THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **CSSC Offshore & Marine Engineering (Group) Company Limited**, you should at once hand this circular, together with the Supplemental Proxy Form and reply slip, to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer or other registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned therein.

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)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS UNDER THE SUPPLEMENTAL AGREEMENT; FORMULATION OF MANAGEMENT RULES FOR THE REMUNERATION OF THE TENTH SESSION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY; AND CHANGE OF THE SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

Vinco Capital Limited

Unless the content 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 containing is set out on pages 7 to 51 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on page 52 to 53 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 54 to 69 of this circular.

The notice of EGM together with the proxy form and reply slip have been sent to the Shareholders on 31 August 2020. The supplemental notice convening the EGM, and the Supplemental Proxy Form have been sent to the Shareholders on 8 October 2020.

The EGM will be held at Conference Room, 15/F Marine Tower, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m. on Friday, 23 October 2020. 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 2 October 2020). In order to ensure validity, holders of A Shares must deliver the completed Supplemental 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 Supplemental Proxy Form and other authorization documents (if any) to the Company's H shares registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, 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 Supplemental Proxy Form will not preclude you from attending and voting in person at the EGM should you so wish.

8 October 2020

CONTENTS

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

"2020-2022 Framework Agreement"	framework agreement for the continuing connected transactions for the period from 1 January 2020 to 31 December 2022 (both days inclusive) entered into between the Company and CSSC on 30 December 2019
"A Share(s)"	domestic shares of the Company with nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange
"Aggregated Annual Caps (Financial Services)"	the aggregated annual caps for financial services provided by the CSSC Group to the Group contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement, which are not otherwise exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules, comprising the Revised Annual Caps of each of (i) the maximum daily balance on the Deposits; (ii) aggregate interest on Deposits for the year; (iii) aggregate interest on Loans Granted by CSSC Group for the year; (iv) aggregate fees on financial and credit services; (v) maximum daily balance on the FX Forward Contracts; (vi) maximum value of the entrusted assets management services; (vii) aggregate interest on entrusted assets management services; an (viii) guarantee fees for guarantee services
"Aggregated Annual Caps (Products and Services)"	the aggregated annual caps for products and services provided by the CSSC Group to the Group and agency services provided by the CSSC Group to the Group contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement, being the aggregation of the Revised Annual Caps for products and services provided by the CSSC Group to the Group and the Unrevised Annual Caps
"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
"CBIRC"	China Banking and Insurance Regulatory Commission
"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
"Comprehensive Services"	the medical services, catering services, infant care and nursery, property management, hydropower resale, training programs for skilled labour and management of staff quarters provided to the Group, the staff of the Group and their family members by the CSSC Group, advertisement service, exhibition service, etc.
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions contemplated under the Supplemental Agreement, including the (i) products and services to be provided by the CSSC Group to the Group; and (ii) financial services to be provided by the CSSC Group to the Group as defined in the section headed "B. THE SUPPLEMENTAL AGREEMENT - Revision of annual caps pursuant to the Supplemental Agreement" in page 16 in this circular
"Contract Management Rules"	the contract management rules under the Group's internal procedures which were designed to seek to ensure that the contracts from time to time entered into by the Group are in compliance with the Contract Law of the PRC（中華人民共和國合同法）, the Practice Note No. 16 – Contract Management of the Enterprise Internal Control （企業內部控制應用指引第16號—合同管理）and other relevant PRC laws and regulations. Such rules are applicable to all sale and purchase contracts of the Group so that all the suppliers or purchasers (as the case maybe) would be treated equally and would submit their respect tender and compete with each other through the same platform
"controlling shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules

"CSIC"	China Shipbuilding Industry Corporation*（中國船舶重工集團有限公司）, a company established in the PRC
"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 841,264,642 Shares of the Company directly or indirectly, representing 59.52% of the issued Shares of the Company, and is a controlling shareholder of the Company
"CSSC Finance"	CSSC Finance Company Limited（中船財務有限責任公司）, a wholly-owned subsidiary of CSSC
"CSSC Group"	CSSC and its subsidiaries
"Deposits"	the deposits maintained by the Group from time to time with CSSC Finance under the financial services provided by the CSSC Group to the Group pursuant to the Supplemental Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the third extraordinary general meeting of 2020 to be convened by the Company at Conference Room, 15/F Marine Tower, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m. on Friday, 23 October 2020
"Financial Services by the CSSC Group"	the financial services to be provided by CSSC Group and/or CSSC Finance to the Group, including the provision of Loans Granted by CSSC Group, financial and credit services and guarantee services but excluding the Deposits, FX Forward Contracts and entrusted assets management services
"FX Forward Contract(s)"	a foreign exchange forward contract or a set of such contracts proposed to be entered into by the Group to hedge against the Group's currency risk in relation to the possible appreciation/depreciation of RMB against foreign currencies
"Group"	the Company and its subsidiaries

"Guangzhou Shipyard"	Guangzhou Shipyard International Company Limited (廣船國際有限公司), a former 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" or "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
"Huangpu Wenchong"	CSSC Huangpu Wenchong Shipbuilding Company Limited* (中船黃埔文沖船舶有限公司), a company established on 1 June 1981 in the PRC and as at the Latest Practicable Date, a non-wholly owned subsidiary of the Company and is owned as to 54.5371% by the Company
"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 Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps
"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, being the independent financial advisor engaged by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps
"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)

"Latest Practicable Date"	30 September 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Loans Granted by CSSC Group"	the loans advanced by CSSC Finance and/or CSSC Group to the Group from time to time under the financial services to be provided by the CSSC Group to the Group pursuant to the Supplemental Agreement
"Notice of EGM"	notice of EGM sent to the Shareholders on 31 August 2020
"PBOC"	the People's Bank of China
"PRC"	the People's Republic of China
"Revised Annual Caps"	the revised annual caps for the Continuing Connected Transactions contemplated under the Supplemental Agreement
"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
"Shareholder(s)"	holder(s) of Shares
"Shares"	shares of RMB1.00 each in the share capital of the Company
"Supervisor(s)"	supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Supplemental Agreement"	the supplemental agreement to the 2020-2022 Framework Agreement entered into between the Company and CSSC on 10 September 2020 and conditional on approval by the Independent Shareholders at EGM
″Supplemental Notice of EGM"	supplemental notice of EGM sent to the Shareholders on 8 October 2020

"Supplemental Proxy Form"	the revised proxy form for use at the EGM which, together with the Supplemental Notice of EGM, has been sent to Shareholders on 8 October 2020
"Unrevised Annual Caps"	the annual caps for the agency services provided by the CSSC Group to the Group contemplated under the 2020-2022 Framework Agreement which have not been revised pursuant to the Supplemental Agreement
"%"	percent

* *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.*

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.

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

Non-Executive Director:
Mr. Shi Jun

Independent Non-Executive Directors:
Mr. Wang Yichu
Mr. Min Weiguo
Mr. Liu Renhuai
Mr. Yu Shiyou

Registered Office:
15th Floor, No.137 Gexin Road
Haizhu District
Guangzhou
China
Post code: 510250

8 October 2020

To the H Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS UNDER THE SUPPLEMENTAL AGREEMENT; FORMULATION OF MANAGEMENT RULES FOR THE REMUNERATION OF THE TENTH SESSION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY; AND CHANGE OF THE SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

1. INTRODUCTION

Reference is made to the announcement of the Company dated 28 August 2020 in relation to the proposed re-election and appointment of Directors and Supervisors and the announcement of the Company dated 10 September 2020 in relation to, among other things, the terms and the Revised Annual Caps of each of the Continuing Connected Transactions contemplated under the Supplemental Agreement.

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 and the Revised Annual Caps of each of the Continuing

Connected Transactions (save for the financial and credit services and guarantee services provided by the CSSC Group) contemplated under the Supplemental 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 Continuing Connected Transactions (including details of the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding terms and the Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group); (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in relation to the terms and the Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group); (iv) information regarding the election of new session of the Board of Directors and Supervisory Committee' and (v) formulation of management rules for the remuneration of the Tenth Session of Directors, Supervisors and Senior management of the Company.

2. RESOLUTIONS ON THE CONTINUING CONNECTED TRANSACTION UNDER THE SUPPLEMENTAL AGREEMENT

A. BACKGROUND

Reference is made to the announcement of the Company dated 30 December 2019 and the circular of the Company dated 5 February 2020 in relation to, among others, the 2020-2022 Framework Agreement, which, together with the transactions and the annual caps contemplated thereunder, was approved by Independent Shareholders on 26 February 2020.

The Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2020-2022 Framework Agreement and anticipates that the demand of the Group for certain products and services (including financial services) provided by the CSSC Group pursuant to the 2020-2022 Framework Agreement will exceed the previous projection to the effect that certain existing annual caps contemplated under the 2020-2022 Framework Agreement will not be sufficient to meet the demand of the Group.

Accordingly, the Company and CSSC entered into the Supplemental Agreement on 10 September 2020 to revise certain existing caps for products and services (including financial services) provided by the CSSC Group to the Group for the year ending 31 December 2020, 2021 and 2022 respectively in order to cater for the Group's demand for such products and services and to facilitate the Group in capturing its potential business growth.

For the avoidance of doubt, the entering into and the implementation of the Supplemental Agreement and the transactions (together with the Revised Annual Caps contemplated thereunder), is conditional upon the approval by Independent Shareholders at the EGM. In any event, prior to obtaining the approval from Independent Shareholders at the

EGM, the Company shall continue to comply with the terms of, and the continuing connected transactions (together with the relevant annual caps) under the 2020-2022 Framework Agreement (as approved by Independent Shareholders on 26 February 2020).

Moreover, as disclosed in the announcement of the Company dated 25 October 2019 and the circular of the Company dated 5 February 2020, on 25 October 2019, the Company received a letter from CSSC stating that CSSC had received a "Notice regarding the reorganization of CSSC and CSIC" (《關於中國船舶工業集團有限公司和中國船舶重工集團有限公司重組的通知》(國資改革(2019)100號) issued by the SASAC, the reorganisation of CSSC and CSIC has been implemented in October 2019. In October 2019, the SASAC has also issued the "Announcement regarding the approval of the reorganization of CSSC and CSIC" (《關於中國船舶工業集團有限公司和中國船舶重工集團有限公司聯合重組獲得批准的公告》). Upon approval by the SASAC, it was agreed that CSSC performs joint restructuring with CSIC to newly set up China State Shipbuilding Corporation Limited* (中國船舶集團有限公司) ("**China Shipbuilding Group**"). The SASAC shall perform the duties of the contributor on behalf of the State Council, and CSSC and CSIC will be integrated into China Shipbuilding Group. In November 2019, China Shipbuilding Group has been established and completed the registration at the State Administration for Industry and Commerce of PRC.

As disclosed in the announcement of the Company dated 25 October 2019 and the circular of the Company dated 5 February 2020, upon the restructuring, the controlling shareholder and de facto controller of the Company will remain unchanged. On 8 November 2019, the members of the boards of directors, supervisors and senior management of the China Shipbuilding Group was appointed and the members of the boards of directors, supervisors and senior management of each of CSSC, CSIC and the China Shipbuilding Group were the same. The ultimate beneficial owner of the China Shipbuilding Group is the SASAC as at the Latest Practicable Date. As at the Latest Practicable Date, the restructuring is still on-going and the transfer of shares of the CSSC from the SASAC to the China Shipbuilding Group and the transfer of shares of the CSIC from the SASAC to the China Shipbuilding Group have not been completed. As such, immediately after the restructuring, the China Shipbuilding Group will hold 100% of the issued shares of CSSC and 100% of the issued shares of CSIC and CSSC will hold 59.52% of the issued Shares of the Company. Hence, the China Shipbuilding Group will become a substantial shareholder and a connected person of the Group and the transactions between the China Shipbuilding Group and the Group will become continuing connected transactions immediately after the restructuring. The Board has taken into account the impact of the restructuring when determining the Revised Annual Caps. Dalian Shipbuilding Industrial Engineering Company Limited (大連船舶工業工程公司) ("**Dalian Shipbuilding**") (which will be mentioned below) will become a connected person of the Company upon completion of the aforementioned restructuring.

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) are of the view that the Supplemental Agreement were entered into: (i) on normal commercial terms (on arm's length basis or on terms no less favourable to the Company than terms available from Independent Third Parties); and (ii) on terms (including the Revised Annual Caps) that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

B. THE SUPPLEMENTAL AGREEMENT

Reference is made to the announcement of the Company dated 10 September 2020 in relation to, among other things, the terms and the Revised Annual Caps of each of the Continuing Connected Transactions contemplated under the Supplemental Agreement.

The Company and CSSC entered into the Supplemental Agreement on 10 September 2020 to revise certain existing caps for products and services (including financial services) provided by the CSSC Group for the year ending 31 December 2020, 2021 and 2022 respectively.

Save as to the revision of certain existing caps, the other terms of the 2020-2022 Framework Agreement, including the principal terms, the pricing policy and the existing annual caps for such other transactions contemplated under the 2020-2022 Framework Agreement remain unchanged.

The principal terms of the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement are as follows:

Scope: **Products and services to be provided by the Group to the CSSC Group:**

(a) Provision of shipping products, electrical and mechanical engineering equipment, and metallic materials, etc., including shipping products, complete sets or accessories of equipment, steel products, non-ferrous metal products and part of electrical equipment primarily for use on ships, recycling and heavy equipment; when the CSSC Group is facing a shortage in equipment, materials or accessories caused by insufficient procurements, or delay in delivery of goods by suppliers, or when the CSSC Group is urgently required to meet orders from its customers which temporarily exceeded its production capacity in the production of CSSC Group, the Group may provide various equipment, materials and accessories to the CSSC Group to meet its routine and urgent production needs; and sale of waste materials to the CSSC Group; disposing fixed assets that are not in use by the Group to the CSSC Group;

(b) Utilities, primarily the supply of wind, water and electrical power and gas; and

(c) Provision of production areas and staff quarters leasing service, labour supply and technical services:

(i) Leasing: provision of certain production areas and staff quarters leasing service by the Group to the CSSC Group, its joint ventures and associates;

(ii) Labour supply: primarily involves the provision of training, shipbuilding and ship-repairing services, labour supply etc.; the Group may provide to the CSSC Group the skills training and assessment, technical services, labour supply, etc. relating to the business of the Company; short-term secondment of labour will be provided by the Group when the CSSC Group is in short of labour force for shipbuilding services provided the Group has excess labour force at the same time; and

(iii) Technical services: mainly involves installation, usage and maintenance services and the provision of shipbuilding products and other engineering design or environmental business, such as land restoration, research and development services and professional services, software development, and relevant technical services.

Products and services to be provided by the CSSC Group to the Group:

(d) Provision of equipment for ship, electrical and mechanical engineering equipment, accessories and resources etc., comprising primarily complete sets or accessories of resources, accessories, production machineries required for production, tools and logistic services for ship-building, environmental protection, and heavy equipment production of the Group; when the Group is short of supply of resources, equipment and related services for its production due to insufficient procurements, late delivery by the supplier or temporary demand for the resources, the resources will be provided by the CSSC Group provided that the CSSC Group has excess resources at the same time; and

(e) Provision of production areas and equipment leasing service, labour supply and technical services:

(i) Leasing: lease of certain production sites and together with necessary production equipment to the Group and the ancillary water and electricity power, etc.;

(ii) Labour supply: subcontracting of shipbuilding works by section (or steel structure works), which refers to, in the event that the Group's shipbuilding production is constrained by limited resources, such as workshop, equipment or labour force, such resources will be provided to the Group in order to keep up with the production plan; lease of labour during the peak production season of the Group; and Comprehensive Services;

(iii) Technical services: the provision of technical services by the CSSC Group mainly involves the provision of shipbuilding products and other engineering design, research and development, accessories, software and relevant technical services, including in the event that the Group's production is constrained by design techniques and time after receiving an order, the CSSC Group will provide such service in order to keep up with production plan, the Group and the CSSC Group will form a unit for development of new products and technology and the provision of subcontracting management, equipment production, design, exploration and audit consultancy services for related utility projects.

Financial Services to be provided by the CSSC Group to the Group:

(f) (i) maintaining Deposits with CSSC Finance;

(ii) providing Loans Granted by CSSC Finance and the CSSC Group;

(iii) providing other financial or credit services which primarily includes the advance(s) provided to the Group from CSSC Finance directly, or payment(s) of compensation(s) and/or provision of indemnity(ies) in respect of any payment obligations which may arise out of the relevant business activities carried on by the Group such as loans, trade finance, bill financing, finance leases, overdrafts, trade advances, promissory notes, letters of credit, guarantees, standby letters of credit, letters of credit confirmation, guarantees in bonds issuance, loan guarantees, asset sales with legal recourses, un-utilised irrevocable loan commitments, etc;

(iv) entering into FX Forward Contract(s) by CSSC Finance with the Group, CSSC Finance and the Group would agree on the type of currency, amount, currency rate and the expected completion date for the future settlement of a transaction or completion of sale by the Group; and

(v) providing entrusted assets management service to manage the entrusted assets through tailor-made value-adding asset management plan and strategy.

(g) guarantee services, which refers to the events that the Group receives orders or borrowing funds from banks and the Group is required to have a guarantor, the CSSC Group may provide guarantee service in these events.

Agency Services to be provided by the CSSC Group to the Group:

(h) (i) Agency services for sales, primarily to take advantage of the CSSC Group's reputation in the international shipping market and the long-term relationship with other shipowners; and

(ii) Agency services for procurements, primarily to take advantage of the CSSC Group's bargaining power due to the large amount of procurements and to ensure the timely delivery.

Pricing: The Continuing Connected Transactions are to be conducted in the ordinary and usual course of business of the Group and on normal commercial terms (and if there are no sufficient comparable transactions to assess whether they are conducted on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties) on the basis that they must be fair and reasonable so far as the Shareholders are concerned. Separate written agreement(s) setting out the detailed terms (including the basis of pricing) shall be, if required, entered into between relevant parties for each Continuing Connected Transaction.

In respect of (a) above, pricing will be based on market price.

In respect of (b) above, pricing will be based on the costs of utilities supplied to the CSSC Group plus a 20-25% management fee or on terms no less favourable to the Group than terms available from Independent Third Parties.

In respect of (c) above, rental of the lease, pricing for labour, design and technical services shall be based on market price and on terms not less favourable compared with Independent Third Parties.

In respect of (d) above:

– pricing of electrical and mechanical engineering equipment and metallic materials will be based on market price and on terms no less favourable to the Group than available from Independent Third Parties;

– pricing of steel components or accessories for ship, considering the low unit price and the short order time, the price will be determined on arm's length negotiations between the parties annually based on actual costs taking into account the market price of raw materials;

– pricing of equipment for ship shall be on terms no less favourable to the Group than terms available from Independent Third Party suppliers taking into account circumstances such as the supply lead-in time, qualification of suppliers and quality of services etc. in the event that there are two or more suppliers from the CSSC Group; in the event that there is only one supplier from the CSSC Group due to technical specification or supply terms restrictions, pricing shall be determined by the parties at arm's length based on the most recent purchase price of the equipment in question by the Group, taking into account of the fluctuation of the price of raw materials, and in any event shall not be less favourable than terms available from Independent Third Party supplier to the Group; and

– pricing of logistics service shall be on terms no less favourable to the Group than terms available from Independent Third Party service providers.

In respect of (e) above, rental of the lease shall be based on market price or the management fee in addition to 10% of the cost; The basis for determining the annual caps for the provision of certain production areas and staff quarters leasing services by the CSSC Group to the Group is on the total value of right-of-use assets recognised by the Group; pricing of Comprehensive Services shall be on terms no less favourable to the Group than terms available from Independent Third Parties; pricing of labour supply services will be based on market price; pricing for providing the shipbuilding products and other engineering design and relevant technical services shall be based on market price.

In respect of (f) above:

– interests of the Deposits shall be on such interest rate on deposits published by PBOC;

– interests of the Loans Granted by CSSC Group shall be at an interest rate not higher than interest rate on loans published by PBOC or at an interest rate which will not be less favourable than that provided by Independent Third Parties providing similar services in the PRC;

– pricing of fees charged for financial and credit services shall be based on the charge standard as published by PBOC or on terms no less favourable to the Group than terms available from Independent Third Parties providing similar services in the PRC;

– for the FX Forward Contract(s), the handling fees to be charged by CSSC Finance/CSSC Group shall be on such fees as published by PBOC and no less favourable than those offered by Independent Third Parties; and

– pricing of interests received for providing entrusted asset management services shall be determined by the parties by making reference to market price and on terms that are no better than those offered by Independent Third Parties.

In respect of (g) above, the CSSC Group will charge relevant guarantee fees on terms no less favourable than terms available to or from Independent Third Parties (if applicable).

In respect of (h) above, pricing of sales agency fees or commissions shall follow the worldwide industry practice and will not exceed 1.5% of the contract price and be paid in proportion to the progress payment of the vessel in question; and pricing of procurements agency fees will be based on agreed fee shall also follow the worldwide industry practice and be 1% to 2% of the contract price.

Payment Term: Payment of each Continuing Connected Transaction will be settled in cash in arrears, or in accordance with the payment terms agreed by the relevant parties in the contract(s) to be entered into in connect with such Continuing Connected Transaction pursuant to the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement).

Term: The term of the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) shall be for the period from 1 January 2020 to 31 December 2022 (both days inclusive).

Revision of annual caps pursuant to the Supplemental Agreement

Pursuant to the Supplemental Agreement, conditional upon approval by the Independent Shareholders at the EGM, certain existing annual caps under the 2020-2022 Framework Agreement for the year ending 31 December 2020, 2021 and 2022 respectively will be revised as follows:

Unit RMB million

	Existing Annual Caps For the year ending 31 December			Revised Annual Caps For the year ending 31 December		
Transaction	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Products and services provided by the CSSC Group to the Group:						
(d) Equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc.	5,739.49	5,569.10	6,427.65	6,219.49	6,125.90	7,073.54
(e) Leasing of production areas, labour supply, design and technical services; and Comprehensive Services	327.84	282.12	321.63	530.67	517.40	594.55
Financial services provided by the CSSC Group to the Group:						
(f) (i) (1) Maximum daily balance on the Deposits *(Note 1)*	6,235.00	4,235.00	4,235.00	6,235.00	6,235.00	6,235.00
(2) Aggregate interest on Deposits for the year	40.55	34.55	34.55	81.65	86.75	86.75
(iii) Aggregate fees on financial and credit services *(Note 2)*	2.33	1.72	1.72	3.62	4.22	4.82
(iv) Maximum daily balance on the FX Forward Contracts *(Note 3)*	4,740.56	800.00	800.00	4,740.56	2,000.00	2,000.00
(v) (1) Maximum value of entrusted assets managements	2,000.00	1,000.00	1,000.00	3,000.00	3,500.00	3,500.00
(2) Aggregate interest on entrusted assets management services *(Note 4)*	44.55	36.30	36.30	44.55	73.50	73.50
(g) Guarantee fee for guarantee services by the CSSC Group *(Note 5)*	–	–	–	12.80	12.80	12.80

((d), (e), (f)(i), (f)(iii), (f)(iv), (f)(v) and (g) collectively "**Continuing Connected Transactions**" and each a "**Continuing Connected Transaction**")

Notes:

1. The annual caps in respect of the maximum daily balance on the Deposits for the year ending 31 December 2020 remains unchanged.

2. The maximum subject amount for the financial and credit services in aggregate for each of the year ending 31 December 2020, 2021 and 2022 respectively remains unchanged.

3. The annual caps in respect of the maximum daily balance on the FX Forward Contracts for the year ending 31 December 2020 remains unchanged.

4. The annual caps in respect of the aggregate interest on entrusted assets management services for the year ending 31 December 2020 remains unchanged.

5. The maximum guaranteed amount will be revised from RMB1,600 million to RMB4,800 million for each of the year ending 31 December 2020 and 2021. The increase of the above-mentioned guaranteed amount is due to the fact that Huangpu Wenchong is bidding a series of ship products

with total value of approximately RMB3,200 million. The counterparty requested the Group to provide a letter of guarantee from CSSC. The expected guarantee period is 79-month. It is expected that the contract for the said project will be entered into in November 2020 or early 2021, and a letter of guarantee from CSSC is expected to be required within 30 days after the signing of contract. Therefore, a guarantee of RMB3,200 million by CSSC will be required in late 2020 or early 2021. Accordingly, the maximum guaranteed amount in both 2020 and 2021 is increased by RMB3,200 million in view of the above. In case the said guarantee by CSSC is signed in 2020, the above-mentioned RMB3,200 million will not be included in the maximum guaranteed amount in 2021. The maximum guaranteed amount for the year ending 31 December 2022 will remain unchanged at RMB1,600 million.

C. HISTORICAL AMOUNTS

Historical Amounts

The table below sets out the amount of each category of the Continuing Connected Transactions for the eight months ended 31 August 2020 and the comparison with the respective annual caps approved by the Independent Shareholders under the 2020-2022 Framework Agreement for the year ending 31 December 2020.

Unit: RMB million

Transaction	Existing Annual Caps For the year ending 31 December 2020	Historical Figures* For eight months ended 31 August 2020
Products and services provided by the CSSC Group to the Group:		
(d) Equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc.	5,739.49	2,961.29
(e) Leasing of production areas, labour supply, design and technical services; and Comprehensive Services	327.84	305.13
Financial services provided by the CSSC Group to the Group:		
(f) (i) (1) Maximum daily balance on the Deposits	6,235.00	5,974.87
(2) Aggregate interest on Deposits for the year	40.55	37.45
(iii) Aggregate fees on financial and credit services *(Note 1)*	2.33	0.76
(iv) Maximum daily balance on the FX Forward Contracts	4,740.56	3,475.65
(v) (1) Maximum value of entrusted assets managements	2,000.00	1,550.00
(2) Aggregate interest on entrusted assets management services	44.55	3.04
(g) Guarantee fee for guarantee services by the CSSC Group *(Note 2)*	–	–

Notes:

* The historical figures for the eight months ended 31 August 2020 were unaudited figures.

1. The maximum subject amount for the financial and credit services in aggregate for the year ending 31 December 2020 is RMB6,570 million.

2. The maximum guaranteed amount under the 2020-2022 Framework Agreement for the year ending 31 December 2020 is RMB1,600 million, which will be revised to RMB4,800 million pursuant to the Supplemental Agreement.

The actual transaction amounts for each category of the Continuing Connected Transactions under the 2020-2022 Framework Agreement from 1 January 2020 up to the Latest Practicable Date have not exceeded their respective existing annual caps for the year ending 31 December 2020.

Prior to the obtaining of the approval of the Independent Shareholders at the EGM in relation to the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Caps), the Company will conduct the Continuing Connected Transactions in accordance with the terms of the 2020-2022 Framework Agreement. The actual transaction amounts for each category of the Continuing Connected Transactions under the 2020-2022 Framework Agreement from 1 January 2020 up to the date of the EGM are not expected to exceed their respective existing annual caps for the year ending 31 December 2020.

D. BASIS FOR DETERMINING THE REVISED ANNUAL CAPS

The Revised Annual Caps are determined taking into account primarily the historical transaction amounts, production orders in hand, expected orders, material costs and anticipated total production value of the Group.

In arriving at the Revised Annual Caps, the Directors have also taken into consideration the following factors:

Products and services to be provided by the CSSC Group to the Group

(d) Equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc.

The Revised Annual Caps for equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc. were mainly determined based on the production orders received by the Group and the production schedule of the Group.

According to the production process, the Group will be required to incur substantial costs for procuring equipment to be used on the ship, electrical and mechanical engineering equipment and metallic materials and other shipbuilding accessories approximately two years after receiving the shipbuilding orders based on past experience.

In particular, benefiting from the rapid development of the offshore wind power industry, the Group is expected to achieve a substantial increase in the contract amount in relation to offshore wind power infrastructure component in 2020. The production of offshore wind power infrastructural components such as steel structures falls within the Group's principal business which covers not only shipbuilding but also the supply of offshore engineering products. It is expected that the total receivable amount in relation to the contract of offshore wind power infrastructure component for 2020 will be more than RMB1,800 million (as estimated based on the actual receivable amount for the period from December 2019 to July 2020 (i.e. RMB1,153 million)), which exceeds the original projected total receivable amount of RMB1,000 million by 80%. In turn, it is projected that the Group would require procurement of additional metallic materials of RMB480 million in order to meet the aforementioned expected increase in demand for its offshore wind power infrastructure components.

In view of the projected increase in the annual production value of Huangpu Wenchong, the Revised Annual Caps for equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc. for each of 2021 and 2022 are adjusted accordingly with a 16% annual increment on RMB480 million, calculated based on the estimated average increase of the production value for the years 2021 and 2022.

(e) Leasing of production areas, labour supply, design and technical services, and Comprehensive Services

The revision for the annual caps for leasing of production areas, labour supply, design and technical services, and Comprehensive Services is primarily due to an increase in the Group's demand for labour supply.

Following the initiation of relocation of a factory in Wenchong to Nansha (the "**Nansha Factory**") by Guangzhou Wenchong Shipyard Co. Ltd., a subsidiary of Huangpu Wenchong, the manufacturing work of those products which were originally made in the factory in Wenchong have successively begun to be transferred to the Nansha Factory. In order to cater for the periodically fluctuating production needs common to the shipbuilding industry, the Group has, in addition to deploying its own labour, appointed labour service companies to provide additional labour supply as required from time to time. As at the Latest Practicable Date, the Group has appointed a total of 76 labour service companies for this purpose which include both independent third parties and connected persons of the Company. Labour service companies which are connected persons of the Company include, amongst others, Jiangxi Chaoyang Machinery Co., Ltd. (江西朝陽機械有限公司) and Guangzhou Shipyard International Company Limited (廣船國際有限公司). Dalian Shipbuilding Industrial Engineering Company Limited* (大連船舶工業工程公司) ("**Dalian Shipbuilding**"), being a member of CSIC, has also been appointed by the Group for provision of labour services. Please refer to the section headed "Background" for details in relation to the restructuring and relationship among the Company, CSSC and CSIC upon completion of the restructuring. The total expenses for such labour services incurred by the Group for the seven months ended 31 July 2020 amount to approximately RMB647 million, including the amount payable by the Group to Dalian Shipbuilding amounting to approximately

RMB67.61million (which account for approximately 10% of the total expenses for labour services). However, the personnel dispatched to the Nansha Factory by these labour service companies is unable to meet the production needs of the Nansha Factory, coupled with the impact of COVID-19 epidemic resulting those dispatched personnel cannot resume work on time. The local labour supply is unstable as well. As such, in order to ensure the business operation of the Nansha Factory could commence normally, Huangpu Wenchong has introduced the labour workforce team of the shipbuilding factory of Dalian Shipbuilding, being a member of CSIC for provision of labour services. The expected fee for labour services arising due to the above for 2020 is RMB203 million, being the sum of (i) approximately RMB67.61million, representing the amount payable to Dalian Shipbuilding by the Group for the period from 1 January 2020 to 31 July 2020; and (ii) approximately RMB135.22 million, representing the expected amount payable to Dalian Shipbuilding from 1 August 2020 to 31 December 2020.

Dalian Shipbuilding is principally engaged in the businesses of the provision of ancillary services for the shipbuilding industry, projects subcontracting, labour supply services, engineering and construction, installation and other businesses. CSIC is principally engaged in the businesses of military and civil shipbuilding, design and production of maritime transportation and development equipment, ancillary and electrical components for vessels as well as deep-sea equipment, and other business. Whilst Dalian Shipbuilding will continue to provide labour supply services for the Nansha Factory, it will not replace other existing labour services companies who has been providing labour services to the Group.

In view of the projected increase in the annual production value of Huangpu Wenchong, the Revised Annual Caps for leasing of production areas, labour supply, design and technical services, and Comprehensive Services for each of 2021 and 2022 are adjusted accordingly with a 16% annual increment on RMB203 million, calculated based on the estimated average increase of the production value for the years 2021 and 2022.

Financial services to be provided by the CSSC Group to the Group

(f) (i) Maintaining Deposits with CSSC Finance

The Directors have considered the interest rates for deposits to be provided by certain commercial banks and financial institutions and determined that the interest rate provided by CSSC Finance is more favourable to the Group.

The Revised Annual Caps for the maximum daily balance on the Deposits were mainly determined based on the projected annual average monetary capital of the Group. Having considered the expected increase in cash of the Group due to a projected increase in business growth, it is expected the Group's demand for deposit services from the CSSC Group and the aggregate interest generated therefrom will increase accordingly. It is also expected that there will be an increase in surplus funds of the Group due to its collection plan. The receivables of Huangpu Wenchong from its products (including wind power infrastructure component) are also expected to increase. Based on the estimation of order acceptance and collection plan of the Group and Huangpu Wenchong, it is expected that there will be a significant increase in the Group's income compared with the estimated income forecast made at the time when 2020-2022 Framework Agreement was executed, the annual average monetary capital of the Group in 2021 and 2022 is expected to be RMB9.8 billion and RMB9.4 billion, respectively. Taking into account of the historical amount of Deposits, it is expected that the maximum daily balance on the Deposits for both 2021 and 2022 will be RMB6,235 million.

As to the Revised Annual Caps for the aggregate interest on Deposits for the year, it was determined based on the expected increase in the amount of the Deposits as aforementioned and the historic interest received by the Group arising from the Deposits. The aggregate interest on Deposits for the seven months ended 31 July 2020 amounts to RMB37.40 million, which exceeds the projected amount for the same. Based on the amount and structure of the Deposits currently maintained by the Group with CSSC Finance and the Revised Annual Caps for the maximum daily balance on the Deposits, it is expected that the aggregate interest on Deposits for 2020, 2021 and 2022 will amount to RMB81.65 million, RMB86.75 million and RMB86.75 million respectively.

(iii) Financial and credit services

The Group has to enter into various commercial arrangements involving the Financial Services and the payment obligations such as loans, trade finance, bill financing, finance leases, overdrafts, trade advances, promissory notes, letters of credit, guarantees standby letters of credit, letters of credit confirmation, guarantees in bonds issuance, loan guarantees, asset sales with legal recourses, unused irrevocable loan commitments, etc. for its business needs.

In view of the production orders in hand and expected new product acceptance plan, together with the fact that the terms of the financial and credit services and FX Forward Contracts of CSSC Group are no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties, it is expected that there will be an increase in the demand of the Group for the said financial services. The projected aggregate fees on financial and credit services for 2020 is RMB3.62 million.

In view of the projected increase in the annual production value of Huangpu Wenchong, the Revised Annual Caps for aggregate fees on financial and credit services for each of 2021 and 2022 are adjusted accordingly with a 16% annual increment on RMB3.62 million.

(iv) FX Forward Contracts to be entered into with CSSC Finance

The Company is subject to high exchange rate risk as the Group's ship export orders are denominated in US dollars, where some of the domestic ships orders are denominated in USD but payable in RMB. The operation of the forward foreign exchange contracts is closely related to the number of ship contracts entered or to be entered into by the Group, as well as the anticipated changes of the exchange rate(s)/interest rate(s) in the markets.

In view of the increase in the production orders in hand and expected new product acceptance plan, it is expected that the Group's foreign exchange risk will increase accordingly and the Group would need to lock its exposure to foreign exchange risk at USD700 million and USD1,500 million for 2021 and 2022 respectively. At the time when the 2020-2022 Framework Agreement was executed, the annual caps for the maximum daily balance on FX Forward Contracts were set at a lower level. However, due to more favourable terms available and the need for production and operation, the Group has entered into FX Forward Contracts with longer terms in respect of a number of orders in 2020, which are different from the FX Forward Contracts of shorter terms proposed in the original agreement. Some of the above FX Forward Contracts have a term exceeding one year, and some will even expire in 2023, which will use up the annual caps of 2021 and 2022, thereby reducing the available balance of FX Forward Contracts to be executed in 2021 and 2022. Therefore, the original annual caps need to be increased so as to satisfy the production and operation needs of the Group. For any transactions after 2022 pursuant to such FX Forward Contracts, the Group will enter into a new framework agreement for continuing connected transactions for the period of 2023 to 2025 with the CSSC Group several months before the expiry date (i.e. 31 December 2022) of the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement). In order to comply with the Listing Rules requirements, the Group will arrange for execution of the framework agreement with CSSC a few months prior to the expiry date of the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) (i.e. 31st December 2022) and obtain the shareholders' approval prior to the expiry date (if necessary). Taking into account of the historic amount, it is expected that the maximum daily balance on the FX Forward Contracts would reach RMB2,000 million for each of 2021 and 2022.

(v) Entrusted assets management services to be provided by CSSC Finance

When the Group has temporary surplus funds, it may choose to place such funds at fixed deposit or low-risk entrusted assets management services. When the expected rate of return of entrusted assets management service is higher than the conventional interest rate of fixed bank deposits, the Group may engage assets management services as and when appropriate in order to maximise the returns to shareholders. As at the Latest Practicable Date, the benchmark 1-year interest rate of bank deposits is 1.5%, while the expected yield from entrusted asset management would normally amount to 2.7% for 3-month and 3% for 1-year.

Taking into account of the value of entrusted assets management for 8 months ended 31 August 2020 reached RMB1,550 million, plus that the projected annual average monetary capital of the Group for the second half of 2020 would continue to increase, it is expected that the value of entrusted assets management for 2020 would reach RMB3,000 million. As the expected yield from entrusted assets management for 3-month is higher than those from bank deposits of 1-year, to maximise the returns to shareholders and to allow the Group greater flexibility in handling its temporary surplus funds, the Group intends to place such funds in entrusted assets management for 3-month periods for multiple times a year, and therefore the annual caps for the maximum value of entrusted assets managements will need to be increased accordingly. Taking into account of the proceeds of RMB500 million to be received from a transfer of minority equity interest in a company which is expected to take place at the end of 2020, the maximum value of entrusted assets managements for each of 2021 and 2022 is adjusted to RMB3,500 million.

(g) Guarantee services

Given that Huangpu Wenchong is bidding a series of ship products with total value of approximately RMB3,200 million. The counterparty requested the Group to provide a letter of guarantee from CSSC. The expected guarantee period is 79-month. It is expected that the contract for the said project will be entered into in November 2020 or early 2021, and a letter of guarantee from CSSC is expected to be required within 30 days after the signing of contract. Therefore, a guarantee of RMB3,200 million by CSSC will be required in late 2020 or early 2021. Accordingly, the maximum guaranteed amount in both 2020 and 2021 is increased by RMB3,200 million in view of the above. In case the said guarantee by CSSC is signed in 2020, the above-mentioned RMB3,200 million will not be included in the maximum guaranteed amount in 2021. The maximum guaranteed amount for the year ending 31 December 2022 will remain unchanged at RMB1,600 million.

As to the guarantee fee for guarantee services by the CSSC Group, given that the guarantee services contemplated under the Supplemental Agreement is different from the same as contemplated under the 2020-2022 Framework Agreement, as the guarantee services for the project aforementioned are guarantee services to be provided by CSSC Group for a specific project of the Group, hence CSSC Group may charge relevant guarantee fee of no more than RMB12.80 million, which is of no less favourable terms to the Group than terms available to or from (as appropriate) Independent Third Parties.

Additional information in relation to the Pricing Policy

In relation to (d) provision of equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories by the CSSC Group to the Group,

1. pricing of electrical and mechanical engineering equipment and metallic materials will be based on market price which is with reference to the Shanghai Metals Market and determined and selected according to the production specifications and after arm's length negotiation. The Company will obtain one or more quotations from the Independent Third Party;

2. pricing of steel components or accessories for ship, considering the low unit price and the short order time, the price will be determined between the parties annually based on actual costs taking into account the market price of raw materials which is with reference to online data such as Steel Home*（鋼之家）(steelhome.cn) and Mysteel*（我的鋼鐵）(mysteel.com) and the specification of the production needs of the Group and after arm's length negotiation. The Company will obtain one or more quotations from the Independent Third Party;

3. pricing of equipment for ship in the event that there are two or more suppliers from the CSSC Group is determined with reference to its historical transaction price and after arm's length negotiation; in the event that there is only one supplier from the CSSC Group due to technical specification or supply terms restrictions, pricing shall be based on the most recent purchase price of the equipment in question by the Group which is with reference to its historical transaction price and after arm's length negotiation; and

4. pricing of logistics service is based on the required delivery time, the amount, weight, specification, delivery distance and means of transport of products to be delivered and one or more quotations from major logistic companies and after arm's length negotiation.

In relation to (e) leasing of production areas, labour supply, design and technical services and Comprehensive Services by the CSSC Group to the Group, rental of the lease shall be based on market price which is with reference to the lease for property surrounding the property to be leased and if the leasing of production areas could not identify a comparable in the nearby community, the rental of the lease will be based on market price with reference to Zhaoshang800*（中工招商網）(Zhaoshang800.net) or the cost in addition to 10% of the management fee which is based on the depreciation and amortization of the property, the administrative cost and outgoings to be determined by the parties on arm's length negotiation; pricing of Comprehensive Services shall take into account of the specifications, the complexity of the work and the standards in the shipbuilding industry; pricing of labour supply services will be based on market price which is with reference to the specification of the skills required, the available supply of labour and the salary level published by Guangzhou Statistic Bureau and after arm's length negotiation. The Company will obtain one or more quotations from the

Independent Third Party; pricing for providing the shipbuilding products and other engineering design and relevant technical services shall be based on market price which is with reference to the technology portfolio required pursuant to the existing market standards of the shipbuilding industry, the complexity of the work involved and the specifications for the work in the industry and after arm's length negotiation. The Company will obtain one or more quotations from the Independent Third Party.

In respect of (f) financial services provided by the CSSC Group to the Group:

1. interests of the Deposits, interests of the Loans Granted by CSSC Group, pricing of fees charged for financial and credit services, for the handling of FX Forward Contract(s), the handling fees to be charged by CSSC Finance shall be on such rate as published by PBOC;

2. pricing of fees charged for providing entrusted asset management services shall be determined by the parties by making reference to market price which is with reference to such rate as published by PBOC and the Company will obtain one or more quotations from the Independent Third Party.

In relation to (g) Guarantee by the CSSC Group, the CSSC Group will charge relevant guarantee fees on terms no less favourable than terms available to or from Independent Third Parties (if applicable).

Due to the limitations on the technical specifications for certain equipment or specific requirements for the supply of certain products, such as a specific supplier as stipulated by the shipowner, there are situations that the Company could only obtain one quotation. Upon such situation, the Company will consider the recent purchase price of such products and the market fluctuation of the costs of the materials and the price will be determined after arm's length negotiation.

Payment terms

The general payment terms for each Continuing Connected Transactions are as follows:

In respect of (d) above, the payment terms are in accordance with the terms of the relevant agreements. For the provision of equipment of ships and electrical and mechanical engineering equipment, the general payment terms are that the Group will make a deposit within a specific time after entering into the relevant agreements and the subsequent payment will be made in accordance with the invoices received by the Group from time to time that were issued by the CSSC Group pursuant to the production progress, time of delivery, terms of guarantee, etc. For the accessories and resources, the general payment terms are that the Group will make the payment after the invoices were issued subsequent to the accessories and resources having arrived at the storage of the Group and being inspected.

In respect of (e) above, the payment terms are in accordance with the terms of the relevant agreements. For the leasing service, the general payment terms are that the invoice will be issued after the entering into the lease agreement and the rental payment will be made in specific time intervals (such as monthly, quarterly or yearly). For labour supply and technical services, the general payment terms are that invoice will be issued after the obligations under the relevant agreements are fulfilled. For long-term labour supply agreement, the general payment terms are that the payment will be made after the end of a specific time interval (such as every month or every quarter) and with reference to the amount of labour supply provided, and payment will be made after the issuance of the invoice.

In respect of (f) above, for Deposits, the general payment terms for the interests of the Deposits are to be paid on the due date. For the Loans Granted by CSSC Group, the payment terms are in accordance with the terms of the relevant agreements and the general payment terms of the interest of the loan will be paid by the end of each quarter and on the maturity date, the loan will be repaid together with the last interim of the interest of the respective Loans Granted by CSSC Group. For the FX Forward Contracts, the payment terms are in accordance with the terms of the relevant agreements and the general payment terms are the payment to be made on the foreign exchange delivery date and in the respective foreign currency.

In respect of (g) above, the payment terms are in accordance with the terms of the relevant agreements. The CSSC Group will charge relevant guarantee fees on terms no less favourable than terms available to or from Independent Third Parties (if applicable).

The Board is of the view that the payment terms are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole as the Continuing Connected Transactions are in the ordinary course of business of the Group and based on normal commercial terms.

E. REASONS FOR ENTERING INTO THE SUPPLEMENTAL AGREEMENT

The Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2020-2022 Framework Agreement and anticipates that the demand of the Group for certain products and services (including financial services) provided by the CSSC Group pursuant to the 2020-2022 Framework Agreement will exceed the previous projection to the effect that certain existing annual caps contemplated under the 2020-2022 Framework Agreement will not be sufficient to meet the demand of the Group. Accordingly, the Company entered into the Supplemental Agreement with CSSC in order to cater for the Group’s demand for such products and services and to facilitate the Group in capturing its potential business growth.

The Continuing Connected Transactions allow the Group to leverage on the reputation and bargaining power of the CSSC Group in the international shipbuilding industry, provide a reliable and cost effective source of materials, labour, design, technology, financial and credit services and other services necessary for the Group to conduct its business, and allow flexibility for better allocation of resources between each other so as to meet the anticipated production schedules for shipbuilding in the next few years.

In addition, the Directors have taken into consideration the following regarding each of the Continuing Connected Transactions contemplated under the Supplemental Agreement:

(d) The Group sources from the CSSC Group shipping equipment, electrical and mechanical engineering equipment, accessories and resources mainly includes complete sets or accessories of resources, accessories, production equipment and tools for ship production, etc.. The Group also uses logistics and related services, etc. provided by the CSSC Group. The Group sources these types of equipment and services from the CSSC Group and also from other independent suppliers so as to meet its routine and urgent needs. Considering that (i) the CSSC Group is Centralized in manufacturing some of such equipment and (ii) the CSSC Group is able to obtain competitive prices on certain materials by making bulk order through its centralized purchase system, the Directors are of the view that the CSSC Group has the capacity to supply various shipbuilding materials or to provide necessary services when the Group has the production needs. Likewise, the Directors are of the view that it is more cost-effective to purchase of materials and equipment through bulk purchase by the CSSC Group.

(e) Labour services primarily include the borrowing of labour force from and subcontracting of shipbuilding works or steel structure works to the CSSC Group during the Group's peak production season. Given that the need for labour varies in different stages of production, the Directors consider that procurement of labour services with special skills from the CSSC Group during the Group's peak production season would be beneficial to the Group as it would not be required to maintain a large workforce of its own at all times. As the CSSC Group is specialised in the design of certain types of ship products or equipment, the Group also engages the CSSC Group to provide design and technical services to meet the requirements of different progresses of production. The Group has sourced the Comprehensive Services from the CSSC Group for years on terms no less favourable than terms available from Independent Third Parties, the Directors believe that it would be more cost-efficient for the Group to retain the CSSC Group for the Comprehensive Services.

(f) (i) The Group maintains the Deposits with CSSC Finance from time to time. Interests on the Deposits are based on rates on deposits published by the POBC with appropriate upwards adjustments from time to time. The Directors are of the view that there are practical needs for the Group to continue to maintain the Deposits with CSSC Finance to enable an effective transmission of funds provided from CSSC Group to the Group via CSSC Finance to the Group.

(iii) Due to the business operation needs, the Group has to enter into various commercial arrangements involving the Financial Services and the payment obligations such as loans, trade finance, bill financing, finance leases, overdrafts, trade advances, promissory notes, letters of credit, guarantees standby letters of credit, letters of credit confirmation, guarantees in bonds issuance, loan guarantees, asset sales with legal recourses, unused irrevocable loan commitments, etc. In the past, the Group uses to source provision of the financial and credit services from Independent Third Parties and/or the CSSC Finance. The engagement of CSSC Finance for provision of the financial and credit services would enable the Group to obtain more competitive terms. Given the relationship between the Group and the CSSC Group, the Directors believe that the financial and credit services to be offered by CSSC Finance will be more efficient than the services offered by other general domestic commercial banks or institutions.

(iv) The Company's ship export orders are denominated in US dollars and some domestic ship orders are also denominated in RMB with reference to US dollars. As such the Company was subject to high exchange rate risk. The Group entered into FX Forward Contracts with Independent Third Party banks and/or the CSSC Finance to hedge against its currency risk in the past. As CSSC Finance obtained the licence to trade in FX Forward Contract in July 2014, the Company proposes to enter into FX Forward Contracts with CSSC Finance. The FX Forward Contracts require no initial cash outlay or purchase cost. The principal terms of the FX Forward Contracts and the transaction process are as follows: the Group will first enquire from Independent Third Party bank and CSSC Finance as to the exchange rate, transaction period and transaction amount regarding specific currency whenever it intends to enter into a FX Forward Contract. If the terms are more favourable than those offered by Independent Third Parties to the Group, the Group will enter into FX Forward Contracts with CSSC Finance. For each FX Forward Contract with CSSC Finance, there will be one transaction between the Group and CSSC Finance. Such transaction will take place on a pre-agreed transaction date.

The number of contracts to be entered with CSSC Finance depends on the hedging needs of the Group. In particular, it depends on the timings of inflow of cash denominated in US dollars from the Group's operations and outflow of cash denominated in RMB for the Group's operating cost. In order to mitigate the currency risk having regard to the timing of operating cash inflows denominated in US dollars and outflows denominated in RMB and to lock up our profit margin, contracts of different size and timing may be needed. The Group will decide the number of contracts to be entered with CSSC Finance according to the schedule of payments from customers or to suppliers and/or subcontractors throughout the year.

The Group will also continue to enter into FX Forward Contracts with Independent Third Party banks if and when appropriate. The Group will compare the terms offered by Independent Third Party banks with the terms offered by CSSC Finance before deciding on whether to enter into FX Forward Contracts with CSSC Finance. In view of this, the Directors consider that the entering into of the FX Forward Contracts with CSSC

Finance provide an extra option for the Group to fulfill its operational needs to hedge against risks relating to exchange rates and therefore it is in the interest of the Group and the Shareholders as a whole.

(v) The Group has engaged CSSC Finance to provide entrusted assets management services in order to generate incomes from certain unutilised funds. The principal terms of the entrusted assets management service are as follows: the Group will entrust CSSC Finance with certain assets for an agreed period of time. CSSC Finance will invest the entrusted assets with designated types of low risk investment products available in the market in order to maximise the profitability of such entrusted assets. CSSC Finance will issue monthly statement to the Group to report the status of investments during the entrusted term. The Directors are of the view that it is in the interest of the Company and its Shareholders as a whole to continue to leverage on CSSC Finance's expertise to provide entrusted assets management services.

(g) The provision of guarantee services or mortgages in respect of the Group's borrowings or operating activities by the CSSC Group constitutes financial assistance by a connected person for the benefit of the Group. Considering that (i) the provision of the guarantee is to be provided by the CSSC Group for the benefit of the Group and on normal commercial terms that are comparable to or more favourable than those offered by Independent Third Parties for similar services in the PRC and (ii) no security over the assets of the Group is granted in respect of such service, the Directors consider that the guarantee to be provided by CSSC Group will be more efficient than the services offered by other Independent Third Parties. The finance department and the relevant project manager will be responsible for reviewing and scrutinizing the terms offered by the CSSC Group to the Group against those provided to the Group by Independent Third Party for providing similar services in order to seek to ensure that the Group can obtain the most favourable terms available at the relevant time and that, among others, the Contract Management Rules are complied with.

On bases summarised above and given that (i) the Continuing Connected Transactions are entered into under the usual and ordinary course of business of the Group and the CSSC Group; and (ii) the Group will be benefited from better allocation of resources with the CSSC Group and hence enjoy competitive cost advantages, the Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) are of the view that the terms of the Supplemental Agreement and each Continuing Connected Transactions contemplated thereunder (including the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

F. RISK CONTROL RELATING TO THE DEPOSIT UNDER THE 2020-2022 FRAMEWORK AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT)

In view of the significant amount of the Deposits placed or to be placed with CSSC Finance from time to time, CSSC Finance has provided an undertaking for, among other things, ensuring the safety of the Deposits:

(i) provide to the Company, at any time, financial services with terms which are no less favourable than for comparable financial services provided to CSSC or members of the CSSC Group; and those of the comparable financial services the Company may obtain from other financial institutions;

(ii) ensure that the Financial Operation Licence（金融許可證）and other business permits, approvals and filings, etc. have been lawfully obtained by CSSC Finance and will remain valid and effective;

(iii) ensure the safe operations of its fund settlement and clearance network, assure the safety of funds, control the risk exposure and safety of the Deposits and will satisfy the requirements for the payment of the Deposits;

(iv) ensure the strict compliance with the risk monitoring indicators for financial institutions promulgated by the CBIRC and that the major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the CBIRC and other relevant laws and regulations;

(v) report its business and financial positions to the Company regularly, co-ordinate with the auditors of the Company in the course of their audit work to enable the Company to fulfil the requirements of the Hong Kong Listing Rules; and

(vi) on happening of new, or special event that may possibly affect the Company, CSSC Finance shall proactively inform the Company on a timely basis.

In order to safeguard the interests of the Shareholders, the Group has adopted certain guidelines and principles in monitoring, amongst other things, the Deposits arrangements. These include an assessment of the fund operation and control of risk exposure of CSSC Group and evaluation of its services provided through its reports to be obtained regularly as mentioned above. Given SASAC's requirement of centralization of funds held by state-owned enterprises, the undertakings provided by CSSC Group on risk control on the financial services (including the Deposits) to be provided to the Group and that the Deposits will be subject to annual review conducted by the independent non-executive Directors, the auditors of the Company and strict compliance of risk monitoring by the CBIRC on CSSC Group, the Directors are of the view that the arrangements for, amongst other things, the Deposits are in the interests of the Company and the Shareholders as a whole.

Additional Measures to safeguard interests of the Company and Independent Shareholders

The Group will, through the Group's internal control procedures (including the Contract Management Rules) and a series of risk management arrangements in accordance with the regulatory requirements, endeavor to maintain its independency in decision-making as well as the fairness of the prices and terms of each Continuing Connected Transaction.

Such arrangements shall include:

1. each Continuing Connected Transaction contemplated under the Supplemental Agreement shall be conducted on a non-exclusive basis. The Group has the flexibility to enter into arrangement with third party for purchasing or selling equipment and materials and/or provision of services as it deems fit;

2. the pricing mechanism is transparent and the implementation of such pricing mechanism is subject to strict scrutiny by the Group's contract review committee involving specific functional departments, administrative departments, finance department and legal department, etc. of the Group in accordance with the Contract Management Rules; and

3. apart from the annual review by all independent non-executive Directors and external auditors of the Group to confirm that, among others, the Continuing Connected Transactions are conducted in according with the terms including the pricing principles set out in the relevant framework agreement, the Continuing Connected Transactions are also subject to review by the Supervisory Committee of the Company to ascertain whether such Continuing Connected Transactions are conducted under fair and reasonable terms and accordingly whether the interest of the Company will be affected.

The details of the Group's monitoring mechanism and measures is as follows:

1. The Group consists of various units and each unit is assigned with its respective annual caps. The aggregate annual caps assigned to each unit shall be, and in any event shall not exceed, the proposed annual caps of the Group for a particular year.

2. Each unit has to ensure that the relevant transaction amount shall not exceed the assigned annual caps strictly.

3. In the event that there is a proposed increase in transaction amount due to production need by a unit which might exceed the assigned annual caps to such unit, the proposed transaction shall not be conducted without prior approval from the Board office and the finance department of the Group.

Such unit shall submit an application, together with a budget report, to the finance department of the Group at least 4 months prior to the proposed transaction.

The Group will also, through the Group's monitoring mechanism and measures, endeavour to ensure that the annual caps of each Continuing Connected Transaction would not be exceeded:

1. There is work allocation for each unit of the Company in relation to management of continuing connected transactions and a leader and responsible person will be appointed for the management of continuing connected transactions.

2. In order to monitor the utilization rate of the annual caps, there is monthly reporting system with strict management and rigid control.

3. Each unit has to comply with the policy of the Company strictly for monitoring and inspection of the continuing connected transactions and issue warning when the utilization rate is close to the annual caps.

4. Compliance with the internal policy in relation to continuing connected transaction of the Company is taken into account in the economic assessment of each unit of the Company.

The Board is of the view that there are adequate internal controls in place to ensure that the individual transactions are conducted within the Supplemental Agreement.

G. FINANCIAL EFFECTS

(i) Financial effects of the Deposits transaction on the Group

The Group maintains Deposits at CSSC Finance from time to time. Such deposits are short term basis, the purpose of which is to make transitional arrangements to fully utilize the funds which are to be released by the PRC Government in support of the development of shipbuilding industry to cope with the needs arising from its production and operation. Upon the expansion in scale of the Company, the production volume will be increased, and the needs for capital requirements for the production will also be increased correspondingly. In order to lower the capital costs and ensure the safe and effective utilization of the funds, the Company, upon considering previous deposit transactions and the practical need required for future development, believes it is practically necessary to maintain Deposits with CSSC Finance, aiming to meet the capital requirements for its production and operation. The deposit interest rate offered by CSSC Finance will be based on the deposit interest rate promulgated by PBOC from time to time. The Deposits are funds of the Group and there will be no change in the consolidated assets of the Group as a result of placing the Deposits with CSSC Finance pursuant to the terms of the Supplemental Agreement. The Group can earn interests out of the deposit transactions. As such, the Directors do not expect that the deposit transactions would have any adverse financial impact on the earnings, assets and liabilities of the Group.

Due to the sizeable amount of Deposits placed or to be placed with CSSC Finance from time to time, CSSC Finance has provided (including but not limited to) an undertaking as to the safety of the Deposits, ensuring the Deposits placed or to the placed by the Company is safe without any risk exposure. Deposits will be reviewed annually by the Independent non-executive Directors and auditors of the Company and in strict compliance with the risk control imposed by the CBIRC on the CSSC Finance. It is expected that CSSC Group will issue one or two tranche(s) of medium and long term bonds annually during 2020 to 2022, and will finance the related companies within CSSC Group in one time. The single maximum loan amount to be obtained by the Company is estimated to be RMB1 billion. The subscription of the bonds, if proceeded, will provide an opportunity to the Company to obtain finance at a relatively low interest rate to improve its cash flow. If a loan is not immediately withdrawn or fully utilized as soon as it is released, then the Company's outstanding deposit balance during that period will increase substantially. Based on CSSC Finance's estimation, its total asset value in the next three years will be in the region of RMB52 billion and the maximum deposit balance of RMB6.235 billion represents only approximately 12% of CSSC Finance's then total asset value. Thus, it will not constitute substantial liabilities. Based on the maximum amount of RMB6.235 billion, it represents approximately 9% of the deposit balance of RMB67.8 billion maintained with CSSC Finance as at January 2020. Therefore, the deposit interest income will not have any significant effect on CSSC Finance's profit. The Company therefore believes that the Deposit arrangements provided by CSSC Finance are in the interest of the Company and Shareholders as a whole.

(ii) Financial effects of FX Forward Contracts

The Company's ship export orders are denominated in US dollars and some domestic ship orders are also denominated in RMB with reference to US dollars. The recognised assets and liabilities in US dollars and the unrecognised ship settlement in US dollars lead to foreign currency risk, which may affect the results of operation of the Group. The FX Forward Contracts thus hedge the Company's currency risk. The net effect on earnings is the difference between the foreign exchange gain or loss on the asset or liability and the change in the fair value of the FX Forward Contracts.

H. INFORMATION ABOUT THE PARTIES

Information about 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 a major non-wholly owned subsidiary, Huangpu Wenchong, and its 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, feeder container ships, offshore platform, as well as non-ship products including steel structures.

Information about CSSC

CSSC is a State-authorized investment institution directly supervised and administered by SASAC whose core business includes shipbuilding, ship-repairing, processing, export/import of marine equipment, diversified businesses such as other steel structure manufacturing and international cooperation, joint venture operations, financing, technology trading and workforce exportation.

As at the Latest Practicable Date, CSSC, the controlling shareholder of the Company, held 841,264,642 Shares of the Company directly or indirectly, representing 59.52% of the issued Shares of the Company.

Information about CSSC Finance

CSSC Finance is a wholly-owned subsidiary of CSSC. The principal business of CSSC Finance includes deposit-taking, loans handling, acceptance and discounting of bills, inter-bank borrowing businesses and provision of other financial services.

Under the Hong Kong Listing Rules, CSSC is a connected person of the Company while the transactions between the Group and any of the CSSC Group (including CSSC Finance) constitute connected transactions of the Company, subject to the compliance with the relevant disclosures and/or Independent Shareholders' approval requirements of the Hong Kong Listing Rules.

3. HONG KONG LISTING RULES IMPLICATION

Continuing Connected Transactions

CSSC, being a controlling shareholder of the Company, is a connected person of the Company pursuant to the Hong Kong Listing Rules. As a result, the transactions between the Group and the CSSC Group constitute connected transactions of the Company.

The provision of Financial Services provided by CSSC Group to the Group under the Supplemental Agreement constitutes financial assistance received by the Group from a connected person. As (i) the provision of Financial Services is to be provided to the Group on normal commercial terms that are comparable to or more favourable than those offered by Independent Third Parties for similar services in the PRC and (ii) no security over the assets of the Group is granted in respect of the Financial Services, the Financial Services to be provided by CSSC Group to the Group under the Supplemental Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for each of (i) the Aggregated Annual Caps (Products and Services); and (ii) the Aggregated Annual Caps (Financial Services) contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement (save for the provision of the Financial Services by the CSSC Group which is fully exempt pursuant to Rule 14A.90 of the Hong Kong Listing Rules) are higher than 5% on an annual basis, each of the aforesaid transactions contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement constitutes a non-exempt continuing connected transaction of the Company that is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios for the Revised Annual Caps of each of (i) the maximum outstanding daily balance on the Deposits; (ii) the maximum daily balance on the FX Forward Contracts; and (iii) the maximum value of the entrusted assets management under the Supplemental Agreement exceeds 5% but less than 25% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, the Revised Annual Caps in relation to each of the above transactions contemplated under the Supplemental Agreement also constitutes a discloseable transaction of the Company and is also subject to the relevant discloseable transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

The Company will comply with all relevant reporting and independent non-executive Directors' review requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the Continuing Connected Transactions (save for the provision of the Financial Services).

CSSC and its associates (together holding 841,264,642 Shares of the Company, representing 59.52% of the issued Shares of the Company, as at the Latest Practicable Date) will abstain from voting in respect of the resolution to the terms and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement at the forthcoming EGM.

Since each of Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Sheng Jigang, Mr. Xiang Huiming, Mr. Chen Ji and Mr. Shi Jun holds managerial positions at CSSC Group and/or its associates, in accordance with the Company's internal control policy on connected transactions, they had abstained from voting on relevant Board resolutions to approve (among others) the entering into the Supplemental Agreement, the terms and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement.

Save for the above, to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, (i) no Shareholder has any material interest in the resolution to be proposed at the EGM and will abstain from voting at the EGM; and (ii) none of the Directors has a material interest in the transactions in relation to the terms and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement and have to abstain from voting on the Board resolution.

4. ELECTION OF NEW SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

Reference is made to the announcement of the Company dated 28 August 2020. As mentioned in the announcement of the Company dated 26 May 2020 in relation to, among other things, the term of office of the Directors of the ninth session of the Board of Directors and the Supervisors of the ninth session of the Supervisory Committee would be extended, until the Directors of the new session of the Board of Directors and the Supervisors of the new session of the Supervisory Committee are elected and appointed at the general meeting.

The Company is informed that the nomination of candidates for Directors of the tenth session of the Board of Directors and Supervisors of the tenth session of the Supervisory Committee has been completed. Within the members of the ninth session of the Board of Directors, except for Mr. Shi Jun (non-executive Director), Mr. Wang Yichu (independent non-executive Director), Mr. Min Weiguo (independent non-executive Director) and Mr. Liu Renhuai (independent non-executive Director) who will step down and no longer participate in the re-election for Directors of the tenth session of the Board of Directors, the other seven Directors of the ninth session of the Board of Directors confirmed that they will participate in the re-election of Directors at the EGM. Within the members of the ninth session of the Supervisory Committee (save for the employee-elected Supervisors), except for Mr. Jin Xuejian and Mr. Fu Xiaosi who will step down and no longer participate in the re-election for Supervisors of the tenth session of the Supervisory Committee, Ms. Chen Shu, a Supervisor of the ninth session of the Supervisory Committee, has confirmed that she will participate in the re-election of Supervisors at the EGM.

To the best of the knowledge and belief of the Board of Directors and the Supervisory Committee having made all reasonable inquiries, regarding the Directors and Supervisors soon to step down, they have no disagreement with the Board of Directors and the Supervisory Committee, and there are no matters need to be brought to the attention of the Shareholders.

Save for the resolutions for re-election of Directors and Supervisors, the Board of Directors and the Supervisory Committee have proposed the following appointment resolutions to form the tenth sessions of the Board of Directors and the Supervisory Committee, respectively:

(a) Mr. Gu Yuan as a non-executive Director of the Company;

(b) Mr. Lin Bin as an independent non-executive Director of the Company;

(c) Mr. Nie Wei as an independent non-executive Director of the Company;

(d) Mr. Li Zhijian as an independent non-executive Director of the Company;

(e) Mr. Chen Shuofan as a Supervisor of the Company; and

(f) Mr. Zhu Weibin as a Supervisor of the Company.

The resolutions regarding the election of director candidates for the new session of the Board of Directors are set out in Ordinary Resolutions Nos.2.01 to 2.07 (inclusive) and Ordinary Resolutions Nos.3.01 to 3.04 (inclusive) contained in the Notice of EGM. According to the Supplemental Notice of EGM, the resolutions regarding the election of director candidates for the new session of the Board of Directors are revised as Ordinary Resolutions Nos.3.01 to 3.07 (inclusive) and Ordinary Resolutions Nos.4.01 to 4.04 (inclusive).

The resolutions regarding the election of supervisor candidates for the new session of the Supervisory Committee are set out in Ordinary Resolutions Nos.4.01 to 4.03 (inclusive) contained in the Notice of EGM. According to the Supplemental Notice of EGM, the resolutions regarding the election of supervisor candidates for the new session of the Supervisory Committee are revised as Ordinary Resolutions Nos.5.01 to 5.03 (inclusive).

Voting of the above ordinary resolutions will be by way of cumulative voting.

The following is, as at the Latest Practicable Date, the personal biography of the director and supervisor candidates who were nominated to elected and appointed at the EGM:

Directors

Executive Directors

Han Guangde

Mr. Han Guangde（韓廣德）, aged 58, a senior engineer (researcher level). Mr. Han joined the Group in 1993 and is currently the chairman of the Board and executive Director of the Company. He graduated from Huazhong University of Science and Technology（華中工學院）in 1983 and joined the Company in the same year, and obtained a master of engineering in industrial engineering in 2002. He successively served as deputy head of the production management department under the shipbuilding division, deputy manager and manager of the shipbuilding division of Guangzhou Shipyard; deputy general manager, general manager, chairman of the board of directors and party secretary of Guangzhou Shipyard International Company Limited（廣州廣船國際股份有限公司）(the former name of the Company); chairman of the board of directors of CSSC Guangzhou Longxue Shipbuilding Co., Ltd.（廣州中船龍穴造船有限公司）; chairman of the board of directors and party secretary of Guangzhou Shipyard; and chairman of the board of directors of Guangzhou Shipyard Co., Ltd.（廣州造船廠有限公司）. He is currently chairman of the board of directors and party secretary of Guangzhou Ship Industrial Co., Ltd.（廣州船舶工業有限公司）, chairman of the board of directors of Guangzhou Shipyard Co., Ltd.（廣州造船廠有限公司）.

Save as disclosed above, Mr. Han does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Han does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Han. The length of service of Mr. Han with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, Mr. Han will be assessed by CSSC Group and will receive remuneration from CSSC Group.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the appointment of Mr. Han and there is no other information relating to Mr. Han which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Chen Liping

Mr. Chen Liping（陳利平）, aged 53, a senior accountant (researcher level) and a senior economist. Mr. Chen joined the Group in 2009 and is currently an executive Director and general manager of the Company. He graduated from Harbin Institute of Technology, majoring in precision instrument, with a bachelor of engineering in July 1989, and obtained a master of business administration from the School of Business Administration of South China University of Technology in 2002. He successively held positions including deputy manager of the finance department, deputy chief accountant and chief accountant of Guangzhou Wenchong Shipyard Co. Ltd.（廣州文沖船廠有限責任公司）; chief accountant, secretary to the Board, and director of Guangzhou Shipyard International Company Limited（廣州廣船國際股份有限公司）(the former name of the Company); deputy director of the audit department of China State Shipbuilding Corporation（中國船舶工業集團公司）; and chief accountant of Guangzhou Shipyard.

Save as disclosed above, Mr. Chen does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Chen does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Chen. The length of service of Mr. Chen with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company, and the remuneration will be determined based on the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company. The annual remuneration of Mr. Chen is comprised of base salary, performance remuneration and special bonus. Mr. Chen will be entitled to an annual base salary of RMB300,000 as a Director of the Company.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the appointment of Mr. Chen and there is no other information relating to Mr. Chen which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Sheng Jigang

Mr. Sheng Jigang (盛紀綱), aged 52, a senior engineer (researcher level). Mr. Sheng joined the Group in 2018 and is currently an executive Director of the Company. He graduated from Shanghai Jiao Tong University in August 1991, majoring in ship engineering. He successively served as deputy general manager of Jiangnan Shipbuilding (Group) Co., Ltd. (江南造船(集團)有限責任公司), deputy general manager of Shanghai Jiangnan Changxing Heavy Industry Co., Ltd. (上海江南長興重工有限責任公司), general manager of CSSC Jiangnan Heavy Industry Co., Ltd. (中船江南重工股份有限公司) (a company listed on the Main Board of SSE), chairman of CSSC Hua Hai Ships Equipment Co., Ltd. (中船華海船用設備有限公司), general manager of CSSC Steel Structure Engineering Co., Ltd. (中船鋼構工程股份有限公司) (a company listed on the Main Board of the SSE), director of ship and marine engineering department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司), and general manager and deputy party secretary of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). He is currently chairman and party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited (中船黃埔文沖船舶有限公司).

Save as disclosed above, Mr. Sheng does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Sheng does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Sheng. The length of service of Mr. Sheng with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company, and the remuneration will be determined based on the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company. The annual remuneration of Mr. Sheng is comprised of base salary, performance remuneration and special bonus. Mr. Sheng will be entitled to an annual base salary of RMB300,000 as a Director of the Company.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the appointment of Mr. Sheng and there is no other information relating to Mr. Sheng which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Xiang Huiming

Mr. Xiang Huiming（向輝明）, aged 54, a senior engineer (researcher level). Mr. Xiang joined the Group in 2015 and is currently an executive Director of the Company. He graduated from Huazhong University of Science and Technology（華中理工大學）in 1988 and joined Guangzhou Wenchong Shipyard Co., Ltd.（廣州文沖船廠有限責任公司）in the same year, and obtained a master's degree in business administration in 2004. He successively served as engineering head of the production section, deputy director of general office and deputy head of the enterprise management department, manager of the enterprise management department, assistant to general manager, deputy general manager, party secretary, general manager and chairman of Guangzhou Wenchong Shipyard Co., Ltd.（廣州文沖船廠有限責任公司）. He is currently general manager and deputy party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited（中船黃埔文沖船舶有限公司）.

Save as disclosed above, Mr. Xiang does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Xiang does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Xiang. The length of service of Mr. Xiang with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company, and the remuneration will be determined based on the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company. The annual remuneration of Mr. Xiang is comprised of base salary, performance remuneration and special bonus. Mr. Xiang will be entitled to an annual base salary of RMB300,000 as a Director of the Company.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the appointment of Mr. Xiang and there is no other information relating to Mr. Xiang which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Non-executive Directors

Chen Zhongqian

Chen Zhongqian（陳忠前）, aged 57, a senior engineer (researcher level). Mr. Chen joined the Group in 2013 and is currently the vice chairman of the Board and an executive Director of the Company. He graduated from Wuhan University of Water Transportation Engineering College （湖北武漢水運工程學院） in 1983 and joined Guangzhou Wenchong Shipyard Co., Ltd.（廣州文沖船廠有限責任公司）in the same year. In 2002, Mr. Chen obtained a master's degree in business administration. He successively served as deputy head and head of the outfitting department, assistant to general manager and deputy general manager of Guangzhou Wenchong Shipyard Co., Ltd.（廣州文沖船廠有限責任公司）; general manager, party secretary, vice chairman and chairman of the board of directors of Guangzhou Huangpu Shipyard Co., Ltd.（廣州黃埔造船有限公司）; and chairman of the board of directors and party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited（中船黃埔文沖船舶有限公司）. He is currently chairman of the board of directors and party secretary of Guangzhou Shipyard.

Save as disclosed above, Mr. Chen does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Chen does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Chen. The length of service of Mr. Chen with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, Mr. Chen will be assessed by CSSC Group and will receive remuneration from CSSC Group.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the appointment of Mr. Chen and there is no other information relating to Mr. Chen which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Chen Ji

Mr. Chen Ji（陳激）, aged 53, a senior engineer (researcher level). Mr. Chen joined the Group in 1997, is currently an executive Director of the Company. He graduated from Shanghai Jiao Tong University in 1989, majoring in ship engineering and with a bachelor of engineering, obtained a master of business administration from the School of Business Administration of South China University of Technology in 2001. He successively held positions including assistant to the ship repair division and deputy manager of the heavy mechanical engineering division of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司) (the former name of the Company); director, deputy general manager, deputy party secretary, party secretary for the discipline inspection commission, and chairman of the labour union of Guangzhou Shipyard; and party secretary for the discipline inspection commission of Guangzhou Shipyard. He is currently the general manager and vice party secretary of Guangzhou Shipyard, and chairman of the board of Guangzhou Wencheng Shipbuilding Co., Ltd. (廣州文沖船舶修造有限公司).

Save as disclosed above, Mr. Chen does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Chen does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Chen. The length of service of Mr. Chen with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, Mr. Chen will be assessed by CSSC Group and will receive remuneration from CSSC Group.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Chen and there is no other information relating to Mr. Chen which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Gu Yuan

Mr. Gu Yuan (顧遠), aged 51, a senior economist. He graduated from the Beijing Institution of Economics and started working at the China Academy of Launch Vehicle Technology in 1992. He obtained a master's degree in Business Administration from Beijing Institution of Technology in 2001. He successively served as the deputy head and head of the General Office, Finance Office, Economic Management Office of Research Institute Civil Products Corporation* (研究院民品總公司), assistant to the president of China Energine International (Holdings) Limited (中國航天萬源國際(集團)有限公司) and general manager of Beijing Wanyuan Industrial Company (北京萬源工業有限公司), deputy head of the Department of Operation and Investment of the Institute, executive vice president, chief party secretary of China Changzheng Rocket Co., Ltd. (中國長征火箭有限公司), and deputy director of the Department of Operation and Management of China State Shipbuilding Corporation Limited* (中國船舶工業集團有限公司). He is currently the deputy director of the Department of Assets of China State Shipbuilding Corporation Limited (中國船舶集團有限公司).

Save as disclosed above, Mr. Gu does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Gu does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Gu. The length of service of Mr. Gu with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, Mr. Gu will be assessed by CSSC Group and will receive remuneration from CSSC Group.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Gu and there is no other information relating to Mr. Gu which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Independent non-executive Directors

Yu Shiyou

Mr. Yu Shiyou (喻世友), aged 63, a professor. Mr. Yu joined the Group in 2018 and is currently an independent non-executive Director of the Company. He graduated from Huazhong University of Science and Technology (華中理工大學) in 1987 with a master's degree, majoring in western economics. He successively served as deputy secretary of the Communist Youth League of Wuhan Camera Shutter Plant (武漢照相機快門廠); associate professor and deputy dean of the economics school of Huazhong University of Science and Technology (華中理工大學); professor, director of international finance and trading department, director of international business department, and deputy dean of Lingnan College, Sun Yat-Sen University (中山大學嶺南學院); director of finance and state-owned assets administration department, assistant to president, standing member of party committee, vice president, deputy party secretary and secretary of commission for discipline inspection of Sun Yat-Sen University. He is currently a director of the board, dean and vice party secretary of Lingnan College, Sun Yat-Sen University (中山大學嶺南學院).

Save as disclosed above, Mr. Yu does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Yu does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Yu. The length of service of Mr. Yu with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Yu will be RMB200,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Yu and there is no other information relating to Mr. Yu which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Lin Bin

Mr. Lin Bin（林斌）, aged 58, an accounting professor and senior certificated accountant in Australia. He graduated from Jiangxi University of Finance and Economics in 1984, with a bachelor's degree in accounting, and from Xiamen University in 1997, with a PhD in accounting. He successively served as a teacher in the Department of Economics and Management of East China Jiaotong University, head of the Department of Accounting in the School of Business, Sun Yat-sen University and head of the MPAcc Centre. He is currently a tutor to doctoral students and professor in the School of Business, Sun Yat-sen University, an independent director of Southern Publishing and Media Company Limited（南方出版傳媒股份有限公司）(a company listed on the Main Board of the SSE) and Guangzhou Shiyuan Electronic Co., Ltd.（廣州視源電子科技股份有限公司）(a company listed on the Main Board of the Shenzhen Stock Exchange), member of the Internal Control Expert Advisory Group of the Ministry of Finance, member of the Internal Control Professional Committee of the Chinese Accounting Association, chairman of the Management Accountants Association of Guangdong Province and standing member of the Economics and Audit Association of the Trade Union of Guangdong Province.

Save as disclosed above, Mr. Lin does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Lin does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Lin. The length of service of Mr. Lin with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Lin will be RMB200,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Lin and there is no other information relating to Mr. Lin which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Nie Wei

Mr. Nie Wei (聶煒), aged 50. He graduated from the School of Law of Wuhan University in 1994, with a bachelor's degree in Law. He successively served as officer of the Discipline Inspection Team and Legal Department of the People's Bank of China Guangzhou Branch, deputy general manager of Asset Preservation and officer of Legal Affairs Centre of China Everbright Bank Limited (a company listed on the Main Board of the SSE and the Hong Kong Stock Exchange) Guangzhou Branch, lawyer and partner at the Chuang Jie Law Firm(創傑律師事務所)and independent director of Zhuhai Rural Commercial Bank. He is currently a lawyer and partner at D&S Law Firm, and independent director of Jiangmen Rural Commercial Bank Company Limited.

Save as disclosed above, Mr. Nie does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Nie does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Nie. The length of service of Mr. Nie with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Nie will be RMB200,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Nie and there is no other information relating to Mr. Nie which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Li Zhijian

Mr. Li Zhijian (李志堅), aged 50, a doctorate at The Hong Kong Polytechnic University. He served as a clerk at Guangdong Province Tobacco Company. He is currently the general manager of Guangzhou Shangdao Consulting Co., Ltd. (廣州市商道諮詢有限公司) and chairman of Guangdong Asia-Pacific Institute of Innovation Economy (廣東亞太創新經濟研究院). He is also an external director of Guangzhou Port Holding Co., Ltd. (廣州港集團有限公司), external director of Guangzhou Intelligent

Equipment Group Co., Ltd. (廣州智能裝備產業集團有限公司), expert of the National Development and Reform Commission Service Industry Expert Advisory Committee, vice president of the British Branch of the European and American Alumni Association, vice chairman (part-time) of Association of the Social and Scientistic Sectors of Guangdong, expert of the Fourth Decision-making Consultation of Guangzhou Municipal People's Government and representative of Guangzhou party congress.

Save as disclosed above, Mr. Li does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Li does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Li. The length of service of Mr. Li with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Board of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Li will be RMB200,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Li and there is no other information relating to Mr. Li which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Supervisors

Chen Shuofan

Mr. Chen Shuofan (陳朔帆), aged 45, a doctorate and American Certified Management Accountant. He graduated from the Department of International Finance of Fudan University in 1996, graduated from the School of Management of the Chinese University of Hong Kong in 2007 with a master's degree in Professional Accounting, and graduated from Shanghai Academy of Social Sciences with a master's degree in Industrial Economics and a PhD in Economics in 2014. He successively served as an investigator of the Department of Western Europe, Ministry of Foreign Affairs of the People's Republic of China; third secretary of the Mission of the People's Republic of China to the European Union; deputy general manager of the Department of Finance of China Shipbuilding Trading Co., Ltd. (中國船舶工業貿易公司); deputy general manager, finance controller and deputy secretary of the party committee of Hudong Heavy Machinery Company Limited (滬東重機股份有限公司); director, vice president and chief financial officer of Winterthur Gas & Diesel Ltd.; deputy general manager and general counsel of Hudong Zhonghua Shipbuilding Co., Ltd. (滬東中華造船(集團)有限公司). He is currently the chairman of the Supervisory Committee of Hudong Heavy Machinery Company Limited (滬東重機有限公司).

Save as disclosed above, Mr. Chen does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Chen does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Chen. The length of service of Mr. Chen with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Supervisory Committee of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Chen is comprised of base salary, performance remuneration and special bonus. Mr. Chen will be entitled to an annual base salary of RMB300,000 as a Supervisor of the Company.

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Chen and there is no other information relating to Mr. Chen which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Chen Shu

Ms. Chen Shu（陳舒）, aged 66, a Supervisor of the Company. She is a senior lawyer with a bachelor's degree in law. She graduated from Sun Yat-sen University in 1990, majoring in law. Ms. Chen joined the Group in 2019. She successively served as officer and deputy director of Guangzhou Liwan Justice Bureau, lawyer at Kingpound Law Firm, secretary-general of Guangzhou Lawyer Association, a deputy to the 10th, 11th and 12th National People's Congress. She is currently an independent director of Kingfa Scientific and Technology Co., Ltd.（金發科技股份有限公司）(a company listed on the Main Board of the SSE), Wens Foodstuff Group Co., Ltd.（溫氏食品集團股份有限公司）(a company listed on the Main Board of the Shenzhen Stock Exchange) and Guangzhou Port Co., Ltd.（廣州港股份有限公司）(a company listed on the Main Board of the SSE), an external director of Guangzhou Yuexie Holding Limited（廣州市越秀集團有限公司）.

Save as disclosed above, Ms. Chen does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Ms. Chen does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor does she have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Ms. Chen. The length of service of Ms. Chen with the Company will be from the date of her appointment and expire on the end of the tenure of the tenth session of the Supervisory Committee of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Ms. Chen will be RMB120,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Ms. Chen and there is no other information relating to Ms. Chen which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

Zhu Weibin

Mr. Zhu Weibin（朱維彬）, aged 59, a senior accountant, a master postgraduate and a senior management accountant. He graduated from Hunan Vocational College for Light Industry in June 1988, majoring in accounting. He obtained a MBA from Lingnan (University) College in July 2001. He successively served as an accountant in the 711 Mine Finance Department of China National Nuclear Company; Supervisor of Guangzhou Economic Commission, Guangzhou Light Industry and Trade Group（廣州輕工工貿集團）, an enterprise subordinated by the SASAC, Guangzhou Textile Industrial and Trading Group（廣州紡織工貿集團）and Guangzhou Zhujiang Brewery Group Co., Ltd.（廣州珠江啤酒集團有限公司）; deputy chief financial officer, chief financial officer and secretary to the board of Guangzhou Zhujiang Brewery Group Co., Ltd.（廣州珠江啤酒股份有限公司）(a company listed on the Main Board of the Shenzhen Stock Exchange). He is currently a consultant of Guangzhou Zhujiang Brewery Group Co., Ltd..

Save as disclosed above, Mr. Zhu does not hold any other position with the Company or other members of the Group and did not hold any position in other listed companies in the last three years. Save as disclosed, Mr. Zhu does not have any relationships with any Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholders of the Company, nor has he have any interest in securities as defined in Part XV of the SFO.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Zhu. The length of service of Mr. Zhu with the Company will be from the date of his appointment and expire on the end of the tenure of the tenth session of the Supervisory Committee of the Company. According to the COMEC's Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management of the Company, the annual remuneration of Mr. Zhu will be RMB120,000 (before tax).

Save as disclosed above and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters that need to be brought to the attention of Shareholders in respect of the election of Mr. Zhu and there is no other information relating to Mr. Zhu which is required to be disclosed pursuant to any of the requirement of Rules 13.51(2)(h) to (v) of the Listing Rules.

5. RESOLUTION ON THE FORMULATION OF MANAGEMENT RULES FOR THE REMUNERATION OF THE TENTH SESSION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

In order to meet the requirements for corporate management under market-oriented economy environment, to fully discharge the obligations imposed by the Company Law, the Securities Law and the Articles of Association, to safeguard the interests of shareholders and implement the decisions of the Board, to fully motivate the enthusiasm and creativity of corporate managers, to continue to enhance the financial performance of the Company and promote the sustainable development of the Company, to maintain and increase the value of state-owned assets, and to further improve the incentive and restraint mechanism of the Company, the Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management（第十届董事、監事和高級管理人員薪酬管理制度）have been formulated in light of the actual situations of the Company, a full text of which are set out in Appendix I to this circular.

The above resolution shall be submitted to the EGM as an ordinary resolution for consideration and approval by the Shareholders.

6. EGM

The EGM will be held at the Conference Room, 15/F Marine Tower, 137 Gexin Road, Haizhu District, Guangzhou, PRC at 10:00 a.m on Friday, 23 October 2020.

The Notice of EGM together with the proxy form and reply slip have been sent to the Shareholders on 31 August 2020. The Supplemental Notice of the EGM and the Supplemental Proxy Form have been sent to the Shareholders on 8 October 2020.

ATTENTION: A Shareholder who has not yet lodged the proxy form enclosed with the Notice of EGM sent to Shareholders on 31 August 2020 (the "First Proxy Form") with the Company or the Company's H share registrar, Hong Kong Registrars Limited, is requested to lodge the Supplemental Proxy Form if he/she/it wishes to appoint proxy/proxies to attend the EGM on its/his/her/its behalf. In this case, the Supplemental Proxy Form shall supersede and replace the First Proxy Form which should not be lodged with the Company or the Company's H share registrar.

A shareholder who has lodged the First Proxy Form with the Company or the Company's H share registrar should note that:

(a) the completed Supplemental Proxy Form which is lodged with the Company or the Company's H share registrar not less than 24 hours before the time appointed for the holding the EGM will supersede and replace the First Proxy Form and such Supplemental Proxy Form will be treated as the valid proxy form lodged by such shareholder.

(b) if such shareholder fails to lodge the Supplemental Proxy Form with the Company or the Company's H share registrar, the lodged First Proxy Form, if duly completed, will remain effective and applicable to the extent permissible. For the additional resolution not set out in the First Proxy Form, the proxy appointed under the First Proxy Form shall have the right to vote at his/her discretion if no relevant instruction is received.

(c) any Supplemental Proxy Form which is lodged with the Company or the Company's H share registrar less than 24 hours before the time appointed for the holding of the EGM shall be invalid. Any vote that may be cast by the purported proxy/proxies (whether appointed under the First Proxy Form or the Supplemental Proxy Form) will not be counted in any poll taken on a proposed resolution. Accordingly, Shareholders are advised to lodge the Supplemental Proxy Form not less than 24 hours before the time appointed for the holding of the EGM.

Shareholders are reminded that completion and return of the Supplemental Proxy Form will not preclude them from attending and voting in person at the EGM or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

7. CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders of H Shares entitled to attend the EGM, the register of members of Shares of the Company was closed on 23 September 2020 and would continue to be closed until 23 October 2020 (inclusive of that day). Holders of H Shares who have lodged the duly completed transfer documents accompanied by the relevant share certificates with the Company's H share registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on 22 September 2020, the transferee but not the transferor shall be regarded as holder of the relevant H Shares and will be entitled to attend and vote at the EGM.

8. 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.

9. 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

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)

8 October 2020

To the Independent Shareholders

Dear Sir or Madam

DISCLOSEABLE CONTINUING CONNECTED TRANSACTIONS UNDER THE SUPPLEMENTAL AGREEMENT

We refer to the circular dated 8 October 2020 (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 and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the terms and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement as set out in the Circular. 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 7 to 51 of this Circular and the text of a letter from the Independent Financial Adviser, as set out on pages 54 to 69 of this Circular, both of which provide details of the Supplemental Agreement and the Continuing Connected Transactions (together with the Revised Annual Caps). Your attention is also drawn to the additional information set out in the Appendix II to the Circular.

Having considered the terms of the Supplemental Agreement and the Continuing Connected Transactions (together with the Revised Annual Caps), 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 and the Revised Annual Caps of each of the Continuing Connected Transactions (save for the provision of the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement 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.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions for approving each of the Continuing Connected Transactions (save for the Financial Services provided by the CSSC Group) and the Revised Annual Caps contemplated under the Supplemental Agreement to be proposed at the EGM.

Yours faithfully
For and on behalf of the
Independent Board Committee
Mr. Wang Yichu **Mr. Min Weiguo** **Mr. Yu Shiyou** **Mr. Liu Renhuai**
Independent non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps (save for the financial and credit services and guarantee services provided by the CSSC Group) for inclusion in this circular.

VINCO 域高

Vinco Capital Limited

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

8 October 2020

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

Dear Sirs,

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS UNDER THE SUPPLEMENTAL AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps (save for the financial and credit services and guarantee services provided by the CSSC Group), details of which are set out in the "Letter from the Board" (the "**Board Letter**") in the circular (the "**Circular**") issued by the Company to the Shareholders dated 8 October 2020 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 announcement issued by the Company dated 10 September 2020, in relation to the Supplemental Agreement entered into between the Company and CSSC Group, to revise certain existing caps for products and services (including financial services) provided by the CSSC Group to the Group for the year ended ending 31 December 2020, 2021 and 2022 respectively.

The Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2020-2022 Framework Agreement and anticipates that the demand of the Group for certain products and services (including financial services) provided by the CSSC Group pursuant to the 2020-2022 Framework Agreement will exceed the previous projection to the effect that certain existing annual caps contemplated under the 2020-2022 Framework Agreement will not be sufficient to meet the demand of the Group. As such, the Company and CSSC entered into the Supplemental Agreement on 10 September

2020 to revise certain existing caps for products and services (including financial services) provided by the CSSC Group for the year ending 31 December 2020, 2021 and 2022 respectively.

CSSC, being a controlling shareholder of the Company, is a connected person of the Company pursuant to the Hong Kong Listing Rules. As a result, the transactions between the Group and the CSSC Group constitute connected transactions of the Company.

The provision of Financial Services provided by CSSC Group to the Group under the Supplemental Agreement constitutes financial assistance received by the Group from a connected person. As (i) the provision of Financial Services is to be provided to the Group on normal commercial terms that are comparable to or more favourable than those offered by Independent Third Parties for similar services in the PRC and (ii) no security over the assets of the Group is granted in respect of the Financial Services, the Financial Services to be provided by CSSC Group to the Group under the Supplemental Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for each of (i) the Aggregated Annual Caps (Product and Services); and (ii) the Aggregated Annual Caps (Financial Services) contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement (save for the provision of the Financial Services by the CSSC Group which is fully exempt pursuant to Rule 14A.90 of the Hong Kong Listing Rules) are higher than 5% on an annual basis, each of the aforesaid transactions contemplated under the 2020-2022 Framework Agreement as supplemented by the Supplemental Agreement constitutes a non-exempt continuing connected transaction of the Company that is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios for the Revised Annual Caps of each of (i) the maximum outstanding daily balance on the Deposits; (ii) the maximum daily balance on the FX Forward Contracts; and (iii) the maximum value of the entrusted assets management under the Supplemental Agreement exceed 5% but less than 25% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, the Revised Annual Caps in relation to each of the above transactions contemplated under the Supplemental Agreement also constitutes a discloseable transaction of the Company and is also subject to the relevant discloseable transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

CSSC and its associates (together holding 841,264,642 Shares of the Company, representing 59.52% of the issued Shares of the Company, as at the Latest Practicable Date) will abstain from voting in respect of the resolution to the terms and Revised Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services by the CSSC Group) contemplated under the Supplemental Agreement at the forthcoming EGM.

THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Sheng Jigang, Mr. Xiang Huiming and Mr. Chen Ji as the executive Directors; Mr. Shi Jun as the non-executive Director; and Mr. Wang Yichu, Mr Min Weiguo, Mr Liu Renhuai and Mr. Yu Shiyou as the independent non-executive Directors.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders whether, among other things, the terms of the Supplemental Agreement and the transaction contemplated thereunder and the Revised Annual Caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listing Rules, our role is to give an independent opinion as to whether, among other things, the entering into the Supplemental Agreement is (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms (on arm's length basis or on terms no less favourable to the Company than terms available from Independent Third Parties); and (iii) on terms (including the Revised Annual Caps) that are fair and reasonable and in the interest of the Company and its shareholders as a whole. We, Vinco Capital has been appointed and approved by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interest between us and the Company or any parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.80 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

Apart from normal professional fees payable to us in connection with this 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. We are not aware of the existence of or change in any circumstances that would affect our independence.

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) discloseable and connected transaction in relation to acquisition of Wenchong Dockyard; (ii) connected and discloseable transaction in relation to the entering into the phase I relocation agreement of Wenchong Shipbuilding; (iii) discloseable and connected transaction regarding increase of registered capital and shareholding structure adjustments of subsidiaries; non-exercise of right of first refusal; and major and connected transaction regarding the transactions under the disposal agreement; (iv) connected and discloseable transaction in relation to the entering into the land resumption compensation agreement, (v) major transaction and non-exempt continuing connected transactions under the 2020-2022 framework agreement and (vi) connected and discloseable transaction in relation to disposal of equity interest in Chengxi Yangzhou (the "**Past Appointments**"). Details of the relevant transaction is set out in the circular of the Company dated 14 November 2018, 10 May 2019, 4 October 2019, 9 December 2019, 5 February 2020 and 7 April 2020 respectively. The normal 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, among other things, the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps, 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 assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, the 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 and the management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, 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 have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the transactions. The Company has been separately advised by its own professional advisers with respect to the transactions and the preparation of the Circular (other than this letter).

We have assumed that the transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

We consider that we have reviewed all currently available information and documents, among others: (i) the annual report of the Company for the year ended 31 December 2019, (ii) the interim report of the Company for the six months ended 30 June 2020; (iii) the announcement of the Company dated 10 September 2020 in relation to the Supplemental Agreement; (iv) historical transactions between the Group and CSSC and/or its subsidiaries and their samples of transaction documents; (v) the basis and assumptions of the transactions contemplated under Supplemental Agreement; (vi) the pricing policy of the Supplemental Agreement; (vii) the minutes of the meeting of the board of directors of the Company dated 10 September 2020; and (viii) the general rules of management system in relation to connected transaction dated 20 December 2019 which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole in part, nor shall this letter be used for any other purposes, without our prior written consent.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the transactions, we have taken into account the following principal factors:

1. Background information of the parties to the transactions

1.1 Information of the Company

The Company is a core subsidiary and platform of CSSC Group (a large-scale state-owned enterprise) in Southern China. As at the Latest Practicable Date, the Company has a major non-wholly owned subsidiary, Huangpu Wenchong, and its 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, feeder container ships, offshore platform, as well as non-ship products including steel structures.

1.2. Information of CSSC

CSSC is a state-authorized investment institution directly supervised and administered by SASAC whose core business includes shipbuilding, ship-repairing, processing, export/import of marine equipment, diversified businesses such as other steel structure manufacturing and international cooperation, joint venture operations, financing, technology trading and workforce exportation.

As at the Latest Practicable Date, CSSC, the controlling shareholder of the Company, held 841,264,642 Shares of the Company directly or indirectly, representing 59.52% of the issued Shares of the Company.

1.3 Information about CSSC Finance

CSSC Finance is a wholly-owned subsidiary of CSSC. The principal business of CSSC Finance includes deposit-taking, loans handling, acceptance and discounting of bills, inter-bank borrowing businesses and provision of other financial services.

Under the Hong Kong Listing Rules, CSSC is a connected person of the Company while the transactions between the Group and any of the CSSC Group (including CSSC Finance) constitute connected transactions of the Company, subject to the compliance with the relevant disclosures and/or Independent Shareholders' approval requirements of the Hong Kong Listing Rules.

1.4 The impact of the restructuring when determining the Revised Annual Caps

As disclosed in the announcement of the Company dated 25 October 2019 and the circular of the Company dated 5 February 2020, on 25 October 2019, the Company received a letter from CSSC stating that CSSC had received a "Notice regarding the reorganization of CSSC and CSIC" (《關於中國船舶工業集團有限公司和中國船舶重工集團有限公司重組的通知》(國資改革(2019)100號) issued by the SASAC, the reorganisation of CSSC and CSIC has been implemented in October 2019. In October 2019, the SASAC has also issued the "Announcement regarding the approval of the reorganization of CSSC and CSIC" (《關於中國船舶工業集團有限公司和中國船舶重工集團有限公司聯合重組獲得批准的公告》). Upon approval by the SASAC, it was agreed that CSSC performs joint restructuring with CSIC to newly set up China State Shipbuilding Corporation Limited* (中國船舶集團有限公司) ("**China Shipbuilding Group**"). The SASAC shall perform the duties of the contributor on behalf of the State Council, and CSSC and CSIC will be integrated into China Shipbuilding Group. In November 2019, China Shipbuilding Group has been established and completed the registration at the State Administration for Industry and Commerce of PRC.

As disclosed in the announcement of the Company dated 25 October 2019 and the circular of the Company dated 5 February 2020, upon the restructuring, the controlling shareholder and de facto controller of the Company will remain unchanged. On 8 November 2019, the members of the boards of directors, supervisors and senior management of the China Shipbuilding Group was appointed and the members of the boards of directors, supervisors and senior management of each of CSSC, CSIC and the China Shipbuilding Group were the same. The ultimate beneficial owner of the China Shipbuilding Group is the SASAC as at the Latest Practicable Date. As at the Latest Practicable Date, the restructuring is still on-going and the transfer of shares of the CSSC from the SASAC to the China Shipbuilding Group and the transfer of shares of the CSIC from the SASAC to the China Shipbuilding Group have not been completed. As such, immediately after the restructuring, the China Shipbuilding Group will hold 100% of the issued shares of CSSC and 100% of the issued shares of CSIC and CSSC will hold 59.52% of the issued Shares of the Company. Hence, the China Shipbuilding Group will become a substantial shareholder and a connected person of the Group and the transactions between the China Shipbuilding Group and the Group will become continuing connected transactions immediately after the restructuring. Dalian Shipbuilding Industrial Engineering Company Limited* (大連船舶工業工程公司) ("**Dalian Shipbuilding**") (which will be mentioned below) will become a connected person of the Company upon completion of the aforementioned restructuring. We have also confirmed with the management of the Company that the impact of the restructuring has been taken into account when determining the Revised Annual Caps.

In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Supplemental Agreement, the transactions contemplated thereunder and the Revised Annual Caps, we have taken into account the principal factors and reasons set out below:

2. Reasons for and benefits of entering into of the Supplemental Agreement

As disclosed in the Board Letter, the Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2020-2022 Framework Agreement and anticipates that the demand of the Group for certain products and services (including financial services) provided by the CSSC Group pursuant to the 2020-2022 Framework Agreement will exceed the previous projection to the effect that certain existing annual caps contemplated under the 2020-2022 Framework Agreement will not be sufficient to meet the demand of the Group. Accordingly, the Company entered into the Supplemental Agreement with CSSC in order to cater for the Group's demand for such products and services and to facilitate the Group in capturing its potential business growth. We understand there will be potential business growth which may require the Company to revise the existing annual caps. Also, we have obtained the information in relation to the utilisation rate of the existing annual caps from the Company and noted that the existing annual caps may not be sufficient for the Group. Having considered the above, and particularly, the entering into the Supplemental Agreement will prevent the Group to exceed the existing annual caps, we are of the view that the entering into of the Supplemental Agreement, together with the adoption of the Revised Annual Caps, are conducted in the ordinary and usual course of the Group's business and are in the interests of both the Company and the Shareholders as a whole.

3. The Supplemental Agreement

3.1 Revision of annual caps

As extracted from the Board Letter, certain existing annual caps under the 2020-2022 Framework Agreement for the year ending 31 December 2020, 2021 and 2022 respectively will be revised. Below are the revised annual caps which their applicable percentage ratios calculated are higher than 5% on an annual basis pursuant to Rule 14.07 of the Hong Kong Listing Rules and would require us to advise the fairness and reasonableness of the terms and the Revised Annual Caps of each below continuing connected transaction contemplated under the Supplemental Agreement.

Unit: RMB million

Transactions	Existing annual caps For the year ending 31 December 2020	2021	2022	Revised Annual Caps For the year ending 31 December 2020	2021	2022	Utilisation rate As at 31 August 2020 *(Note 4)* *(%)*
Products and services provided by the CSSC Group to the Group:							
(d) Equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc.	5,739.49	5,569.10	6,427.65	6,219.49	6,125.90	7,073.54	51.59
(e) Leasing of production areas, labour supply, design and technical services; and Comprehensive Services	327.84	282.12	321.63	530.67	517.40	594.55	93.07
Financial services provided by the CSSC Group to the Group:							
(f)(i) (1) Maximum daily balance on the Deposits *(Note 1)*	6,235.00	4,235.00	4,235.00	6,235.00	6,235.00	6,235.00	95.83
(2) Aggregate interest on Deposits for the year	40.55	34.55	34.55	81.65	86.75	86.75	92.34
(iv) Maximum daily balance on the FX Forward Contracts *(Note 2)*	4,740.56	800.00	800.00	4,740.56	2,000.00	2,000.00	73.32
(v) (1) Maximum value of entrusted assets managements	2,000.00	1,000.00	1,000.00	3,000.00	3,500.00	3,500.00	77.50
(2) Aggregate interest on entrusted assets management services *(Note 3)*	44.55	36.30	36.30	44.55	73.50	73.50	6.83

Notes:

1. The annual caps in respect of the maximum daily balance on the Deposits for the year ending 31 December 2020 remains unchanged.

2. The annual caps in respect of the maximum daily balance on the FX Forward Contracts for the year ending 31 December 2020 remains unchanged.

3. The annual caps in respect of the aggregate interest on entrusted assets management services for the year ending 31 December 2020 remains unchanged.

4. The utilisation rate as at 31 August 2020 is the ratio of the unaudited historical transaction amount for the eight months ended 31 August 2020 over the existing annual caps for the year ending 31 December 2020.

Save as to the above, the other terms of the 2020-2022 Framework Agreement, including the principal terms, the pricing policy and the existing annual caps for such other transactions contemplated under the 2020-2022 Framework Agreement shall remain unchanged.

3.2 Our analysis regarding the Supplemental Agreement

The Group will determine the prices of the transactions with reference to, and generally shall not be lower than, the reference price which represents the prices charged by independent third party of same or similar specifications.

As confirmed by the management of the Group, subject to the pricing basis agreed in the 2020-2022 Framework Agreement, the transactions contemplated under the Supplementary Agreement will be conducted in line with the pricing method and procedures adopted by the Group in conducting the transactions under the current practice as agreed in the 2020-2022 Framework Agreement. In particular, if there are no sufficient comparable transactions to assess whether they are conducted on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Party(ies), the Continuing Connected Transactions are to be conducted in the ordinary and usual course of business of the Group and on normal commercial terms on the basis that they must be fair and reasonable so far as the Shareholders are concerned. Separate written agreement(s) setting out the detailed terms (including the basis of pricing) shall be, if required, entered into between relevant parties for each Continued Connected Transaction and will continue to be determined as the pricing policies stated in the 2020-2022 Framework Agreement.

We have also reviewed the 2020-2022 Framework Agreement and Supplemental Agreement and found there is no difference of the terms stated between the two agreements. Since the terms for the transactions which their annual caps required to be revised under the Supplemental Agreement remain unchanged as found and had been reviewed by the independent financial adviser in the circular of the Company dated 5 February 2020 in relation to the 2020-2022 Framework Agreement, we are of the view that the terms for Continuing Connected Transactions (save for the financial and credit services and guarantee services provided by the CSSC Group) contemplated under the Supplemental Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

In our assessment of the reasonableness of the Revised Annual Caps under the Supplemental Agreement, we have reviewed the expected additional transaction amount between the Company and CSSC Group for the three years ending 31 December 2022 and the underlying basis and assumptions respectively. We have discussed with the Company regarding the below factors and concurred with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the Revised Annual Caps at the proposed levels, after taking into consideration the following:

Products and services provided by the CSSC Group to the Group

(d) Equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc.

Pursuant to the Offshore Wind Power Development Plan of Guangdong Province (2017-2030) (revised)* （廣東省海上風電發展規劃(2017至2030年)(修編) issued by the Guangdong Provincial Development and Reform Commission* （廣東省發展改革委）, we understand that there is a positive trend of the offshore wind power development due to the government plan in Guangdong Province. Therefore, we concur with the view of the Group that there would be a substantial increase in the contract amount in relation to offshore wind power infrastructure components. Hence, it is reasonable to expect an increase in demand of sourcing products such as equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories for the year ending 31 December 2020, 2021 and 2022.

The production of offshore wind power infrastructural components such as steel structures falls within the Group's principal business which covers not only shipbuilding but also the supply of offshore engineering products. Pursuant to the section headed "I PRINCIPAL ACTIVITIES, BUSINESS MODEL AND INDUSTRY OVERVIEW OF THE COMPANY DURING THE REPORTING PERIOD" in the annual report of the Company for the year ended 31 December 2019, application products including steel structures is part of the principal products of the Company's principal business.

It is expected that the total receivable amount in relation to the contract of offshore wind power infrastructure component for 2020 will be more than RMB1,800 million (as estimated based on the actual receivable amount for the period from December 2019 to July 2020 (i.e. RMB1,153 million)), which exceeds the original projected total receivable amount of RMB1,000 million by 80%. In turn, it is projected that the Group would require procurement of additional metallic materials of RMB480 million in order to meet the aforementioned expected increase in demand for its offshore wind power infrastructure components. We have reviewed three contracts in relation to offshore wind power infrastructure project entered into by the subsidiary of Huangpu Wenchong (a non-wholly owned subsidiary of the Company) and its customers that would require the Company to purchase the offshore wind power infrastructure component from suppliers such as CSSC Group and its subsidiaries. We have also obtained the list of contracts in relation to offshore wind power infrastructure project which the subsidiary of Huangpu Wenchong has entered into with its customers for eight months till 31 July 2020 and found that the total receivable amount regarding the offshore wind power infrastructure components undertaken by the Group for the period from 1 December 2019 to 31 July 2020 is approximately RMB1,153 million.

In view of the projected increase in the annual production value of Huangpu Wenchong, the Revised Annual Caps for equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc. for each of 2021 and 2022 are adjusted accordingly with a 16% annual increment on RMB480 million, calculated based on the estimated average increase of the production value for the years 2021 and 2022. With reference to the above consideration, the Revised Annual Caps for the

Continued Connected Transaction in relation to the provision of equipment for ship, electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories, etc. by CSSC Group for the year ending 31 December 2020, 2021 and 2022 are set as RMB6,219.49 million, RMB6,125.90 million and RMB7,073.54 million respectively.

(e) Leasing of production areas, labour supply, design and technical services; and Comprehensive Services

As to leasing of production areas, labour supply, design and technical services; and Comprehensive Services, following the initiation of relocation of a factory in Wenchong to Nansha ("**Nansha Factory**") by Guangzhou Wenchong Shipyard Co. Ltd., a subsidiary of Huangpu Wenchong, the manufacturing work of those products which were originally made in the factory in Wenchong have successively begun to be transferred to the Nansha Factory. In order to cater for the periodically fluctuating production needs common to the shipbuilding industry, the Group has, in addition to deploying its own labour, appointed labour service companies to provide additional labour supply as required from time to time. As at the Latest Practicable Date, the Group has appointed a total of 76 labour service companies for this purpose which include both independent third parties and connected persons of the Company. Labour service companies which are connected persons of the Company include, amongst others, Jiangxi Chaoyang Machinery Co., Ltd.*（江西朝陽機械有限公司）, and Guangzhou Shipyard International Company Limited*（廣船國際有限公司）. Dalian Shipbuilding, being a member of CSIC, has also been appointed by the Group for provision of labour services. Please refer to the section headed "1.4 The impact of the restructuring when determining the Revised Annual Caps" in this letter for details in relation to the restructuring and relationship among the Company, CSSC and CSIC upon completion of the restructuring. We have confirmed with the Company that the actual amount payable for the labour service in Nansha Factory for seven months ended 31 July 2020 amounted to approximately RMB67.61 million and as at the Latest Practicable Date, approximately 15% of the existing labour service companies which provides personnel to the Nansha Factory is connected persons of the Company.

However, the personnel dispatched to the Nansha Factory by labour service companies is unable to meet the production needs of the Nansha Factory, coupled with the impact of COVID-19 epidemic resulting those dispatched personnel cannot resume work on time. The local labour supply is unstable as well. As such, in order to ensure the business operation of the Nansha Factory could commence normally, Huangpu Wenchong has introduced the labour workforce team of the shipbuilding factory of Dalian Shipbuilding, being a member of the CSIC for provision of labour services, on terms that should be of no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties. In view of the expected increase in demand for labour supply, the annual caps for leasing of production areas, labour supply, design and technical services; and Comprehensive Services for each of the year ending 31 December 2020, 2021 and 2022 should be increased accordingly.

In respect of the impact of COVID-19 epidemic, as discussed with the management of the Company and stated above, we understand the Company failed to meet the expectation of productivity that the operating income for the seven months ended 31 July 2020 was only approximately 34.8% of the expected annual income. Since the epidemic situation in mainland is in control and people manage to return to the working site, the company decides to commence work and procure labour resources from Dalian Shipbuilding for the five months ending 31 December 2020 in order to complete at least double of the productivity happened during first seven months in 2020. According to the consolidated account of the labour fee for the seven months ended 31 July 2020, we found that the approximate total account payable amount for Dalian Shipbuilding was RMB67.61 million. The estimated payable amount in relation to the labour services procured from Dalian Shipbuilding is approximately RMB135.22 million, double of the total payable amount for the seven months ended 31 July 2020. Therefore, an increase of approximately RMB203 million of Continuing Connected Transaction in relation to labour service is expected for the year ending 31 December 2020.

Dalian Shipbuilding is principally engaged in the businesses of the provision of ancillary services for the shipbuilding industry, projects subcontracting, labour supply services, engineering and construction, installation and other businesses. CSIC is principally engaged in the businesses of military and civil shipbuilding, design and production of maritime transportation and development equipment, ancillary and electrical components for vessels as well as deep-sea equipment, and other business. Whilst Dalian Shipbuilding will continue to provide labour supply services for the Nansha Factory, it will not replace other existing labour service companies who have been providing labour services to the Group.

As discussed with the management of the Company, we understand the Revised Annual Caps are determined by the existing annual caps and the additional payable amount for the labour service procured from Dalian Shipbuilding for the five months ending 31 December 2020, taking into account of the average increase of 16% in the annual production value of Huangpu Wenchong for the two years ending 31 December 2022. We noted that the expected annual increment rate of production value for 2021 and 2022 remains unchanged as at the time when 2020-2022 Framework Agreement was executed, at approximately 16% on average according to the production forecast obtained from the Company. With reference to the above consideration, the Revised Annual Caps of the Continued Connected Transactions in relation to the provision of leasing of production areas, labour supply, design and technical services; and Comprehensive Services by CSSC Group for the year ending 31 December 2020, 2021 and 2022 are set as RMB530.67 million, RMB517.40 million and RMB594.55 million respectively.

Financial services provided by the CSSC Group to the Group

(f) (i) Maintaining Deposits with CSSC Finance

Having considered the expected increase in cash of the Group due to a projected increase in business growth, it is expected the Group's demand for deposit services from the CSSC Group and the aggregate interest generated therefrom will increase accordingly.

(1) Maximum daily balance on the Deposits

Pursuant to the forecast of estimated daily balance on the Deposits for the three years ending 31 December 2022 obtained from the Company, we found that the estimated maximum daily balances on the Deposits were mainly determined based on the maximum ratio of the total deposits in CSSC Finance over the total cash of the Group for the seven months ended 31 July 2020, which is approximately 63%, by multiplying the estimated total deposits of the Group for the three years ending 31 December 2022, which is projected by the historical deposit of the Group as at 31 July 2020. Having considered the expected increase in cash of the Group due to a projected increase in business growth, it is expected the Group's demand for deposit services from the CSSC Group and the aggregate interest generated therefrom will increase accordingly. It is also expected that there will be an increase in surplus funds of the Group due to its collection plan. The receivables of Huangpu Wenchong from its products (including wind power infrastructure components) are also expected to increase. Based on the estimation of order acceptance and collection plan of the Group and Huangpu Wenchong, we found there will be an unexpected increasing income compared with the estimated income forecast made at the time when 2020-2022 Framework Agreement was executed, that the annual average monetary capital of the Group for 2021 and 2022 is expected to be RMB9,800 million and RMB9,400 million respectively. Pursuant to the forecast of the expected deposit services with CSSC Finance after considering approximately RMB800 million of the receivable amount in relation to the provision of offshore wind power components mentioned earlier in this letter, approximately RMB963 million of cash obtained from a potential transfer of minority equity interest in Company to be taken place at the end of 2020 as stated in the corresponding contract signed on 9 March 2020, total of receivable amount of RMB700 million collected from debtors and loan of RMB 485 million collected earlier than the expectation, an increase of approximately RMB3.1 billion of cash would be expected in the Company. As such, an increase of approximately RMB2 billion (63% as the maximum ratio of total deposits in CSSC Finance over the total cash in the Group by multiplying RMB3.1 billion) to be deposited in CSSC Finance is expected for both 2021 and 2022. Taking into account of the historical amount of Deposits, it is expected that the maximum daily balance on the Deposits for 2020 remains unchanged and both 2021 and 2022 will be RMB6,235 million, approximately 63% of the maximum daily balance of deposits of the Group.

(2) Aggregate interest on Deposits for the year

As discussed with the management of the Company, we understand the Company has considered the interest rates for deposits to be provided by certain commercial banks and financial institutions and determined that the interest rate provided by CSSC Finance is more favourable to the Group. Besides we have also obtained the information of interest rates issued from PBOC and from the Company and found the deposit interest rates offered by CSSC Finance on RMB deposits to the Group that the rates were more favourable to those quoted by the PBOC at the relevant time. The aggregate interest on Deposits for the seven months ended 31 July 2020 amounts to RMB37.40 million, which is approximately 90% of the annual cap. According to the samples we have reviewed and the latest forecast obtained from the Company in relation to the expected interest income received from CSSC Finance for the three years ending 31 December 2022. We found that the increase in the interest rate is due to the unexpected increasing trend of the interest rate in the market compared with the estimated interest rate for the three years ending 31 December 2022 at the time when 2020-2022 Framework Agreement was executed. As a result, the aggregate interest income is expected to be approximately RMB81.65 million for the year ending 31 December 2020. Based on the expected increase in interest rate from 2020 according to the historical interest received by the Group for the seven months ended 31 July 2020 and the increase in deposit with CSSC Finance for the two years ending 31 December 2022 as aforementioned due to the expected cash received from Huangpu Wenchong, the aggregate interest for the year ending 31 December 2021 and 2022 will amount to RMB86.75 million and RMB86.75 million respectively.

(f) (iv) FX Forward Contracts to be entered into with CSSC Finance

As confirmed with the management of the Company, the Company is subject to high exchange rate risk as the Group's ship export orders are denominated in US dollars, where some of the domestic ships orders are denominated in USD but payable in RMB. The operation of the forward foreign exchange contracts is closely related to the number of ship contracts entered or to be entered into by the Group, as well as the anticipated changes of the exchange rate(s)/interest rate(s) in the markets.

We have obtained the forecast of the expected FX Forward Contract to be entered into with CSSC Finance for the three years ending 31 December 2022 from the Company and found that the Group's foreign exchange risk will increase accordingly and the Group would need to lock its exposure to foreign exchange risk at USD700 million and USD1,500 million for 2021 and 2022 respectively due to the aforementioned increase in the production orders in hand and expected new product acceptance plan from Huangpu Wenchong. At the time when the 2020-2022 Framework Agreement was executed, the annual caps for the maximum daily balance on FX Forward Contracts were set at a lower level. However, due to more favourable terms available and the need for production and operation, the Group has entered into FX Forward Contracts with longer terms in respect of a number of orders in 2020, which are different from the FX Forward Contracts of shorter terms proposed in the original agreement. Some of the above FX Forward Contracts have a term exceeding one year, and some will even expire in 2023, which will use up the annual caps of 2021 and 2022, thereby reducing the available balance of FX Forward Contracts to be executed in 2021 and 2022. Therefore, the original annual caps need to be increased so as to satisfy the production and operation needs of the Group. We have also obtained samples of transaction certificate in relation to the FX Forward Contracts issued by CSSC Finance to the Company and/or its subsidiaries in 2020, that clearly stated that the expired date for some foreign exchange forward contract entered into will be expired in 2023. For any transactions after 2022 pursuant to such FX Forward Contracts, the Group will enter into a new framework agreement for continuing connected transactions for the period of 2023 to 2025 with the CSSC Group several months before the expiry date (i.e. 31 December 2022) of the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement). In order to comply with the Listing Rules requirements, the Group will arrange for execution of the framework agreement with CSSC a few months prior to the expiry date of the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) (i.e. 31

December 2022) and obtain the shareholders' approval prior to the expiry date (if necessary). Taking into account of the historical amount, it is expected that the maximum daily balance on the FX Forward Contracts would reach RMB2,000 million for each of 2021 and 2022.

(f) (v) Entrusted assets management services to be provided by CSSC Finance

When the Group has temporary surplus funds, it may choose to place such funds at fixed deposit or low-risk entrusted assets management services. When the expected rate of return of entrusted assets management service is higher than the conventional interest rate of fixed bank deposits, the Group may engage assets management services as and when appropriate in order to maximise the returns to shareholders. As at the Latest Practicable Date, the benchmark 1-year interest rate of bank deposits is 1.5%, while the expected yield from entrusted asset management would normally amount to 2.7% for 3-month and 3% for 1-year.

Taking into account of the value of entrusted assets management for eight months ended 31 August 2020 reached RMB1,550 million, plus that the projected annual average monetary capital of the Group for the second half of 2020 would continue to increase, it is expected that the value of entrusted assets management for 2020 would reach RMB3,000 million. As the expected yield from entrusted assets management for 3-month is higher than those from bank deposits of 1-year, to maximise the returns to shareholders and to allow the Group greater flexibility in handling its temporary surplus funds, the Group intends to place such funds in entrusted assets management for 3-month periods for multiple times a year, and therefore the annual caps for the maximum value of entrusted assets managements will need to be increased accordingly. Pursuant to the latest forecast of the expected maximum entrusted assets management services with CSSC Finance, approximately RMB1,450 million of entrusted assets fund is expected to be placed for three months ended 31 December 2020 again when they are expired, therefore a total of approximately RMB3,000 million of entrusted assets fund is to be accumulated for the year ending 31 December 2020. Other than considering the proceeds of RMB500 million from a transfer of minority equity interest in a company to be taken place at the end of 2020 as stated in the corresponding contract signed on 9 March 2020, the Company also takes the approach of placing funds in entrusted assets management for 3-months period for multiple times a year into account for 2021 and 2022, as such the maximum value of entrusted assets managements for each of 2021 and 2022 is adjusted to RMB3,500 million.

Based on the factors and reason discussed above, we are of the view that each of the Revised Annual Caps for the Continuing Connected Transactions (save for the financial and credit services and guarantee services provided by the CSSC Group) contemplated under the Supplemental Agreement were set by the Company after due and careful consideration and are reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES GOVERNING THE SUPPLEMENTAL AGREEMENT

As confirm by the Director, the Company will conduct the same internal control procedures as stated in the circular in relation to 2020-2022 Framework Agreement to govern the Continuing Connected Transactions of the Company under the Supplemental Agreement. Since the series of internal control measure and risk management arrangement for the transactions which their annual caps required to be revised under the Supplemental Agreement remain unchanged as found and had been reviewed by the independent financial adviser in the circular of the Company dated 5 February 2020 in relation to the 2020-2022 Framework Agreement, we concur with the view of the Directors (including the independent non-executive Directors) that the procedures to be adopted by the Group to govern the continuing connected transactions are sufficient and adequate to ensure that such transactions will be conducted under normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the Supplemental Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) the terms of the Supplemental Agreement are on normal commercial term or better and are fair and reasonable, and it is in the interests of the Company and the Shareholders as a whole; and (iii) the Revised Annual Caps for the three years ending 31 December 2022 for the Supplemental Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM approving each of the Continuing Connected Transactions (save for the financial and credit services and guarantee services provided by the CSSC Group) and the Revised Annual Caps contemplated under the Supplemental Agreement for the three years ending 31 December 2022.

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.

(Full text of the Management Rules for the Remuneration of the Tenth Session of Directors, Supervisors and Senior Management)

CHAPTER 1 GENERAL

Article 1 In order to meet the requirements for corporate management under market-oriented economy environment, to fully discharge the obligations imposed by the Company Law, the Securities Law and the Articles of Association, to safeguard the interests of shareholders and implement the decisions of the Board, to fully motivate the enthusiasm and creativity of corporate managers, to continue to enhance the financial performance of the Company and promote the high-equality development of the Company, to maintain and increase the value of state-owned assets, and to further improve the incentive and restraint mechanism of the Company, these rules have been formulated in light of the actual situations of the Company.

Article 2 These management rules are applicable to the Directors, Supervisors, senior management (general manager, deputy general managers, chief accountant and secretary to the Board of the Company and other senior management hired by the Board) (the "Directors, Supervisors and Senior Management").

Article 3 The management of the remuneration of the Directors, Supervisors and Senior Management shall follow the principles below:

(1) distribution mainly according to work, with reference to market standards and in compliance with the laws and regulations;

(2) efficiency first while focusing on equality to protect the lawful interests of the shareholder representatives, corporate management and staff;

(3) combination of incentives and restraints, responsibilities, rights and obligations;

(4) combination of remuneration incentives and benefits and regulating duty consumption, motivating the Directors, Supervisors and Senior Management, and promoting the high-quality development of the Company;

(5) combination of material incentives and mental inspiration, coordination of the growth of remuneration of the Directors, Supervisors and Senior Management and employees, creating a reasonable and balanced income allocation system.

Article 4 Directors and Supervisors who also hold positions at China State Shipbuilding Corporation, being the controlling shareholder of the Company, or its subsidiaries (the "CSSC Group") shall have their performance assessed by the CSSC Group and receive remuneration from the CSSC Group. Independent Directors and external Supervisors shall receive annual fees of RMB200,000 and RMB120,000, respectively, excluding the travelling and accommodation expenses incurred in attending meetings or events of the Company or reasonable expenses required for performing normal duties as independent Directors or Supervisors. The annual fees of independent Directors and external Supervisors represent income before tax, whose individual income tax shall be withheld and paid by the Company on behalf of them.

Article 5 Save for the Directors and Supervisors listed in Article 4, the remuneration of other Directors, Supervisors and Senior Management shall comprise of annual remuneration, rewards, mid- to long-term incentives, monetary benefits and non-monetary benefits.

CHAPTER 2 ANNUAL REMUNERATION

Article 6 The annual remuneration of the Directors, Supervisors and Senior Management shall comprise base salary, performance salary and special bonus.

Article 7 The base salary represents the basic income for a year and will be paid monthly. Base salary = Base x Enterprise coefficient x Position coefficient.

The base of the Directors, Supervisors and Senior Management is RMB300,000. The enterprise coefficient shall be determined based on the strategic responsibilities undertaken, scope of operation, difficulties in operation and management, economic performance and staff salary level of the enterprise where the Directors, Supervisors and Senior Management work and range from 0.6 to 1.5, subject to the approval of the Emolument and Examination Committee.

The position coefficient of the chief executives (chairman and general manager, similarly hereinafter) of the Company shall be 1, and the position coefficient of other Directors, Supervisors and Senior Management shall range from 0.6 to 1.0 based on the responsibilities and risks of the position, subject to the approval of the Emolument and Examination Committee.

Article 8 The performance salary represents annual variable income to be determined based on the results of operation of the Company and the results of annual individual assessment. Annual performance salary = Base salary x Performance coefficient. The performance coefficient shall be determined within the range of 0.6 to 2.0, based on the performance of duties by the Directors, Supervisors and Senior Management, subject to the approval of the Emolument and Examination Committee.

Article 9 Based on the annual results of production and operation of the Company and its financial performance, the Company may grant special bonus to the Directors, Supervisors and Senior Management who have made considerable contribution to the growth of financial performance, significant strategic development and promotion of high-quality development of the Company.

Article 10 The remuneration of the Directors, Supervisors and Senior Management is subject to the information disclosure in accordance with the information disclosure system of listed companies and requirements of regulatory authorities.

CHAPTER 3 BENEFITS

Article 11 The Company may grant middle- and long-term incentives to the Directors, Supervisors and Senior Management in accordance with the national policies and the need to motivate the Directors, Supervisors and Senior Management.

Article 12 The benefits of the Directors, Supervisors and Senior Management shall comprise basic social insurance, housing funds, enterprise annuity (supplementary pension) and medical security. The Company shall make contributions to various basic social insurance and housing funds for the Directors, Supervisors and Senior Management in accordance with the relevant national and local policies, and shall establish enterprise annuity (supplementary pension) and medical security according to the financial position of the Company. The Directors, Supervisors and Senior Management shall make contributions that shall be borne by individuals to various basic social insurance, housing funds, enterprise annuity (supplementary pension) and medical security in accordance with the relevant rules. The enterprises where the Directors, Supervisors and Senior Management work shall pay for the portion which shall be borne by such enterprises.

CHAPTER 4 REMUNERATION MANAGEMENT

Article 13 The monetary income of the Directors, Supervisors and Senior Management in addition to annual salary shall include: high-tech project allowance, special government allowance from the State Council, various allowances and special awards from the Group or governments at provincial or departmental level or above, confidentiality allowance, cooling fees, transportation subsidies and housing subsidies. The housing allowance is subject to the approval of the controlling shareholder of the Company, and the other items shall be filed with the controlling shareholder of the Company for record. Save for above, the Directors, Supervisors and Senior Management shall not be entitled to any other monetary income unless with the specific approval of the controlling shareholder of the Company.

Article 14 For the awards granted by the government where the Directors, Supervisors and Senior Management are located, their utilisation plan shall be filed with the controlling shareholder of the Company for approval, and their utilisation must meet the plan.

Article 15 If the position held by any member of the Directors, Supervisors and Senior Management changes within a year of assessment due to the needs of work, their remuneration for the year shall be calculated and paid according to the different periods of service.

Article 16 The remuneration of the Directors, Supervisors and Senior Management whose tenure have expired or who have been transferred away or removed from position shall be redetermined according to their new positions. The deferred remuneration (if any) of the Directors, Supervisors and Senior Management whose retired shall be paid after his/her resignation and being audited.

Article 17 The remuneration and other monetary income of the Directors, Supervisors and Senior Management represent income before tax, for which individual income tax shall be paid in accordance with the law.

CHAPTER 5 SUPPLEMENTARY PROVISIONS

Article 18 The remuneration of the Directors, Supervisors and Senior Management shall be disclosed in the annual reports of the Company according to the total remuneration before tax paid during a financial year.

Article 19 These management rules shall be interpreted by the Emolument and Examination Committee.

Article 20 These management rules shall become effective on the date on which they are considered and passed at the general meeting.

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	495,323,752 (L)	A Shares	60.3%	35.04%
		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 2019 (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	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 direct or indirect shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for 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 had been, since 31 December 2019 (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.

The letter of advice from Vinco Capital 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 2019, 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 15th Floor, No.137 Gexin Road, Haizhu District, Guangzhou, China, Post code: 510250.

(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 54, 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 and secretary of the Company in Hong Kong.

(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) and the chairman of the board of directors of Guangzhou Shipyard Co., Ltd.* (廣州造船廠有限公司); Mr. Chen Zhongqian is the chairman of the board of directors and the party secretary of Guangzhou Shipyard International Company Limited (廣船國際有限公司); Mr. Chen Ji is the general manager and the deputy party secretary of Guangzhou Shipyard International Company Limited (廣船國際有限公司) and the chairman of Guangzhou Wenchong Ship Building and Repair Co., Ltd. (廣州文沖船舶修造有限公司); Mr. Shi Jun is the deputy director of the operation management department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司). 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 the offices of Deacons, the legal advisers of the Company on Hong Kong laws, 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 annual reports of the Company for each of the three years ended 31 December 2017, 2018 and 2019 and the interim report of the Company for the six months ended 30 June 2020;

(c) the 2020-2022 Framework Agreement;

(d) the Supplemental Agreement;

(e) the letter of recommendation from the Independent Board Committee dated 8 October 2020, the text of which is set out on pages 52 to 53 of this circular;

(f) the letter of advice issued by Vinco Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders dated 8 October 2020, the text of which is set out on pages 54 to 69 of this circular;

(g) the consent letter given by Vinco Capital as referred to in the section headed "Expert" in this Appendix;

(h) the consolidated audited accounts of the Company and its subsidiaries for each of two financial years ended 31 December 2018 and 31 December 2019; and

(i) this circular.