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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold** or transferred all your shares in Guangzhou Shipyard International Company Limited, you should at once hand this circular together with the enclosed proxy form and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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广州广船国际股份有限公司  
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

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

**(H Shares Stock Code: 00317)**

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS  
2010-2012 FRAMEWORK AGREEMENT**

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



國浩資本有限公司

**GuocoCapital Limited**

A Member of the Hong Leong Group

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A letter from the Board is set out on pages 3 to 10 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in respect of the 2010-2012 Framework Agreement and the annual caps thereunder is set out on page 11 of this circular. A letter from GuocoCapital Limited, the independent financial adviser, containing their advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 33 of this circular.

A notice dated 12 November 2009 convening the EGM to be held at 1:30 p.m. on 29 December 2009 (Tuesday) at the conference room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the People's Republic of China is set out on pages 37 to 38 of this circular. Whether you are able to attend the EGM or not, please complete the appropriate form(s) of proxy enclosed with this circular in accordance with the instructions printed thereon and return it (them) to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Hopewell Center at Room 1806-1807, 18th Floor, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form or proxy will not affect your rights to attend and vote in person at the EGM should you so wish. Shareholders who intend to attend the EGM are requested to complete the reply slip enclosed with this circular in accordance with the instructions printed thereon and return it by hand, by mail or by facsimile to the registered office of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the People's Republic of China not later than 9 December 2009.

12 November 2009

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## DEFINITIONS

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

“2007-2009 Framework Agreement”	framework agreement for the Continuing Connected Transactions for the period from 1 January 2007 to 31 December 2009, entered into between the Company and CSSC on 22 November 2006 and approved by Independent Shareholders on 20 December 2006, as amended by a supplemental agreement dated 30 June 2008 and approved by Independent Shareholders on 18 August 2008
“2010-2012 Framework Agreement”	framework agreement for continuing connected transactions for the period from 1 January 2010 to 31 December 2012, entered into between the Company and CSSC on 27 October 2009 and conditional on approval by Independent Shareholders
“Company”	Guangzhou Shipyard International Company Limited, a joint stock company established in the PRC, the H-shares of which are listed on the Stock Exchange and the A-Shares of which are listed on the Shanghai Stock Exchange
“Continuing Connected Transactions”	the products and services provided by and to the Group to and by the CSSC Group as further described in the paragraph headed “Scope” in the section headed “Principal Terms of the 2010-2012 Framework Agreement” in this circular
“CSSC”	China State Shipbuilding Corporation, a state-owned enterprise and a state-authorized investment institution directly supervised and administered by the State-owned Assets Supervision and Administration Commission of the PRC
“CSSC Group”	CSSC and its subsidiaries and associates
“Directors”	directors of the Company

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## DEFINITIONS

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“EGM”	first extraordinary general meeting of 2009 of the Company to be convened on 29 December 2009 (Tuesday) to consider the 2010-2012 Framework Agreement, the notice of which is set out on pages 37 to 38 of this circular
“Group”	the Company and its subsidiaries
“Independent Board Committee”	independent committee of the Board of Directors constituted to advise the Independent Shareholders in respect of the resolution to approve the 2010-2012 Framework Agreement including the annual caps thereunder, comprising of all the independent non-executive Directors, namely Messrs. Wang Xiaojun, Lee Sun-leung, Sunny, Peng Xiaolei and Fu Zhengping
“Independent Shareholders”	Shareholders other than CSSC and its associates
“Latest Practicable Date”	10 November 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	Listing Rules of the Stock Exchange
“PRC”	People’s Republic of China
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## LETTER FROM THE BOARD

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广州广船国际股份有限公司  
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

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

**(H Shares Stock Code: 00317)**

*Directors:*

Li Zhushi (*Chairman*)  
Han Guangde (*Vice Chairman & President*)  
Chen Jingqi  
Zhong Jian  
Yu Baoshan  
Pan Zunxian  
Miao Jian  
Wang Xiaojun<sup>#</sup>  
Lee Sun-leung, Sunny<sup>#</sup>  
Peng Xiaolei<sup>#</sup>  
Fu Zhengping<sup>#</sup>

*Registered Office:*

40 South Fangcun Main Road  
Liwan District, Guangzhou  
The People's Republic of China  
Postal Code: 510382

*# independent non-executive director*

12 November 2009

To the Independent Shareholders

Dear Sir or Madam,

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS 2010-2012 FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

Further to the announcement of the Company dated 27 October 2009 in relation to the 2010-2012 Framework Agreement, the purpose of this circular is to provide Shareholders with further information required under the Listing Rules.

Reference is made to the announcements made by the Company dated 22 November 2006 and 30 June 2008, and circulars dated 8 December 2006 and 21 July 2008 respectively relating to the 2007-2009 Framework Agreement.

The principal business of the Group is ship-building, ship-repairing, and steel structure and other electrical and mechanical manufacturing. 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.

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## LETTER FROM THE BOARD

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The 2007-2009 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2007 to 31 December 2009 will expire on 31 December 2009. The Company and CSSC entered into the 2010-2012 Framework Agreement on 27 October 2009 on substantially the same terms as the 2007-2009 Framework Agreement, to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2010 to 31 December 2012.

### PRINCIPAL TERMS OF THE 2010-2012 FRAMEWORK AGREEMENT

Parties: CSSC and the Company

Date: 27 October 2009

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

- (a) electrical and mechanical engineering equipment, and metallic materials, primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products, and accessories and equipment for use on ships;
- (b) utilities, primarily supply of wind, water and electrical power; and
- (c) labour supply, and design and technology services, primarily providing human resources services such as training of technicians, and supplying short-term labourers, ship-building and ship-repairing services in times of labour shortage of the CSSC Group while the Group has temporary excess labour supply, and providing design and related technology services to the CSSC Group relating to ship-building products and other projects.

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

- (d) (i) electrical and mechanical engineering equipment, and metallic materials, primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products, and other materials and resources; and (ii) ship-building accessories and equipment for use on ships;

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## LETTER FROM THE BOARD

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- (e) labour supply, and design and technology services, primarily supplying short-term labourers, and ship-repairing services to the Group during the Group's high production season, and utilizing cabin cleaning services of the CSSC Group to save costs, and providing design and related technology services to the Group relating to ship-building products and other projects to satisfy the requirements of progress of production;
- (f) financial services in maintaining deposits with and loans from a finance company in the CSSC Group;
- (g) guarantees or mortgages in respect of the Group's borrowings or operating activities when required; and
- (h) agency services, primarily to take advantage of the CSSC Group's reputation and bargaining power in selling the Group's ships and purchasing 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 entered into 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 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. A separate written agreement setting out the detailed terms shall be entered into between the 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 utilities costs supplied to the CSSC Group plus a management fee ranging from 20% to 25% based on such costs.

In respect of (c) above, pricing will be based on terms not less favourable compared with independent third parties.

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## LETTER FROM THE BOARD

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In respect of (d) above, pricing of electrical and mechanical engineering equipment, metallic materials, and ship-building accessories for use on ships will be based on market price. Pricing of ship-building equipment for use on ships will be based on arm's length negotiations taking into account market price, supply lead-in time, qualifications and quality of services (where there are two or more suppliers from the CSSC Group), or on terms no less favourable to the Group than terms available from independent third party suppliers (where is only one supplier from the CSSC Group due to technical specification or supply terms restrictions).

In respect of (e) above, pricing of labour services will be based on costs plus a management fee of 10% on such costs, and pricing of cabin cleaning and ship design and related technology services will be based on market price.

In respect of (f) above, pricing of deposits will be based on interest rate on deposits published by the People's Bank of China, and pricing of loans will be at interest rate not higher than interest rate on loans published by the People's Bank of China.

In respect of (g) above, pricing will be based on agreed fee for providing the guarantees ranging from 0.5% to 1% of the maximum guaranteed amount, which rate will not be less favourable than that provided by independent third parties.

In respect of (h) above, pricing of sales agency fees will be based on not more than 1% of the contract price in accordance with international practice, and pricing of purchases agency fees will be based on agreed fee ranging from 1 to 2% of the contract price in accordance with international practice.

Term: Conditional upon approval by the Company's shareholders in general meeting, the term of the 2010-2012 Framework Agreement shall be three years from 1 January 2010 to 31 December 2012.

# LETTER FROM THE BOARD

## HISTORICAL AMOUNTS AND PROPOSED CAPS

### Historical Amounts

The table below sets out the amount of each category of the Continuing Connected Transactions for the two financial years ended 31 December 2007 and 2008, the nine months ended 30 September 2009 and the estimated amounts for the year ending 31 December 2009 and the comparison with their annual cap amounts pursuant to the 2007-2009 Framework Agreement.

*Unit: RMB million*

Transaction	Historical Caps			Historical Figures			
	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ending 31 Dec 2009	Actual annual amount for the year ended 31 Dec 2007	Actual annual amount for the year ended 31 Dec 2008	Actual amount for the period from 1 Jan to 30 Sep 2009	Estimated annual amount for the year ending 31 Dec 2009
Products and services provided by the Group to CSSC Group:							
(a) electrical and mechanical engineering equipment and metallic materials	93.90	270.21	324.25	66.77	162.86	2.60	275.60
(b) utilities	6.30	7.25	8.70	2.57	2.56	1.75	2.40
(c) labour supply, design and technology services	95.66	173.57	208.28	59.67	83.37	79.85	156.63
Products and services provided by the CSSC Group to the Group:							
(d) electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	583.27	565.67	1,011.74	186.34	441.96	412.07	651.31
(e) labour supply, design and technology services	155.57	142.91	187.39	43.12	53.05	41.36	98.04
(f) (i) aggregate interest on deposits for the year ( <i>Note 1</i> )	0.25	0.25	1.50	0.24	0.21	0.06	1.00
(f) (ii) aggregate interest on loans for the year ( <i>Note 1</i> )	6.00	6.00	7.10	0	0	0	0
(g) guarantee fees ( <i>Note 2</i> )	20.00	20.00	20.00	11.86	7.07	1.61	1.90
(h) (i) sales agency fees	54.00	67.10	80.52	43.62	51.02	24.78	42.00
(h) (ii) purchases agency fees	15.72	18.91	20.99	3.73	6.34	5.56	8.05

*Notes:*

- Maximum outstanding balances on deposits and loans not to exceed RMB100 million.
- Maximum guaranteed amount not to exceed RMB4,000 million.

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## LETTER FROM THE BOARD

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### Proposed Caps

The table below sets out the proposed cap amounts of each category of the Continuing Connected Transactions for the three financial years ending 31 December 2010, 2011 and 2012 respectively.

*Unit: RMB million*

<b>Transaction</b>	<b>Annual cap for the year ending 31 Dec 2010</b>	<b>Annual cap for the year ending 31 Dec 2011</b>	<b>Annual cap for the year ending 31 Dec 2012</b>
Products and services provided by the Group to CSSC Group:			
(a) electrical and mechanical engineering equipment and metallic materials	272.50	299.75	359.70
(b) utilities	5.00	5.50	6.60
(c) labour supply, design and technology services	237.26	260.98	313.18
Products and services provided by the CSSC Group to the Group:			
(d) electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,099.92	1,409.91	1,726.89
(e) labour supply, design and technology services	240.01	294.01	352.81
(f) (i) aggregate interest on deposits for the year ( <i>Note 1</i> )	10.00	10.00	10.00
(f) (ii) aggregate interest on loans for the year ( <i>Note 1</i> )	30.00	30.00	30.00
(g) guarantee fees ( <i>Note 2</i> )	15.00	15.00	15.00
(h) (i) sales agency fees	63.50	69.85	83.82
(h) (ii) purchases agency fees	16.00	17.60	21.12

*Notes:*

1. Maximum outstanding balances on deposits and loans not to exceed RMB500 million.
2. Maximum guaranteed amount not to exceed RMB2,500 million.

The annual caps are determined based on historical amounts, production orders in hand, expected orders and anticipated total production value of the Group increasing by approximately 10% for the year ending 31 December 2011 and by approximately 20% for the year ending 31 December 2012.

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## **LETTER FROM THE BOARD**

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### **REASONS FOR ENTERING INTO OF THE 2010-2012 FRAMEWORK AGREEMENT**

The Continuing Connected Transactions allow the Group to leverage the reputation and bargaining power of the CSSC Group, provides a steady source of materials, labour and design and technology services necessary for the Group to conduct its business, and allows flexibility in handling excess resources which are in short supply for the CSSC Group. The Directors believe that the terms of the 2010-2012 Framework Agreement are fair and reasonable and in the interests of the Independent Shareholders.

### **IMPLICATIONS UNDER THE LISTING RULES**

CSSC is a connected person of the Company by virtue of its approximately 35.71% shareholding in the Company. As the applicable percentage ratios (other than the profits ratio) calculated pursuant to rule 14.07 of the Listing Rules for the annual caps under the 2010-2012 Framework Agreement are higher than 25% on an annual basis, the Continuing Connected Transactions contemplated under the 2010-2012 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 Listing Rules.

The Company will comply with all relevant reporting and independent directors' review requirements under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions.

### **EGM**

A notice convening the first extraordinary general meeting of 2009 of the Company on 29 December 2009 to consider the 2010-2012 Framework Agreement is set out on pages 37 to 38 of this circular. CSSC and its associates will abstain from voting on the resolution.

The Independent Board Committee comprising of all the independent non-executive Directors has been constituted to advise the Independent Shareholders in respect of the resolution to approve the 2010-2012 Framework Agreement including the annual caps thereunder. GuocoCapital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the 2010-2012 Framework Agreement including the annual caps thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Directors are of the opinion that the 2010-2012 Framework Agreement including the annual caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly the Directors recommend all Independent Shareholders to vote in favor of all resolutions set out in the notice of the EGM.

Your attention is drawn to the letter from the Independent Board Committee on page 11 of this circular, the letter from GuocoCapital Limited set out on pages 12 to 33 of this circular, and the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Li Zhushi**  
*Chairman*

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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广州广船国际股份有限公司  
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

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

**(H Shares Stock Code: 00317)**

12 November 2009

*To the Independent Shareholders*

Dear Sir or Madam,

### **Non-Exempt Continuing Connected Transactions 2010-2012 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 Listing Rules, the entering into of the 2010-2012 Framework Agreement between the Company and CSSC constitutes non-exempt continuing connected transactions for the Company and is thus subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms and the proposed caps of the 2010-2012 Framework Agreement and to advise the Independent Shareholders as to whether, in our opinion, its terms and the proposed caps are fair and reasonable so far as the Independent Shareholders are concerned. GuocoCapital Limited 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 GuocoCapital Limited as set out in the circular. Having considered the principal factors and reasons considered by, and the advice of GuocoCapital Limited as set out in its letter of advice, we consider that the terms and the proposed caps of the 2010-2012 Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the 2010-2012 Framework Agreement at the upcoming EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

**Wang Xiaojun Lee Sun-leung, Sunny Peng Xiaolei Fu Zhengping**

*Independent Non-executive Directors*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of the letter of advice from GuocoCapital Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular.*



12 November 2009

Guangzhou Shipyard International Company Limited  
40 South Fangcun Main Road,  
Liwan District, Guangzhou  
The People's Republic of China  
Postal Code: 510382

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement to act as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, the 2010-2012 Framework Agreement and the respective annual caps, details of which are set out in the letter from the Board in the circular of the Company dated 12 November 2009 (the "**Letter from the Board**") to the Shareholders (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context otherwise requires.

The 2007-2009 Framework Agreement which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2007 to 31 December 2009 will expire on 31 December 2009. The Company and CSSC entered into the 2010-2012 Framework Agreement on 27 October 2009 on substantially the same terms as the 2007-2009 Framework Agreement, to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2010 to 31 December 2012.

The Continuing Connected Transactions are categorised as follows:

- (1) Provision of products and services by the Group to the CSSC Group:
  - (a) Electrical and mechanical engineering equipment and metallic materials;

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (b) Utilities; and
  - (c) Labour supply, design and technology services.
- (2) Provision of products and services by the CSSC Group to the Group:
- (d) Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships;
  - (e) Labour supply, design and technology services;
  - (f) Financial services for deposits and loans;
  - (g) Corporate guarantee services; and
  - (h) Sales and purchase agency services.

CSSC is a connected person of the Company by virtue of its approximately 35.7% shareholding in the Company. As the applicable percentage ratios (other than the profits ratio) calculated pursuant to rule 14.07 of the Listing Rules for the annual caps under the 2010-2012 Framework Agreement are higher than 25% on an annual basis, the Continuing Connected Transactions contemplated under the 2010-2012 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. CSSC and its associates will abstain from voting on the relevant resolutions at the EGM.

The Independent Board Committee comprising the independent non-executive Directors, Messrs. Wang Xiaojun, Lee Sun-leung, Sunny, Peng Xiaolei and Fu Zhengping has been established by the Company to advise the Independent Shareholders on whether the terms of the 2010-2012 Framework Agreement are in the interests of the Company and the Independent Shareholders and the respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

### **BASIS OF ADVICE**

We are not associated with the Company and its substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Continuing Connected Transactions, the 2010-2012 Framework Agreement and the respective annual caps thereto. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or its substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In formulating our opinion with regard to the Continuing Connected Transactions, the 2010-2012 Framework Agreement and the respective annual caps, we have relied on the information supplied, representations made and opinions expressed by the Company, its Directors, advisers and representatives, for which they are solely responsible. We have assumed that all such information and representations were true, accurate and complete at the time they were made and continue to be so at the date of this letter. We have also assumed that all statements of belief, opinion and intention of the Directors, the Company's advisers and representatives produced to us were reasonably made after due and careful inquiry. We have been advised by the Company that no material facts, the omission of which would make any statement or opinion contained in this letter to be misleading, have been omitted from the information provided by the Company to us.

We consider that we have been provided with, and we have reviewed, sufficient information to enable us to reach an informed view thereof and to justify reliance on the accuracy of the information provided to us so as to provide a reasonable basis for our advice. We have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors, advisers and representatives. We have not, however, carried out any independent verification of the information provided to us by the Company, its Directors, advisers and representatives, nor have we conducted any independent in-depth investigation into the business and affairs or future prospects of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

#### **Background to and reasons for the 2010-2012 Framework Agreement**

The principal business of the Group is ship-building, ship-repairing, and steel structure and other electrical and mechanical manufacturing. For the six months ended 30 June 2009, revenue of the Group reached approximately RMB3.1 billion, representing an increase of approximately 1.9% as compared with the corresponding period in 2008. Profit for the period amounted to approximately RMB246.2 million, representing a drop of approximately 54.1% principally due to the rising prices of ship-building raw materials and labour costs and the increase in finance costs as a result of the recent global financial crisis.

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.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Given the similarity in the business nature and resource requirements of the Group and the CSSC Group, the Group has been providing and receiving products and services to/from the CSSC Group for better allocation of resources between each other so as to meet the production schedules for ship-building in the past years. As advised by the Directors, the Continuing Connected Transactions will enable the Group to have a reliable and cost effective source of materials, labour, design and technology and various agency services by leveraging the reputation and bargaining power of the CSSC Group in the international ship-building industry.

Taking into consideration that: (i) the transactions are entered into under the usual and ordinary course of business of the Group and the CSSC Group; (ii) there are practical needs for the Group to continue its business relationship with the CSSC Group in accordance with the Group's current business plan and production needs; and (iii) the Group will be benefited from better allocation of resources with the CSSC Group and hence enjoy competitive cost advantages, we concur with the Directors' view that the entering into of the 2010-2012 Framework Agreement is in the interests of the Independent Shareholders and the Company as a whole.

### **Principal terms of the 2010-2012 Framework Agreement and annual caps of the Continuing Connected Transactions**

The Continuing Connected Transactions under the 2010-2012 Framework Agreement are divided into two main categories namely: (i) products and services provided by the Group to the CSSC Group; and (ii) products and services provided by the CSSC Group to the Group.

As advised by the Directors, the Group plans its production based on the production orders in hand and the expected orders to be received in the coming years. Based on the current production schedule, the Directors anticipate that the total production value of the Group will increase by approximately 10% for the year ending 31 December 2011 and approximately 20% for the year ending 31 December 2012 (the "**Production Value Increment**"). Given the similar business nature of the Group and the CSSC Group, the Directors also anticipate the CSSC Group will experience similar growth in production value for the two years ending 31 December 2012. Accordingly, the Directors consider that it is fair and reasonable to determine the annual caps for the Continuing Connected Transactions by reference to the Production Value Increment as a general principle.

According to China Association of the National Shipbuilding Industry\* (中國船舶工業行業協會), completed ship productions in China reached approximately 23.4 million deadweight tons for the first eight months of 2009, representing a growth of approximately 58% as compared with the corresponding period last year. With the effect of the global financial crisis, new ship orders in China for the first eight months of 2009 decreased by approximately 82% to 11.0 million deadweight tons. However, it is noted that new ship orders in China during June to August 2009 amounted to approximately 9.8 million deadweight tons, represents around 89% of total new ship orders during the first eight months of 2009, which illustrated that new orders in 2009 are mainly received by the shipbuilders in China recently following the recent improvement of global economy.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Based on the above statistics and having considered the production plans of the Group, we concur with the Directors' view that the Production Value Increment is a fair and reasonable basis for the determination of the respective annual caps of the Continuing Connected Transactions.

Detail terms of each of the Continuing Connected Transactions are discussed as follows:

### **1. Products and services provided by the Group to the CSSC Group**

#### **(a) *Provision of electrical and mechanical engineering equipment and metallic materials***

- *Background and basis for determining the terms*

Pursuant to the 2010-2012 Framework Agreement, the Group will provide to CSSC Group various electrical and mechanical engineering equipment, and metallic materials, primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products, and accessories and equipment for use on ships. The Group provides such equipment and materials to the CSSC Group to meet its routine and urgent production needs when the Group has excess supplies.

As advised by the Directors, the pricing terms of the provision of electrical and mechanical engineering equipment and metallic materials are determined based on market comparable prices with reference to tender prices or pricing terms offered to independent third parties. The Company uses to take references on the specifications and structures of the equipment and the relevant materials used to determine the price of each ship-building order. We have reviewed the relevant tender documents and contracts regarding the provision of electrical and mechanical engineering equipment and metallic materials to independent third parties by the Group, and we noted that (i) the tender processes are arranged by independent third parties and the prices are hence in line with the market; and (ii) the pricing terms offered by the Group to the CSSC Group are comparable to those offered to independent third parties. As such, we concur with the Directors' view that the basis for determining the price terms is fair and reasonable so far as the Independent Shareholders are concerned.

- *Annual caps*

As set out in the letter from the Board, the annual caps in respect of the provision of electrical and mechanical engineering equipment and metallic materials for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB272.5 million, RMB299.8 million, and RMB359.7 million respectively.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As advised by the Directors, the annual caps have been determined with reference to historical transaction amounts, production orders from the CSSC Group and the relevant production schedules.

The historical transaction amounts in respect of the transactions contemplated hereunder were as follows:

	<b>For the year ended 31 Dec 2007</b>	<b>For the year ended 31 Dec 2008</b>	<b>For the nine months ended 31 Sep 2009</b>
Transaction amount (RMB million)	66.77	162.86	2.60

The transaction amount in respect of the provision of electrical and mechanical engineering equipment and metallic materials supplied by the Group to the CSSC Group increased sharply by approximately 143.9% from approximately RMB66.8 million for the year ended 31 December 2007 to approximately RMB162.9 million for the year ended 31 December 2008. The transaction amount dropped to approximately RMB2.6 million for the nine months ended 30 September 2009 mainly because certain completed products, which are still subject to final inspections, have not yet been delivered to the CSSC Group. However, the Directors expect the transaction amount may reach approximately RMB275.6 million for the year ending 31 December 2009 following the on-going delivery of completed products to the CSSC Group in the fourth quarter of 2009, which represented an annual growth of approximately 69.2%. With the recent improvement of global economy, the Directors believe that such growth trend will continue in future.

As advised by the Directors, the decrease in annual cap for the year ending 31 December 2010 as compared with the expected transaction amount for the year ending 31 December 2009 is principally because the project for the new ship-building base constructed by CSSC Guangzhou Nansha Longxue Construction Development Co. Ltd.\* (廣州中船南沙龍穴建設發展有限公司) was substantially completed in 2009, which resulted in the reduction of the relevant steel structural projects in 2010. However, the Directors anticipate that the annual caps for the years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

Taking into account (i) the historical transaction amounts; (ii) production orders from the CSSC Group; (iii) the relevant production schedules; and (iv) the Production Value Increment factor, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the provision of electrical and mechanical engineering equipment and metallic materials for the

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

**(b) *Provision of utilities***

- *Background and basis of determining the terms*

Upon listing of the H Shares on the Stock Exchange in 1993, equipment relating to the provision of utilities (primarily supply of wind, water and electrical power) was included in the Group instead of the CSSC Group, and therefore the Group has been providing utilities to the CSSC Group since then. Pursuant to the 2010-2012 Framework Agreement, the Group will continue to engage in the provision of utilities to the CSSC Group as such services are vital for the smooth operations of the CSSC Group. As advised by the Directors, the Group has not provided utilities to other independent third parties as the Group is not engaging in the business of provision of utilities.

The Group would charge a fee 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. Although there is no direct comparable given the Group does not provide utilities services to independent third parties, the Directors consider the price fair and reasonable as similar charges are also charged to other member companies of the Group. Given the proposed pricing terms are on a cost plus basis, with a premium of 20% to 25% to cover the administrative costs of the Group for the provision of the services, we concur with the Directors' view that the basis for determining the price for utilities are fair and reasonable so far as the Independent Shareholders are concerned.

- *Annual caps*

As set out in the letter from the Board, the annual caps in respect of the provision of utilities to the CSSC Group for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB5.0 million, RMB5.5 million, and RMB6.6 million respectively.

For the two years ended 31 December 2007 and 2008 and the nine months ended 30 September 2009, the transaction amounts in respect of the provision of utilities by the Group to the CSSC Group were approximately RMB2.6 million, RMB2.6 million and RMB1.8 million respectively. The Directors estimate that the total transaction amount will reach approximately RMB2.4 million for the year ending 31 December 2009 and the annual caps for the years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

As advised by the Directors, having considered the factor of the Production Value Increment and the clarification of the allocation basis on the

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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consumption of utilities by the CSSC Group sourced from the Group's facilities, the Directors anticipate the CSSC Group will consume more utilities going forward. Moreover, according to the National Bureau of Statistics of China, purchasing price index of raw materials, fuel and power increased from 104.4 in 2007 to 110.5 in 2008, which demonstrated a general upward moving trend of utility prices. Accordingly, the transaction amounts in relation to the provision of utilities are also expected to increase for the three years ending 31 December 2012.

Taking into account (i) the historical transaction amounts; (ii) the future consumption of utilities by the CSSC Group; (iii) the Production Value Increment factor; and (iv) the recent upward moving trend of utilities prices, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the provision of utilities for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Provision of labour supply, design and technology services*

- *Background and basis of determining the terms*

Pursuant to the 2010-2012 Framework Agreement, the Group will provide to the CSSC Group labour supply services, primarily providing human resources services such as training of technicians, and supplying short-term labourers, ship-building and ship-repairing services in times of labour shortage of the CSSC Group while the Group has temporary excess labour supply. As the production cycles of both the Group and the CSSC Group are seasonal, 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 ship-building products and other projects, which the Group are specialised in, to the CSSC Group from time to time. The Directors consider 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, and is therefore in the interests of the Company and the Shareholders as a whole.

As advised by the Directors, the pricing terms of labour supply, design and technology services charged by the Group to the CSSC Group are determined based on terms no less favourable than those offered to independent third parties. We have reviewed documents related to the provision of labour and training services to the CSSC Group, and we noted that the pricing terms charged to the CSSC Group are comparable over the past few years. We have also reviewed documents related to the provision of design and technology services to the CSSC Group and to independent third parties, and we noted that the pricing terms are either based on a standard price set out as

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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industry practices or on a pricing term comparable with those offered to independent third parties. Thus, we concur with the Directors' view that the terms for the provision of labour supply, design and technology services are determined on normal commercial terms.

- *Annual caps*

As set out in the letter from the Board, the annual caps in respect of the provision of labour supply, design and technology services to the CSSC Group for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB237.3 million, RMB261.0 million, and RMB313.2 million respectively.

As advised by the Directors, the annual caps have been determined with reference to historical transaction amounts, and the contracted and expected future services to be provided to the CSSC Group.

The historical transaction amounts in respect of the transactions were as follows:

	<b>For the year ended 31 Dec 2007</b>	<b>For the year ended 31 Dec 2008</b>	<b>For the nine months ended 31 Sep 2009</b>
Transaction amount (RMB million)	59.67	83.37	79.85

The transaction amount in respect of the provision of labour supply, design and technology services to the CSSC Group increased significantly by 39.7% from approximately RMB59.7 million for the year ended 31 December 2007 to approximately RMB83.4 million for the year ended 31 December 2008. For the nine months ended 30 September 2009, the transaction amount reached approximately RMB79.9 million, being approximately 95.8% of the whole year transaction amount for the year ended 31 December 2008. The Directors estimate that the total transaction amount may reach approximately RMB156.6 million for the year ending 31 December 2009. With the existing upward moving trend on the transaction amount, the Directors anticipate that such growth trend will continue in future.

As advised by the Directors, and having reviewed the production scheme of the Group in relation to the provision of labour supply, design and technology services, we are given to understand that the increase in annual cap for the year ending 31 December 2010 as compared with the expected transaction amount for the whole year ending 31 December 2009 is principally

due to the expected increase in orders for technical services of approximately RMB65 million relating to the processing of ship rudders following the commencement of production of a newly established subsidiary of the Company. The Directors anticipate that the annual caps for the years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

Taking into account (i) the historical transaction amounts; (ii) the Production Value Increment factor; and (iii) the expected increasing orders for technical services, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the provision of labour supply, design and technology services to the CSSC Group for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

## **2. Products and services provided by the CSSC Group to the Group**

### ***(d) Provision of electrical and mechanical engineering equipment and metallic materials and ship-building accessories and equipment for use on ships***

- *Background and basis of determining the terms*

Pursuant to the 2010-2012 Framework Agreement, the Group will source from CSSC Group (i) electrical and mechanical engineering equipment, and metallic materials, primarily complete sets or accessories of electrical and mechanical engineering equipment, steel products, non-ferrous metal products, and other materials and resources; and (ii) ship-building accessories and equipment for use on ships. The Group sources these types of equipment from the CSSC Group and also from other independent suppliers so as to meet its routine and urgent needs. The CSSC Group is one of the suppliers because the CSSC Group is specialised in manufacturing some of these equipments and has the capacity to supply various ship-building materials when the Group has the production needs.

As advised by the Directors, the prices of electrical and mechanical equipment and metallic materials are determined based on market price. We noted that the Group uses to compare terms of different suppliers available in the market and selects the most favourable supplier as considered by the Group based on its industry knowledge and experiences. As such, we concur with the Directors' view that the basis for determining the pricing terms between the Group and the CSSC Group regarding the provision of electrical and mechanical engineering equipment and metallic materials and ship-building accessories and equipment for use on ships is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- *Annual caps*

As set out in the letter from the Board, the annual caps in respect of the provision of electrical and mechanical engineering equipment and metallic materials and ship-building accessories and equipment for use on ships by the CSSC Group for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB1,099.9 million, RMB1,409.9 million, and RMB1,726.9 million respectively.

The historical transaction amounts in respect of the transactions were as follows:

	<b>For the year ended 31 Dec 2007</b>	<b>For the year ended 31 Dec 2008</b>	<b>For the nine months ended 30 Sep 2009</b>
Transaction amount (RMB million)	186.34	441.96	412.07

The transaction amount in respect of the provision of electrical and mechanical engineering equipment and metallic materials and ship-building accessories and equipment for use on ships by the CSSC Group to the Group increased sharply by approximately 137.3% from approximately RMB186.3 million for the year ended 31 December 2007 to approximately RMB442.0 million for the year ended 31 December 2008. The transaction amount for the nine months ended 30 September 2009 reached approximately RMB412.1 million, being approximately 93.2% of the whole year transaction amount for the year ended 31 December 2008. We are advised by the Directors that with the increasing orders on hand in the second half of 2009, the transaction amount is expected to reach approximately RMB651.3 million for the year ending 31 December 2009. With the recent improvement of global economy which may stimulate the demand for new ships of the Group, the Directors believe that the transaction amount will continue to grow in the future.

The volume of purchases of equipment from the CSSC Group highly correlates to the ship-building orders received by the Group and the progress of the ship-building on each order. As advised by the Directors, and having reviewed the production and payment schedules on ship-building for the coming years, we are given to understand that the transaction amount for the two years ending 31 December 2011 will increase significantly mainly due to the progress payment of approximately RMB336 million regarding the building of two semi-submersible heavy lift vessels of 50,000 deadweight tons according to the payment terms of the relevant contracts on ship-building, and the expected payment to the CSSC Group of approximately RMB200 million in 2010 and RMB250 million in 2011 regarding a possible new ship-building order.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Taking into account (i) the historical transaction amounts; (ii) the Production Value Increment factor; and (iii) the production and payment schedules for existing and expected ship-building orders, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the provision of electrical and mechanical engineering equipment and metallic materials and ship-building accessories and equipment for use on ships by the CSSC Group for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

(e) *Provision of labour supply, design and technology services*

- *Background and basis of determining the terms*

Pursuant to the 2010-2012 Framework Agreement, labour supply, design and technology services will be provided by the CSSC Group to the Group. Labour services are primarily the supplying of short-term labourers, and ship-repairing and cabin cleaning services. We are given to understand that due to the recent shortage of supply of labours in the ship-building industry, the CSSC Group seldom supplied excess labours to the Group during the past few years. However, the Group may still consider to obtain labour services from the CSSC Group depending on the future labour supply and the production needs of the Group. Design and technology services will also be provided by the CSSC Group to the Group because the CSSC Group is more specialised in certain types of designs when compared with the Group.

According to the Directors, the pricing of labour services will be based on costs plus a management fee of 10% on such costs, and pricing of cabin cleaning and ship design and related technology services will be based on market price. We have reviewed documents in relation to the provision of labour supply, design and technology services and we noted that (i) the pricing for design services is based on the standard stated in the ship-building products pricing handbook published by the former China State Shipbuilding Corporation\* (原中國船舶工業總公司), the price of which is commonly used in the ship-building industry; and (ii) the service providers are used to be selected via tender processes arranged by an independent third party and the prices are hence in line with the open market. As such, we concur with the Directors' view that the terms of the provision of labour supply, design and technology services are determined on normal commercial terms.

- *Annual caps*

As set out in the letter from the Board, the annual caps in respect of the provision of labour supply, design and technology services by the CSSC Group for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB240.0 million, RMB294.0 million, and RMB352.8 million respectively.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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The historical transaction amounts in respect of the transactions were as follows:

	<b>For the year ended 31 Dec 2007</b>	<b>For the year ended 31 Dec 2008</b>	<b>For the nine months ended 30 Sep 2009</b>
Transaction amount (RMB million)	43.12	53.05	41.36

The transaction amount in respect of the provision of labour supply, design and technology services by the CSSC Group to the Group increased by approximately 23.2% from approximately RMB43.1 million for the year ended 31 December 2007 to approximately RMB53.1 million for the year ended 31 December 2008. The transaction amount for the nine months ended 30 September 2009 reached RMB41.4 million, being approximately 78.0% of the whole year transaction amount for the year ended 31 December 2008. We are advised by the Directors that with the increasing orders on hand in the second half of 2009, the transaction amount is expected to reach approximately RMB98.0 million for the year ending 31 December 2009. With the recent improvement of global economy, the Directors believe that such growth trend will continue in future.

As advised by the Directors, the increase in annual cap for the year ending 31 December 2010 as compared with the expected transaction amount for the whole year ending 31 December 2009 is principally due to the design and project management fees of approximately RMB61 million in 2010 regarding the establishment of a subsidiary of the Group in Zhongshan and technical service fees of approximately RMB27.5 million incurred by another subsidiary of the Group for its commencement of operations in 2009. The Directors anticipate that the annual caps for the two years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

Taking into account (i) the historical transaction amounts; (ii) the Production Value Increment factor; and (iii) the demand for design and technical services for new projects of the Group, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the provision of labour supply, design and technology services by the CSSC Group for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*(f) Financial services in maintaining deposits with and loans from a finance company of the CSSC Group*

*i. Cash deposits placed with a finance company of the CSSC Group*

The Group maintains cash deposits with China Shipping Finance Company Limited\* (中船財務責任有限公司) (“**China Shipping Finance**”), a finance subsidiary within the CSSC Group, from time to time. Interests on such deposits are credited to the Company’s current savings account based on rates on deposits published by the People’s Bank of China from time to time. We are given to understand that such deposits are on short-term basis and are maintained with China Shipping Finance during the transition period for funds to the Group from the PRC Government authorities in support of the development of the ship-building industry for administration needs.

The total amount of interest on deposits received were approximately RMB0.2 million and RMB0.2 million for each of the two years ended 31 December 2007 and 2008 respectively and is estimated to be approximately RMB1.0 million for the year ending 31 December 2009.

The Board proposed that the maximum amount of deposits maintained with the CSSC Group for the three years ending 31 December 2012 will not be more than RMB500 million. The increase in cap amount as compared with 2009 is principally due to the expected increase in future production of ship models which are entitled to be granted with government subsidies and is in line with the increase in proposed caps on loans to be borrowed from China Shipping Finance as discussed below. We note that such cap does not amount to a substantial portion (around 9%) of total cash and cash equivalent (including short-term time deposits and restricted cash) of approximately RMB5.7 billion of the Company as at 30 June 2009.

As advised by the Directors, the deposit interest rates will be determined based on the interest rates as quoted from the People’s Bank of China from time to time. Based on the deposit interest rate of approximately 2% per annum pursuant to the 2010-2012 Framework Agreement, the Directors hence anticipate the relevant deposit interests be capped at RMB10 million for each of the three years ending 31 December 2012. As quoted from the People’s Bank of China, interest rate for current deposits is around 0.36% whereas the interest rate for short term fixed deposits (i.e. less than 1 year) ranges from 1.71% to 2.25%. We therefore concur with the Directors’ view that the terms for placing of cash deposit with China Shipping Finance are on normal commercial terms and that the bases for determining the annual caps for deposit interest are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Given (i) the proposed caps enable the effective transmission of government funds via China Shipping Finance to the Group; (ii) the interest rates on the deposits are quoted on normal commercial rate; and (iii) the cap amounts are not substantial as compared with the latest cash position of the Group, we therefore concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to place deposit at China Shipping Finance and it is fair and reasonable to maintain the cap amounts at the proposed level.

*ii. Loans borrowed from a finance company of the CSSC Group*

Apart from maintaining cash deposits with China Shipping Finance, the Group seeks short-term loans from China Shipping Finance for standby purpose in support of the operational and production needs of the Group. Interest rates charged by China Shipping Finance are based on interest rates published by the People's Bank of China from time to time.

As advised by the Directors, no borrowings have been incurred with China Shipping Finance during the past few years. However, for standby purpose, the Directors consider the loans services essential for the future business development of the Group in case the Group has urgent financial needs. Accordingly, the Directors propose a cap of RMB500 million for loans to be borrowed from China Shipping Finance. We are given to understand that the increase in annual caps as compared with previous years is principally due to the enhancement of the flexibility for the Group to seek financing through China Shipping Finance to meet the Group's future funding needs for business operations.

As advised by the Directors, the loan interest rates will be determined based on the interest rates as quoted from the People's Bank of China from time to time. Based on the loan interest rates of approximately 6% per annum pursuant to the 2010-2012 Framework Agreement, the Directors anticipate the relevant loan interests be capped at RMB30 million for each of the three years ending 31 December 2012. As quoted from the People's Bank of China, interest for bank borrowings ranges from 4.86% to 5.94%, accordingly, we concur with the Directors' view that the terms for borrowing loans from China Shipping finance are on normal commercial terms and that the basis for determining the annual caps for loan interest is fair and reasonable so far as the Independent Shareholders are concerned.

Having considered the above, we concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to borrow loans from China Shipping Finance and it is fair and reasonable to maintain the cap amounts at the proposed levels.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*(g) Guarantee fees paid to the CSSC Group*

In the course of entering into sales contracts or seeking bank financings, the Group may be requested for guarantees from an additional party to guarantee the Group's performances and/or borrowings. The CSSC Group, as the Company's parent group, uses to provide corporate guarantees in support of the Group's normal business operations. Pursuant to the 2010-2012 Framework Agreement, the guarantee fee payable to the CSSC Group ranges from 0.5% to 1% of the maximum guaranteed amount and will be no less favourable than those offered by independent third parties. We have reviewed the samples of transactions in relation to the provision of guarantee services by the CSSC Group and by third parties to the Group and we note that the guarantee fees offered by the CSSC Group are, in general, more favourable than those offered by third party financial institutions.

As advised by the Directors, in order to reduce financing costs of the Group to cope with the recent unstable economic situation, the Group will utilise bank loans which do not require corporate guarantees from the CSSC Group for its short-term financing needs from time to time. Accordingly, the Directors anticipate the total amount of guarantees for each of the three years ending 31 December 2012 be reduced to approximately RMB2.5 billion. On such basis, the Directors also anticipate the relevant annual caps of guarantee fee to be RMB15 million for each of the three years ending 31 December 2012. As the guarantee services are required to support the business operations of the Group, we concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to maintain the cap amounts at the proposed levels.

Having considered that the rate of the guarantee fee payable to the CSSC Group for the three years ending 31 December 2012 is lower than the market rate in general and that the annual caps are determined based on future needs for corporate guarantees, we concur with the Directors' view that the terms of the corporate guarantee and the relevant cap amounts for each of the three years ending 31 December 2012 so determined are fair and reasonable so far as the Independent Shareholders are concerned.

*(h) Agency fee for sales agency services and procurement of materials*

*i. Agency fee for sales agency services*

- Background and basis of determining the terms

Other than selling the Group's products through its own sales team, the Group uses to leverage the CSSC Group's reputation in the international ship-building market and its long established relationships with ship owners to sell the Group's products. Therefore, the Group will continue to use the sales agency services provided by the CSSC Group for the coming three years ending 31 December 2012.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Pursuant to the 2010-2012 Framework Agreement, the commission rate in respect of the agency services is agreed at not more than 1% of the contract sum of each sales transaction procured by the CSSC Group for the Group. The commission will be payable to the CSSC Group by installments, based on the payment schedule of each sales transaction as agreed with the Group's customers. The Directors advise that such commission rate is determined based on international market practices and is hence on normal commercial terms. We have reviewed documents in relation to the agency fee for sales agency services, and we noted that (i) the commission rate is not more than 1% of the contract sum of the relevant sales transactions; and (ii) the agency fees charged to the Group were at rates comparable to those as offered by independent third parties.

Having considered the above, we concur with the Directors' view that the provision of the sales agency services by the CSSC Group is in the interests of the Company and Shareholders as a whole and the terms of the agency commission for each of the three years ending 31 December 2012 so determined are on normal commercial terms.

- Annual caps

As set out in the letter from the Board, the annual caps in respect of the sales agency fee for sales agency services for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB63.5 million, RMB69.9 million, and RMB83.8 million respectively.

The historical transaction amounts in respect of the transactions were as follows:

	<b>For the year ended <u>31 Dec 2007</u></b>	<b>For the year ended <u>31 Dec 2008</u></b>	<b>For the nine months ended <u>30 Sep 2009</u></b>
Transaction amount (RMB million)	43.62	51.02	24.78

The transaction amount in respect of the provision of sales agency services increased by approximately 17.0% from approximately RMB43.6 million for the year ended 31 December 2007 to approximately RMB51.0 million for the year ended 31 December 2008. The transaction amount for the nine months ended 30 September 2009 reached RMB24.8 million, being approximately 48.6% of the whole year transaction amount for the year ended 31 December 2008. We are advised by the Directors that the decrease in transaction amount in the first nine months of 2009

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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was due to the decrease in sales under the recent global financial crisis. The Directors anticipate that the transaction amount is expected to reach approximately RMB42.0 million for the year ending 31 December 2009. The decrease in transaction amount is principally due to the reducing number of new orders in 2009. However, with the recent improvement of global economy, the Directors believe that the orders for ships will be strong and hence the transaction amount in relation to the sales agency fee for the provision of sales agency services will increase.

As discussed with the Directors, and having reviewed the production and payment schedule of the ship-building orders, we are given to understand that the increase in annual cap for the year ending 31 December 2010 as compared with the expected whole year transaction amount for the year ending 31 December 2009 is principally due to the expected increasing payments from customers on existing and new ship-building orders based on the progress of each order which will directly result in increasing the commissions payable to the CSSC Group. The Directors anticipate that the annual caps for years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

Taking into account (i) the historical transaction amounts; (ii) the Production Value Increment factor; and (iii) the expected increasing of commissions arising from the sale of ships through the CSSC Group, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of sales agency fee for sales agency services for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

*ii. Agency fee for procurement of materials*

- Background and basis of determining the terms

As advised by the Directors, the Group may from time to time appoint the CSSC Group as its broker to source foreign equipment and accessories and steel and metallic materials for ship-building. Through leveraging the strong bargaining power of the CSSC Group due to bulk purchases made by the CSSC Group, the Group will enjoy a lower cost on sourcing the equipment and materials and ensure the orders to be delivered at a more secure time. Therefore, the Group will continue to use the agency services provided by the CSSC Group for procurement of materials for the coming three years ending 31 December 2012.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Pursuant to the 2010-2012 Framework Agreement, the commission rate in respect of the agency service is agreed at 1% to 2% of the total contract sum. According to the Directors, the rate is determined based on international market practices and is hence on normal commercial terms. We have reviewed certain contracts of the Group on procurement of materials, and we noted that the commission rate charged by the CSSC Group is comparable to the terms charged by independent third parties.

Having considered the above, we concur with the Directors' view that the provision of the procurement agency services by the CSSC Group is in the interests of the Company and Shareholders as a whole and the terms of the agency commission for each of the three years ending 31 December 2012 so determined are on normal commercial terms.

- Annual caps

As set out in the letter from the Board, the annual caps in respect of the purchase agency fee for procurement of materials for the three years ending 31 December 2010, 2011 and 2012 are approximately RMB16.0 million, RMB17.6 million, and RMB21.1 million respectively.

The historical transaction amounts in respect of the transactions were as follows:

	<b>For the year ended 31 Dec 2007</b>	<b>For the year ended 31 Dec 2008</b>	<b>For the nine months ended 30 Sep 2009</b>
Transaction amount (RMB million)	3.73	6.34	5.56

The transaction amount in respect of the purchase agency fee for procurement of materials increased by approximately 70.3% from approximately RMB3.7 million for the year ended 31 December 2007 to approximately RMB6.3 million for the year ended 31 December 2008. The transaction amount for the nine months ended 30 September 2009 reached approximately RMB5.6 million, being approximately 88.9% of the whole year transaction amount for the year ended 31 December 2008. With the increasing orders on hand in the second half of 2009, the transaction amount is expected to reach approximately RMB8.1 million for the year ending 31 December 2009. With the recent improvement of global economy, the Directors believe that the orders for ships will be strong and hence the transaction amount in relation to the purchase agency fee for procurement of materials will increase.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As advised by the Directors, the annual cap for the year ending 31 December 2010 will increase as compared with the expected whole year transaction amount for the year ending 31 December 2009 as the Company is considering to increase its purchase orders through the CSSC Group for more secure supply of equipment and materials at a competitive price against the recent fluctuation of supply and prices of steel and metallic materials. The Directors believe the production costs of the Group will be lowered through the tightening of business relationships with the CSSC Group in relation to the procurement of materials. The Directors anticipate that the annual caps for the two years ending 31 December 2011 and 2012 will increase at a rate in line with the Production Value Increment factor.

Taking into account (i) the historical transaction amounts; (ii) expected increase of purchase through the CSSC Group; and (iii) recent fluctuations in steel prices, we concur with the Directors' view that the bases adopted to determine the annual caps in respect of the purchase agency fee for procurement of materials for the three years ending 31 December 2012 are fair and reasonable so far as the Independent Shareholders are concerned.

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**LETTER FROM INDEPENDENT FINANCIAL ADVISER**

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**SUMMARY OF THE ANNUALS CAPS**

The annual caps in relation to the Continuing Connected Transactions as described in the 2010-2012 Framework Agreement are summarised in the following table for ease reference:

*Unit: RMB million*

<b>Transaction Item</b>	<b>Annual cap for the year ending</b>		
	<b>31 Dec 2010</b>	<b>31 Dec 2011</b>	<b>31 Dec 2012</b>
Products and services provided by the Group to the CSSC Group:			
(a) Electrical and mechanical engineering equipment and metallic materials	272.50	299.75	359.70
(b) Utilities	5.00	5.50	6.60
(c) Labour supply, design and technology services	237.26	260.98	313.18
Products and services provided by the CSSC Group to the Group:			
(d) Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,099.92	1,409.91	1,762.89
(e) Labour supply, design and technology services	240.01	294.01	352.81
(f) (i) Aggregate interest on deposits for the year ( <i>Note 1</i> )	10.00	10.00	10.00
(f) (ii) Aggregate interest on loans for the year ( <i>Note 1</i> )	30.00	30.00	30.00
(g) Guarantee fees ( <i>Note 2</i> )	15.00	15.00	15.00
(h) (i) Sales agency fees	63.50	69.85	83.82
(h) (ii) Purchases agency fees	16.00	17.60	21.12

*Notes:*

1. Maximum outstanding balances on deposits and loans not to exceed RMB500 million.
2. Maximum guaranteed amount not to exceed RMB2,500 million.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATIONS

Having considered the above principal factors and reasons, we concur with the Directors' view that the entering into of the 2010-2012 Framework Agreement is in the ordinary and usual course of business of the Group and that the terms of the 2010-2012 Framework Agreement, including the respective annual caps, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions in relation to the Continuing Connected Transactions, the 2010-2012 Framework Agreement, and the respective annual caps to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**GUOCOCAPITAL LIMITED**

**Athena Fung**

*Assistant Director, Corporate Finance*

\* *for identification purposes*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required (i) 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); (ii) to be entered into the register kept by the Company pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) contained in the Listing Rules were as follows:

Directors	Class and number of shares (including those held by spouses and children under the age of 18)	
	Class	Number
Li Zhushi		None
Han Guangde		None
Chen Jingqi	A Shares	2,540 shares
Zhong Jian		None
Yu Baoshan		None
Pang Zunxian		None
Miao Jian		None
Wang Xiaojun		None
Lee Sun-leung, Sunny		None
Peng Xiaolei		None
Fu Zhengping		None

All the interests disclosed above represent long positions in the ordinary shares of the Company held in a personal capacity.

Save as disclosed above, as at the Latest Practicable Date:

- (a) none of the Directors had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would be required: (i) 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 would be taken or deemed to have under such provisions of the SFO); (ii) to be entered into the register kept by the Company pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules;

- (b) 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;
- (c) none of the Directors or their associates had any direct or indirect interest in any assets which had been, since 31 December 2008 (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.

### 3. COMPETING INTERESTS

So far as the Directors were aware, as at the Latest Practicable Date, 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.

### 4. OTHER INTEREST

Save disclosed herein, 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 names and qualifications of the expert who gave its advice contained in this circular are set out below:

<b>Name</b>	<b>Qualification</b>
GuocoCapital Limited	A corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date:

- (a) the expert named above 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) the expert named above has given and has not withdrawn its written consent to the issue of this circular with its letter of advice and the references to its name and logo in the form and context in which they are included; and
- (c) the expert named above did not have any direct or indirect interest in any assets which had been, since 31 December 2008 (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.

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited accounts of the Group have been made up.

## **7. DOCUMENT AVAILABLE FOR INSPECTION**

A copy of the 2010-2012 Framework Agreement is available for inspection at the offices of Jones Day, legal advisers to the Company on Hong Kong law, on 29th Floor, Edinburgh 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 Hong Kong licensed banks are open for ordinary business (excluding public holidays and Saturdays) from the date of this circular up to and including the date of the EGM.

## **8. GENERAL**

- (a) So far as was known to the Directors, as at the Latest Practicable Date, (i) CSSC controls and is entitled to control over the voting rights in respect of all Shares registered in its name, (ii) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon CSSC; and (iii) there was no obligation or entitlement of CSSC, whereby it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of its Shares to a third party, either generally or on a case-by-case basis.
- (b) So far as was known to the Directors, as at the Latest Practicable Date, there was no discrepancy between CSSC's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights thereof at the EGM.
- (c) The following Directors are directors or employees of CSSC: Mr. Yu Baoshan is assistant to the president of CSSC; Mr. Pan Zunxian is deputy director of the Business and Marketing Department of CSSC; Mr. Miao Jian is Chief of the Second Section in Financial Department of CSSC.

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## NOTICE OF EGM

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广州广船国际股份有限公司  
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

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

**(H Shares Stock Code: 00317)**

### **NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF 2009 AND CLOSURE OF REGISTERS OF MEMBERS**

**Notice is hereby given** that the first extraordinary general meeting of 2009 (“EGM”) of the Company will be held at the Conference Room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, PRC at 1:30 p.m. on 29 December 2009 (Tuesday) at which the following matter will be proposed for consideration as on ordinary resolution:

1. To consider the framework agreement for continuing connected transactions for 2010 to 2012 between the Company and China State Shipbuilding Corporation and the annual caps thereunder.

Pursuant to the *Articles of Association* of the Company, no registration of transfers will be made within 30 days prior to the holding of the EGM. The registers of members of the Company will be closed from 29 November 2009 to 28 December 2009 (both dates inclusive). Accordingly, holders of domestic shares (A-shares) and overseas listed foreign shares (H-shares) whose names appear on the registers of members of the Company at close of the respective afternoon trading sessions on 27 November 2009 (in the case of holders of overseas listed foreign shares (H-shares) who have lodged duly completed transfer documents accompanied by the relevant share certificates with the Company’s H-share Registrars, Computershare Hong Kong Investor Services Limited at Hopewell Center, Rooms 1712-1716, 17th Floor, 183 Queen’s Road East, Hong Kong by 4:30 p.m. on 27 November 2009, 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.

By order of the Board

**Guangzhou Shipyard International Company Limited**

**Li Zhidong**

*Company Secretary*

Guangzhou, 12 November 2009

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## NOTICE OF EGM

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*Notes:*

1. Shareholders who intend to attend the EGM are requested to send a written reply, whether in person, by post, by cable or by fax to the registered office of the Company at least 20 days before the EGM (before 9 December 2009). Completion and return of such written reply will not preclude the shareholders who are entitled to attend the meeting as stated in Note 2 below from attending the EGM.
2. Any shareholder who is entitled to attend and vote at the EGM has the right to appoint one or more proxies to do so on behalf of himself, and the proxy need not be a shareholder of the Company. 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. Shareholders of H-shares must deliver completed proxy forms and other authorization documents (if any) to the Company's H-share Registrars, Computershare Hong Kong Investor Services Limited at Hopewell Center, Room 1806-1807, 18th Floor, 183 Queen's Road East, Hong Kong. A shareholder who has completed and delivered a proxy form can still attend the EGM and vote in person.
3. Relevant information on the resolution to be proposed at the EGM will be posted on the website of the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the Company websites and/or sent to holders of H-shares by way of circular.
4. Shareholders and proxies must show their identification documents when attending the EGM.
5. The EGM of the Company will last for half a day. Shareholders and proxies attending the EGM shall be responsible for their own traveling and accommodation expenses.
6. The registered office of the Company is at the 40 South Fangcun Main Road, Liwan District, Guangzhou, PRC.

Contact officers: Mr. Li Zhidong, Ms. Yang Ping

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Fax: (020) 8189 1575