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 broker or other licensed securities dealer, a 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 form of proxy and reply ship to the purchaser(s) or transferee(s) or to the bank, broker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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 Share Stock Code: 00317)

MAJOR TRANSACTION;
REVISION OF AN EXISTING ANNUAL CAP UNDER THE 2014-2016 FRAMEWORK AGREEMENT; AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS UNDER THE 2017-2019 FRAMEWORK AGREEMENT

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

VINCO 域高

A letter from the Board is set out on pages 6 to 40 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 41 and 42 of this circular. A letter from Grand Vinco Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 80 of this circular.

The EGM will be held at Conference Room of the Company, 40 South Fangcun Main Road, Liwan District, Guangzhou, PRC at 2:30 p.m. on 18 October 2016. 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 28 September 2016). In order to ensure validity, holders of A Shares must deliver the completed proxy form and other authorization documents (if any) to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the EGM (or any adjournment thereof). Holders of H Shares must deliver the completed proxy form and other authorization documents (if any) to the Company's H shares registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, 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 form of proxy will not preclude you from attending and voting in person at the EGM should you so wish. Notice of the EGM together with the reply slip and a proxy form for use at the EGM have already been sent to Shareholders.

30 September 2016

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

"2013-2015 Framework Agreement"	the framework agreement for the continuing connected transactions for the period from 1 January 2013 to 31 December 2015 entered into between the Company and CSSC on 30 October 2012 and approved by the Independent Shareholders on 19 December 2012;
"2014-2016 Framework Agreement"	framework agreement for the continuing connected transactions for the period from 1 January 2014 to 31 December 2016 (both days inclusive) entered into between the Company and CSSC on 16 December 2013 and approved by the Independent Shareholders on 13 February 2014 (as supplemented by the First Supplemental Agreement);
"2017-2019 Framework Agreement"	framework agreement for the continuing connected transactions for the period from 1 January 2017 to 31 December 2019 (both days inclusive) entered into between the Company and CSSC on 30 August 2016 and conditional on approval by the Independent Shareholders at EGM;
"A Share(s)"	domestic shares of the Company with nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange;
"associate(s)"	has the meaning ascribed to it in the Listing Rules;
"Board" or "Board of Directors"	the board of Directors of the Company;
"CBRC"	China Banking 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, 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;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Continuing Connected Transactions"	the continuing connected transactions contemplated under the 2017-2019 Framework Agreement, including: (i) the products and services provided by the Group to the CSSC Group; and (ii) the products and services (including the Financial Services) provided by the CSSC Group to the Group as further described in the section headed "Principal Terms of the 2017-2019 Framework Agreement" in this circular;
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules;
"CSSC"	China State Shipbuilding Corporation (中國船舶工業集團公司), a state-owned enterprise and a state-authorized investment institution directly supervised and administered by the SASAC. As at the Latest Practicable Date, CSSC and its associates hold 847,685,990 Shares of the Company, representing 59.97% of the issued Shares of the Company. CSSC is a controlling shareholder of the Company;
"CSSC (HK) Shipping"	CSSC (Hong Kong) Shipping Company Limited;
"CSSC Finance"	CSSC Finance Company Limited (中船財務有限責任公司), a controlling 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 2017-2019 Framework Agreement;
"Director(s)"	the director(s) of the Company;

"EGM"	the second extraordinary general meeting of 2016 to be convened by the Company at Conference Room of the Company, 40 South Fangcun Main Road, Liwan District, Guangzhou, PRC at 2:30 p.m. on 18 October 2016 for the Independent Shareholders to consider and approve, if thought fit, the Second Supplemental Agreement to 2014-2016 Framework Agreement and the transactions contemplated thereunder and the Revised Annual Cap, and the 2017-2019 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps;
"Financial Services"	the financial services to be provided by CSSC Group or CSSC Finance to the Group, including the provision of Loans, financial and credit services and guarantee services but excluding the FX Forward Contracts and entrusted assets management services;
"First Supplemental Agreement"	the first supplemental agreement to the 2014-2016 Framework Agreement entered into by the Company and CSSC on 29 July 2015 and approved by Independent Shareholders on 5 November 2015;
"FX Forward Contracts"	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;
"GS Shipping"	GS Shipping Co., Ltd.;
"GS Shipping Properties"	a land parcel located at 40 South Fangcun Main Road, Liwan District, Guangzhou, of approximately 393,793 sq.m. and the buildings erected thereon owned by GS Shipping;
"Group"	the Company and its subsidiaries, each a "Group Company";
"Guangzhou Shipyard" or "GSI"	Guangzhou Shipyard International Company Limited (廣船國際有限公司), a wholly owned subsidiary of the Company;
"H Shares"	overseas listed foreign shares of the Company listed on the Stock Exchange;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Huangpu Wenchong"	CSSC Huangpu Wenchong Shipbuilding Company Limited, a wholly-owned subsidiary of 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 and the Revised Annual Cap contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement;
"Independent Financial Adviser" or "Grand Vinco"	Grand 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;
"Independent Third Party(ies)"	party who is a third party independent of the Company and its connected person(s);
"Independent Shareholders"	Shareholders other than CSSC and its associates, none of them will be required to abstain from voting at the EGM so convened for approval of the relevant transactions;
"Latest Practicable Date"	27 September 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Loans"	the loans advanced by CSSC Finance to the Group from time to time under the Financial Services provided by the CSSC Group to the Group pursuant to the 2017-2019 Framework Agreement;
"PBOC"	the People's Bank of China;
"PRC"	the People's Republic of China and, for the sole purposes of this circular, excludes Taiwan, Hong Kong and Macau Special Administrative Region of the PRC;

"PRC Company Law"	the Company Law of the PRC;
"Proposed Annual Caps"	the proposed annual caps for each of the Continuing Connected Transactions contemplated under the 2017-2019 Framework Agreement;
"Revised Annual Cap"	the revised annual cap for the continuing connected transaction contemplated under the Second Supplemental Agreement to 2014-2016 Framework 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;
"Second Supplemental Agreement to 2014-2016 Framework Agreement"	the second supplemental agreement to 2014-2016 Framework Agreement entered into between the Company and CSSC on 30 August 2016 and conditional on approval by the Independent Shareholders at EGM;
"Shareholder(s)"	holder(s) of Shares;
"Shares"	shares of RMB1.00 each in the share capital of the Company;
"SFO"	Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong;
"Wenchong Shipyard"	Guangzhou Wenchong Shipyard Co., Ltd., a wholly-owned subsidiary of Huangpu Wenchong;
"US dollars"	United States dollars, the lawful currency of the United States; and
"%"	per cent.

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 Share Stock Code: 00317)

Executive Directors:
Mr. Han Guangde *(Chairman)*
Mr. Chen Zhongqian *(Vice-chairman)*
Mr. Chen Liping
Mr. Xiang Huiming
Mr. Chen Ji

Non-executive Director:
Mr. Yang Li
Mr. Wang Guozhong

Independent non-executive Directors:
Mr. Song Dejin
Mr. Zhu Mingyou
Mr. Wang Yichu
Mr. Min Weiguo

Registered office:
40 South Fangcun Main Road
Liwan District
Guangzhou
The PRC
Postal Code: 510382

30 September 2016

To the H Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION;
REVISION OF AN EXISTING ANNUAL CAP
UNDER THE 2014-2016 FRAMEWORK AGREEMENT; AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
UNDER THE 2017-2019 FRAMEWORK AGREEMENT**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 30 August 2016 in relation to the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement.

Under the Listing Rules, the Revised Annual Cap of the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the provisions of the Financial Services) contemplated under the 2017-2019 Framework Agreement constitute non-exempt continuing connected transactions of the Company and thus are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in relation to the maximum outstanding daily balance on the Deposits and the maximum value of the entrusted assets management under the 2017-2019 Framework Agreement exceed 25% but less than 75% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, each of the Deposits and the entrusted assets management transactions under the 2017-2019 Framework Agreement constitute a non-exempt continuing connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules as well as the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

Grand Vinco Capital Limited 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 Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework 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 Company hereby dispatches this circular to the Shareholders, which contains, among other things, (i) further information about the Second Supplemental Agreement to the 2014-2016 Framework Agreement; (ii) the Continuing Connected Transactions (including details of the Financial Services) contemplated under the 2017-2019 Framework Agreement; (iii) Independent Board Committee's advice to the Independent Shareholders on the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement; and (iv) Independent Financial Adviser's advice to the Independent Board Committee and the Independent Shareholders on the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement.

Independent Shareholders are further advised to read this circular carefully for details of the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement before making their decision as regards voting on the respective resolutions proposed at the EGM. In particular, Independent Shareholders should note that, if they vote in favour of the relevant ordinary resolution proposed at the EGM regarding the 2017-2019 Framework Agreement, they would approve all the Continuing Connected Transactions (including the provision of the Financial Services to the Group by the CSSC Group) and the Proposed Annual Caps contemplated under the 2017-2019 Framework Agreement. In the event that the relevant ordinary resolution proposed at the EGM as regards the 2017-2019 Framework Agreement is not approved by the Independent Shareholders, the Company shall not conduct the Continuing Connected Transactions between the Group and CSSC Group contemplated under the 2017-2019 Framework Agreement.

II. BACKGROUND

As the Company expects that there will be substantial increase in transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group in 2016, the Company and CSSC has entered into the Second Supplemental Agreement to 2014-2016 Framework Agreement to revise the existing cap for the service fees relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group for 2016 under the 2014-2016 Framework Agreement (as supplemented by the First Supplemental Agreement).

In addition, given that the 2014-2016 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2014 to 31 December 2016 will expire on 31 December 2016, the Company and CSSC has entered into the 2017-2019 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2017 to 31 December 2019.

Certain Directors hold positions in CSSC Group and/or its subsidiaries, namely, Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Xiang Huiming, Mr. Chen Ji, Mr. Yang Li and Mr. Wang Guozhong are considered under PRC laws to be interested in the transaction contemplated under each of the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the 2017-2019 Framework Agreement and have not been counted in the voting on the Board resolutions for approving the Second Supplemental Agreement to 2014-2016 Framework Agreement and the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group (together with the Revised Annual Cap) contemplated thereunder, as well as the 2017-2019 Framework Agreement and the Continuing Connected Transactions (together with the Proposed Annual Caps) contemplated thereunder.

The Directors (including the independent non-executive Directors) are of the view that each of the Second Supplemental Agreement to 2014-2016 Framework Agreement and the 2017-2019 Framework Agreement were entered into: (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 Cap and, as the case may be, the Proposed Annual Caps) that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

For the avoidance of doubt, the entering into and the implementation of the Second Supplemental Agreement to 2014-2016 Framework Agreement and the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group (together with the Revised Annual Cap) contemplated thereunder, as well as the 2017-2019 Framework Agreement and the Continuing Connected Transactions (together with the Proposed 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 2014-2016 Framework Agreement (as approved by Independent Shareholders on 13 February 2014) as supplemented by the First Supplemental Agreement (as approved by Independent Shareholders on 5 November 2015).

III. SECOND SUPPLEMENTAL AGREEMENT TO 2014-2016 FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 16 December 2013 and the circular of the Company dated 24 January 2014 in relation to the 2014-2016 Framework Agreement entered into between the Company and CSSC governing the continuing connected transactions between the Group and the CSSC Group.

Reference is also made to the announcement dated 29 July 2015 and the circular of the Company dated 21 October 2015, in relation to, among other things, the entering into the First Supplemental Agreement for revising the annual caps for the continuing connected transactions set out in the First Supplemental Agreement.

On 30 August 2016, the Company and CSSC entered into the Second Supplemental Agreement to 2014-2016 Framework Agreement to further revise an existing cap for 2016 under the 2014-2016 Framework Agreement (as supplemented by the First Supplemental Agreement).

Principal terms of the Second Supplemental Agreement to 2014-2016 Framework Agreement

Conditional upon approval by the Independent Shareholders at the EGM, the existing annual cap for year ending 31 December 2016 in relation to the electrical and mechanical engineering equipment, and metallic materials and waste-recycling, comprising primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products etc., part of the accessories and equipment for use on ships and sales of electrical and mechanical engineering equipment and waste-recycling through CSSC Group be revised from RMB2,268.77 million to RMB3,325.5 million.

The continuing connected transactions under the 2014-2016 Framework Agreement 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 available 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.

Pricing in relation to the electrical and mechanical engineering equipment and metallic materials will be based on market price.

Please refer to the table set out in section headed the historical amounts of each continuing connected transaction of this circular in relation to, among other things, the service fees relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group and the service fee payable thereunder for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended 30 June 2016.

Reasons for entering into the Second Supplemental Agreement to 2014-2016 Framework Agreement

The services relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group primarily comprise of provision of complete sets or accessories of electric and engineering equipment, steel products, non-ferrous metal products. The CSSC Group has the need to purchase production equipment while the Group has the capability of designing and manufacturing electrical and mechanical engineering products and could provide complete sets or accessories of electrical and mechanical engineering equipment to the CSSC Group.

The significant increase in the annual cap for the year ending 31 December 2016 is mainly attributable to the novation of relevant shipbuilding contracts for construction and sale of eight product/crude oil-tankers each with 113,000 DWT by the buyer ("Original Buyer") to CSSC (HK) Shipping. Such shipbuilding contacts were previously entered into between GSI as builder and the Original Buyer as buyer/owner of ships whom is an Independent Third Party. As the crude oil prices remained depressed, the Original Buyer decided to novate the shipbuilding contracts to CSSC (HK) Shipping. As CSSC (HK) Shipping is a wholly-owned subsidiary of CSSC and hence a connected person of the Company, following completion of the novation, the transactions contemplated under such shipbuilding contracts with CSSC (HK) Shipping became continuing connected transaction of the Group and therefore there is a need to increase the annual cap for the year ending 31 December 2016. The relevant shipbuilding contracts between the Group and the Original Buyer were negotiated by the parties on arm's length terms and market prices. Save for the novation of the shipbuilding contracts, there has been no changes to the other terms of the relevant shipbuilding contracts.

IV. 2017-2019 FRAMEWORK AGREEMENT

The 2014-2016 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2014 to 31 December 2016 will expire on 31 December 2016. To continue the on-going transactions contemplated under the 2014-2016 Framework Agreement, on 30 August 2016, the Company and CSSC entered into the 2017-2019 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2017 to 31 December 2019.

Principal terms of the 2017-2019 Framework Agreement

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

(a) Electrical and mechanical engineering equipment, metallic materials and waste-recycling, comprising primarily complete sets or accessories of ships and electrical and mechanical engineering equipment, steel products, rudders, elevators, pipelines, outfitting parts, non-ferrous metal products etc., part of the accessories and equipment for use on ships and sales of electrical and mechanical engineering equipment and waste-recycling through CSSC Group;

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

(ii) Labour supply: primarily involves the provision of training, short-term labour supply, shipbuilding services etc.; according to the demands for technicians, the Group may provide to the CSSC Group the services for ship-painting, internal fit-out, human resources service and computer softwares and hardwares services in Guangzhou areas; short-term labour supply will be provided by the Group when the CSSC Group is in short of labour force for shipbuilding services in Guangzhou areas while the Group has excess labour force at the same time;

(iii) Technical services: mainly involves the provision of shipbuilding products and other engineering design and relevant technical services.

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

(d) Electrical and mechanical engineering equipment, metallic materials, accessories and equipment for ship etc. and related logistics service, comprising primarily materials like steel products for shipbuilding, nonferrous metals, cables, paints, welding materials, oils, lifting equipment, welding machines, plasma cutting machines, high-altitude operation vehicles, complete sets or accessories of electrical and mechanical engineering products, etc.; and logistics and related services for marine outfitting (set and matching) and materials for use on ships, cable cutting services, etc; and

(e) Lease of production areas and equipment, labour supply and technical services: lease of certain production sites and together with necessary production equipment within Guangzhou areas to the Group and other comprehensive services, etc.; labour supply includes subcontracting of shipbuilding works by section (or steel structure works) refers to, in the event that the Group's shipbuilding production is constrained by limited resources such as workshop, equipment or labour force, to CSSC or its subsidiaries in order to keep up with the production plan; labour supply also involves the temporarily borrowing of labour force from CSSC Group to fulfill the needs of labour force in peak season; comprehensive services includes the provision of medical care service, catering service, infant day care service, technical training as well as the management service for staff quarter; the provision of technical services by the CSSC Group mainly involves the provision of shipbuilding products and other engineering design and relevant technical services.

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

(f) (i) Maintaining Deposits with CSSC Finance; (ii) providing Loans by CSSC Finance; (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 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; and (v) providing entrusted assets management service to manage the entrusted assets through tailor-made value-adding asset management plan and strategy.

(g) Guarantees and the corresponding guarantee fees in respect of the Group's borrowings or operating activities when required.

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

(h) Agency services, primarily to take advantage of the CSSC Group's reputation and bargaining power in selling the Group's ships and purchasing imported materials for the Group.

(a) to (h) collectively referred to as the "**Continuing Connected Transactions**", and each a "**Continuing Connected Transaction**".

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 (c) above, rental of the lease shall be based on market price; pricing for labour and technical services will be based 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 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; 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 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 handling of FX Forward Contract(s), CSSC Finance will not charge any handling fee; and

— pricing of fees charged 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 fee to be charged shall be at the rate not more than the annual rate 0.6% of the maximum guaranteed amount, or at a rate which will be no more favourable than that provided by Independent Third Parties.

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 according to the shipbuilding progress of the vessel in question; and pricing of purchases 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 2017-2019 Framework Agreement.

Term: Conditional upon approval by the Independent Shareholders at the EGM, the term of the 2017-2019 Framework Agreement shall be for the period from 1 January 2017 to 31 December 2019 (both days inclusive).

Historical Amounts and Proposed Annual Caps

Historical Amounts

The table below sets out the amount of each category of the Continuing Connected Transactions for the three years ended 31 December 2015 and the comparison with the respective annual cap approved by the Independent Shareholders under the 2013-2015 Framework Agreement and the 2014-2016 Framework Agreement. The Directors will closely monitor that the transaction amounts of each category of the Continuing Connected Transactions for the year ending 31 December 2016 (and the Revised Annual Cap relating to the transactions on electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group in case the Independent Shareholders' approval is obtained) to ensure the amounts will not exceed their respective annual caps for 2016 under the 2014-2016 Framework Agreement and the Second Supplemental Agreement to 2014-2016 Framework Agreement (in case the Independent Shareholders' approval is obtained).

Unit: RMB million

	Historical Annual Caps				Historical Amounts			
	For the year ended 31 December				For the year ended 31 December			For the six months ended 30 June
Transaction	**2013**	**2014**	**2015** *(Note 1)*	**2016** *(Note 1)*	**2013**	**2014**	**2015**	**2016***
Products and services provided by the Group to CSSC Group:								
(a) Electrical and mechanical engineering equipment Metallic materials and Waste recycling	306.10	421.58	1,253.83	2,2,68.77 *(Note 1A)*	84.12	315.48	1,222.25	888.99
(i) Engineering equipment	—	—	1,109.83	2,124.77	—	—	1,107.50	836.23
(ii) Metallic materials and waste-recycling	—	—	144	144	—	—	114.75	52.76
(b) Utilities	5.00	105.75	96.34	109.56	0.86	82.77	50.15	23.37
(c) Labour supply, design and technical services	432.37	315.75	292.80	373.42	303.86	203.76	77.14	34.15
Financial services provided by the Group to the CSSC Group:								
(d) Guarantee *(Note 2)*	—	—	1,500.00	2,500.00	—	—	—	—

Unit: RMB million

Transaction	Historical Annual Caps For the year ended 31 December 2013	2014	2015	2016	Historical Amounts For the year ended 31 December 2013	2014	2015	For the six months ended 30 June 2016*
			(Note 1)	*(Note 1)*				
Products and services provided by the CSSC Group to the Group:								
(e) Electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories and equipment for use on ships	2,349.71	5,210.43	12,267.23	14,462.26	878.97	2,681.83	6,953.84	2,437.52
(f) Leasing of production areas, Labour supply, design and technical services; and Comprehensive Services	521.20 *(Note 3)*	696.14 *(Note 3)*	1,218.13 *(Note 3)*	1,378.93 *(Note 3)*	174.46	521.28	536.30 *(Notes 3)*	111.24 *(Notes 3)*
(i) lease of production areas and equipment (excluding the lease of GS Shipping Properties) *(Note 3A)*	—	—	19.93	19.73	—	—	29.43	17.38
(ii) labour supply and Comprehensive Services	—	—	891.42	887.13	—	—	213.22	47.41
(iii) design and technical services	—	—	306.78	292.07	—	—	293.65	46.45
Financial services provided by the CSSC Group to the Group:								
(g) (i) Aggregate interest on Deposits for the year *(Note 4)*	30.00	130.00	380.00	380.00	16.69	17.14	88.78	44.25
(ii) Aggregate interest on Loans for the year *(Note 4)*	42.00	400.00	589.00	659.00	30.42	184.36	175.54	106.84
(iii) Financial and credit services *(Note 5)*	—	7.20	17.20	17.20	—	—	2.25	1.13
(iv) FX Forward Contracts	—	—	7,000	8,500	—	—	590.38	66.31
(v) entrusted assets management services *(Note 6)*	—	—	120.00 *(Note 6)*	160.00 *(Note 6)*	—	—	40.55	29.28
(h) Guarantee fees *(Note 7)*	15.00	46.00	67.00	73.00	—	—	—	—
Agency services provided by the CSSC Group to the Group								
(i) (i) Sales agency fees	73.50	70.00	109.00	113.20	17.13	27.67	55.14	35.80
(ii) Purchases agency fees	12.00	17.00	22.78	22.78	5.28	3.99	4.72	1.65

Notes:

* The historical figures for the six months ended 30 June 2016 were unaudited figures.

1. As revised by the Supplemental Agreement.

1A. Conditional upon approval being obtained from Independent Shareholders at the EGM, the annual cap for the year ending 31 December 2016 will be revised from RMB2,268.77 million to RMB3,325.5 million pursuant to the Second Supplemental Agreement to 2014-2016 Framework Agreement.

2. The 2013-2015 Framework Agreement and the 2014-2016 Framework Agreement did not provide for the provision of guarantee by the Group to the CSSC Group. The Directors confirm that there was no guarantee provided to CSSC Group for each of the three years ended 31 December 2013, 2014 and 2015.

3. The figure represents the total of annual cap for the category.

3A. As disclosed on the Company's circular dated 21 October 2015 and announcement dated 16 December 2015, the annual cap of the rental for the GS Properties shall not be more than RMB180 million. The rental paid to GS Shipping for the GS Properties for 2015 was RMB11.20 million.

4. Maximum outstanding daily balances on each of the Deposits and Loans shall not exceed RMB2,800 million and RMB5,600 million for the year ended 31 December 2014. Maximum outstanding daily balances on the Deposits shall not exceed RMB7,800 million for each of the two years ended 31 December 2015 and 2016 and the maximum outstanding daily balance on the Loans shall not exceed RMB8,300 million and RMB9,300 million for the two years ended 31 December 2016, respectively

5. The 2013-2015 Framework Agreement did not provide for the provision of financial and credit services by the CSSC Group to the Group. The Directors confirm that there was no transaction for each of the two years ended 31 December 2014.

6. The maximum value of the entrusted assets management shall not exceed RMB3,000 million and RMB4,000 million for two years ended 31 December 2015 and 2016.

7. Maximum guaranteed amount shall not exceed RMB2,500 million for the year ended 31 December 2013 and shall not to exceed RMB7,500 million for the year ended 31 December 2014. As supplemented by the First Supplemental Agreement, the maximum guaranteed amount shall not exceed RMB11,000 and RMB12,000 million for the two years ended 31 December 2015 and 2016. CSSC Group had not provided any guarantee to the Company for the three years ended 31 December 2013, 2014 and 2015.

As set out in the above table, the actual amount in relation to the lease of production areas and equipment (excluding the lease of GS Shipping Properties) for 2015 was RMB29.43 million, which did not match with the amount of the relevant annual cap for 2015 (i.e. RMB19.93 million). The reason for such mis-match was due to the fact that the transaction amount of RMB29.43 million related to rental payable under a lease agreement (the "Lease") entered into between Guangzhou Ship Industrial Company (a subsidiary of CSSC) ("Guangzhou Company"), Huangpu Wenchong (which was then a subsidiary of CSSC) and Guangzhou Wenchong Shipyard Co., Ltd. (a subsidiary of Huangpu Wenchong) ("Wenchong Shipyard") in 2014 in relation to the leasing of certain land use right and buildings erected on land at Changzhou Factory and Wenchong Factory owned by Guangzhou Company to Huangpu Wenchong and Wenchong Shipyard for their operation. According to the Lease, Huangpu Wenchong will pay an annual rent of approximately RMB7.6 million and Wenchong Shipyard will pay an annual rent of approximately RMB21.30 million to Guangzhou Company. The term of the Lease commenced on 1 May 2014 and shall end on a date on which each of Huangpu Wenchong and Wenchong Shipyard complete relocation and commence formal production in the new factory areas.

The Lease was entered into between inter-companies of CSSC Group prior to the Group's significant asset restructuring which involved, among others, the acquisition of the entire equity interest of Huangpu Wenchong from CSSC. Huangpu Wenchong became a wholly-owned subsidiary of the Group immediately following the completion of such asset acquisition in February 2015. As the transactions under the Lease continue post-completion of the asset acquisition, the transactions contemplated under the Lease became a continuing connected transaction of the Group. The Company complied with the annual review and annual reporting requirements of such transactions but had not, however, complied with the announcement disclosure requirement pursuant to Rule 14A.60 of the Hong Kong Listing Rules. It is an oversight on the part of the Company and to avoid similar events from happening in the future, the Directors and senior management of the Company have taken measures to review the on-going transactions with connected persons and strengthened the documentation system and internal control procedures of the Company and its subsidiaries.

Proposed Annual Caps

The table below sets out the Proposed Annual Caps for each category of the Continuing Connected Transactions for the three years ending 31 December 2017, 2018 and 2019, respectively

Unit: RMB million

Transaction	Proposed Annual Caps For the year ending 31 December 2017	 2018	 2019
Products and services provided by the Group to CSSC Group:			
(a) Electrical and mechanical engineering equipment and metallic materials and waste-recycling	3,464.10	4,269.57	5,038.37
(b) Utilities	83.01	83.01	83.01
(c) Production areas and staff quarters leasing service, labour supply, design and technical services	197.15	189.27	200.06
Products and services provided by the CSSC Group to the Group:			
(d) Electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories and equipment for ship	11,002.04	12,396.25	14,516.51
(e) Leasing of production areas and equipment; Labour supply, design and technical services; Comprehensive Services	757.88	846.16	1,004.58
(f) (i) Aggregate interest on Deposits for the year *(Note 1)*	175.50	175.50	175.50
(ii) Aggregate interest on Loans for the year *(Note 2)*	470.40	494.90	519.40
(iii) Aggregate fees on financial and credit services *(Note 3)*	12.20	13.20	14.20
(iv) FX Forward Contracts	8,500.00	8,500.00	8,500.00
(v) Aggregate interest on entrusted assets management services *(Note 4 and 5)*	250.00	275.00	300.00
(g) Guarantee fees *(Note 6)*	42.00	45.00	48.00
(h) (i) Sales agency fees	97.00	119.00	140.46
(ii) Purchases agency fees	16.00	16.10	16.10

Notes:

1. Maximum outstanding daily balance on the Deposits shall not exceed RMB7,800 million for each of the three years ending 31 December 2017, 2018 and 2019, respectively.

2. Maximum outstanding daily balance on the Loans shall not exceed RMB9,600 million, RMB10,100 million and RMB10,600 million for the three years ending 31 December 2017, 2018 and 2019, respectively.

3. Maximum amount for the financial and credit services in aggregate shall not exceed RMB8,000 million, RMB8,500 million and RMB9,000 million for the three years ending 31 December 2017, 2018 and 2019, respectively.

4. No management fee will be charged for the entrusted assets management service if the annual investment return is less than 5% and the Company expects that the annual investment return will be around 5% for the three years ending 31 December 2017, 2018 and 2019, respectively.

5. The maximum value of the entrusted assets management shall not exceed RMB5,000 million, RMB5,500 million and RMB6,000 million for the three years ending 31 December 2017, 2018 and 2019, respectively.

6. Maximum guaranteed amount shall not exceed RMB7,000 million, RMB7,500 million and RMB8,000 million for the three years ending 31 December 2017, 2018 and 2019, respectively.

The Proposed 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 Proposed Annual Caps, the Directors have also taken into consideration the following factors:

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

(a) Electrical and mechanical engineering equipment and metallic materials and waste-recycling

The Proposed Annual Caps were based on the estimates of the scale of production of GSI and Huangpu Wenchong and the production needs of CSSC Group. The proposed annual cap for 2017, which is RMB3,464.10 million, is estimated to be at similar level as the revised annual cap for 2016. The proposed annual caps for 2018 and 2019 are determined based on the Group's projected production and operation capacity and the future ship market prospects, with an annual increase of 20% for each of 2018 and 2019, respectively.

(b) Supply of utilities

(i) The unit price for the provision by the Group of utilities to CSSC Group is determined based on the unit price at which the Group purchases utilities from third parties, plus a handling fee of 20% to 25%.

(ii) The provision of utilities to CSSC Group has lasted three years or more, and the electricity consumption has been determined by taking into account the overall situation of the shipbuilding industry and the past actual consumption amount;

(iii) The Group proposes to commence the provision of utilities to Shipbuilding Chengxi Voyage Ship Co. Ltd. (中船澄西船舶修造有限公司), an indirect subsidiary of CSSC Group, in 2017. As such, the proposed annual cap for each of the years from 2017 to 2019 is set at RMB83.01 million, which is slightly higher than the actual consumption amounts in the past.

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

The actual transaction amount of the provision of labour supply and technical services by the Group to CSSC Group for 2015 was RMB77.14 million. As at 30 June 2016, the actual transaction amount was RMB34.15 million. As the Group proposes to lease certain production areas and staff quarters to Shipbuilding Chengxi Voyage Ship Co. Ltd. starting 2017, the proposed annual caps for the years from 2017 to 2019 are higher than the historical transaction amounts. The proposed annual cap for 2018, i.e. RMB189.27 million is slightly lower than the proposed annual cap for 2017, i.e. RMB197.15 million. The reason for such slight decrease is that the estimate is based on the pre-approved requirements of certain research projects of the Group for the three years.

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

(d) Electrical and mechanical engineering equipment and metallic materials, accessories and equipment for ships

(i) According to the three-year production schedule of GSI and Huangpu Wenchong, the shipbuilding capacity of the Group for 2017 is expected to be higher than that for 2016. In particular, there is an increase in special ship orders. As such, the demand for purchase of materials including steel products, welding materials, paints, cables, oils and equipment for use on ships through CSSC Group is expected to be higher than the annual cap for 2016.

(ii) The proposed annual cap for 2017 is approximately RMB11 billion, and the proposed annual caps for the years of 2018 and 2019 represent an annual increase of approximately 10% to 15%, respectively.

(e) Leasing of production areas and equipment; provision of labour supply, design and technical services

(i) According to the three-year production schedule of GSI and Huangpu Wenchong, the shipbuilding capacity of the Group for 2017 is expected to be higher than that for 2016, and the demand for production areas, equipment and labour supply is expected to be slightly higher than the transaction amount for 2016;

(ii) The proposed annual cap for 2017 is RMB757.88 million, and the proposed annual caps for the years of 2018 and 2019 represent an annual increase of approximately 10% to 15%, respectively.

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

(f) (i) Maintaining Deposits with CSSC Finance

1. The maximum outstanding daily balance on the deposits for the years from 2017 to 2019 is RMB7,800 million, mainly determined based on the production orders in hand, the production schedules and market estimates and in view of the rolling three-year budgets of the Group. At the end of 2015, the balance of cash and cash equivalent was RMB17,664 million, and the maximum outstanding daily balance of deposits at CSSC Finance once reached as high as about RMB6,700 million in 2015.

2. Taking into account the deposits at CSSC Finance, the maximum outstanding daily balance of the Deposits at CSSC Finance is expected to continue to be RMB7,800 million, which is consistent with the maximum outstanding daily balance for 2015. Such maximum outstanding daily balance is expected to account for approximately 48% of the average balance of cash and cash equivalents of the Group as at the end of the years of 2017 and 2019, respectively.

(ii) FX Forward Contracts with CSSC Finance

The Company is subject to high exchange rate risk as the Group's ship export orders are denominated in US dollars and some domestic ships are denominated in RMB with reference to US dollars. The operation of the forward foreign exchange contracts is closely related to the number of ship contracts entered or to be entered by the Group, as well as the anticipated changes of the exchange rate(s)/interest rate(s) in the markets. The annual cap of the FX Forward Contract for the three year ending 31 December 2019 is based on the estimate of the contracts that would expose to foreign exchange risk during the projected period.

(iii) Entrusted assets management services with CSSC Finance

The proposed maximum value of the entrusted asset management for the years from 2017 to 2019 are RMB5,000 million, RMB5,500 million and RMB6,000 million, respectively. The relatively higher caps seek to capture movement in funds so as to obtain higher returns: when the Group has temporary surplus funds, it may choose to place them at fixed deposit or low-risk entrusted assets management services. When the expected rate of return of entrusted assets management services is higher than the conventional interest rate of fixed bank deposits for the same period, the Group will engage assets management services as and when appropriate in order to maximise the returns to shareholders. At present, the benchmark 1-year interest rate of bank deposits plus a 50% upward adjustment is 2.25%, while the expected yield from entrusted asset management usually ranges from approximately 4.5% to 5% for the same term and is approximately 5% for over one year.

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

(g) (i) Sales agency fees

1. The payment of the sales agency fees is made to CSSC Group based on the shipbuilding progress of each ship, and as the peak season for shipbuilding in South China is autumn and winter, the shipbuilding progress will be significantly faster in the second half of each year.

2. According to the three-year production schedule of GSI and Huangpu Wenchong, the shipbuilding capacity of the Group for 2017 is expected to be higher than that for 2016, and it is expected that 85 ships will need to be sold through CSSC Group. As such, the proposed cap for sales agency fees is higher than the past annual caps.

3. The proposed annual cap for 2017 is RMB97 million, and the proposed annual caps for the years of 2018 and 2019 represented an annual increase of approximately 20%.

(ii) Procurement agency fees

1. According to the confidentiality requirements of the designated bureau for special ships, the equipment for use on special ships must be imported through state-owned enterprises with certifications and qualifications acceptable by designated bureau. As such, the Group has been purchasing the relevant imported equipment through CSSC Group with such qualifications. According to the three-year production schedule of the Group, the shipbuilding capacity of the Group for 2017 is expected to be higher than that for 2016. In particular, there will be an increase in special ship orders. As such, the proposed annual cap for procurement agency fees is higher than the past annual caps.

2. The proposed annual cap for 2017 is RMB16 million, and the proposed annual caps for the years of 2018 and 2019 remain at almost the same level as for 2017.

Reasons for entering into the 2017-2019 Framework Agreement

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 2017-2019 Framework Agreement:

(a) The CSSC Group has the need to purchase production equipment while the Group has the capability of designing and manufacturing electrical and mechanical engineering products and could provide complete sets or accessories of electrical and mechanical engineering equipment to the CSSC Group; or when the CSSC Group is facing a shortage in materials or equipment such as steel products, causing by insufficient procurements or delay in delivery of goods by suppliers or when it is urgently required to meet orders from its customers which temporarily exceeded its production capacity, the Group may provide various electrical and mechanical engineering equipment and metallic materials to the CSSC Group to meet its routine and urgent production needs, on terms to be determined based on market comparable prices.

    As the Group also sell relevant equipment and materials to other Independent Third Parties, the Group will, when determining the pricing terms for the Continuing Connected Transaction, make reference to the then prevailing market prices made available to the Group by Independent Third Party purchasers to the Group for similar products and ensure that the prices offered by the CSSC Group are in any event no less favourable than the prices offered to Independent Third Parties. The sale of such products, equipment, materials and waste (except waste steels) would be conducted through tenders so that the CSSC Group have to compete with Independent Third Party purchasers directly, while for the sale of waste steels, the price would be determined based on the price published by steel refinery companies.

All sales will be subject to the contract management rules under the Group's internal control procedures ("**Contract Management Rules**"). The Contract Management Rules 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. The Contract Management 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. The Company would take into account terms offered by the bidders including the price and payment terms and determine the successful bidder at the procurement meeting. The relevant Group Company would then enter into contract with the successful bidder on the Group's standard format.

(b) In the course of its operations and provision of services, the Group shall provide utilities facilities of wind, water and electricity to the CSSC Group. The fees for provision of utilities (primarily supply of wind, water and electrical power) by the Group to the CSSC Group is based on the utilities' costs of the Group supplied to the CSSC Group plus a management fee ranging from 20% to 25% above the cost of the relevant type of utilities or in terms no more favourable than those offered to Independent Third Parties.

Given that the Group is not principally engaged in provision of utilities facilities, the 20% to 25% margin on the fees primarily represents the CSSC Group's share of the expenses involved in overall generation of such utilities facilities. Such margin has been agreed after arm's length negotiation between the Group and the CSSC Group, is considered as fair and reasonable to defray the relevant administrative costs and the miscellaneous expenses (including maintenance costs and depreciation charges) from time to time incurred by the Group for provision of such utilities facilities to the CSSC Group.

(c) The Group will provide to the CSSC Group labour supply services, primarily providing training and supplying short-term labourers, shipbuilding services etc. According to the demands for technicians and on condition that the Group has temporary excess labour supply, the Group may provide to CSSC Group within Guangzhou areas services for staff training and appraisals and shippainting, etc. As the production cycles of both the Group and the CSSC Group are cyclical, such arrangements allow the Group the flexibility to supply excess labour to the CSSC Group. Besides, the Group will provide design and technology services relating to shipbuilding products and other projects, which the Group is centralised in, to the CSSC Group from time to time. The Directors are of the view that the provision of such services to the CSSC Group enables the Group to capitalise on its excess production capacity and existing shipbuilding-related techniques to earn additional revenue for the Group.

Pricing of labour supply by the Group to the CSSC Group will be based on terms not less favourable compared with Independent Third Parties. When determining the pricing term, the Company will consider factors like the skill required and the then supply and demand on the market, and make reference to the then prevailing average wage rate published by Statistical Bureau of Guangzhou Municipality(廣州市統計局). For labours without special skills, references will be made to the average wage of general workers while for labours with specialised skills required in shipbuilding, references will be made to the average wage of shipbuilding workers within Guangzhou area. The contract review committee of the Company will review and scrutinize quotations offered by the Group to the CSSC Group against those provided by the Group to Independent Third Parties to seek to ensure that the Manual and the Contract Management Rules are complied with. Pricing for provision of design and technology services by the Group to the CSSC Group will primarily be based on certain fee formulae prescribed in the Manual. As the Directors understand, the fee formulae prescribed in the Manual are principally based on, among others, the skills required, complexity of the work involved and industry-specific job specification according to the prevailing market standard for ship-building. The Manual is intended to be applicable across CSSC Group (including the Group) for provision of reciprocal services and products, as well as to independent third parties.

The primary purpose for provision of production areas and staff quarters leasing service by the Group to the CSSC Group is to fully utilize certain properties held by the Group to gain cost efficiency on those properties.

(d) The Group sources from the CSSC Group electrical and mechanical engineering equipment, metallic materials, shipbuilding accessories, materials and equipment for shipbuilding, mainly comprising materials such as steel products for ships, non-ferrous metals, cables, paint, welding materials, complete sets or accessories of electrical and mechanical engineering products. The Group also uses logistics and related services, cable cutting 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.

The Group also sources the products and services described in (d) from other Independent Third Party suppliers from time to time. Nevertheless, as the CSSC Group is either specialised in manufacturing some of such equipment and, or as the case may be, has a centralised purchase system for purchase of the required materials in bulk so as to obtain competitive prices, the Directors are of the view that it would be more cost-effective for the Group to purchase various ship-building materials and equipment from the CSSC Group.

The Group has to comply with the internal procurement policy as set out in the Contract Management Rules when selecting the supplier for materials or services. In particular, ship building related purchase transactions involving a transaction amount of over RMB5,000,000 (inclusive) or non-ship building purchase transactions involving a transaction amount of over RMB3,000,000 (inclusive) will need to be approved by the head of the relevant business departments, the risk management department and the relevant deputy general manager of the Group. Contracts of transaction amount below the above-mentioned thresholds can be approved by the head of the relevant procurement team. As a general procedure, regardless the contract amount, the Group have to obtain quotations from suppliers in a pre-approved list of suppliers for provision of materials and equipment and logistic-related services, including the CSSC Group, and/or invite other suppliers to submit their tenders. In certain circumstances, where quotations from independent suppliers are not available due to technical specifications or supply terms restrictions, specific reasons have to be provided for not going through the procedure for internal assessment. Favourable pricing and terms that are in the best interests of the Group is a key determining factor for winning a bid. However, the Group will also consider factors such as the background, credit-worthiness and reliability of the counterparties, their ability to execute the transactions in accordance with the contractual terms; their understanding of the special needs and requirements of the Group, etc. in order to maximize the Group's overall interest in a particular transaction and minimize the Group's transaction costs.

(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.

The Group sources labour services from the CSSC Group from time to time whenever there is a need for skilled labours during high production season. The Directors consider that procurement of labour services with special skills from CSSC Group would be beneficial to the Group as it would not be required to maintain a large workforce of its own at all times. For the similar reason, the Group also sources the cabin cleaning services, and design and technology services and the Comprehensive Services from the CSSC Group.

The pricing of labour services will be based on costs plus a management fee of not more than 10% on such costs. The management fee primarily represents the Group's share of the overall administrative expenses for labour services but in any event the fees shall be no less favourable than those offered by the Group to Independent Third Parties. The Company will consider factors like the skill required and the availability of similar supply on the market, and make reference to the then prevailing average wage rate published by Statistical Bureau of Guangzhou Municipality（廣州市統計局）.

As a reciprocal services arrangement applicable across the CSSC Group (including the Group) and to third party service providers, the pricing of ship design and related technology services will primarily be based on certain fee formulae prescribed in the Manual.

As regards the Comprehensive Services, the Directors understand that the provision of such services by the CSSC Group is not intended to be profit-making but for the benefit of the staff of the CSSC Group (including the Group) as a whole. As such, pricing of the Comprehensive Services shall be determined on terms no less favourable to the Group than terms available from Independent Third Parties. The Company has compared the price and terms offered by third party service providers of similar qualifications taking into account factors such as remoteness of the Group's production sites, quality of service and food safety, and concluded that the terms (including price) offered to the Group by the CSSC Group is not less favourable than third party suppliers.

The pricing of the lease between the Group and the CSSC Group shall be based on the then prevailing market rent of similar properties at close proximity to the subject properties published on the websites of local real estate agents and if necessary, the Company would engage independent valuer to assess the fair rent of the lands and/or properties which are the subject of the lease.

The contract review committee will, in all cases, review and scrutinize quotations offered by the CSSC Group to the Group against those provided to the Group by third party service providers for providing similar services in order to seek to ensure that the Group can obtain the most favourable prices available at the relevant time and that, among others, the Contract Management Rules are complied with.

(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.

(ii) Apart from maintaining the Deposits with CSSC Finance, the Group also seeks the provision of Loans from CSSC Finance for standby purpose in support of the operational and production needs and to maintain the liquidity of the Group from time to time. The Loans will be charged by CSSC Finance at a lending rate not higher than interest rate on loans published by PBOC or on terms no favourable than the lending rate(s) offered by Independent Third Party service provider(s) proving similar services in the PRC.

The Directors consider that the provision of the Loans from CSSC Finance is more efficient than the loans from other general domestic commercial banks that provide similar services for the Group. As such, the Directors are of the view that the provision of Loans by CSSC Finance will benefit the Group by increasing the operation efficiency in the use of fund.

(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 Group'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 Group is 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. CSSC Finance will not change any handling fee for the FX Forward Contracts.

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.

The fee is determined based on arm's length negotiation between the parties, having reference to the then prevailing rate for providing similar financial services by Independent Third Parties. The Group would also consider the terms offered by other Independent Third Parties and choose to transact with the counterparty which offers more favourable terms that are in the Group's interest. 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.

(h) The Group uses to leverage on the CSSC Group's reputation in the international shipbuilding market, its long established relationships with ship owners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interest of the Company and its Shareholders as a whole to continue to use the agency services provided by the CSSC Group.

Pricing of sales agency fees or commission is determined and agreed based on arm's length negotiation between the parties, having reference to the then prevailing rate of brokerage fees at the time of entering into specific transactions. The rate of brokerage fee will vary according to the size and type of vessels and usually a lower rate will be charged for sale of larger vessels or where the technical requirement is comparatively generic. The Group will also consider the terms offered by other independent service providers and choose to transact with the counterparty which offers more favourable terms that are in the Group's interest.

Pricing of purchase agency fee is also determined and agreed based on arm's length negotiation between the parties, having reference to the then prevailing market practices. However, counterparty which offers the lowest agency fee shall not be the sole determining factor. In deciding whether the Group will choose to transact with any particular counterparty, the Group will consider in totality the terms offered by counterparty for purchase of imported materials for the Group including the delivery schedule(s) of the imported materials, whether the counterparty will advance payment of the purchase price in foreign currency on the Group's behalf and the payment terms available to the Group, etc.. The purchasing department and the relevant deputy general manager of the Group will be responsible for reviewing and scrutinizing the terms offered by the CSSC Group to the Group against those provided to the Group by third party service providers 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 basis summarized 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) are of the view that the terms of the 2017-2019 Framework Agreement and each Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

V. RISK CONTROL RELATING TO THE DEPOSIT UNDER THE 2017-2019 FRAMEWORK 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 CBRC and that the major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the CBRC 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 will adopt 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 Finance 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 Finance 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 CBRC on CSSC Finance, the Directors (including the independent non-executive 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.

VI. 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 2014-2016 Framework 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, risk management 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.

VII. 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 2017-2019 Framework 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 CBRC 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 2017 to 2019, 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 RMB56 billion and the maximum outstanding deposit balance of RMB48 billion represents only approximately 13.93% of CSSC Finance's then total asset value. Thus, it will not constitute substantial liabilities. Based on the maximum amount of RMB7.8 billion, it represents approximately 16.67% of the deposit balance of RMB46.8 billion maintained with CSSC Finance as at January 2016. 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 the entrusted assets management on the Group

The placing of entrusted assets management will be from funds of the Group. Entrusted asset management will usually cover low risk products such as central bank bills, treasury bonds, corporate bonds, convertible bonds, trust products, short-term financing bills, medium-term notes, bank financial products, brokerage asset management plan, money funds, bond funds and deposits, and can generate return higher than income from bank deposit for the same period while having their risk under control. The entrusted asset management will be classified as assets of the Group and therefore there is no change in the consolidated assets of the Group as a result of entering into the entrusted assets management transactions pursuant to the terms of the 2017-2019 Framework Agreement. Based on past cooperation experiences, CSSC Finance is expected to make prudent investments and can provide interests on entrusted wealth management products. As such, the Directors do not expect that the entrusted asset management transactions would have any adverse financial impact on the earnings, assets and liabilities of the Group.

VIII. 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 South China. Currently, the Company has three wholly-owned subsidiaries, namely GSI, CSSC Huangpu Wenchong Shipbuilding Company Limited and Guangzhou Shipyard International (Yangzhou) Company Limited, with principal businesses involving special ships, civil ships, maritime engineering, steel structures and electrical and mechanical engineering equipment. The products cover high-technology ships such as a full range of oil tankers, large bulk carriers, very large ore carriers, containerships, engineering ships, maritime engineering, semi-submerged ships and passenger ro-ro ships, as well as special ships and related supporting ships.

Information about CSSC

CSSC is a State-authorized investment institution directly supervised and administered by State-owned Assets Supervision and Administration Commission whose core business includes ship building, 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 847,685,990 Shares of the Company, representing 59.97% of the issued Shares of the Company.

Information about CSSC Finance

CSSC Finance is a controlling subsidiary of CSSC. As at the Latest Practicable Date, the Company, through Wenchong Shipyard, held a total of 0.33% equity interest in CSSC Finance and such equity investment was classified as available-for-sale financial investment by the Group. 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 Company 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.

Information about CSSC (HK) Shipping

CSSC (HK) Shipping is a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of CSSC. CSSC (HK) Shipping is principally engaged in leasing of vessels.

Information about GS Shipping

GS Shipping was established in the PRC and previously was a wholly-owned subsidiary of the Group. GS Shipping is currently owned by Shanghai Lingxiang Equity Investment Co. Ltd. in which CSSC owns 50% equity interest.

IX. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

The provision of Financial Services provided by CSSC Group to the Group under the 2017-2019 Framework 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 2017-2019 Framework 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 the Revised Annual Cap of the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group under the Second Supplemental Agreement to 2014-2016 Framework Agreement and the Proposed Annual Caps of the continuing connected transaction (save for the provision of the Financial Services) under the 2017-2019 Framework Agreement are higher than 5% on an annual basis, the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to 2014-2016 Framework Agreement and the Continuing Connected Transactions (save for the provisions of the Financial Services) contemplated under the 2017-2019 Framework Agreement constitute non-exempt continuing connected transactions of the Company that are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios in relation to the maximum outstanding daily balance on the Deposits and the maximum value of the entrusted assets management under the 2017-2019 Framework Agreement exceed 25% but less than 75% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, each of the Deposits and the entrusted assets management transactions under the 2017-2019 Framework Agreement constitute a non-exempt continuing connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and subject to the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

CSSC and its associates (together holding 847,685,990 Shares, representing 59.97% of the total issued share capital of the Company as at the Latest Practicable Date) will abstain from voting in respect of the resolutions relating to each of the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement at the forthcoming EGM.

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

X. EGM

A notice ("Notice of the EGM") for convening the EGM to be held at the Conference Room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, PRC at 2:30 p.m. on 18 October 2016 together with the reply slip and a form of proxy have been issued to Shareholders separately. Shareholders who intend to attend the EGM are requested to send a written reply, whether in person, by post or by fax to the registered office of the Company at least 20 days before the EGM (before 28 September 2016).

Any Shareholder who is entitled to attend and vote at the EGM has the right to appoint one or more proxies to attend and vote on behalf of himself, and the proxy need not be a Shareholder. In order to ensure validity, holders of A Shares must deliver a completed proxy form and other authorization documents (if any) to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the EGM (or any adjournment thereof). Holders of H Shares must deliver the completed proxy form and other authorization documents (if any) to the Company's H Shares registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time scheduled for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish. A proxy form for use at the EGM has already been sent to Shareholders.

XI. CLOSURE OF REGISTER OF MEMBERS

The share register for H Shares was scheduled to be closed from 19 September 2016 to 18 October 2016 (both days inclusive) during which period no transfer of Shares will be effected. Holders of overseas listed foreign shares (H shares) whose names appear on the register of members of the Company at close of the afternoon trading session on 18 October 2016 (in the case of holders of overseas listed foreign shares (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, Wanchai, Hong Kong by 4:30 p.m. on 15 September 2016, the transferee but not the transferor shall be regarded as holder of the relevant H shares) will be entitled to attend and vote at the EGM.

XII. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the proposed ordinary resolutions in relations to the terms and the Revised Annual Cap contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement to be proposed at the EGM are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, the Directors recommend the Shareholders vote in favour of such resolution to be proposed at the EGM as set out in the Notice of the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, consider that the terms and the Revised Annual Cap contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, and the Continuing Connected Transactions (save for the provision of the Financial Services) are in the interests of the Company and its Shareholders as a whole. Accordingly, it recommends the Independent Shareholders vote in favour of the ordinary resolutions in relation to the terms and the Revised Annual Cap contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement in the Notice of the EGM to be proposed at the EGM and thereby approve the continuing connected transaction contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the Revised Annual Cap and each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement and the Proposed Annual Caps.

XIII. GENERAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully
By Order of the Board
Cssc Offshore & Marine Engineering (Group) Company Limited
Shi Weidong
Joint Company Secretary

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 Share Stock Code: 00317)

30 September 2016

To the Independent Shareholders

Dear Sir and Madam,

**MAJOR TRANSACTION;
REVISION OF AN EXISTING ANNUAL CAP
UNDER THE 2014-2016 FRAMEWORK AGREEMENT; AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
UNDER THE 2017-2019 FRAMEWORK AGREEMENT**

We refer to the circular issued by the Company to the Shareholders of even date of which this letter forms part. Terms defined in the circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Hong Kong Listing Rules, the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the (save for the provisions of the Financial Services) contemplated under the 2017-2019 Framework Agreement constitutes non-exempt connected transactions for the Company and thus is subject to reporting, announcement and approval by Independent Shareholders at the EGM.

As the applicable percentage ratios in relation to the maximum outstanding daily balance on the Deposits and the maximum value of the entrusted assets management under the 2017-2019 Framework Agreement exceed 25% but less than 75% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, each of the Deposits and the entrusted assets management transactions under the under the 2017-2019 Framework Agreement constitute a non-exempt continuing connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules as well as the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

We have been appointed by the Board to consider the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of Continuing Connected Transactions (save for the provision of the Financial Services) contemplated under the 2017-2019 Framework Agreement and to advise the Independent Shareholders as to whether, in our opinion, the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the 2017-2019 Framework Agreements and the transactions contemplated thereunder (and the relevant caps) are fair and reasonable in so far as the Independent Shareholders are concerned. Grand Vinco Capital Limited ("IFA") has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from the IFA as set out in the circular. Having considered the principal factors and reasons considered by, and the advice of, the IFA as set out in its letter of advice, we consider that the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the provision of the Financial Services) contemplated under the 2017-2019 Framework Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, and each of the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement, and the Continuing Connected Transactions and the Proposed Annual Caps (save for the provision of the Financial Services) under the 2017-2019 Framework Agreement are in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders vote in favour of the ordinary resolutions in relations to the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement in the Notice of the EGM to be proposed at the EGM and thereby approve the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group transaction contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and each of the Continuing Connected Transactions (save for the Financial Services) and the Proposed Annual Caps contemplated under the 2017-2019 Framework Agreement.

Yours faithfully,
For and on behalf of
Independent Board Committee

Song Dejin **Zhu Mingyou** **Wang Yichu** **Min Weiguo**

Independent Non-executive Directors

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in connection with the revision of an existing annual cap under the 2014-2016 Framework Agreement, Continuing Connected Transactions and the Proposed Annual Caps (save for the provision of Loans, financial and credit services and the guarantees or mortgages by the CSSC Group to the Group) contemplated under the 2017-2019 Framework Agreement for the purpose of incorporation in this circular.

VINCO 域高
Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

30 September 2016

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

Dear Sirs,

MAJOR TRANSACTION;
REVISION OF AN EXISTING ANNUAL CAP
UNDER THE 2014-2016 FRAMEWORK AGREEMENT; AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
UNDER THE 2017-2019 FRAMEWORK AGREEMENT

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of an existing annual cap under the 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, the Proposed Annual Caps and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" in the circular (the "**Circular**") issued by the Company to the Shareholders dated 30 September 2016 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 of the Company dated 30 August 2016 in relation to the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement.

The provision of Financial Services provided by CSSC Group to the Group under the 2017-2019 Framework 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 2017-2019 Framework 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 the Revised Annual Cap of the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group under the Second Supplemental Agreement to 2014-2016 Framework Agreement and the Proposed Annual Caps of the continuing connected transaction (save for the provision of the Financial Services) under the 2017-2019 Framework Agreement are higher than 5% on an annual basis, the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to 2014-2016 Framework Agreement and the Continuing Connected Transactions (save for the provisions of the Financial Services) contemplated under the 2017-2019 Framework Agreement constitute non-exempt continuing connected transactions of the Company that are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios in relation to the maximum outstanding daily balance on the Deposits and the maximum value of the entrusted assets management under the 2017-2019 Framework Agreement exceed 25% but less than 75% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, to each of the Deposits and the entrusted assets management transactions under the 2017-2019 Framework Agreement constitute a non-exempt continuing connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and subject to the relevant major 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).

An EGM will be convened to approve the revision of an existing annual cap under the 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, and the Proposed Annual Caps. The Independent Board Committee comprising Mr. Song Dejin, Mr. Zhu Mingyou, Mr. Wang Yichu and Mr. Min Weiguo, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the fairness and reasonableness of the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement. We, Grand Vinco Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders and whether such transactions are in the interests of the Company and the Shareholders as a whole.

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parities that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the revision of an existing annual cap under the 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, the Proposed Annual Caps and the transactions contemplated thereunder. We are eligible to give independent advice and recommendation on the revision of an existing annual cap under the 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, the Proposed Annual Caps and the transactions contemplated thereunder. 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 fee from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. During the past two years, we have not been appointed as the independent financial adviser for the Company's other transactions or provided any other services to the Company which may have an impact on our independence. Also, we are not aware of the existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we are eligible to give independent advice on the fairness and reasonableness of the terms and the Revised Annual Cap on transaction regarding the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group contemplated under the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions (save for the Financial Services) contemplated under the 2017-2019 Framework Agreement and whether such transactions are in the interests of the Company and the Shareholders as a whole.

B. BACKGROUND

As the Company expects that there will be substantial increase in transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group in 2016, the Company and CSSC has entered into the Second Supplemental Agreement to 2014-2016 Framework Agreement to revise the existing cap for the service fees relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group for 2016 under the 2014-2016 Framework Agreement (as supplemented by the First Supplemental Agreement).

Certain Directors hold positions in CSSC Group and/or its subsidiaries, namely, Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Xiang Huiming, Mr. Chen Ji, Mr. Yang Li and Mr. Wang Guozhong are considered under PRC laws to be interested in the transaction contemplated under each of the Second Supplemental Agreement to the 2014-2016 Framework Agreement and the 2017-2019 Framework Agreement and have not been counted in the voting on the Board resolutions for approving the Second Supplemental Agreement to 2014-2016 Framework Agreement and the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group (together with the Revised Annual Cap) contemplated thereunder, as well as the 2017-2019 Framework Agreement and the Continuing Connected Transactions (together with the Proposed Annual Caps) contemplated thereunder.

In addition, given that the 2014-2016 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2014 to 31 December 2016 will expire on 31 December 2016, the Company and CSSC has entered into the 2017-2019 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2017 to 31 December 2019.

The Directors (including the independent non-executive Directors) are of the view that each of the Second Supplemental Agreement to 2014-2016 Framework Agreement and the 2017-2019 Framework Agreement were entered into: (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 Cap and, as the case may be, the Proposed Annual Caps) that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As set out in the Letter in from the Board, for the avoidance of doubt, the entering into and the implementation of the Second Supplemental Agreement to 2014-2016 Framework Agreement and the transactions relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group (together with the Revised Annual Cap) contemplated thereunder, as well as the 2017-2019 Framework Agreement and the Continuing Connected Transactions (together with the Proposed Annual Caps) contemplated thereunder is conditional upon the approval by 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 2014-2016 Framework Agreement (as approved by Independent Shareholders on 13 February 2014) as supplemented by the First Supplemental Agreement (as approved by Independent Shareholders on 5 November 2015).

C. BASIS OF OUR OPINION AND RECOMMENDATION

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

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 have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps to arrive at our opinion and recommendation, which are applicable to the terms of the revision of an existing annual cap under the Second Supplemental Agreement to 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, the Proposed Annual Caps and the transactions contemplated thereunder, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the revision of an existing annual cap under the Second Supplemental Agreement to 2014-2016 Framework Agreement, 2017-2019 Framework Agreement, the Proposed Annual Caps and the transactions contemplated thereunder and, except for its inclusion in the Circular and for the purpose of the EGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

D. PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO ENTERING INTO THE SECOND SUPPLEMENTAL AGREEMENT TO 2014-2016 FRAMEWORK AGREEMENT AND REVISION OF EXISTING ANNUAL CAP

Reference is made to the announcement of the Company dated 16 December 2013 and the circular of the Company dated 24 January 2014 in relation to the 2014-2016 Framework Agreement entered into between the Company and CSSC governing the continuing connected transactions between the Group and the CSSC Group.

Reference is also made to the announcement dated 29 July 2015 and the circular of the Company dated 21 October 2015, in relation to, among other things, the entering into the First Supplemental Agreement for revising the annual caps for the continuing connected transactions set out in the First Supplemental Agreement.

On 30 August 2016, the Company and CSSC entered into the Second Supplemental Agreement to 2014-2016 Framework Agreement to further revise an existing cap for 2016 under the 2014-2016 Framework Agreement (as supplemented by the First Supplemental Agreement).

The continuing connected transactions contemplated under the Second Supplemental Agreement to 2014-2016 Framework Agreement ("**Continuing Connected Transactions**") and each a "Continuing Connected Transaction" are categorised as follows:

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

(a) Electrical and mechanical engineering equipment, metallic materials and waste-recycling, comprising primarily complete sets or accessories of ships and electrical and mechanical engineering equipment, steel products, rudders, elevators, pipelines, outfitting parts, non-ferrous metal products etc., part of the accessories and equipment for use on ships and sales of electrical and mechanical engineering equipment and waste-recycling through CSSC Group;

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

(c) Provision of labour supply and technical services.

(i) Labour supply: primarily involves the provision of training, short-term labour supply, shipbuilding services etc.; according to the demands for technicians, the Group may provide to the CSSC Group the services for ship-painting, internal fit-out, human resources service and computer software and hardware services in Guangzhou areas; short-term labour supply will be provided by the Group when the CSSC Group is in short of labour force for shipbuilding services in Guangzhou areas while the Group has excess labour force at the same time;

(ii) Technical services: mainly involves the provision of shipbuilding products and other engineering design and relevant technical services.

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

(d) Electrical and mechanical engineering equipment, metallic materials, accessories and equipment for ship etc. and related logistics service, comprising primarily materials like steel products for shipbuilding, nonferrous metals, cables, paints, welding materials oils, lifting equipment, welding machines, plasma cutting machines, high altitude operation vehicles, complete sets or accessories of electrical and mechanical engineering products, etc.; and logistics and related services for marine outfitting (set and matching) and materials for use on ships, cable cutting services, etc; and

(e) Lease of production areas and equipment, labour supply and technical services: lease of certain production sites and together with necessary production equipment within Guangzhou areas to the Group and other comprehensive services, etc.; labour supply includes subcontracting of shipbuilding works by section (or steel structure works) refers to, in the event that the Group's shipbuilding production is constrained by limited resources such as workshop, equipment or labour force, to CSSC or its subsidiaries in order to keep up with the production plan; labour supply also involves the temporarily borrowing of labour force from CSSC Group to fulfill the needs of labour force in peak season; comprehensive services includes the provision of medical care service, catering service, infant day care service, technical training as well as the management service for staff quarter; the provision of technical services by the CSSC Group mainly involves the provision of shipbuilding products and other engineering design and relevant technical services.

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

(f) (i) Maintaining Deposits with CSSC Finance; (ii) providing Loans by CSSC Finance; (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 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; and (v) providing entrusted assets management service to manage the entrusted assets through tailor-made value-adding asset management plan and strategy.

(g) Guarantees and the corresponding guarantee fees in respect of the Group's borrowings or operating activities when required.

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

(h) Agency services, primarily to take advantage of the CSSC Group's reputation and bargaining power in selling the Group's ships and purchasing imported materials for the Group.

In arriving at our opinion on the fairness and reasonableness of the terms of the non-exempt Continuing Connected Transactions and the Revised Annual Cap thereof, and whether such non-exempt Continuing Connected Transactions are in the interests of the Company and its Shareholders as a whole, we have taken the following factors and reasons into consideration:

1. Background of the Continuing Connected Transactions

(i) Information of the Company

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in South China. Currently, the Company has three wholly-owned subsidiaries, namely GSI, CSSC Huangpu Wenchong Shipbuilding Company Limited and Guangzhou Shipyard International (Yangzhou) Company Limited, with principal businesses involving special ships, civil ships, maritime engineering, steel structures and electrical and mechanical engineering equipment. The products cover high-technology ships such as a full range of oil tankers, large bulk carriers, very large ore carriers, containerships, engineering ships, maritime engineering, semi-submerged ships and passenger ro-ro ships, as well as special ships and related supporting ships.

(ii) Information of CSSC

CSSC is a State-authorized investment institution directly supervised and administered by State-owned Assets Supervision and Administration Commission whose core business includes ship building, 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 847,685,990 Shares of the Company, representing 59.97% of the issued Shares of the Company.

(iii) Information about CSSC Finance

CSSC Finance is a controlling subsidiary of CSSC. As at the Latest Practicable Date, the Company, through Wenchong Shipyard, held a total of 0.33% equity interest in CSSC Finance and such equity investment was classified as available-for-sale financial investment by the Group. 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 Company 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.

(iv) Information about CSSC (HK) Shipping

CSSC (HK) Shipping is a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of CSSC. CSSC (HK) Shipping is principally engaged in leasing of vessels.

(v) Information about GS Shipping

GS Shipping was established in the PRC and previously was a wholly-owned subsidiary of the Group. GS Shipping is currently owned by Shanghai Lingxiang Equity Investment Co. Ltd. In which CSSC owns 50% equity interest.

(vi) Reason for entering into the Second Supplement Agreement to 2014-2016 Framework Agreement

As disclosed in the Letter from the Board, the services relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group primarily comprise of provision of complete sets or accessories of electric and engineering equipment, steel products, non-ferrous metal products. The CSSC Group has the need to purchase production equipment while the Group has the capability of designing and manufacturing electrical and mechanical engineering products and could provide complete sets or accessories of electrical and mechanical engineering equipment to the CSSC Group.

The significant increase in the Revised annual cap for the year ending 31 December 2016 is mainly attributable to the novation of relevant shipbuilding contract for construction and sale of eight product/crude oil-tankers each with 113,000 DWT by the buyer ("**Original Buyer**") to CSSC (HK) Shipping. Such shipbuilding contacts were previously entered into between the Group as builder and the original buyer as charterer whom is an Independent Third Party. As the crude oil prices remained depressed, the Original Buyer decided to novate the shipbuilding contracts to CSSC (HK) Shipping. As CSSC (HK) Shipping is a wholly-owned subsidiary of CSSC and hence a connected person of the Company, following completion of the novation, the transaction contemplated under such shipbuilding contracts with CSSC (HK) Shipping became continuing connected transaction of the Group and therefore there is a need to increase the annual cap for the year ending 31 December 2016. The relevant shipbuilding contracts between the Group and the Original Buyer were negotiated by the parties on arm's length terms and market prices. Save for the novation of the shipbuilding contracts, there has been no changes to the other terms of the relevant shipbuilding contracts.

As stated in the Letter from the Board, the reasons for enter into the Second Supplement Agreement to 2014-2016 Framework Agreement are mutually beneficial to the Group and the CSSC Group. Such transactions allow the Group to (i) satisfy the need for the novation of relevant shipbuilding contract for construction and sale of eight product/crude oil-tankers (ii) allow flexibility for better allocation of resources for the Group so as meet the anticipated production schedules for shipbuilding going forward.

(vii) The Continuing Connected Transactions under the Supplemental Agreement and the respective Revised Annual Cap

Revised Annual Cap

	For the year ending 31 December 2016 (Revised Proposed Caps) *(RMB'million)*
Original approved annual cap	2,268.77
Increased in annual cap:	
— The Group	1,056.73
Increased from the original approved annual caps	
Revised Annual Cap	3,325.50

The Revised Annual Cap in respect of the electrical and mechanical engineering equipment, and metallic materials and waste recycling, primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products etc., part of the accessories and equipment for use on ships and sales of electrical and mechanical engineering equipment and waste-recycling through CSSC Group for the year ending 31 December 2016 amounted to RMB3,325.50 million. The said Revised Annual Cap represent an increase of approximately RMB1,056.73 million from the original approved annual cap for the year ending 31 December 2016.

According to the Company, the significant increase in the Revised Annual Cap is mainly due to the novation of a shipbuilding contract for construction and sale of eight product/crude oil-tankers each with 113,000 DWT by the original buyer to CSSC (HK) Shipping. The increase of the Revised Annual Cap against the existing annual cap is calculated based on the transaction amount of sales contracts by the CSSC Group in respect of the eight product/crude oil-tankers. We have reviewed the relevant sales contracts and novation agreements and note that the transaction amounts of the sales contracts form majority part of increase in the Revised Annual Cap.

Based on the above, we consider the basis adopted to determine the Revised Annual Cap in respect of the services relating to the electrical and mechanical engineering equipment and metallic materials and waste-recycling to be provided by the Group to the CSSC Group primarily comprise of provision of complete sets or accessories of electric and engineering equipment, steel products, non-ferrous metal products for the year ending 31 December 2016 is fair and reasonable so far as the Independent Shareholders are concerned.

E. PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO ENTER THE 2017-2019 FRAMEWORK AGREEMENT

The 2014-2016 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2014 to 31 December 2016 will expire on 31 December 2016. To continue the on-going transactions contemplated under the 2014-2016 Framework Agreement, on 30 August 2016, the Company and CSSC entered into the 2017-2019 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2017 to 31 December 2019.

(i) Reasons for entering into the 2017-2019 Framework Agreement

The principal business of the Group is ship-building, ship-repairing, and steel structure and other electrical and mechanical manufacturing, whilst the business of the CSSC Group includes ship-building, ship-repairing, processing, export/import of marine equipment, diversified business such as other steel structure manufacturing and international cooperation, joint venture, financing, technology trading and exchange workforce exportation.

As stated in the Letter from the Board, the Continuing Connected Transactions on one hand allow the Group to leverage on the reputation and bargaining power of the CSSC Group in the international ship-building 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 on the other hand allow flexibility for better allocation of resources between each other so as to meet the anticipated production schedules for ship-building in the next few years.

As per our discussion with the Directors, the Group is the largest PRC enterprise for modern large vessels in southern China with annual ship-building capacity of approximately 5 million DWT. Its main products include military ships, civil ships, maritime engineering, steel structures and electrical and mechanical engineering equipment. The products cover high-technology ships such as a full range of oil tankers, large bulk carriers, very large ore carriers, containerships, engineering ships, maritime engineering, semi-submerged ships and passenger ro-ro ships, as well as military ships and related supporting ships.

In addition, having considered the business relationship between the Group and the CSSC Group of the operating and production scale, we concur with the Company that to cater for its business development should it materialise and to comply with the requirements of Chapter 14A of the Hong Kong Listing Rules, there are practical needs for the Company to enter into the 2017-2019 Framework Agreement which would allow the Group to continue the relevant transactions with the CSSC Group to match the needs of the Group. Given the nature of the Continuing Connected Transactions and the principal business of the Group, we are of the view that the Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Group.

(ii) The Continuing Connected Transactions under the Supplemental Agreement and the respective Proposed Annual Caps

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

(A) Sale of electrical and mechanical engineering equipment, metallic materials and waste recycling, comprising primarily complete sets or accessories of ships and electrical and mechanical engineering equipment, steel products, rudders, elevators, pipelines, outfitting parts, non-ferrous metal products etc., part of the accessories and equipment for use on ships and sales of electrical and mechanical engineering equipment and waste-recycling materials

As stated from the Letter from the Board, the CSSC Group has the need to purchase production equipment while the Group has the capability of designing and manufacturing electrical and mechanical engineering products and could provide complete sets or accessories of electrical and mechanical engineering equipment to the CSSC Group; or when the CSSC Group is facing a shortage in materials or equipment such as steel products, causing by insufficient procurements or delay in delivery of goods by suppliers or when it is urgently required to meet orders from its customers which temporarily exceeded its production capacity, the Group may provide various electrical and mechanical engineering equipment and metallic materials to the CSSC Group to meet its routine and urgent production needs, on terms to be determined based on market comparable prices.

As the Group also sell relevant equipment and materials to other Independent Third Parties, the Group will, when determining the pricing terms for the Continuing Connected Transaction, make reference to the then prevailing market prices made available to the Group by Independent Third Party purchasers to the Group for similar products and ensure that the prices offered by the CSSC Group are in any event no less favourable then the prices offered by Independent Third Parties. The sale of such products, equipment, materials and waste (except waste steels) would be conducted through tenders so that the CSSC Group have to compete with Independent Third Party purchasers directly, while for the sale of waste steels, the price would be determined based on the price published by steel refinery companies.

All sales will be subject to the contract management rules under the Group's internal control procedures ("**Contract Management Rules**"). The Contract Management Rules 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. The Contract Management 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. The Company would take into account terms offered by the bidders including the price and payment terms and determine the successful bidder at the procurement meeting. The relevant Group Company would then enter into contract with the successful bidder on the Group's standard format.

The Directors consider that the aforementioned provision of electrical and mechanical engineering equipment and metallic materials, and sale of waste recycling materials to the CSSC Group enable the Group to earn additional revenue and we concur with the Directors that it is a viable and beneficial arrangement for the Group from the commercial perspective.

As stated in the Letter from the Board, pursuant to the 2017-2019 Framework Agreement, the pricing of the provision of electrical and mechanical engineering equipment and metallic materials as well as the sale of waste materials will be determined based on market prices, where the sale price to the CSSC Group will have reference to, but in any event will be no less favourable than the then prevailing market prices paid by Independent Third Parties to the Group for similar products. We have reviewed the contracts provided to us by the Company regarding the provision of electrical and mechanical engineering equipment for the two years ended 31 December 2015 and six months ended 30 June 2016 to the CSSC Group and to an Independent Third Party respectively, and noted that the sales prices charged to the CSSC Group are no less favourable than the prevailing market prices paid by Independent Third Parties.

Based on the above, we are of the view that the aforesaid terms are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the sale of electrical and mechanical engineering equipment, metallic materials and sale of waste recycling materials for the three years ending 31 December 2019 are RMB3,464.10 million, RMB4,269.57 million and RMB5,038.37 million respectively.

As we understand from the Company, the significant increase in the Proposed Annual Caps for the three years ending 31 December 2019 is mainly attribute to the projected order in the production orders according to the three-year production schedule (三年造船線表) of GSI and Huangpu Wenchong estimated by the management of the Company.

We have reviewed the Company's annual report ("**2015 Annual Report**"), as the 2015 Annual Report mentioned, in 2015, amid the overall downturn in global ship market, the fierce competition at home and abroad, the decrease in new shipbuilding orders secured in China and the losses across the industry for all domestic shipbuilding companies, the Group dared to face challenges and seek breakthroughs by positively adapting to and grasping the trend for the new normal for economic development of China. It centered around the needs of development strategy for comprehensive transformation and adhered to its strategic directions of "insisting on maintaining stable core operations, performance-oriented development, enhanced management and putting quality first" by making great efforts to adjust its structure, change its development model and maintain stable operating income, which has helped maintaining the normal and sustainable development of the Group.

Moreover, in order to access the fairness and reasonableness of the Proposed Annual Caps, we have conducted our own industry research related to the shipbuilding industry in the PRC.

In respect of the Group's shipbuilding business and non-shipping business, we notice that there are number of supportive policies promulgated by various departments of the PRC Government in 2015 to support the shipbuilding industry. Pursuant to《中國製造2025》(Made in China 2025) promulgated by the State Council of the People's Republic of China in May 2015, which mainly plan to enhance national manufacturing innovation, promote information technology and industrialization, strengthen industrial base, and promote the development of breakthrough in key areas to further develop the restructuring of the manufacturing sector position. The key development, including a new generation of information technology and creative technology and creative industries, high-end CNC machine tools and robotics, marine engineering equipment and high-tech ship etc, would become the PRC's main development path in the future, which means the government would promote more advancement and innovation to support the shipbuilding industry.

Moreover, in order to support the shipbuilding business, China People's Bank (中國人民銀行) and other seven ministries (發展改革委 工業和信息化部 財政部 商務部 銀監會 證監會 保監會) jointly issued《關於金融支持工業穩增長調結構增效益的若幹意見》(Opinions on the financial support of industrial steady growth structural adjustment increase efficiency) published in February 2016, which stated that the government will continue to provide the credit support to competitive and profitable shipbuilding enterprises to overcome obstacles. In view of the implementation of the above policies, we concur with Company's belief that the CSSC Group shall benefit from the government's assisting process in the shipbuilding industry, where the number of ship-building enterprises may reduce and lead to the concentration of future ship-building orders among several market leaders in the long run.

In respect of the Group's ship-building business, we notice that there are number of supportive policies promulgated by various departments of the PRC Government in 2013 to promote merger and reorganisation of the industry. Pursuant to《關於加快推進重點行業企業兼併重組的指導意見》(The Guidance Opinion on Accelerating the Merger and Reorganisation of Enterprises in Key Industries) promulgated jointly by the Ministry of Industry and Information Technology of the PRC ("**MIIT**"), the Ministry of Finance, the National Development and Reform Commission ("**NDRC**") and other PRC authorities in January 2013, large scale ship-building companies are encouraged to merge with smaller industry participants in order to create synergies and facilitate better utilisation of the existing ship-building capacity and resources. An implementation plan was subsequently set out in《船舶工業加快結構調整促進轉型升級實施方案(2013-2015年)》(the Implementation Plan on Accelerating Structural Adjustment and Promoting Transformation and Upgrading of the Ship-building Industry (2013-2015)) issued by the State Council of the PRC in early August 2013 aiming to support the building of vessels for maritime law enforcement and other official use, to strengthen the financial assistance supporting transformations and mergers of ship-building enterprises, to limit the construction of new ship-building facilities, and to encourage structural adjustment for better utilisation of existing production capabilities. The MIIT has further promulgated the《船舶行業規範條件》(Regulatory Criteria of the Ship-building Industry) in November 2013 with the aim to phase out shipbuilding companies with outdated and inefficient production capacity. As advised by the Company, shipbuilding enterprises with strong production capability, financial resources and brand name will benefit more from government policies in PRC under such policy. In addition, the Company believes that according to the implementation plan stated above, the Group is expected to become one of the largest shipbuilding enterprises in southern China. In view of the implementation of the above policies, we concur with the Company's belief that the Group shall benefit from the merger and reorganisation process in the shipbuilding industry, where the number of shipbuilding enterprises may reduce and lead to the concentration of future shipbuilding orders among several market leaders in the long run.

In respect of the CSSC Group and the Group's non-shipbuilding business, we note that the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) published the《「十三五」發展規劃》(Thirteen Five Year Plan for the Development) in 2015, which contains policies supporting the offshore-engineering equipment manufacturing industry in the PRC. The government would promote the advancement and innovation of relevant technologies and optimise relevant policies.

Moreover, in respect of the non-shipbuilding business, pursuant to《船舶配套產業能力提升行動計劃(2016-2020年)》(Shipbuilding industry capacity building action plan 2016 to 2020) promulgated by MIIT in March 2016, large scale shipbuilding companies are encouraged to upgrade the equipment capacity and the level of marine, MIIT will provide stronger support for the shipbuilding construction in order to create synergies and facilitate better utilisation of the existing shipbuilding capacity and resources. As advised by the Company, shipbuilding enterprises with strong production capability, financial resources and brand name will benefit more from government policies in PRC under such policy.

Based on the above, together with the PRC government polices supports and the effect of the merger and reorganisation of the shipbuilding industry discussed above, we believe that it is reasonable for the Company to anticipate both of its shipbuilding and non-shipbuilding businesses to expand, leading to potential increase in provision of electrical and mechanical engineering equipment and metallic materials, and sale of waste recycling materials to the CSSC Group.

We also note that CSSC is one of the two state-owned shipbuilding conglomerates in the PRC under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the PRC. According to the information published on the website of CSSC, we note that CSSC expects that fulfilling various military tasks and supporting the modernisation of national defence will remain its top business priority. CSSC will continue its focus of serving the Chinese Navy, and enhancing its production capability for various military products. Considering the background of CSSC, the government policies supports and the effect of merger and reorganisation in the shipbuilding industry and non-shipbuilding industry as discussed above, we consider it is reasonable for the Company to project an increase in the production orders from the CSSC Group, which in turn will lead to more orders of electrical and mechanical engineering equipment and metallic materials with the Group for the three years ending 31 December 2019.

Amid the recent downturn of the shipbuilding industry in the PRC, as per our discussion with the management of the Group, besides maintaining its core business on shipbuilding, the Group intends to sell more ship components and engineering equipment to diversify its income stream. The constant purchase of such materials from the CSSC would also facilitate the Group to obtain stable income on its non-shipbuilding business. Based on the above, we are of the view that the basis adopted to determine the Proposed Annual Caps in respect of the provision of electrical and mechanical engineering equipment and metallic materials, and sale of waste recycling materials for the three years ending 31 December 2019 will be based on market price and is fair and reasonable so far as the Independent Shareholders are concerned.

(B) Provision of utilities

In the course of its operations and provision of services, the Group has been providing utilities facilities of wind, water and electricity to 廣州造船廠有限公司 (Guangzhou Shipyard Company Limited, "**Guangzhou Shipyard**"), which is under the control of the CSSC Group, since 1993. The fees for provision of utilities (primarily supply of wind, water and electrical power) by the Group to the CSSC Group is based on the utilities' costs of the Group supplied to the CSSC Group plus a management fee ranging from 20% to 25% above the cost of the relevant type of utilities or in terms no more favourable than those offered to Independent Third Parties.

Given that the Group is not principally engaged in provision of utilities facilities, the 20% to 25% margin on the fees primarily represents the CSSC Group's share of the expenses involved in overall generation of such utilities facilities. Such margin has been agreed after arm's length negotiation between the Group and the CSSC Group, is considered as fair and reasonable to defray the relevant administrative costs and the miscellaneous expenses (including maintenance costs and depreciation charges) from time to time incurred by the Group for provision of such utilities facilities to the CSSC Group.

Moreover, as confirmed by the Company, the Group has also been providing utilities to which are the members of the CSSC Group on Longxue Island of Nansha district of Guangzhou city. We understand from the Company that utilities provided by the Group mainly include electrical power supplied via the electricity step-down transmission substation located within its premises to certain members of the CSSC Group, all of which are located on Longxue Island. As pursuant to the 2017-2019 Framework Agreement, the Group will continue to provide utilities to Guangzhou Shipyard and supply electrical power to Shipbuilding Chengxi the Voyage Ship Co. Ltd. and CSSC Southern China Ship Machinery Company Limited for their daily operations. The Company further advised that the Group will only supply the utilities to the CSSC Group without affecting the Group's own production needs.

Moreover, as advised by the Company, the reason of the Group to provide utilities to the CSSC Group is mainly due to the reorganization and acquisitions of Huangpu Wenchong which is principally engaged in shipbuilding, ship modification and other manufacturing activities from the CSSC Group and certain assets from Yangzhou Kejin which is principally engaged in manufacturing and sales of clean tank, chemical tanker, liquefied gas carrier, and offshore oil engineering vessels by the Company completed on 8 April 2015, after the reorganization and acquisitions, such provision of utilities to Huangpu Wenchong will cease to constitute continuing connected transactions of the Company in 2015. However, after the completion of the acquisitions, the Group still need to provide the utilities facilities to Guangzhou Shipyard and supply electrical power to CSSC Chengxi Shipyard (Guangzhou) Company Limited and CSSC Southern China Ship Machinery Company Limited for their daily operations. As confirmed by the Company, in present, the Group still not intent to acquire the companies mentioned above and therefore the Group has the obligations to provide utilities facilities to the CSSC Group. After reviewing the utilities pricing term between the Group and the CSSC Group provided by the Company, we noted that the pricing term are on normal commercial terms.

Meanwhile, for electrical power supplied by the Group to the CSSC Group, according to the electrical power supply agreements between the Group and the Relevant CSSC Entities provided to us by the Company, we note that the monthly electricity charges by the Group to the CSSC Group shall be the aggregate of (i) the electrical power tariff determined based on monthly electrical power meter readings and the applicable tariff rates set by relevant government authorities in the PRC from time to time; and (ii) depreciation and maintenance costs shared by the Relevant CSSC Entities in proportion to their respective monthly electrical power consumptions. We have reviewed several monthly electricity payment notes issued by the Group to the Relevant CSSC Entities provided and noted that the applicable tariff rates set out in those notes are no less favourable than the tariff rate applicable in Guangdong Province as set out in the website of 中國南方電網廣州供電局有限公司 (Guangzhou Electricity Supply Company Limited of China Southern Power Grid) (http://www.guangzhou.csg.cn/).

Based on the above, we are of the view that the terms of the provision of utilities by the Group to the CSSC Group are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the provision of utilities to the CSSC Group for the three years ending 31 December 2019 are all RMB83.01 million. According to the Letter from the Board, the constant amount set forth in the Proposed Annual Caps for the three years ending 31 December 2019 are mainly determined according to the historical and projected utilities consumption by members of the CSSC Group.

Moreover, as discussed with the Company, based on the assumption that there is no materials changes in the provision of utilities between the Group and the CSSC Group in 2017-2019 Framework Agreement and the stable business development of the CSSC Group, we noted that it is reasonable for the Proposed Annual Caps for the three years ending to remain constant.

(C) Provision of leasing, labour supply, design and technical services

The Group will provide to the CSSC Group labour supply services, primarily providing training and supplying short-term labourers, shipbuilding services etc. According to the demands for technicians and on condition that the Group has temporary excess labour supply, the Group may provide to the CSSC Group within Guangzhou areas services for staff training and appraisals and shippainting, etc. As the production cycles of both the Group and the CSSC Group are cyclical, such arrangements allow the Group the flexibility to supply excess labour to the CSSC Group.

According to the Letter from the Board, the primary purpose for provision of production areas and staff quarters leasing service by the Group to the CSSC Group is to fully utilize certain properties held by the Group to gain cost efficiency on those properties.

Besides, the Group will provide design and technology services relating to shipbuilding products and other projects, which the Group is centralised in, to the CSSC Group from time to time. The Directors are of the view that the provision of such services to the CSSC Group enables the Group to maximize the use of labour and to capitalise on its excess production capacity and existing shipbuilding-related techniques to earn additional revenue for the Group.

As set out in the Letter from the Board, the pricing of labour supply by the Group to the CSSC Group will be based on terms not less favourable compared with Independent Third Parties. When determining the pricing term, the Company will consider factors like the skill required and the then supply and demand on the market, and make reference to the then prevailing average wage rate published by Statistical Bureau of Guangzhou Municipality（廣州市統計局）. For labours without special skills, references will be made to the average wage of general workers while for labours with specialised skills required in shipbuilding, references will be made to the average wage of shipbuilding workers within Guangzhou area. The contract review committee of the Company will review and scrutinize quotations offered by the Group to the CSSC Group against those provided by the Group to Independent Third Parties to seek to ensure that the Manual and the Contract Management Rules are complied with. Pricing for rental of lease shall be based in market price. Pricing for provision of design and technology services by the Group to the CSSC Group will primarily be based on certain fee formulae prescribed in the Manual. As the Directors understand, the fee formulae prescribed in the Manual are principally based on, among others, the skills required, complexity of the work involved and industry-specific job specification according to the prevailing market standard for ship-building. The Manual is intended to be applicable across the CSSC Group (including the Group) for provision of reciprocal services and products, as well as to Independent Third Parties.

We have reviewed several contracts provided by the Company in respect of labour services provided by the Group to the CSSC Group and the labour services provided by an Independent Third Party to the CSSC Group respectively, and noted that the pricing for labour services provided by the Group to the CSSC Group was based on the prevailing market wage rate in Guangzhou area with reference to average wage rate published by Statistics Bureau of Guangzhou Municipality from time to time, and was not less favourable as compared to those provided by Independent Third Parties to the CSSC Group.

We have reviewed the lease agreement entered into between the Group and the CSSC and note that the rents of the lease agreement were determined by the parties at arm's length negotiation with reference to the depreciation costs, amortizations and other outgoings of the assets.

Based on the above, we are of the view that the terms for the provision of leasing, labour supply, design and technology services are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the provision of labour supply, design and technology services by the Group to the CSSC Group are in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the provision of lease, labour supply and technical services to the CSSC Group for the three years ending 31 December 2019 are RMB197.15 million, RMB189.27 million and RMB200.06 million respectively.

As advised by the Company, the Proposed Annual Caps for the provision of lease, labour supply, design and technology services for the three years ending 31 December 2019 are determined based on (i) expected future services to be provided to the CSSC Group; (ii) the building of new staff headquarter to be leased to the CSSC Group; and (iii) the new design and technology projects between the Group and the CSSC Group.

As per our discussion with the management of the Group, the Group has certain design expertise that the CSSC Group requires for shipbuilding design. The CSSC Group has provided the Group its estimated demand of design service based on its own production forecast.

In order to access the fairness and reasonableness of the Proposed Annual Caps, we have conducted our own salary research related to the labour market price in the PRC.

According to Statistical Bureau of Guangzhou Municipality's announcement of the statistics of the average salary in Guangzhou Province, there is an increase in average salary from approximately 6.5% in the year ended 31 December 2014 to approximately 9.3% in the year ended 31 December 2015. Therefore, we noted that based on the data published by Statistical Bureau of Guangzhou Municipality, it is acceptable for the Company to take into consideration the expected increase in the salary expense when determining the Proposed Annual Caps.

Based on the above, we are of the view that the basis adopted to determine the Proposed Annual Caps in respect of the provision of leasing, labour supply, design and technology services to the CSSC Group for the three years ending 31 December 2019 is fair and reasonable so far as the Independent Shareholders are concerned.

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

(D) Purchase of electrical and mechanical engineering equipment, metallic materials, accessories and equipment for ship etc. and related logistics service, comprising primarily materials like steel products for shipbuilding, nonferrous metals, cables, paints, welding materials oils, lifting equipment, welding machines, plasma cutting machines, high-altitude operation vehicles, complete sets or accessories of electrical and mechanical engineering products, etc.; and logistics and related services for marine outfitting (set and matching) and materials for use on ships, cable cutting services from the CSSC Group

The Group sources from the CSSC Group electrical and mechanical engineering equipment, metallic materials, shipbuilding accessories, materials and equipment for shipbuilding, mainly comprising materials such as steel products for ships, non-ferrous metals, cables, paint, welding materials, complete sets or accessories of electrical and mechanical engineering products. The Group also uses logistics and related services, cable cutting 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.

As set out in the Letter from the Board, The Group also sources the products and services described in above from other Independent Third Party suppliers from time to time. Nevertheless, as the CSSC Group is either specialised in manufacturing some of such equipment and, or as the case may be, has a centralised purchase system for purchase of the required materials in bulk so as to obtain competitive prices, the Directors are of the view that it would be more cost-effective for the Group to purchase various shipbuilding materials and equipment from the CSSC Group.

As stated in the Letter from the Board, the pricing policies of the procurement of the relevant equipment, materials and services are as follows:

(i) 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;

(ii) pricing of steel components or accessories for ship, considering the 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;

(iii) 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

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

Based on the review of respective quotations provided by Independent Third Party suppliers and by the CSSC Group to the Group on shipbuilding equipment and materials, and the contracts signed between the CSSC Group and Independent Third Parties respectively regarding the procurement of shipbuilding equipment and materials supplied to us by the Company, we are of the view that the pricing and the contract terms offered by the CSSC Group to the Group in relation to the relevant purchases were no less favourable to those offered by Independent Third Parties.

The Group has to comply with the internal procurement policy as set out in the Contract Management Rules when selecting the supplier for materials or services. In particular, shipbuilding related purchase transactions involving a transaction amount of over RMB5,000,000 (inclusive) or non-shipbuilding purchase transactions involving a transaction amount of over RMB3,000,000 (inclusive) will need to be approved by the head of the relevant business departments, the risk management department and the relevant deputy general manager of the Group. Contracts of transaction amount below the above-mentioned thresholds can be approved by the head of the relevant procurement team. As a general procedure, regardless the contract amount, the Group have to obtain quotations from suppliers in a pre-approved list of suppliers for provision of materials and equipment and logistic-related services, including the CSSC Group, and/or invite other suppliers to submit their tenders. In certain circumstances, where quotations from independent suppliers are not available due to technical specifications or supply terms restrictions, specific reasons have to be provided for not going through the procedure for internal assessment. Favourable pricing and terms that are in the best interests of the Group is a key determining factor for winning a bid. However, the Group will also consider factors such as the background, credit-worthiness and reliability of the counterparties, their ability to execute the transactions in accordance with the contractual terms; their understanding of the special needs and requirement s of the Group, etc. in order to maximize the Group's overall interest in a particular transaction and minimize the Group's transaction costs.

We have reviewed the internal procurement policy when selecting the supplier for materials or services and understand from the Company that the Group will continue the purchase of materials and equipment in compliance with the Contract Management Rules to meet its production needs. As stated in the Letter from the Board, the Directors are of the view that it is more cost-effective to purchase materials and equipment through bulk purchase by the CSSC Group. We understand from the Company that notwithstanding the participation in the Centralised Purchasing Scheme, the Company still has the right to select other suppliers for the supply of materials and equipment.

Having considered the above, we are of the view that purchasing of the relevant equipment, materials and services contemplated under the 2017-2019 Framework Agreement will allow the Group to secure a stable supply of equipment and materials for its business in a cost effective manner.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the purchase of electrical and mechanical engineering equipment, metallic materials, shipbuilding accessories and equipment, and related logistic services from the CSSC Group for the three years ending 31 December 2019 are RMB11,002.04 million, RMB12,396.25 million and RMB14,516.51 million respectively.

As stated in the Letter from the Board, the increase of the Proposed Annual Caps for the three years ending 31 December 2019 is mainly attributable to the Group's participation in the Centralised Purchasing Scheme which offers economical solution to the Group in term of cost reduction. It is also stated that the Proposed Annual Caps have taken into account the anticipated sourcing of a majority of materials and equipment for ship construction, marine outfitting and construction of steel structures through the Centralised Purchasing Scheme, having reference to the anticipated slight increase in the production of vessels and the continuing expansion of the Group's non-shipbuilding business.

As per our discussion with the management of the Company, the increase in the Proposed Annual Caps is determined by the amount of production materials required by the Group according to the three-year production schedule of GSI and Huangpu Wenchong. The management of the Company is of the view that the benefits of obtaining favourable quotations from the CSSC Group would enable the Group to generate higher margin from its production.

Having considered the above, we are of the view that the basis for determining the Proposed Annual Caps for the procurement of electrical and mechanical engineering equipment, metallic materials, shipbuilding accessories, materials and equipment for use on ships; and logistics and related services for marine outfitting (set and matching) and materials for use on ships is fair and reasonable so far as the Independent Shareholders are concerned.

(E) Lease of production areas and equipment, Labour supply and technical services, Comprehensive Services by the CSSC Group

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.

The pricing of labour services will be based on costs plus a management fee of not more than 10% on such costs. The management fee primarily represents the Group's share of the overall administrative expenses for labour services but in any event the fees shall be no less favourable than those offered by the Group to Independent Third Parties. The Company will consider factors like the skill required and the availability of similar supply on the market, and make reference to the then prevailing average wage rate published by Statistical Bureau of Guangzhou Municipality (廣州市統計局).

As a reciprocal services arrangement applicable across the CSSC Group (including the Group) and to third party service providers, the pricing of ship design and related technology services will primarily be based on certain fee formulae prescribed in the Manual.

The pricing of the lease between the Group and the CSSC Group shall be based on the then prevailing market rent of similar properties at close proximity to the subject properties published on the websites of local real estate agents.

The pricing for the providing shipbuilding products and other engineering design and relevant technical services shall be based on market price. We understand from the Company that the Group has not procured any shipbuilding design service from Independent Third Parties in the past. As advised by the Company, the shipbuilding design service fees charged by the CSSC Group to both the Group and Independent Third Parties are calculated based on the Manual. Based on our review of the Manual provided to us by the Company and a contract entered into between the Group and an entity in the CSSC Group for the provision of shipbuilding design services by the CSSC Group, we noted that the fees rates charged were basically in line with those set out in the Manual, which would also be applicable to, and therefore based on the market price

Pursuant to the 2017-2019 Framework Agreement, the pricing of the Comprehensive Services shall be on terms no less favourable to the Group than terms available from Independent Third Parties. We have reviewed invoices for provision of nursery services by the CSSC Group to the Group and noted that prices charged to the Group were not less favourable than those offered to Independent Third Parties. Therefore, we are of the view that the pricing policy for the Comprehensive Services is on normal commercial terms.

Based on the above, we are of the view that the aforesaid terms of lease of production areas and equipment, labour supply and technical services, Comprehensive Services by the CSSC Group are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the said transactions are in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the lease of production areas and equipment; Labour supply, design and technical services; Comprehensive Services by the CSSC Group for the three years ending 31 December 2019 are RMB757.88 million, RMB846.16 million and RMB1,004.58 million respectively.

In order to access the fairness and reasonableness of the Proposed Annual Caps, we have conducted our own salary research related to the labour market price in the PRC.

According to Statistical Bureau of Guangzhou Municipality's announcement of the statistics of the average salary in Guangzhou Province, there is an increase in average salary from approximately 6.5% in the year ended 31 December 2014 to approximately 9.3% in the year ended 31 December 2015. Therefore, we noted that based on the data published by Statistical Bureau of Guangzhou Municipality, it is acceptable for the Company to take into consideration the expected increase in the salary expense when determining the Proposed Annual Caps.

As per our discussion with the management of the Group, the CSSC Group has certain design expertise that the Group requires for shipbuilding design. Therefore, according to the three-year production of GSI and Huangpu Wenchong, the Group is able to estimate the design services required by it from the CSSC Group by the types of ship model to be built in the coming three years ended.

Having considered the above, we are of the view that the basis for determining the Proposed Annual Caps for lease of production areas and equipment, labour supply, design and technical services; Comprehensive Services is fair and reasonable so far as the Independent Shareholders are concerned.

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

(F) Non-exempt financial services provided by CSSC Finance to the Group

1. Maintaining Deposits with CSSC Finance

As stated in the Letter from the Board, 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. Having considered the previous Deposits placed with CSSC Finance and the expected consistency in capital requirement in connection of the Group's scale of production, the Company believes that there are practical need for the Group to continue to maintain the Deposits with CSSC Finance in order to lower the capital cost and ensure the safe and effective utilisation of the Group's funds.

As stated in the Letter from the Board, CSSC Finance's total asset value in the next three years will be in the region of RMB56 billion and the maximum outstanding deposit balance of RMB48 billion represents only approximately 13.93% of CSSC Finance's then total asset value.

As set out in the paragraph headed "Risks control relating to the Deposits under the 2017-2019 Framework Agreement" in the Letter from the Board, CSSC Finance has provided an undertaking for, among other things, ensuring the safety of the Deposits. CSSC Finance has undertaken to the Company that it will, among other things, provide to the Company, at any time, financial services with terms which are no less favourable than those provided by CSSC Finance to CSSC or members of the CSSC Group or those obtained by the Company from other financial institutions. Furthermore, the Group will adopt certain guidelines and principles in monitoring the Deposits arrangements. The Deposits will also 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 CBRC on CSSC Finance.

Pursuant to the 2017-2019 Framework Agreement, interests on the Deposits will be based on rates on deposits published by the PBOC from time to time. We have reviewed information provided to us by the Company relating to deposit interest rates offered by CSSC Finance on RMB deposits to the Group and noted that the rates were more favourable to those quoted by the PBOC at the relevant time. Based on the above, we are of the view that the terms for placing the Deposits with CSSC Finance are on normal commercial terms and are fair and reasonable, and the arrangements for the Deposits are in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the maximum outstanding daily balance with CSSC Finance which amount to RMB7,800 million for each of the three years ending 31 December 2019. And the Proposed Annual Caps in respect of the aggregate interest on the Deposits which amount to RMB175.50 million for each of the three years ending 31 December 2019.

The maximum outstanding daily balance for each of the three years ending 31 December 2019 is maintained at not more than RMB7,800 million, which is equal to the historical annual cap for the year ending 31 December 2016. We note from the 2015 Annual Report and Company's first quarterly report for the three months ended 31 March 2016 that the historical maximum deposit balances with CSSC Finance were similar to the approved annual cap in the relevant year.

We understand from the Company that the constant maximum outstanding daily balance for the three years ending 31 December 2019 is mainly attributable to stable drawdown of the Loans to be provided by the CSSC Group to the Group through CSSC Finance from time to time pursuant to the 2017-2019 Framework Agreement. The Company has provided to us several monthly statements of a deposit account maintained by the Group with CSSC Finance which, as advised by the Company, the Group has no significant changes in Deposit policy from 2014-2016 Framework Agreement to 2017-2019 Framework Agreement. Therefore, the maximum outstanding daily balance for the three years ending 31 December 2019 will remain the same amount from 2014-2016 Framework Agreement.

Moreover, as confirmed by the Company, the Proposed Annual Caps in respect of the aggregate interest on the Deposits for each of the three years ending 31 December 2019 is based on the CSSC Finance's interest rate table provided to the Company. We have reviewed the CSSC Finance's interest rate table provided by the Company, the Proposed Annual Caps in respect of the aggregate interest on the Deposits is calculated based on 4% of the Proposed Annual Caps on the maximum outstanding daily balance of the Deposits. We have reviewed the interest rate basis published by the PRC Central Bank dated on 24 October 2015 and released that the interest rate provided by CSSC Finance has no significant difference compared to the PRC Central Bank. Furthermore, as confirmed by the Company, CSSC Finance's interest rate table will adjust from time to time according to PRC Central Bank's interest rate policy.

Based on the above, we are of the view that the basis for determining the Proposed Annual Caps for the Deposits is fair and reasonable so far as the Independent Shareholders are concerned.

2. Sale and purchase of FX Forward Contracts

As mentioned in the Letter from the Board, 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 Group 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. CSSC Finance will not charge any handling fee the FX Forward Contracts.

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 fulfil 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.

We understand from the Company that the Group has also dealt with other independent commercial banks for trading in FX Forward Contracts in the past in order to manage its foreign exchange risks associated with its operations, including export of products to overseas markets. Since July 2014, CSSC Finance has obtained the permission from the competent authorities to undertake business in forward foreign currency transactions. Given that the Group has established long business relationship with CSSC Finance in respect of various financial and credit services, the Group intends to consider CSSC Finance as one of the alternative providers for its sale and purchase of the FX Forward Contracts.

As advised by the Company, in selecting the provider for its sale or purchase of FX Forward Contracts, the Group has internal control procedures in place to ensure the rates offered by the selected provider (including CSSC Finance) for the FX Forward Contracts are no less favourable than those offered by other Independent Third Parties.

We have reviewed and compared the historical FX Forward Contract entered into between the Group and CSSC Finance against the then forward rate quotations provided by Independent Third Parties, and noted that the forward rates applicable to the FX Forward Contracts with CSSC Finance was in line with the then prevailing market rate for similar transactions with Independent Third Parties from 2014 to 2016.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of sale and purchase of FX Forward Contracts for the three years ending 31 December 2019 will remain constant at RMB8,500.00 million, which is the same as the historical annual cap for the year ending 31 December 2016.

As advised by the Company, the above estimated principal amounts are mainly determined with reference to the purchase order (from ship buyers who will settle the purchases in foreign currencies) of the Group for the three years ending 2019. As we understand from the management of the Company, the Group expects the order from foreign buyers purchase orders (denominated in US dollars) would remain constant at approximately RMB10 billion each year.

As confirmed by Company, in order to minimise the foreign currency risk relating to those US dollar denominated purchase orders, the Group usually would hedge not exceeding 80% of such purchase order amount through entering into FX Forward Contracts. In this regard, we concur with the Company's estimation that the Proposed Annual Caps in FX Forward Contracts to be set at RMB8,500 million from 2017 to 2019.

Based on the above, we are of the view that the basis for determining the annual cap is fair and reasonable so far as the Independent Shareholders are concerned and such transactions are in the interests of the Company and the Shareholders as a whole.

3. Entrusted assets management services

Pursuant to the 2017-2019 Framework Agreement, the Group would be offered entrusted assets management services by CSSC Finance, which shall be responsible for the management of assets under custody through tailor-made and value-added asset management plans and strategies. As advised by the Company, as part of its treasury management measures and to take advantage of CSSC Finance's experience in providing financial services to the CSSC Group and the Group has historically engaged CSSC Finance to provide entrusted assets management services with a view to generating stable income from certain unutilised funds which were not essential for its operations.

As stated at the Letter from the Board, 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.

Based on our review of (i) quotations from Independent Third Parties for similar asset management services; and (ii) the Group's records on the historical performance of such services provided by CSSC Finance, we note that the asset management products provided by CSSC Finance to the Group was primarily principal-protected products with duration of not more than three years, and the actual return produced by CSSC Finance was not less favourable than the return rates offered by those Independent Third Parties for similar asset management services of comparable risk profile and duration. The Company also confirmed that the Group did not have any loss on assets under entrusted assets management by CSSC Finance in the past.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the aggregate interest on entrusted assets management services for the three years ending 31 December 2019 are RMB250.0 million, RMB275.0 million and RMB300.0 million respectively. And the proposed maximum value of the entrusted assets management for the years from 2017 to 2019 are RMB5,000 million, RMB5,500 million and RMB6,000 million, respectively.

As advised by the Company, the Proposed Annual Caps in respect of the aggregate interest on entrusted assets management services is determined with reference to (i) the historical return on assets managed by CSSC Finance; and (ii) the prevailing returns offered by Independent Third Parties for asset management services of similar risk profile and duration. Moreover, in order to assess the fairness of the Proposed Annual Caps in respect of the aggregate interest on entrusted assets management services, we have reviewed serval entrusted assets management contracts between the Group and the CSSC Group, understood that the returns provided by the CSSC Group to the Group is acceptable compared to the entrusted assets management services' provided by CITIC Bank, Construction Bank and Bank of China.

As the proposed maximum value of the entrusted assets management, we understand from the Directors that the relatively higher caps for the three years ending 31 December 2019 is determined based primarily on the Company's estimation of the Group's available unutilised funds which in order to seek to capture movement in funds so as to obtain higher returns: when the Group has temporary surplus funds, it may choose to place them at fixed deposit or low-risk entrusted assets management services. When the expected rate of return of entrusted assets management services is higher than the conventional interest rate of fixed bank deposits for the same period, the Group will engage assets management services as and when appropriate in order to maximise the returns to shareholders. At present, the benchmark 1-year interest rate of bank deposits plus a 50% upward adjustment is 2.25%, while the expected yield from entrusted asset management usually ranges from approximately 4.5% to 5% for the same term and is approximately 5% for over one year having considered its operation needs and its projected total assets in the respective years.

As per our discussion with the Directors, depending on the Group's operation needs on cash flow, the Company is of the view that it is able to generate higher return by using the entrusted assets management services than putting the unused funds in the bank as deposit under the low interest rate environment in the PRC.

Based on the above, we are of the view that the basis for determining the Proposed Annual Caps for entrusted assets management services is fair and reasonable so far as the Independent Shareholders are concerned.

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

(G) Agency services in relation to the Group's ship sales and imported materials purchases

The Group uses to leverage on the CSSC Group's reputation in the international shipbuilding market, its long established relationships with ship owners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interest of the Company and its Shareholders as a whole to continue to use the agency services provided by the CSSC Group.

1. Agency services for sale of ships through the CSSC Group

In addition to selling its products through its own sales team, the Group has also been utilising the agency services offered by the CSSC Group as an alternative sales channel for their respective products. Pricing of sales agency fees or commission is determined and agreed based on arm's length negotiation between the parties, having reference to the then prevailing rate of brokerage fees at the time of entering into specific transactions. The rate of brokerage fee will vary according to the size and type of vessels and usually a lower rate will be charged for sale of larger vessels or where the technical requirement is comparatively generic. The Group will also consider the terms offered by other independent service providers and choose to transact with the counterparty which offers more favourable terms that are in the Group's interest.

As advised by the Company, since the listing of the Company's H Shares on the Hong Kong Stock Exchange, the Group has been utilising the agency services offered by the CSSC Group for the sale of their respective products. According to the Letter from the Board, the pricing of sales agency fees or commissions charged pursuant to the 2017-2019 Framework Agreement range from 0.25% to 1.5%. We understand from the Company that the fees charged may be lower for agency fees charged for larger vessels. According to the Company, the sales agency fees have been determined after arm's length negotiations between the Group and the CSSC Group.

We have also reviewed the sales forecast provided by the Group in relation to agency services in selling the Group's product and noted that the agency fee to be charged by CSSC Group. Company would be amounted to 0.25% to 1.5% of the total cost of the product. We consider the sales agency fee of 0.25% to 1.5% of the contract price of each sale transaction is not less favourable than the general trend pricing. We have reviewed the internal control document provided by the Company on the agency fee, it stated that for the worldwide industry practise, the agency fee shall be over 1% of the contract price and be paid in according to the shipbuilding progress of the vessel in question. Therefore, we are of the view that the pricing of sales agency fees or commissions of the CSSC Group follows the worldwide industry practise and the internal contract guideline on agencies.

Having considered the above, we are of the view that the terms of sales agency services provided by the CSSC Group are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned and it is in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the agency services for sale of ships through the CSSC Group for the three years ending 31 December 2019 are RMB97.00 million, RMB119.00 million and RMB140.46 million respectively.

As advised by the Company, the Proposed Annual Caps in respect of the agency fees for sales agency services are determined with reference to the sales transactions expected to be conducted through the CSSC Group by the Group with agency fees ranged from 0.25% to 1.5%. Directors believe that the sales agency fee for the provision of sales agency services by the CSSC Group will be on upward trend for the three years ending 31 December 2019 accordingly.

Based on the above, we are of the view that the basis for determining the Proposed Annual Caps in respect of the agency fee for sales agency services for the three years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned.

2. Agency services for purchase of imported materials through the CSSC Group

Pursuant to the 2017-2019 Framework Agreement, the Group may appoint companies in the CSSC Group as its agent for purchasing imported materials during the three years ending 31 December 2019. We understand from the Company that the Group is currently using the CSSC Group as its agent for purchasing imported materials. In light of the CSSC Group's reputation in the international shipbuilding market and bargaining power, the Company intends to continue the use of agency services provided by the CSSC Group for purchasing imported materials during the three years ending 31 December 2019.

As advised by the Company, when customers place shipbuilding orders with the Group, they may occasionally request specific equipment, parts, materials and/or accessories to be imported from countries other than the PRC to meet their ship specifications. In order to fulfil customers' demand, the Group usually appoints agents, including companies in the CSSC Group and Independent Third Parties, to assist the sourcing and purchasing of such imported materials. The Directors are of the view that it is in the interest of the Company and the Shareholders as a whole to continue to use the agency services provided by the CSSC Group as one of its sources of imported materials.

As set out in the Letter from the Board, pricing of purchase agency fee is determined and agreed based on arm's length negotiation between the parties, having reference to the then prevailing market practices. However, counterparty which offers the lowest agency fee shall not be the sole determining factor. In deciding whether the Group will choose to transact with any particular counterparty, the Group will consider in totality the terms offered by counterparty for purchase of imported materials for the Group including the delivery schedule(s) of the imported materials, whether the counterparty will advance payment of the purchase price in foreign currency on the Group's behalf and the payment terms available to the Group, etc. The purchasing department and the relevant deputy general manager of the Group will be responsible for reviewing and scrutinizing the terms offered by the CSSC Group to the Group against those provided to the Group by third party service providers 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.

Also, as advised by the Company, the pricing of purchase agency fee of the Group and the CSSC Group will be based on agreed fee shall also follow the worldwide industry practice and be 1% to 2% of the contract price. We have reviewed certain agency agreements provided by the Company in respect of imported materials procurements between the Group and the CSSC Group and independent third parties respectively and noted that the agency fee rates charged by the CSSC Group to the Group and the independent third parties is based on agreed fee and followed the worldwide industry practice and fell within the range of 1% to 2% of the contract price.

As we note from the said agency agreements from the Company, the CSSC Group offered normal payment terms as compared with the relevant independent third parties. Taking account of the above, we concur with the Company that the terms contained in the agency agreements with the CSSC Group for the purchase of imported materials are no less favourable compared with those entered into with independent third parties.

Based on the above, we are of the view that the terms of the agency fee for purchase of imported materials are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the use of agency services provided by the CSSC Group is in the interests of the Company and the Shareholders as a whole.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the provision of agency fee for procurement of imported materials is RMB16.00 million in 2017 and RMB16.10 million in 2018 and 2019.

As advised by the Company, the above Proposed Annual Caps are determined with reference to the expected amount of imported materials required by the Group for its expected production during the three years ending 31 December 2019, taking into account of the anticipated increase in production capacity and shipbuilding output. The Company has further advised that the amount of imported materials is expected to slightly increase due to the increasing number of shipbuilding orders requesting the use of imported materials. Based on the above, we are of the view that the basis for determining the Proposed Annual Caps relating to the agency fee for purchase of imported materials is fair and reasonable so far as the Independent Shareholders are concerned.

CONCLUSION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the revision of an existing annual cap under the 2014-2016 Framework Agreement are carried out in the ordinary and usual course of business of the Group, fair and reasonable; (ii) the non-exempt Continuing Connected Transactions contemplated under the 2017-2019 Framework Agreement are carried out in the ordinary and usual course of business of the Group; (iii) the terms of the non-exempt Continuing Connected Transactions contemplated under the 2017-2019 Framework Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (iv) the non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (v) the basis of determining the Proposed Annual Caps of the non-exempt Continuing Connected Transactions are fair and reasonable. Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders, to vote in favour of the revision of an existing annual cap under the 2014-2016 Framework Agreement, the non-exempt Continuing Connected Transactions contemplated under the 2017-2019 Framework Agreement and the Proposed annual caps thereof at the EGM.

Yours faithfully,
For and on behalf of
Grand 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 Grand 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.

1. FINANCIAL INFORMATION OF THE GROUP FOR THE LAST THREE YEARS

The Company is required to set out in this circular the information for the last three financial years with respect to the Group's profits and losses, financial record and position (set out as a comparative table), and the latest published audited balance sheet together with the notes to the annual accounts for the latest financial year.

The audited consolidated financial statements together with relevant notes thereto of the Company for the years ended 31 December 2013, 2014 and 2015 have been disclosed in the following documents published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (comec.cssc.net.cn):

– Annual report of the Company for the year ended 31 December 2013 published on 24 April 2014 (page 59 to page 221);

– Annual report of the Company for the year ended 31 December 2014 published on 18 March 2015 (page 70 to page 262); and

– Annual report of the Company for the year ended 31 December 2015 published on 22 April 2016 (page 59 to page 206).

2. INDEBTEDNESS

As at 31 August 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had the following debts:

(a) Borrowings

As at the close of business on 31 August 2016 (being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement), the Group had borrowings of approximately RMB20,441,980,022.41, including short-term bank borrowings of RMB9,575,723,022.41, long-term bank borrowings due within one year of RMB4,811,000,000.00 and long-term borrowings of RMB6,055,257,000.00.

The table below sets out bank borrowings of the Group as at 31 August 2016:

	As at 31 August 2016 *RMB*
Current:	
Short-term bank borrowings	9,575,723,022.41
Current portion of long-term bank borrowings	4,811,000,000.00
Non-current:	
Long-term bank borrowings, net of current portion	6,055,257,000.00
Total	20,441,980,022.41

As at 31 August 2016, the Group's short-term bank borrowings and long-term bank borrowings in aggregate amounted to approximately RMB20,441,980,022.41, including secured borrowings of RMB7,026,343,200.00 which were secured by restricted cash of RMB7,987,178,010.00 and payment derived from shipbuilding contracts of RMB0; guaranteed borrowings of RMB1,908,000,000.00, including RMB500,000,000.00 with guarantee provided by the Company for Guangzhou Shipyard, RMB500,000,000.00 with mutual guarantee provided by Guangzhou Wenchong Shipyard Co., Ltd. and Huangpu Wenchong to each other and RMB604,000,000.00 with guarantee provided by Huangpu Wenchong for Guangzhou Wenchong Shipyard Co., Ltd.; and credit loans of RMB11,507,636,822.41.

The table below sets out the types of borrowings of the Group as at 31 August 2016:

	As at 31 August 2016 *RMB*
Secured borrowings	7,026,343,200.00
Guaranteed borrowings	1,908,000,000.00
Credit loans	11,507,636,822.41
Total	20,441,980,022.41

(b) Bank acceptance bills

As at 31 August 2016, the Group had outstanding bank acceptance bills of approximately RMB1,607,441,445.89, of which bank acceptance bills of RMB200,000,000.00 were secured by deposit of RMB200,000,000.00, bank acceptance bills of RM0 were secured by guarantee, and bank acceptance bills of RM1,407,441,445.89 were secured through credit.

The table below sets out the types of bank acceptance bills of the Group as at 31 August 2016:

	As at 31 August 2016
	RMB
Bank acceptance bills secured through deposit	200,000,000.00
Bank acceptance bills secured through guarantee	0
Bank acceptance bills secured through credit	1,407,441,445.89
Total	1,607,441,445.89

(c) Miscellaneous

Save as aforesaid and apart from intra-group liabilities and normal trade payables arising in the ordinary course of business, as at the close of business on 31 August 2016, the Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptable credits, hire purchase commitments, mortgages, charges, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

As at the Latest Practicable Date, having made appropriate inquiries and taking into account of the financial resources available of the Group including the internally generated funds and present available banking facilities, the Directors are of the opinion that the working capital available is sufficient for the Group's requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

In the first half of 2016, the Group secured new projects with contract value of RMB14,854 million, representing 50.7% of annual target; operating income of the Group prepared in accordance with the Accounting Standards and Regulations amounted to RMB11,360 million, representing an increase of 5.09% compared with the corresponding period of last year. Net profit attributable to the shareholders of the Company amounted to RMB37 million. Earnings per share were RMB0.0262, and earnings per share after deduction of exceptional items of RMB104,306,065.68 (which primarily comprised of gain or loss on disposal of non-current assets, Government subsidies, gain or loss on entrusted investments or asset management, and on changes in fair value and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets, and other non-operating income and expenses apart from above items, etc. details of which are more particularly set out on page 3 of the Company's 2015 interim results announcement dated 30 August 2016) of the Company's 2016 interim report were RMB-0.0467. For the second half of the 2016, the Group plans to realize industrial production value of RMB13,252 million and plans to complete the construction of 42 ships.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

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

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

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

3. DIRECTORS' AND SUPERVISORS' INTERESTS

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

As at the Latest Practicable Date,

(a) none of the Directors had entered into any existing or proposed service contract with the Company, excluding those contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation; and

(b) none of the Directors or their associates had any direct or indirect interest in any assets which had been, since 31 December 2015 (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 are the qualifications of the professional advisers who have given opinions or advice which are contained in this circular:

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

As at the Latest Practicable Date, Grand Vinco Capital Limited:

(a) did not have any 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/or opinion and the references to its name and logo in the form and context in which they are included; and

(c) did not have any direct or indirect interest in any assets which had been, since 31 December 2015 (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 and recommendation from Grand Vinco Capital Limited are given as of the date of this circular for incorporation herein.

6. LITIGATION

As for the case that the Company sued Jiangsu Shenghua Shipbuilding Company Limited in relation to a dispute over technical service contract, and the case that Guangzhou Guangli Shipbuilding Human Resource Service Company Limited ("Guangzhou Guangli") sued Jiangsu Shenghua in relation to a dispute over the Contract for Installation Engineering of 1# and 2# 79,600DWT bulk carriers, Jiangsu Shenghua was declared bankrupt by Zhenjiang Intermediate Court in 2016. Following the suspension of execution of the case, the Company completed the filing of creditor's right and priority in receiving payment, and attended the first creditors' meeting of Jiangsu Shenghua. As the appraisal for the buildings and land use right owned by Jiangsu Shenghua had not been completed during the period ended 30 June 2016, the Company will attend the second creditors' meeting after the appraisal is completed and a new realization plan is available.

Save as disclosed, at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. 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 2015, the date to which the latest published audited financial statements of the Company were made up.

8. MATERIAL CONTRACTS

(a) Equity transfer agreement dated 11 December 2014 between Shanghai Lingxiang Equity Investment Co., Ltd. (上海凌翔股權投資有限公司) and the Company in relation to the disposal of 100% equity interest in Guangzhou Shipyard Industrial Co., Ltd. at a consideration of RMB413,791,300;

(b) Equity transfer agreement dated 16 December 2015 between Shanghai Lingxiang Equity Investment Co., Ltd. (上海凌翔股權投資有限公司) and the Company in relation to the disposal of 100% equity interest in Guangzhou Shipyard Shipping Co., Ltd. at a consideration of RMB1,319,310,700;

(c) Agreement dated 31 October 2014 between Yangzhou Kenjin Shipyard Co., Ltd. (揚州科進船業有限公司) and the Company (as supplemented by a supplemental agreement dated 6 November 2014 between the same parties) in relation to the private placement of 68,313,338 A shares to Yangzhou Kejin Shipyard Co., Ltd. at a price of RMB14.17 per share for the acquisition of assets of Yangzhou Kejin Shipyard Co., Ltd. with value of RMB968 million (inclusive of tax); and

(d) Agreement dated 31 October 2014 between CSSC and the Company (as supplemented by a supplemental agreement dated 6 November 2014 between the same parties) in relation to the private placement of 272,099,300 A shares to China State Shipbuilding Corporation at a price of RMB14.17 per share for acquisition of 100% of equity interest in CSSC Huangpu Wenchong Shipbuilding Company Limited from CSSC, representing 85% of the consideration of the subject acquisition, whereas the remaining 15% of the consideration was settled by the Company through cash payment of RM680,408,300.

9. GENERAL

(a) The registered office of the Company is located at 40 South Fangcun Main Road, Liwan District, Guangzhou, The People's Republic of China, Postal Code: 510382;

(b) The H share registrar and H share transfer office of the Company is Computer share Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong;

(c) The joint company secretaries of the Company are Mr. Shi Weidong and Mr. Li Zhidong. Shi Weidong, male, born in June 1967, Han nationality, started career in August 1989. He graduated from Fudan University, Shanghai, majoring in Global Economics and later obtained a master's degree in business administration from China Europe International Business School. Mr. Shi worked in joint-stock restructuring office of Jiangnan Shipyard from August 1989 to November 1996. From June 1997 to February 2005, he was the secretary to the board of directors of China State Shipbuilding Steel Structure Engineering Company Limited; and from February 2005 to July 2007, he was the deputy general manager and secretary to the board of directors of China State Shipbuilding Steel Structure Engineering Company Limited. Since July 2007, he has been the secretary to the board of directors of China CSSC Holdings Limited. Mr. Li Zhidong, aged 48, senior engineer, currently the joint company secretary and assistant to general manager of the Company. He graduated from Shanghai Jiaotong University in August 1987, joined Guangzhou Shipyard in the same year, and obtained a master's degree in business administration in 1997. He has served as engineer of Accommodation section of ship design office, deputy manager of engineering department in shipbuilding division, assistant to the manager of Financial Department of the Company, deputy director of Administrative Office of the Company, and qualified as Fellow member of the Britain Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries in the year 2008;

(d) The following directors are directors or employees of the CSSC Group: Mr. Han Guangde is chairman of the board of directors of Guangzhou Shipyard Co., Ltd. (廣州造船廠有限公司); Mr. Chen Liping is a director of CSSC Finance Company Limited (中船財務有限責任公司), CSSC Heavy Equipment Co., Ltd. (中船重型裝備有限公司), and CSSC Investment Development Company Limited (中船投資發展有限公司); Mr. Yang Li is general manager of CSSC (Hong Kong) Shipping Company Limited; and Mr. Wang Guozhong is deputy head of the Marine Design & Research Institute of China (中國船舶及海洋工程設計研究院). 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; and

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith Freehills, the legal advisers to the Company on Hong Kong laws, at 23rd Floor, Gloucester Tower, the Landmark, 15 Queen's Road Central, Hong Kong 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 of the Company;

(b) the First Supplemental Agreement;

(c) the Second Supplemental Agreement to the 2014-2016 Framework Agreement;

(d) the 2014-2016 Framework Agreement;

(e) the 2017-2019 Framework Agreement;

(f) the letter of recommendation from the Independent Board Committee dated 30 September 2016, the text of which is set out on pages 41 to 42 of this circular;

(g) the letter of advice issued by the Grand Vinco to the Independent Board Committee and the Independent Shareholders dated 30 September 2016, the text of which is set out on pages 43 to 80 of this circular;

(h) the written consent given by Grand Vinco as referred to in the paragraph headed "Expert" in this appendix;

(i) the Material Contracts as referred to in paragraph 8 of this Appendix to this circular;

(j) the consolidated audited accounts of the Company and its subsidiaries for each of two financial years ended 31 December 2014 and 31 December 2015; and

(k) this circular.