 of this Circular, both of which provide details of the Land Resumption Compensation Agreement and the transactions contemplated thereunder. Your attention is also drawn to the additional information set out in the Appendix II to the Circular.

Having considered the terms of the Land Resumption Compensation Agreement and the transactions contemplated thereunder, the advice of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Land Resumption Compensation Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and it is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions for approving the Land Resumption Compensation Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. Wang Yichu, Mr. Min Weiguo, Mr. Liu Renhuai and Mr. Yu Shiyou

Independent non-executive Directors

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in connection with the terms of the Land Resumption Compensation Agreement for the purpose of incorporation in this circular:



Vinco Capital Limited

Unit 2610, 26/F., The Center
99 Queen's Road Central, Hong Kong

9 December 2019

*To the Independent Board Committee and the Independent Shareholders of
CSSC Offshore & Marine Engineering (Group) Company Limited*

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE ENTERING INTO OF THE LAND RESUMPTION COMPENSATION AGREEMENT

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Land Resumption Compensation Agreement and the transaction contemplated thereunder, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 9 December 2019 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 18 November 2019 in relation to, among other things, the Land Resumption Compensation Agreement. On 5 November 2019, GSI and GS Shipping entered into a supplemental agreement in relation to postponement of the Land Works for the GS Shipping Land for one year. GSI and GS Shipping entered into the Land Resumption Compensation Agreement to facilitate the development of the GS Shipping Land into a central district of headquarters of state-owned enterprises in order to construct a national park for science and innovation industries by liaising with the government authorities in relation to the above work.

LETTER FROM VINCO CAPITAL

Listing Rules Implication

Land Resumption Compensation Agreement

Since one or more of the applicable percentage ratios in respect of the transaction contemplated under the Land Resumption Compensation Agreement exceed 5% but are less than 25%, the transaction contemplated under the Land Resumption Compensation Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements.

As at the Latest Practicable Date, GS Shipping is wholly-owned by Shanghai Lingxiang, which in turn is wholly-owned by Shanghai Ruibo. Shanghai Ruibo is owned as to 50% by CITIC Pacific and 50% by CSSC, a controlling shareholder of the Company. Accordingly, GS Shipping is a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules and the transaction contemplated under the Land Resumption Compensation Agreement also constitutes a connected transaction of the Company. Since one or more of the applicable percentage ratios in respect of the transaction contemplated under the Land Resumption Compensation Agreement exceed 5%, the transaction contemplated under the Land Resumption Compensation Agreement is, in addition to the reporting and announcement requirements, subject to the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Independent Board Committee

The Independent Board Committee comprising Mr. Wang Yichu, Mr. Min Weiguo, Mr. Liu Renhuai and Mr. Yu Shiyong, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Land Resumption Compensation Agreement and the transaction contemplated thereunder. We have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Land Resumption Compensation Agreement and the transaction contemplated thereunder. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the Land Resumption Compensation Agreement and in the ordinary and usual control of business of the Group on normal commercial terms, and in the interests of the Company and Independent Shareholders as a whole and whether the Land Resumption Compensation Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Our Independence

As at the Latest Practicable Date, we were not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally

LETTER FROM VINCO CAPITAL

enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independence Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Land Resumption Compensation Agreement and the transaction contemplated thereunder. We are eligible to give independent advice and recommendations on the terms of the Land Resumption Compensation Agreement and the transaction contemplated thereunder. Apart from the normal professional fees payable to us in connection with the present appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. During the past two years, we were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of (i) a discloseable and connected transaction in relation to acquisition of Guangzhou Wenchong Dockyard Co., Ltd.; (ii) a discloseable and connected transaction in relation to the entering into the phase I relocation agreement of Guangzhou Wenchong Shipyard Co., Ltd; and (iii) a discloseable and connected transaction in relation to the increase of registered capital and shareholding structure adjustments to each of GSI and Huangpu Wenchong; the non-exercise of right of first refusal; and a major and connected transaction in respect to the terms of the disposal agreement of GSI (the “**Past Appointments**”). Details of the relevant transaction is set out in the circular of the Company dated 14 November 2018, 10 May 2019 and 4 October 2019 respectively. The professional fees in connection with the Past Appointments have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Land Resumption Compensation Agreement.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts, the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions

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expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents particularly, (i) the annual report of the Company for the year ended 31 December 2018; (ii) the interim report of the Company for the six months ended 30 June 2019; (iii) the announcements of the Company dated 18 November 2019 in relation to the Land Resumption Compensation Agreement; (iv) the Land Resumption Compensation Agreement; (v) the letter issued by GS Shipping to GSI regarding the invitation of asking the government authority to approve the ongoing construction work for a national park for science and innovation industries; (vi) Online listing information of state-owned use rights of Land, Resources and Urban Planning Commission of Guangzhou Municipality; (vii) Compensation Agreement regarding the Resumption of Land Use Right in respect of GS Shipping Land dated 11 August 2017; (viii) Strategic Cooperation Memorandum in respect of the District of Headquarters of Central Enterprises at the GS Shipping Land dated 29 September 2017; (ix) the announcement of the Company dated 17 November 2017, 20 November 2017 and 27 December 2017 and the circular of the Company dated 8 December 2017 in relation to the material asset reorganisation and the relocation arrangement agreement; and (x) the compensation explanation dated 31 October 2019 issued by GSI.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the connected transaction contemplated under the Land Resumption Compensation Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASON CONSIDERED THE CONNECTED TRANSACTION

In arriving at our opinion on the fairness and reasonableness of the terms of the Connected Transaction and whether such Connected Transaction is in the interests of the Company and its Shareholders as a whole, we have taken the following factors and reasons into consideration:

1. Background Information of the Company, GSI and GS Shipping

(i) The Company

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in Southern China. As at the Latest Practicable Date, the Company has two major non-wholly owned subsidiaries, namely GSI and CSSC Huangpu Wenchong Shipbuilding Company Limited and their principal activities cover four major segments including defense equipment, shipbuilding, offshore engineering and non-ship business, with principal products of shipbuilding and marine products including military ships, special supporting ships, public services ships, oil tankers, feeder container ships, ro-ro passenger ships, semi-submerged ships and polar module carriers, offshore platform, as well as non-ship products including steel structures and sets of electromechanical equipment.

(ii) GSI

GSI was established in the PRC on 25 May 2006. As at the Latest Practicable Date, it is a non-wholly owned subsidiary of the Company. The principal activities of GSI are technical design, manufacture, repair of ships, electrical machinery, general machinery, steel structure.

(iii) GS Shipping

GS Shipping was established in the PRC on 18 November 2014. As at the Latest Practicable Date, GS Shipping is wholly-owned by Shanghai Lingxiang, which in turn is wholly-owned by Shanghai Ruibo. Shanghai Ruibo is owned as to 50% by CITIC Pacific and 50% by CSSC, a controlling shareholder of the Company. The principal activities of GS Shipping are metal ship building, site leasing (excluding warehousing), marine equipment manufacturing and property management.

2. Reasons for the Connected Transaction

As stated in the Letter from the Board, on 18 November 2019, GSI and GS Shipping entered into the Land Resumption Compensation Agreement, pursuant to which GS Shipping agreed to pay a sum of RMB1,427 million as fees for the Liaising Work to be performed by GSI as the consideration. As advised by the Company, due to the change in the Government's

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environment policy, the Company is demanded to meet certain requirement in order to complete the works under Land Restoration Agreement, as a result, there is delay in the completion of the land works including the provision of the soil pollution control and contaminated soil restoration work of GS Shipping Land Phase One under the Land Restoration Agreement (the “**Land Works**”). The Land Works include, among others, preparing reports of relevant laws and regulations in relation to the environment and Land Development, engaging professional construction unit, supervision unit and third party inspection unit and other units and planning and filing in relation to the soil pollution control and contaminated soil restoration of the GS Shipping Land. As such, GS Shipping would require the assistance of GSI to liaise with the relevant government authorities to speed up the land restoration work and the settlement of land resumption compensation. We have reviewed the letter issued by GS Shipping to GSI regarding the invitation of asking the government authority to approve the ongoing construction work and support the completion of the land resumption of GS Shipping Land Phase One through listing-for-sale process in 2019.

With reference to the announcement of the Company dated 14 August 2015, 5 November 2015 and 16 December 2015, and the circular dated 21 October 2015 regarding the disposal of the GS Shipping from the Group and the confirmation from the management of the Company, we understand that the Company disposed the GS Shipping interest including its asset, the GS Shipping Land to Shanghai Lingxiang Investment Co. Ltd..

Pursuant to the Compensation Agreement regarding the Resumption of Land Use Right in respect of GS Shipping Land* (廣船國際荔灣廠區地塊國有土地使用權收儲補償協議) (“**2017 Compensation Agreement**”) entered by Guangzhou Land Development Center* (廣州市土地開發中心) and the GS Shipping on 11 August 2017, the parties plan to complete the land resumption of the GS Shipping Land Phase One through listing-for sale bidding process in 2019. We have also reviewed the Strategic Cooperation Memorandum in respect of the District of Headquarters of Central Enterprises at the GS Shipping Land* (荔灣區廣船地塊央企總部集聚區戰略合作備忘錄) entered by the the Company, the People’s Government of Liwan District of Guangzhou City and CITIC Investment on 29 September 2017 and understand that the parties would progress the alteration of the use of the GS Shipping Land and jointly develop the GS Shipping Land into a central district of headquarters of state-owned enterprises in order to construct a national park for science and innovation industries (“**Land Development**”). This Memorandum only governed the strategic framework of the parties’ cooperation but did not contain provisions as to the actual cooperation among the parties.

Furthermore, we have reviewed the announcements of the Company dated 17 November 2017, 20 November 2017 and 27 December 2017 and the circular of the Company dated 8 December 2017, pursuant to which the production base of GSI was originally located in the GS Shipping Land and was relocated under the relocation arrangement agreement dated 17 November 2017. Pursuant to the relocation arrangement agreement, GS Shipping has paid GSI a one-off lump sum in the amount of RMB826,965,300 in cash on 28 December 2017 as remuneration for the liaising work performed by GSI before 30 December 2017. As the production base for shipbuilding of GSI was previously located in the GS Shipping Land over the past years prior to the relocation and the production base of GSI was relocated

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subsequently, the condition of the soil of GS Shipping Land was affected. In order to cause the listing-for-sale of GS Shipping Land which usage has been altered from industrial use to commercial and residential use and as part of the Land Development, the control of soil pollution and work to restore the contaminated soil which was resulted from the production and relocation of production base of GSI previously are required pursuant to the relevant PRC laws and regulations, such as Soil Pollution Control Act* (《土壤污染防治法》). As such, on 5 November 2019, GSI and GS Shipping entered into a supplemental agreement in relation to postponement of the Land Works for the GS Shipping Land for one year which covers the Land Works of the entire GS Shipping Land.

We have obtained an Environmental Supervision Summary Report* (環境監理總結報告) issued by the certified engineering consultant who supervised the progress of the Land Work and confirmed that the on-site construction of GS Shipping Land Phase One has been completed on 25th October 2019. As confirmed by the management of the Company an application was made to the Department of Ecology and Environment of Guangdong Province* (廣東省生態環境廳) in November 2019 for the assessment of soil engineering effect and it is expected that the filing of the soil engineering work of GS Shipping Land Phase One by the Department Ecology and Environment of Guangdong Province can be completed in due course. GSI and GS Shipping are actively negotiating and discussing with the relevant government authority to speed up the Land Works, and to obtain the approval from the relevant government authority to commence the listing-for-sale of GS Shipping Land Phase One in 2019. From our review of the liaising work done by GSI, we noted that GSI and GSI Shipping have issued letters dated on 24 September 2019 and 10 October 2019 to the relevant authority of the Guangzhou government about the progress and plan of the Land Development and the request of liaising with other relevant government authorities in order to speed up the work committed in the 2017 Compensation Agreement.

Taking into account (i) certain new rules and regulations, including Soil Pollution Control of the People's Republic of China Law* (中華人民共和國土壤污染防治法), Guangdong Province Procedures for the Evaluation of Construction Land Soil Pollution Risk Assessment Reports (for Trial Implementation) (Consultation Draft)* (廣東省建設用地土壤污染風險評估報告評審工作程式規定(試行)(徵求意見稿)) and Guangdong Province Procedures for the Evaluation of Construction Land Soil Pollution Risk Management and Remediation Effect Reports (for Trial Implementation) (Consultation Draft)* (廣東省建設用地土壤污染風險管控和修復效果評估報告評審工作程式規定(試行)(徵求意見稿)), that have come into effect, (ii) the relevant procedures of the local government have not been completely clarified; and (iii) the needs for renewal and economic development for the region, the relevant government authority approved the GS Shipping Land Phase One to be put for auction through listing-for-sale after the evaluation of the progress of the land restoration, subject to the GS Shipping agrees to deliver the GS Shipping Land Phase One within six months after the successful bidder of the GS Shipping Land Phase One through listing-for-sale.

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As confirmed by the Directors, it is feasible for the listing-for-sale of the GS Shipping Land Phase One can obtain approval from the relevant government authorities and to take place by the end of 2019 as the transfer of GS Shipping Land Phase One has been submitted to Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃與自然資源局業務會) for review. On 2 December 2019, the sale proposal for the sale of GS Shipping Land Phase One has been approved by the Guangzhou Land Resources and Planning Commission. Through discussion with the Guangzhou Land Development Center, it is expected the listing-for-sale of GS Shipping Land Phase One will commence prior to the end of 2019.

Also, GSI will not be subject to any penalty if it fails to complete the Land Works before the end of 2019 and the additional cost for the Land Works will be further liaised between GSI and GS Shipping.

Pursuant to the letter form the board in this circular, GS Shipping is the holder of the land use right of the GS Shipping Land. GSI was the tenant of the GS Shipping Land prior to the relocation of the production base of the GSI. Hence, GSI implemented the relocation of production base of the GSI and was responsible for the Land Works. As GSI understands the soil condition of GS Shipping Land Phase One and GSI was involved in the negotiation between GS Shipping and the government authorities in relation to the Land Work, the government authorities only recognised GSI, but not other entity, as the implementer for the relocation of production base of the GSI and the Land Works. Hence, GS Shipping requires the cooperation from GSI in order to fulfil the Land Development. Since the land price and base land price of the GS Shipping Land have increased significantly while there is a delay in the Land Development, in order to speed up the land restoration work and the settlement of land resumption compensation, GS Shipping would require the assistance of GSI to liaise with the relevant government authorities and proceed with the land restoration and land auction at the same time. Therefore, GS Shipping is willing to incentivise GSI to participate in the negotiation process to facilitate the Land Development by offering a sum of RMB1,427 million as a reward under the Land Resumption Compensation Agreement.

3. Terms of the Connected Transaction

As stated in the Letter from the Board, pursuant to the Land Resumption Compensation Agreement, GSI and GS Shipping agreed that:

- GSI shall proactively liaise with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Land Phase One, so that the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and can take place before the end of 2019 aiming for completion of the transaction (the “Liaising Work”);
- the Land Works of the GS Shipping Land performed by GSI will not affect the land auction of the GS Shipping Land Phase One^(note);
- GS Shipping shall pay GSI a total amount of RMB1,427 million which was calculated on the basis of the current land premium at approximately RMB3,625 per sq.m. and was determined and agreed after arm’s length negotiations between the parties based on normal commercial terms, of which (i) an amount of RMB714

Note: Completion of the Land Works is not a pre-condition for the land auction of the GS Shipping Land Phase One.

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million (representing approximately 50% of the Total Fee) is payable before the end of 2019; and (ii) an amount of RMB713 million (representing the remaining approximately 50% of the Total Fee) is payable within three months after receipt of monies from the sale of the GS Shipping Land Phase One (“Total Fee”); and

- in the event that GS Shipping fails to pay the agreed Total Fee according to the terms of the Land Resumption Compensation Agreement, GSI shall be entitled to liquidated damages in the amount of 0.05% of the outstanding amount per day.

In arriving at our opinion on the fairness and reasonableness of the abovementioned terms, we have considered the factors as follows:

- (1) As confirmed by the Company, in carrying out the Liaising Work, GSI will not incur additional expenditure except routine administrative expenses, such as telephone and onsite communication, participating conferences and sending and receiving mails, which are insignificant compared to the total amount of RMB1,427 million to be received. Furthermore, the Liaising Work will neither hinder the ordinary and usual course of business of the Company, nor incur any additional cost or obligation to the Company in the relocation work of the production base of GSI. As a result, the receipt of the fee after deducting the applicable tax under the Land Resumption Compensation Agreement would contribute entirely to the operating results of the Company in 2019;
- (2) Pursuant to Online listing information of state-owned land use rights of Land, Resources and Urban Planning Commission of Guangzhou Municipality (廣州市國有資源和規劃委員會國有土地使用權網上掛牌信息), we have noticed that the land price in the area nearby GS Shipping Land is approximately RMB42,000 per sq.m. and RMB21,600 per sq.m. for residential used land and commercial used land respectively. As such, the Company considered the following factors when ascertaining the value of GS Shipping land including but not limited to the initial value of the location, the surrounding traffic and other facilities, it is expected that the floor price of the current land premium will be approximately RMB3,625 per sq.m.

As stated in the Letter from the Board, the amount of the payment for performing the Liaising Work was determined and agreed at arm’s length negotiations between both parties with reference to the expected increase in the value in GS Shipping Land due to the increase in land price and base land price, of which the reference which the Company took into consideration is merely a rough estimation from the Company’s perspective. However, we believe that the basis of the increase in land price is reasonable due to the factors mentioned above as confirmed by the management of the Company.

As discussed with the management of the Company, GSI has established a working committee to promote liaising work with the relevant government authority, which includes the management of the Company and the relevant department, in relation to the liaising work under the Land Resumption Compensation Agreement in order to promote the listing-for-sale of GS Shipping Land Phase One can be approved by the relevant government authorities and can take place by the end of in 2019 and the actual unaudited cost incurred by GSI to date for the Liaising Work under the Land Resumption Compensation Agreement is approximately RMB5

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million, including labour costs and disbursement and the Liaising Work is substantially completed. The reason for entering into the Land Resumption Compensation Agreement is to speed up the Land Works are to facilitate the listing-for-sale of GS Shipping Land Phase One can be made by the end of 2019. The relevant parties were involved in a series of negotiation with the relevant government authorities for their approval to allow the listing-for-sale to proceed in 2019 before the completion of the Land Works for GS Shipping Land Phase One. The Land Resumption Compensation Agreement was instrumental to the negotiation process as GSI is heavily involved in the liaison with the relevant government authorities and needs to provide relevant information to the authorities, pursuant to the Land Resumption Compensation Agreement, GSI shall proactively liaise with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Land Phase One, so that the listing for-sale can be approved by the relevant government authorities before the end of 2019.

Taking into consideration of the above, we are of the view that the terms of the Connected Transaction contemplated under the Land Resumption Compensation Agreement are fair and reasonable to the Company and the Shareholders as a whole, because (i) the financial reward to be received by GSI on a success basis will significantly outstrip the immaterial costs to be incurred from performing the Liaising Work; and (ii) in the event that GS Shipping is late in paying the fee, GSI will be adequately compensated under the liquidated damages clause in the Land Resumption Compensation Agreement.

4. Basis for the consideration

As disclosed in the Land Resumption Compensation Agreement, the Total Fee of RMB1,427 million is the fee for the Liaising Work only and does not cover the Land Works.

The fee for the Land Works was under the Land Restoration Agreement regarding the GS Shipping Land entered into between GSI and GS Shipping on 20 July 2018 and the consideration for the Land Restoration Agreement is RMB150 million.

Pursuant to the scope of work stated in the Land Restoration Agreement, GSI would do the Liaising Work involves, among others, liaising with the relevant government authorities to facilitate the Land Works of the GS Shipping Land and the auction for the GS Shipping Phase One so as to meet the schedule for the Land Development which was already delayed. GSI shall ensure the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and can take place before the end of 2019. As confirmed with the management of the Company, GSI speeds up the construction process through arranging project management team to station at the construction site round the clock for supervising the Land Works progress and project management. Furthermore, GSI has set up internal policy such as preparing daily progress report, organising weekly production progress meeting and conducting weekly on-site inspection so as to ensure that the Land Works is on schedule.

The Total Fee was calculated on the basis of the current land premium at approximately RMB3,625 per sq.m. and does not represents the entire land premium of GS Shipping Land.

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We have obtained the compensation explanation dated 31 October 2019 issued by GSI which demonstrates the reference of the Reply on the Coordination and Enquiry of the Base Land Price* (關於協調查詢基準地價的覆函) which provides the basis of the land price of the area which its usage of land is also similar with the GS Shipping Land Phase One, a combination of industrial use and residential use. Pursuant to the projection of the given basis of the land price, the price for the land resumption of GS Shipping Land Phase One is approximately RMB1,726 million.

Taking into account of the land price of land for commercial and residential use near the GS Shipping Land pursuant to Announcement on Online Listing-For-Sale of State-owned Land Use Rights issued by Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃和自然資源局國有土地使用權網上掛牌出讓公告), we noticed the land price in the area nearby GS Shipping Land is approximately RMB42,000 per sq.m. and RMB21,600 per sq.m. for residential used land and commercial used land respectively. To multiple the expected land price by the size of the area according to its usage mentioned above, we found that the proceeds from the listing-for-sale of GS Shipping Land Phase One is approximately RMB4,897 million and represents an increase of approximately RMB3,171 million from the price for land sale based on the projection of base land price.

As disclosed in the compensation explanation, we understand that the Total Fee is approximately 45% of the increase of approximately RMB3,171 million, i.e. RMB1,427 million after negotiation between GSI and GS Shipping at arm's length. As the Total Fee is the cost for Land Development that involves the GS Shipping Land (covers an area of 393,793 sq.m.) instead of GS Shipping Land Phase One (covers an area of 44,800 sq.m.) only, the land premium of approximately RMB3,625 per sq.m. is calculated by RMB1,427 million being divided by 393,793 sq.m.. The parties adopted 45% of the increase in the land price to determine the Total Fee was based on arm's length negotiation between GSI and GS Shipping.

We have confirmed with the management of the Company that the Total Fee payable to GSI is subject to the commencement of the listing-for-sale of GS Shipping Land Phase One in 2019. If the listing-for-sale cannot be commenced in 2019, GSI will not be able to receive the Total Fee but will not be subject to any penalty clause. In view of the above, we are of the view that the determination basis of the Total Fee is fair and reasonable.

As the Total Fee is the fee for the Liaising Work only and does not cover the Land Work, after taking into account of the amount contributed to the Liaising Work, we are of the same view as the Director that the Total Fee under the Land Resumption Compensation Agreement is fair and reasonable and is in the interest of the Company on the basis that (i) the Liaising Work is to significantly speed up the Land Works with the expectation that the listing-for-sale of the GS Shipping Land Phase One can be approved by the relevant government authorities and can take place before the end of 2019, (ii) the Total Fee is determined fairly with reference to of the land price of land for commercial and residential use near the GS Shipping Land pursuant to Announcement on Online Listing-For-Sale of State-owned Land Use Rights issued by Guangzhou Municipal Planning and Natural Resources Bureau* (廣州市規劃和自然資源局國有土地使用權網上掛牌出讓公告), (iii) the revenue from the provision of the Liaising Work

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(which includes liaising with the relevant government authorities so as to speed up the Land Works) is greater than the costs for the provision of the Liaising Work, and (iv) if the listing-for-sale of GS Shipping Land Phase One cannot be commenced in 2019, the GSI will not be able to receive the Total Fee but will not be subject to any penalty clause pursuant to the Land Resumption Compensation Agreement.

5. Financial effects of the Connected Transaction

As confirmed with the management of the Company, the Liaising Work under the Land Resumption Compensation Agreement will not bring any impact to the normal business operations of the Company. Furthermore, the fees to be received in accordance with the Land Resumption Compensation Agreement can potentially increase the income of GSI, which in turn might bring positive impact on the annual financial performance of the Company for the year ended 2019, notwithstanding that if it is proceeding according to the Land Resumption Compensation Agreement, the Total Fees of RMB1,427 million to be received by GSI pursuant to the Land Resumption Compensation Agreement and the expenses for the provision of Liaising Work will belong to and will be borne by the shareholders of GSI in proportionate to their shareholdings in GSI respectively after the completion of the Disposal. In addition, immediately after the Disposal, the CSSC Holdings, the Company and CSSC will be interested in 51%, 46.3018% and 2.6982% in GSI, respectively. As such, the Company might still benefit through its 46.3018% interest in GSI immediately after the Disposal.

As disclosed in the Letter from the Board, upon the entering into of the Land Resumption Compensation Agreement and subject to the completion of the same in the financial year ended 31 December 2019, both of the non-operating income of GSI and the total profit of the Company are expected to increase by an amount equivalent to the Total Fee after deducting the applicable tax respectively. However, the expected financial impact is shown for reference only since the actual accounting treatment shall be subject to the review and confirmation by the auditors of the Company and the sale of the GS Shipping Land Phase One by the end of 2019 is subject to the approval from the relevant government authority. Having considered the positive financial effects of the Connected Transaction on the financial positions of the Company, we are of the view that the Connected Transaction is beneficial to the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken the above principal factors and reasons, we are of the view that the terms of the Connected Transaction contemplated under the Land Resumption Compensation Agreement, which were arrived at after arm's length negotiations between GSI and GS Shipping, are on favourable and normal commercial terms, fair and reasonable in the ordinary and usual course of businesses of the Group so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole.

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Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM approving the Land Resumption Compensation Agreement and the transaction contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

Material amendments:

Article no.	Existing Articles	Revised Articles
Article 2	<p>The Company, with the approval Ti Gai Sheng No. [1993] 83 from National Development and Reform Commission, was registered and established at Administration for Industry & Commerce of Guangzhou Municipality on 7 June 1993 in the form of promotion, with registration number 19049939-0, and obtained business license thereof. The Company obtained approval from Ministry of Foreign Trade and Economic Co-operation [1994] Wai Jingmao Zi Zong Han Zi no. 415 on 17 August 1994 as a sino-foreign equity joint venture with limited liability, certificate [1994] Wai Jingmao Zi Shen Zi no. 135 on 31 August 1994 and changed registration on 21 October 1994 and changed license on 10 October 1995 to register as a sino-foreign equity joint venture with limited liability. The registration number of business license after the change was Qi Gu Yue Sui Zong Zi no. 000264. According to Guotong [2011] No. 86, the company type was changed to a joint stock company (joint venture between Taiwan, Hong Kong or Macao and domestic investment, listed).</p> <p>The business license of the Company was subsequently changed again on 10 December 2009 and the registration number was changed to 440101400025144. The promoter of the Company is Guangzhou Shipyard Co., Ltd.</p>	<p>The Company, with the approval Ti Gai Sheng No. [1993] 83 from National Development and Reform Commission, was registered and established at Administration for Industry & Commerce of Guangzhou Municipality on 7 June 1993 in the form of promotion, with registration number 19049939-0, and obtained business license thereof. The Company obtained approval from Ministry of Foreign Trade and Economic Co-operation [1994] Wai Jingmao Zi Zong Han Zi no. 415 on 17 August 1994 as a sino-foreign equity joint venture with limited liability, certificate [1994] Wai Jingmao Zi Shen Zi no. 135 on 31 August 1994 and changed registration on 21 October 1994 and changed license on 10 October 1995 to register as a sino-foreign equity joint venture with limited liability. The registration number of business license after the change was Qi Gu Yue Sui Zong Zi no. 000264. According to Guotong [2011] No. 86, the company type was changed to a joint stock company (joint venture between Taiwan, Hong Kong or Macao and domestic investment, listed).</p> <p>On 10 December 2009, the registration number of business license of the Company which was changed again was: 440101400025144.</p> <p>On 29 December 2015, the unified social credit code of the Company after re-certification was 91440101190499390U.</p> <p>The promoter of the Company is Guangzhou Shipyard Co., Ltd.</p>

Article no.	Existing Articles	Revised Articles
Article 4	<p>The address of the Company is 40 Fang Cun Main Road South, Liwan District, Guangzhou, Guangdong, China.</p> <p>Postal code: 510382 Telephone: (020) 81636688 Fax: (020) 81805255</p>	<p>The address of the Company is 15th Floor, Ship Building, No. 137 Gexin Road, Haizhu District, Guangzhou, China</p> <p>Postal code: 510250 Telephone: (020) 81636688 Fax: (020) 81805255</p>
Article 11	<p>The scope of business of the Company shall include: design, processing, installation and sale of ships and its ancillary machines, containers, metallic structures, components, pressure containers, regular machines, common casting parts and components, glass fibre reinforced plastic products, circuits, pipelines, tools and furniture; machinery equipment and ship repair; ship demolition; survey and design; proprietary technology transferring services; interior decoration; self-produced containers, operational leases on ships and equipment; provide facilities such as docks for ships; and undertaking of foreign electrical and mechanical engineering and domestic international tendering projects, exportation of equipment and materials necessary for such projects and dispatch labour necessary for implementation of the same.</p>	<p>The scope of business of the Company shall include: marine equipment manufacturing; container manufacturing; metal structures manufacturing; metal pressure vessel manufacturing; mechanical parts processing; tempered glass manufacturing; cutting tool manufacturing; other furniture manufacturing; ship maintenance; general equipment repairs; engineering survey and design; machinery technology transfer services; interior decoration and design; water transport equipment rental services; container leasing services; machinery and equipment leasing; construction general contracting services; overseas dispatch of all kinds of labour service personnel (excluding seamen); provision of docks, barge anchorages, floats and other facilities for ships.</p>

Article no.	Existing Articles	Revised Articles
Article 26	<p>The Company may, in accordance with the procedures set out in the Articles of Association and with the approval of the delegated department of the State Council, repurchase its outstanding shares under the following circumstances:</p> <p>(1) cancellation of shares for the purposes of reducing its capital;</p> <p>(2) merging with another company that holds shares in the Company;</p> <p>(3) granting shares to the Company's employees as incentives;</p> <p>(4) acquiring shares held by shareholders (upon their request) who vote against any resolution proposed in any general meeting on the merger or split of the Company;</p> <p>(5) other circumstances as permitted by laws and administrative regulations.</p> <p>The Company shall not engage in the sale and purchase of its shares saving for the circumstances specified above.</p>	<p>The Company may, in accordance with the procedures set out in the Articles of Association and with the approval of the delegated department of the State Council, repurchase its outstanding shares under the following circumstances:</p> <p>(1) cancellation of shares for the purposes of reducing its capital;</p> <p>(2) merging with another company that holds shares in the Company;</p> <p>(3) using the shares for employee shares scheme or equity incentives;</p> <p>(4) acquiring shares held by shareholders (upon their request) who vote against any resolution proposed in any general meeting on the merger or split of the Company;</p> <p>(5) converting shares to the company bonds issued by the Company that can be converted into shares;</p> <p>(6) be necessary for the Company to maintain the Company's value and shareholders' interests.</p> <p>(7) other circumstances as permitted by laws and administrative regulations.</p> <p>The Company shall not engage in the sale and purchase of its shares saving for the circumstances specified above.</p> <p>Where the Company repurchases its shares, it shall perform its information disclosure obligations in accordance with laws. The Company shall not accept the shares thereof as the subject of pledge rights.</p>

Article no.	Existing Articles	Revised Articles
Article 27	<p>The Company may, with the approval of the examining and approval authority, repurchase its shares in one of the following manners:</p> <p>(1) to make an offer of repurchase to all of its shareholders in the same proportion;</p> <p>(2) to repurchase shares through public trading on a stock exchange;</p> <p>(3) to repurchase through an off-market agreement;</p> <p>(4) other means approved by China Securities Regulatory Commission.</p>	<p>The Company may, with the approval of the examining and approval authority, repurchase its shares in one of the following manners:</p> <p>(1) to make an offer of repurchase to all of its shareholders in the same proportion;</p> <p>(2) to repurchase shares through public trading on a stock exchange;</p> <p>(3) to repurchase through an off-market agreement;</p> <p>(4) other means approved by China Securities Regulatory Commission.</p> <p>Where the Company repurchases its shares in the circumstances set out in 1 (3), (5) and (6) of Article 26, it shall be conducted through open centralized trading.</p>
Article 28	<p>Where the Company repurchases its shares for reasons set out in (1) to (3) of Article 26, it shall seek prior approval of the shareholders at general meeting in accordance with the Articles of Association. The Company may release or vary a contract so entered into by the Company or waive its rights thereunder with prior approval by shareholders at general meeting obtained in the same manner.</p> <p>The contract to repurchase shares as referred to in the preceding paragraph includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.</p> <p>The Company shall not assign a contract for repurchasing its shares or any of its rights thereunder.</p>	<p>Where the Company repurchases its shares for reasons set out in (1) and (2) of Article 26, it shall seek prior approval of the shareholders at general meeting in accordance with the Articles of Association. The Company may release or vary a contract so entered into by the Company or waive its rights thereunder with prior approval by shareholders at general meeting obtained in the same manner.</p> <p>Where the Company repurchases its shares in the circumstances set out in (3), (5) and (6) of Article 26 of the Articles of Association, it shall seek prior approval of the shareholders at general meeting, or be authorized by the general meeting, and it may also be approved by a resolution of the board of directors attended by more than two-thirds of directors.</p> <p>The contract to repurchase shares as referred to in the preceding paragraph includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.</p> <p>The Company shall not assign a contract for repurchasing its shares or any of its rights thereunder.</p>

Article no.	Existing Articles	Revised Articles
Article 29	<p>After the purchase by the Company of its shares pursuant to the laws and the circumstances described under paragraph (1) of Article 26, shares purchased shall be cancelled within ten (10) days from the date of acquisition; for those circumstances described under paragraphs (2) and (4), the shares shall be transferred or cancelled within six (6) months, and the Company shall apply to the original company registration authority for registration of the change of its registered capital.</p> <p>The amount of the Company's registered share capital shall be reduced by the aggregate par value of those cancelled shares.</p> <p>Shares purchased by the Company under paragraph (3) of Article 26 shall not exceed 5% of the total number of shares of the Company in issue; funds applied by the Company for the purchase shall be made out of the after-tax profit of the Company; and the shares purchased shall be transferred to the employees within one (1) year.</p>	<p>After the purchase by the Company of its shares pursuant to the laws and the circumstances described under paragraph (1) of Article 26, shares purchased shall be cancelled within ten (10) days from the date of acquisition; for those circumstances described under paragraphs (2) and (4), the shares shall be transferred or cancelled within six (6) months; for those circumstances described under paragraphs (3), (5) and (6), the total number of shares of the Company held by the Company shall not exceed 10% of the total issued shares of the Company, and the shares shall be transferred or cancelled within three years; upon involving cancellation of shares, the Company shall apply to the original company registration authority for registration of the change of its registered capital.</p> <p>The amount of the Company's registered share capital shall be reduced by the aggregate par value of those cancelled shares.</p>

Article no.	Existing Articles	Revised Articles
Article 51	<p>The controlling shareholder and the de facto controller of the Company shall not use their connected relationship to act in detriment to the interests of the Company. If they have violated this provision and caused damage to the Company, they shall be liable for such damages.</p> <p>The controlling shareholder and the de facto controller of the Company shall have fiduciary duties towards the Company and its public shareholders. The controlling shareholder shall exercise its rights as a contributor in strict compliance with the law. The controlling shareholder shall not do harm to the lawful interests of the Company and its other shareholders through means such as profit distribution, asset restructuring, external investment, possession of capital and lending guarantees and shall not make use of its controlling status against the interests of the Company and other shareholders.</p>	<p>The controlling shareholder and the de facto controller of the Company shall not use their connected relationship to act in detriment to the interests of the Company. If they have violated this provision and caused damage to the Company, they shall be liable for such damages.</p> <p>The controlling shareholder and the de facto controller of the Company shall have fiduciary duties towards the Company and its public shareholders. The controlling shareholder shall exercise its rights as a contributor in strict compliance with the law. The controlling shareholder and de facto controller shall not make use of its controlling status to do harm to the lawful interests of the Company and social public shareholders through means such as profit distribution, asset restructuring, external investment, possession of capital and lending guarantees, and shall not make use of its controlling status against the interests of the Company and other shareholders.</p> <p>The commitments made by the controlling shareholder and de facto controller of the Company and relevant parties of the Company shall be clear, specific and enforceable, and shall not promise anything which are judged to be obviously impossible to achieve according to the prevailing circumstances, and shall make a statement of commitment fulfillment in the commitments, clarify default responsibility, and fulfill the commitments.</p>

Article no.	Existing Articles	Revised Articles
Article 56	<p>The shareholders' general meeting may exercise the following functions and powers:</p> <p>(1) to decide on the operating policies and investment plans of the Company;</p> <p>(2) to elect and replace directors and supervisors who are representatives of shareholders, decide on matters relating to the remuneration of directors and supervisors;</p> <p>(3) to consider and approve reports of the Board;</p> <p>(4) to consider and approve reports of the supervisory committee;</p> <p>(5) to consider and approve the Company's proposed annual financial budget and final budgetary report;</p> <p>(6) to consider and approve the Company's profit distribution plans and plans for making up losses;</p> <p>(7) to decide on increases or reductions in the Company's registered capital;</p> <p>(8) to decide on matters such as merger, split, dissolution, liquidation or change of the corporate form of the Company;</p> <p>(9) to decide on the issue of bonds by the company;</p>	<p>The shareholders' general meeting may exercise the following functions and powers:</p> <p>(1) to decide on the operating policies and investment plans of the Company;</p> <p>(2) to elect and replace directors and supervisors who are representatives of shareholders, decide on matters relating to the remuneration of directors and supervisors;</p> <p>(3) to consider and approve reports of the Board;</p> <p>(4) to consider and approve reports of the supervisory committee;</p> <p>(5) to consider and approve the Company's proposed annual financial budget and final budgetary report;</p> <p>(6) to consider and approve the Company's profit distribution plans and plans for making up losses;</p> <p>(7) to decide on increases or reductions in the Company's registered capital;</p> <p>(8) to decide on matters such as merger, split, dissolution, liquidation or change of the corporate form of the Company;</p> <p>(9) to decide on the issue of bonds by the company;</p>

Article no.	Existing Articles	Revised Articles
	<p>(10) to adopt resolutions on the Company's appointments, dismissals or non-reappointments of accountants' firms;</p> <p>(11) to amend the Articles of Association;</p> <p>(12) to consider the proposals submitted by shareholders holding not less than 5% (inclusive) of the Company's voting shares;</p> <p>(13) shareholders' general meeting of the Company may authorize or entrust the Board to address matters authorized or entrusted by them; when authorizing or entrusting the Board to address matters authorized or entrusted by them, shareholders' general meeting of the Company shall abide by the laws and safeguard the lawful rights and interests of shareholders of the Company, and enforce requirements of the laws and regulations to ensure efficient operation and scientific decision of the Company.</p>	<p>(10) to adopt resolutions on the Company's appointments, dismissals or non-reappointments of accountants' firms;</p> <p>(11) to amend the Articles of Association;</p> <p>(12) to consider the proposals submitted by shareholders holding not less than 5% (inclusive) of the Company's voting shares;</p> <p>(13) shareholders' general meeting of the Company may authorize or entrust the Board to address matters authorized or entrusted by them; when authorizing or entrusting the Board to address matters authorized or entrusted by them, shareholders' general meeting of the Company shall abide by the laws and safeguard the lawful rights and interests of shareholders of the Company, and enforce requirements of the laws and regulations to ensure efficient operation and scientific decision of the Company.</p>

Article no.	Existing Articles	Revised Articles
	<p>Matters which may be authorized or entrusted to the Board are as follows:</p> <ol style="list-style-type: none"> 1. amend the text of the Articles of Association of the Company after amendment of the Articles of Association of the Company being passed in principle at shareholder's general meeting; 2. distribution of interim dividend; 3. matters involved in issuance of new shares and convertible bond; 4. other matters which may be authorized or entrusted to the Board pursuant to laws, administrative regulations and the Articles of Association. <p>(14) to consider and approve matters relating to the guarantee under Article 56;</p> <p>(15) to consider matters relating to the purchases and disposals of the Company's material assets within one year, which exceed 30% of the Company's latest audited total assets;</p> <p>(16) to consider and approve matters relating to changes in the use of proceeds;</p> <p>(17) to consider and approve the Company's share incentive schemes;</p> <p>(18) other matters required by laws, administrative regulations and the provisions of the Articles of Association to be resolved by the shareholders' general meeting.</p>	<p>Matters which may be authorized or entrusted to the Board are as follows:</p> <ol style="list-style-type: none"> 1. amend the text of the Articles of Association of the Company after amendment of the Articles of Association of the Company being passed in principle at shareholder's general meeting; 2. distribution of interim dividend; 3. matters involved in issuance of new shares and convertible bond; 4. matters involved in acquisition of shares of the Company for the reasons set out in (3), (5) and (6) of Article 26 of the Articles of Association; 5. other matters which may be authorized or entrusted to the Board pursuant to laws, administrative regulations and the Articles of Association. <p>(14) to consider and approve matters relating to the guarantee under Article 56;</p> <p>(15) to consider matters relating to the purchases and disposals of the Company's material assets within one year, which exceed 30% of the Company's latest audited total assets;</p> <p>(16) to consider and approve matters relating to changes in the use of proceeds;</p> <p>(17) to consider the share repurchase of the Company as stipulated in Article 26 of the Articles of Association;</p> <p>(18) other matters required by laws, administrative regulations and the provisions of the Articles of Association to be resolved by the shareholders' general meeting.</p>

Article no.	Existing Articles	Revised Articles
Article 57	<p>External guarantee by the Company shall be voted on and approved by more than two-thirds of all Board members. In the event that any of the following circumstances applies, such guarantees are subject to review and approval by the general meeting of shareholders:</p> <p>(1) any guarantee provided after the total amount of guarantee to third parties provided by the Company and its controlled subsidiaries has reached or exceeded 50% of the Company's latest audited net assets;</p> <p>(2) any guarantee provided after the total amount of guarantee to third parties provided by the Company has reached or exceeded 30% of the Company's latest audited total assets;</p> <p>(3) a guarantee to be provided to a party which has an asset-liability ratio in excess of 70%;</p> <p>(4) a single guarantee for amount in excess of 10% of the Company's latest audited net assets;</p>	<p>External guarantee by the Company shall be voted on and approved by more than two-thirds of all Board members. In the event that any of the following circumstances applies, such guarantees are subject to review and approval by the general meeting of shareholders:</p> <p>(1) based on the principle of cumulative calculation of the guarantee amount for 12 consecutive months, any guarantee exceeding 30% of the Company's latest audited total assets;</p> <p>(2) any guarantee provided after the total amount of guarantee to third parties provided by the Company and its controlled subsidiaries has reached or exceeded 50% of the Company's latest audited net assets;</p> <p>(3) a guarantee to be provided to a party which has an asset-liability ratio in excess of 70%;</p> <p>(4) a single guarantee for amount in excess of 10% of the Company's latest audited net assets;</p> <p>(5) based on the principle of cumulative calculation of the guarantee amount for 12 consecutive months, any guarantee exceeding 30% of the Company's latest audited total assets, and the absolute amount exceeds RMB50 million;</p>

Article no.	Existing Articles	Revised Articles
	<p>(5) the guarantee to be provided in favour of shareholders, de facto controllers and their related parties.</p> <p>Any party provided with external guarantee by the Company must provide counter-guarantee and shall have actual ability to assume such counter-guarantee. References to “external guarantees” in the Articles of Association are to guarantees provided by the Company in favour of other persons, including guarantees provided by the Company in favour of its controlling subsidiaries. References to “the total amount of guarantee to third parties provided by the Company and its controlled subsidiaries” are to the sum of the aggregate amount of external guarantees provided by the Company, including those in favour of its controlled subsidiaries, and the aggregate amount of external guarantees provided by controlled subsidiaries of the Company.</p>	<p>(6) external guarantees that shall be considered by the shareholders’ meeting stipulated by China Securities Regulatory Commission, Shanghai Stock Exchange or the Articles of Association;</p> <p>(7) the guarantee to be provided in favour of shareholders, de facto controllers and their related parties.</p> <p>Any party provided with external guarantee by the Company must provide counter-guarantee and shall have actual ability to assume such counter-guarantee. References to “external guarantees” in the Articles of Association are to guarantees provided by the Company in favour of other persons, including guarantees provided by the Company in favour of its controlling subsidiaries. References to “the total amount of guarantee to third parties provided by the Company and its controlled subsidiaries” are to the sum of the aggregate amount of external guarantees provided by the Company, including those in favour of its controlled subsidiaries, and the aggregate amount of external guarantees provided by controlled subsidiaries of the Company.</p>

Article no.	Existing Articles	Revised Articles
Article 63	<p>Supervisory committee or shareholders, if decided to convene general meetings on their own, shall inform the Board in writing and make filing with the appointed organization of the China Securities Regulatory Commission and the stock exchange in the locality of the Company for record.</p> <p>Prior to the publication of announcement of the shareholders resolutions, holding by the convening shareholders shall not be less than 10%.</p> <p>Shareholders convening the meeting shall provide relevant evidences to the appointed organization of the China Securities Regulatory Commission and the stock exchange in the locality of the Company prior to issuing the notice of general meeting and announcing resolutions of the general meeting.</p>	<p>Supervisory committee or shareholders, if decided to convene general meetings on their own, shall inform the Board in writing and make filing with the appointed organization of the China Securities Regulatory Commission and the stock exchange in the locality of the Company for record.</p> <p>Prior to the publication of announcement of the shareholders resolutions, holding by the convening shareholders shall not be less than 10%.</p> <p>Supervisory committee and Shareholders convening the meeting shall provide relevant evidences to the appointed organization of the China Securities Regulatory Commission and the stock exchange in the locality of the Company prior to issuing the notice of general meeting and announcing resolutions of the general meeting.</p>
Article 104	<p>During the general meeting, all of the Company's directors, supervisors and the secretary to the Board shall attend the meeting, the managers and other senior management members shall attend as observers.</p>	<p>During the general meeting, all of the Company's directors, supervisors and the secretary to the Board shall attend the meeting in person or by an entrusted agent in writing, the managers and other senior management members shall attend as observers. However, if the above-mentioned persons do have valid reasons not to attend, they should submit a leave report to the convener of meeting one working day before the meeting.</p>

Article no.	Existing Articles	Revised Articles
Article 123	<p>Directors shall be elected at shareholders' general meeting. The term of office of the directors shall be three (3) years. Upon maturity of the current term of office, a director shall be eligible to offer himself for re-election and reappointment. Directors shall be elected at a general meeting from persons nominated by the Board or by shareholders representing more than 5% (inclusive) of the issued shares. The period of written notice in relation to intention to nominate candidate for director and in relation to the nominee's acknowledgement of his acceptance of the nomination shall both be at least 7 days. The period of delivery of such notices to the Company shall commence from the date after the notice with regard to the meeting for election of directors was despatched at the earliest and expire no later than seven days before the date of the meeting aforesaid.</p> <p>Save for members of the first session of the Board, election of directors must be passed by more than one-half of shareholders (including their proxies) with voting rights attended the general meeting. Accumulative voting system shall be adopted for the director election at a general meeting. Implementation particulars of the accumulative voting system shall be as follows: when more than two directors are eligible for election at a general meeting, each share held by shareholders shall have the number of votes equal to that of directors to be elected; shareholders may cast all his votes to one nominee or cast his votes to different nominees; the election of directors shall be determined by ratio of votes in favour of each nominee after the voting.</p>	<p>Directors shall be elected at shareholders' general meeting. The term of office of the directors shall be three (3) years. Upon maturity of the current term of office, a director shall be eligible to offer himself for re-election and reappointment. Directors shall be elected at a general meeting from persons nominated by the Board or by shareholders representing more than 5% (inclusive) of the issued shares. The period of written notice in relation to intention to nominate candidate for director and in relation to the nominee's acknowledgement of his acceptance of the nomination shall both be at least 7 days. The period of delivery of such notices to the Company shall commence from the date after the notice with regard to the meeting for election of directors was despatched at the earliest and expire no later than seven days before the date of the meeting aforesaid.</p> <p>Candidates for directors shall make a written undertaking prior to the notice of shareholders' general meeting, agree to accept the nomination, promise the information about candidates publicly disclosed to be true, accurate and complete, and ensure that directors duties will be effectively performed after being elected.</p>

Article no.	Existing Articles	Revised Articles
	<p>The chairman and vice-chairman shall be elected and dismissed by such numbers of directors exceeding one-half of all the directors, with tenure of office of three (3) years and eligible for re-election.</p> <p>Subject to relevant laws and administrative regulations, directors may be dismissed prior to the expiration of his term of office by ordinary resolution at general meeting under proper reason, without prejudice to any claim being made pursuant to any contract.</p> <p>The term of office of directors shall commence from the date of appointment up to the expiry of the current term of office of the Board. Directors shall not be dismissed by shareholders at general meeting prior to the end of his term of office without proper reason. In the event that the terms of directors fall upon expiry whereas new members of the Board are not re-elected in time, the existing directors shall continue to perform their duties in accordance with the law, administrative regulations, departmental rules and these Articles of Association until the newly elected directors assume their office.</p> <p>Directors may concurrently serve as general manager or other senior management member, provided that the aggregate number of the directors who concurrently serve as general manager or other senior management members and the directors who are representatives of employees shall not exceed one half of all the directors of the Company.</p>	<p>Save for members of the first session of the Board, election of directors must be passed by more than one-half of shareholders (including their proxies) with voting rights attended the general meeting. Accumulative voting system shall be adopted for the director election at a general meeting. Implementation particulars of the accumulative voting system shall be as follows: when more than two directors are eligible for election at a general meeting, each share held by shareholders shall have the number of votes equal to that of directors to be elected; shareholders may cast all his votes to one nominee or cast his votes to different nominees; the election of directors shall be determined by ratio of votes in favour of each nominee after the voting.</p> <p>The chairman and vice-chairman shall be elected and dismissed by such numbers of directors exceeding one-half of all the directors, with tenure of office of three (3) years and eligible for re-election.</p> <p>Subject to relevant laws and administrative regulations, directors may be dismissed prior to the expiration of his term of office by ordinary resolution at general meeting under proper reason, without prejudice to any claim being made pursuant to any contract.</p>

Article no.	Existing Articles	Revised Articles
	<p>The directors of the Company shall not be required to hold shares of the Company.</p> <p>The directors shall comply with the laws, administrative regulations and the Articles of Association of the Company and shall perform duties to the Company as follows:</p> <p>(1) not to abuse his position to accept bribes or other illegal income or appropriate the properties of the Company;</p> <p>(2) not to appropriate the capital of the Company;</p> <p>(3) not to set up accounts in his own name or in any other name to deposit any of the assets or capital of the Company;</p> <p>(4) not to lend the funds of the Company to any other person or use the property of the Company to provide guarantee for any other person without the consent of the general meeting or the Board in contravention of provision of the Articles of Association of the Company;</p> <p>(5) not to enter into contracts or carry out transactions with the Company in violation of the provisions of the Articles of Association or without the consent of the general meeting;</p> <p>(6) not to, without the consent of the general meeting, abuse his position to appropriate the business opportunities for himself or other persons which should otherwise belong to the Company, or operate businesses similar to those of the Company for himself or other persons;</p> <p>(7) not to misappropriate the commission obtained from transactions entered into by the Company;</p>	<p>The term of office of directors shall commence from the date of appointment up to the expiry of the current term of office of the Board. Directors shall not be dismissed by shareholders at general meeting prior to the end of his term of office without proper reason. In the event that the terms of directors fall upon expiry whereas new members of the Board are not re-elected in time, the existing directors shall continue to perform their duties in accordance with the law, administrative regulations, departmental rules and these Articles of Association until the newly elected directors assume their office.</p> <p>Directors may concurrently serve as general manager or other senior management member, provided that the aggregate number of the directors who concurrently serve as general manager or other senior management members and the directors who are representatives of employees shall not exceed one half of all the directors of the Company.</p> <p>The directors of the Company shall not be required to hold shares of the Company.</p> <p>The directors shall comply with the laws, administrative regulations and the Articles of Association of the Company and shall perform duties to the Company as follows:</p> <p>(1) not to abuse his position to accept bribes or other illegal income or appropriate the properties of the Company;</p> <p>(2) not to appropriate the capital of the Company;</p> <p>(3) not to set up accounts in his own name or in any other name to deposit any of the assets or capital of the Company;</p>

Article no.	Existing Articles	Revised Articles
	<p>(8) not to disclose confidential information of the Company without permission;</p> <p>(9) not to use his connected relations with the Company to prejudice the interests of the Company;</p> <p>(10) other duties as required by the laws, administrative regulations, departmental rules or the Articles of Association of the Company.</p> <p>Any incomes obtained by directors in violation of any provisions of this Article shall belong to the Company. The director shall be accountable to indemnify the Company against any losses incurred.</p> <p>The Directors shall comply with the laws, administrative regulations and the Articles of Association of the Company and shall perform their diligent duties to the Company as follows:</p> <p>(1) to exercise the rights conferred by the Company in a cautious, thoughtful and diligent manner so as to ensure the commercial behaviors of the Company comply with the laws, administrative regulations and economic policies of the PRC, and the commercial activities shall not go beyond the scope of business stipulated in the business license;</p> <p>(2) to treat all shareholders fairly;</p> <p>(3) to keep informed of the operation and management position of the Company on a timely basis;</p>	<p>(4) not to lend the funds of the Company to any other person or use the property of the Company to provide guarantee for any other person without the consent of the general meeting or the Board in contravention of provision of the Articles of Association of the Company;</p> <p>(5) not to enter into contracts or carry out transactions with the Company in violation of the provisions of the Articles of Association or without the consent of the general meeting;</p> <p>(6) not to, without the consent of the general meeting, abuse his position to appropriate the business opportunities for himself or other persons which should otherwise belong to the Company, or operate businesses similar to those of the Company for himself or other persons;</p> <p>(7) not to misappropriate the commission obtained from transactions entered into by the Company;</p> <p>(8) not to disclose confidential information of the Company without permission;</p> <p>(9) not to use his connected relations with the Company to prejudice the interests of the Company;</p> <p>(10) other duties as required by the laws, administrative regulations, departmental rules or the Articles of Association of the Company.</p> <p>Any incomes obtained by directors in violation of any provisions of this Article shall belong to the Company. The director shall be accountable to indemnify the Company against any losses incurred.</p>

Article no.	Existing Articles	Revised Articles
	<p>(4) to sign the regular reports of the Company for confirmation of their comments, to ensure the truthfulness, accuracy and completeness of the information disclosed by the Company;</p> <p>(5) to provide information and data to the Supervisory Committee, and not to interfere with the Supervisory Committee or supervisors in their exercise of powers;</p> <p>(6) other diligent duties as required by the laws, administrative regulations, departmental rules or the Articles of Association of the Company.</p>	<p>The Directors shall comply with the laws, administrative regulations and the Articles of Association of the Company and shall perform their diligent duties to the Company as follows:</p> <p>(1) to exercise the rights conferred by the Company in a cautious, thoughtful and diligent manner so as to ensure the commercial behaviors of the Company comply with the laws, administrative regulations and economic policies of the PRC, and the commercial activities shall not go beyond the scope of business stipulated in the business license;</p> <p>(2) to treat all shareholders fairly;</p> <p>(3) to keep informed of the operation and management position of the Company on a timely basis;</p> <p>(4) to sign the regular reports of the Company for confirmation of their comments, to ensure the truthfulness, accuracy and completeness of the information disclosed by the Company;</p> <p>(5) to provide information and data to the Supervisory Committee, and not to interfere with the Supervisory Committee or supervisors in their exercise of powers;</p> <p>(6) other diligent duties as required by the laws, administrative regulations, departmental rules or the Articles of Association of the Company.</p>

Article no.	Existing Articles	Revised Articles
Article 128	<p>The Board shall report to the shareholders' general meeting and exercise the following powers:</p> <p>(1) to convene shareholders' general meetings and report its work to the shareholders' general meeting;</p> <p>(2) to implement the resolutions of shareholders' general meetings;</p> <p>(3) to decide on the Company's business plans and investment plans;</p> <p>(4) to formulate the Company's plans on annual financial budgets and final budgetary report;</p> <p>(5) to formulate the Company's profit distribution plans and plans on making up losses;</p> <p>(6) to formulate proposals for increase or decrease of the registered capital of the Company and issue of bonds of the Company;</p> <p>(7) to formulate plans for major acquisitions, purchase of shares of the Company or plans for merger, split, dissolution or alteration of corporate form of the Company;</p> <p>(8) to determine the establishment of the Company's internal management structure;</p> <p>(9) to appoint or remove the manager and the secretary to the Board; to appoint or remove the deputy manager, chief financial officer and other senior management of the Company based on the nomination by the manager and to decide on their remunerations and rewards and penalties;</p> <p>(10) to formulate the basic management system of the Company;</p>	<p>The Board shall report to the shareholders' general meeting and exercise the following powers:</p> <p>(1) to convene shareholders' general meetings and report its work to the shareholders' general meeting;</p> <p>(2) to implement the resolutions of shareholders' general meetings;</p> <p>(3) to decide on the Company's business plans and investment plans;</p> <p>(4) to formulate the Company's plans on annual financial budgets and final budgetary report;</p> <p>(5) to formulate the Company's profit distribution plans and plans on making up losses;</p> <p>(6) to formulate proposals for increase or decrease of the registered capital of the Company and issue of bonds of the Company;</p> <p>(7) to formulate plans for major acquisitions, purchase of shares of the Company or plans for merger, split, dissolution or alteration of corporate form of the Company;</p> <p>(8) to determine the establishment of the Company's internal management structure;</p> <p>(9) to appoint or remove the manager and the secretary to the Board; to appoint or remove the deputy manager, chief financial officer and other senior management of the Company based on the nomination by the manager and to decide on their remunerations and rewards and penalties;</p> <p>(10) to formulate the basic management system of the Company;</p>

Article no.	Existing Articles	Revised Articles
	<p>(11) to formulate proposals for amendment to the Articles of Association;</p> <p>(12) to determine external investments, purchases and sales of assets, pledge of assets, external guarantees, entrusted asset management and connected transactions of the Company within the scope of the authority granted by shareholders' general meeting;</p> <p>(13) to manage information disclosure of the Company;</p> <p>(14) to propose the appointment or removal of the Company's auditors to the shareholders' general meeting;</p> <p>(15) to receive the work report and inspect the work of the manager of the Company;</p> <p>(16) to formulate equity incentive plan;</p> <p>(17) to exercise any other powers specified in the Articles of Association or authorized by shareholders at general meeting.</p> <p>Except for the Board resolutions in respect of the matters specified in paragraphs (6), (7), (11) and (16) of this Article which shall be passed by more than two-thirds of the directors, the Board resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.</p> <p>When the Board decides on major issues of the Company, it should listen to the opinions of the Company's Party organization in advance.</p>	<p>(11) to formulate proposals for amendment to the Articles of Association;</p> <p>(12) to determine external investments, purchases and sales of assets, pledge of assets, external guarantees, entrusted asset management and connected transactions of the Company within the scope of the authority granted by shareholders' general meeting;</p> <p>(13) to manage information disclosure of the Company;</p> <p>(14) to propose the appointment or removal of the Company's auditors to the shareholders' general meeting;</p> <p>(15) to receive the work report and inspect the work of the manager of the Company;</p> <p>(16) to formulate employee shares scheme and equity incentive plan;</p> <p>(17) Pursuant to the authorization of shareholders' general meeting, consider the purchase of shares of the Company for the reasons of paragraph (3), (5) and (6) of Article 26 of the Articles of Association;</p> <p>(18) to exercise any other powers specified in the Articles of Association or authorized by shareholders at general meeting.</p> <p>Except for the Board resolutions in respect of the matters specified in paragraphs (6), (7), (11), (16) and (17) of this Article which shall be passed by more than two-thirds of the directors, the Board resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.</p> <p>When the Board decides on major issues of the Company, it should listen to the opinions of the Company's Party organization in advance.</p>

Article no.	Existing Articles	Revised Articles
Article 140	<p>Directors shall attend Board meetings in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the name of the proxy, the subject and scope of authorization and validity of the time limit of the proxy, which shall be signed or officially sealed by the authorizing party.</p> <p>A director appointed as the representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a particular board meeting and has not appointed a proxy to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting.</p>	<p>Directors shall attend Board meetings in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the name of the proxy, the subject and scope of authorization and validity of the time limit of the proxy, which shall be signed or officially sealed by the authorizing party.</p> <p>A director appointed as the representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a particular board meeting and has not appointed a proxy to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting.</p> <p>Independent directors may not entrust non-independent directors to attend board meeting on their behalf.</p>
Article 146	<p>An independent director is a director who, other than director, does not serve in other position in the Company and does not have any relationship with the Company and any of its substantial shareholder which may hinder his forming of any independent and objective judgment.</p>	<p>An independent director is a director who, other than a member of the special committee of the Board, does not concurrently serve in other position in the Company and does not have any relationship with the Company and any of its substantial shareholder which may hinder his forming of any independent and objective judgment.</p>

Article no.	Existing Articles	Revised Articles
Article 148	<p>Independent directors shall be liable to fiduciary and diligence duties to the Company and all shareholders. Independent directors shall perform their duties faithfully and safeguard the interests of the Company in accordance with relevant laws, regulations and this Articles of Association, and in particular ensure that the lawful interests of public shareholders are not undermined.</p> <p>Independent directors shall discharge their duties independently and shall not be influenced by the Company's substantial shareholders, controller de facto or other persons or units which have relationship with the Company and shall ensure that they have sufficient time and energy to discharge their duties effectively.</p>	<p>Independent directors shall be liable to fiduciary and diligence duties to the Company and all shareholders. Independent directors shall perform their duties faithfully and safeguard the interests of the Company in accordance with relevant laws, regulations and this Articles of Association, and in particular ensure that the lawful interests of public shareholders are not undermined.</p> <p>Independent directors shall discharge their duties independently and shall not be influenced by the Company's substantial shareholders, controller de facto or other persons or units which have relationship with the Company and shall ensure that they have sufficient time and energy to discharge their duties effectively.</p> <p>Performance evaluation of independent directors is conducted by self-evaluation and mutual evaluation.</p>
Article 157	<p>The Board of the Company shall, in accordance with resolution of general meeting, establish certain special committees. Members of the special committees shall all be directors, of which at least one shall be an independent director with accounting profession in the audit committee.</p>	<p>The Board of the Company shall, in accordance with resolution of general meeting, establish certain special committees. Members of the special committees shall all be directors, of which for the audit committee, the nomination committee, and the remuneration and appraisal committee, independent directors shall be the majority and serve as the convener. The convener of the audit committee shall be the accounting professional.</p>

Article no.	Existing Articles	Revised Articles
Article 185	<p>Each of the Company's directors, supervisors, managers and other senior management members shall exercise his powers or carry out his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. Such principle includes (without limitation) discharging the following obligations:</p> <p>(1) to act honestly in the best interests of the Company;</p> <p>(2) to exercise powers within the scope of his authorities and not to exceed those authorities;</p> <p>(3) to exercise the discretion vested in him personally and not to allow himself to act under the control of others and, unless and to the extent permitted by the laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;</p> <p>(4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;</p> <p>(5) except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;</p> <p>(6) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit by any means;</p>	<p>Each of the Company's directors, supervisors, managers and other senior management members shall exercise his powers or carry out his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. Such principle includes (without limitation) discharging the following obligations:</p> <p>(1) to act honestly in the best interests of the Company;</p> <p>(2) to exercise powers within the scope of his authorities and not to exceed those authorities;</p> <p>(3) to exercise the discretion vested in him personally and not to allow himself to act under the control of others and, unless and to the extent permitted by the laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;</p> <p>(4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;</p> <p>(5) except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;</p> <p>(6) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit by any means;</p>

Article no.	Existing Articles	Revised Articles
	<p>(7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;</p> <p>(8) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;</p> <p>(9) to abide by the Articles of Association, faithfully execute his duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;</p> <p>(10) not to compete with the Company in any form unless with the informed consent of shareholders given in general meeting;</p> <p>(11) not to misappropriate the Company's funds or to lend the Company's funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide guarantee for the debts of any shareholder(s) of the Company or other individual(s) with the Company's assets;</p>	<p>(7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;</p> <p>(8) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;</p> <p>(9) to abide by the Articles of Association, faithfully execute his duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;</p> <p>(10) not to compete with the Company in any form unless with the informed consent of shareholders given in general meeting;</p> <p>(11) not to misappropriate the Company's funds or to lend the Company's funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide guarantee for the debts of any shareholder(s) of the Company or other individual(s) with the Company's assets;</p>

Article no.	Existing Articles	Revised Articles
	<p>(12) unless otherwise permitted by informed shareholders in general meeting, to keep in confidence information relating to the Company acquired by him in the course of and during his tenure and not to use such information in purposes other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:</p> <ol style="list-style-type: none"> 1. disclosure is made pursuant to law; 2. the interests of the public require disclosure; 3. the interests of the relevant director, supervisor, manager and other senior management member require disclosure. 	<p>(12) when disclosing the information of the Company, it shall follow the principles of truthfulness, accuracy, completeness, timeliness and fairness. Relevant directors, supervisors and senior management personnel shall also abide by the Company's behavioural norms for information release.</p> <p>(13) unless otherwise permitted by informed shareholders in general meeting, to keep in confidence information relating to the Company acquired by him in the course of and during his tenure and not to use such information in purposes other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:</p> <ol style="list-style-type: none"> 1. disclosure is made pursuant to law; 2. the interests of the public require disclosure; 3. the interests of the relevant director, supervisor, manager and other senior management member require disclosure.

Article no.	Existing Articles	Revised Articles
Article 188	Except for circumstances prescribed in Article 52 of the Articles of Association, a director, supervisor, manager and other senior management member of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting.	Except for circumstances prescribed in Article 52 of the Articles of Association, a director, supervisor, manager and other senior management member of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting. The Company shall, in strict accordance with the signed labor contracts, provide compensation to directors, supervisors and senior management personnel who have been dismissed in advance due to the Company's reasons. The compensation shall be in accordance with the principle of fairness, shall not damage the legitimate rights and interests of the Company, and shall not carry out interests transfer.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than the Directors, Supervisors and chief executive of the Company) had or are deemed or taken to have an interest or short position in the shares and underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group and were recorded in the register to be kept under section 336 of the SFO:

Name	Capacity	Number of shares held	Class of Shares held	Percentage of relevant class of Shares	Percentage of total issued share capital
CSSC	Beneficial owner	501,745,100 (L)	A Shares	61.08%	35.50%
		345,940,890 (L)	H Shares	58.43%	24.47%

Note: L = Long position S = Short position P = Lending pool

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors, Supervisors and chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

3. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date,

- (a) none of the Directors had entered into any existing or proposed service contract with the Company, excluding those contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation; and
- (b) none of the Directors or their associates had any direct or indirect interest in any assets which had been, since 31 December 2018 (the date to which the latest published audited financial statements of the Group were made up), acquired, or disposed of by, or leased to any member of the Group, or proposed to be acquired, or disposed of by, or leased to any member of the Group.

4. COMPETING INTERESTS AND OTHER INTERESTS

So far as the Directors were aware, none of the Directors or their respective associates had any interests which competes or is likely to compete, either directly or indirectly with the business of the Group.

None of the Directors or their associates was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

5. EXPERT

The following is the qualification of the professional adviser who has given opinion or advice which is contained in this circular:

Name	Qualification
Vinco Capital Limited	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Vinco Capital

- (a) did not have any shareholding interest, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group;
- (b) has given and has not withdrawn its written consent to the issue of this circular with its letter of advice and the references to its name and logo in the form and context in which it is included; and
- (c) did not have any direct or indirect interest in any assets which since 31 December 2018 (the date to which the latest published audited financial statements of the Group were made up), have been acquired, or disposed of by, or leased to any member of the Group, or which are proposed to be acquired, or disposed of by, or leased to any member of the Group.

The letter of advice from the Independent Financial Adviser is given as of the date of this circular for incorporation herein.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Company were made up.

7. GENERAL

- (a) The registered office of the Company is located at 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC, Postal Code: 510382.
- (b) The H share registrar and H share transfer office of the Company is Hong Kong Registrars Ltd. at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

- (c) The company secretary of the Company is Mr. Li Zhidong. Mr. Li Zhidong, aged 53, senior engineer. He graduated from Shanghai Jiaotong University with a bachelor's degree, majored in ship engineering, in engineering in July 1987 and obtained a master degree in November 1997. He served as head of general office, chief legal advisor, assistant to general manager, board secretary and secretary of Hong Kong company of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司). He is currently secretary to the Board of the Company.
- (d) The following directors are directors or employees of the CSSC Group: Mr. Han Guangde is the chairman of the board of directors and the party secretary of Guangzhou Shipbuilding Industry Co., Ltd.* (廣州船舶工業有限公司); Mr. Chen Ji is the party secretary of Guangzhou Shipyard Co., Ltd.* (廣州造船廠有限公司); Mr. Shi Jun is the deputy director of the business management department of CSSC. Save as disclosed above, so far as known to the Directors, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would be required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong at during 9:00 a.m. to 5:00 p.m. on any day on which licensed banks in Hong Kong are open for ordinary business (excluding public holidays and Saturdays) from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the Land Resumption Compensation Agreement;
- (c) the letter of recommendation from the Independent Board Committee dated 9 December 2019, the text of which is set out on pages 26 to 27 of this circular;
- (d) the letter of advice issued by Vinco Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders dated 9 December 2019, the text of which is set out on pages 28 to 40 of this circular;

- (e) the consent letter given by Vinco Capital as referred to in the section headed “Expert” in this Appendix; and
- (f) this circular.