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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)

CONNECTED AND DISCLOSEABLE TRANSACTION

IN RELATION TO

THE ENTERING INTO THE LAND RESUMPTION COMPENSATION AGREEMENT

THE LAND RESUMPTION COMPENSATION AGREEMENT

On 18 November 2019, GSI, a non-wholly owned subsidiary of the Company, and GS Shipping entered into the Land Resumption Compensation Agreement, pursuant to which GS Shipping agreed to pay GSI 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.

LISTING RULES IMPLICATIONS

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 date of this announcement, 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.

GENERAL

A circular containing, among other things, (i) further details of the Land Resumption Compensation Agreement; (ii) the letter of advice from the independent financial adviser to the independent Board committee and the independent Shareholders in respect of the transaction contemplated under the Land Resumption Compensation Agreement; and (iii) the recommendation from the independent Board committee, is expected to be despatched to the Shareholders on or before 6 December 2019 as additional time is required to compile the information and prepare the circular.

BACKGROUND

References are made to the announcements of the Company dated 14 August 2015, 21 October 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.

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 bidding process in 2019.

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**").

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 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 for one year.

In order to proceed with the listing-for-sale of the GSI Shipping Land Phase One, the Land Works have to be completed.

As at the date of this announcement, GS Shipping is the holder of the land use right of the GS Shipping Land and GSI is the tenant of the GS Shipping Land. As such, the government authorities recognised GSI as the implementer for the relocation of production base of the GS Shipping Land and the Land Works. 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 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.

* For identification purpose only

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

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

Date

18 November 2019

Parties

(1) GSI; and

(2) GS Shipping.

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 sale of the GS Shipping Land Phase One can be approved by the relevant government authorities before the end of 2019 and can be completed by tender (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;
- 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 RMB 713 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.

INFORMATION OF THE GROUP AND OTHER 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 date of this announcement, 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 modul 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 date of this announcement, 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.

GS Shipping

GS Shipping was established in the PRC on 18 November 2014. As at the date of this announcement, 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.

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 Company, which in turn might bring positive impact on the annual financial performance of the Company for the year ended 2019.

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.

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.

LISTING RULES IMPLICATIONS

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As at the date of this announcement, 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.

GENERAL

The independent Board committee, comprising all the independent non-executive Directors, has been established to advise the independent Shareholders in relation to their voting on the resolutions relating to the Land Resumption Compensation Agreement. An independent financial adviser will be appointed to advise the independent Board committee and the independent Shareholders relating to the Land Resumption Compensation Agreement.

A circular containing, among other things, (i) further details of the Land Resumption Compensation Agreement; (ii) the letter of advice from the independent financial adviser to the independent Board committee and the independent Shareholders in respect of the transaction contemplated under the Land Resumption Compensation Agreement; and (iii) the recommendation from the independent Board committee, is expected to be despatched to the Shareholders on or before 6 December 2019 as additional time is required to compile the information and prepare the circular.

DEFINITION

In this announcement, unless the context requires otherwise, the following expressions shall be defined as follows:

“A Share(s)”	domestic shares of the Company with nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange;
“Board”	the board of directors of the Company;
“CITIC Investment”	CITIC Pacific (China) Investment Co., Ltd* (中信泰富(中國)投資有限公司), a company established on 27 October 2000 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 (中船海洋與防務裝備股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange (H Shares Stock Code: 317) and the A Shares of which are listed on the Shanghai Stock Exchange (A Shares Stock Code: 600685);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“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 date of this announcement, CSSC directly and

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	indirectly 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;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“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 date of this announcement, a non-wholly owned subsidiary of the Company;
“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 10 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;
“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;
“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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China and, for the sole purposes of this announcement, excludes Taiwan, Hong Kong and Macau Special Administrative Region of the PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“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;

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“Shares” shares of RMB1.00 each in the share capital of the Company;
“Stock Exchange” The Stock Exchange of Hong Kong Limited; and
“%” per cent.

By order of the Board
CSSC Offshore & Marine Engineering (Group) Company Limited
Li Zhidong
Company Secretary

Guangzhou, 18 November 2019

As at the date of this announcement, the Board comprises eleven Directors, namely executive Directors Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Sheng Jigang, Mr. Xiang Huiming and Mr. Chen Ji, non-executive Director Mr. Shi Jun and independent non-executive Directors Mr. Wang Yichu, Mr. Min Weiguo, Mr. Liu Renhuai and Mr. Yu Shiyou.