THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

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

(H Shares Stock Code: 00317)

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS IN RELATION TO THE REVISION OF EXISTING ANNUAL CAP UNDER THE 2024 FRAMEWORK AGREEMENT; THE 2025 FRAMEWORK AGREEMENT; AND THE 2025 FINANCIAL SERVICES FRAMEWORK AGREEMENT

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

VINCO 榮高

Vinco Financial Limited

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

A letter from the Board is set out on pages 7 to 58 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 59 to 60 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 61 to 97 of this circular.

The EGM will be held at the conference room of the Company at 15th Floor, Marine Tower, No. 137 Gexin Road, Haizhu District, Guangzhou, the PRC at 10:30 a.m. on Friday, 29 November 2024. The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying proxy forms in accordance with the instructions printed thereon. In the case of the H Shareholders, the completed proxy forms and other authorization documents (if any) must be delivered to the H shares registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in any event not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof, as the case may be, in order to be valid. Completion and return of the proxy forms will not preclude you from attending and voting in person at the EGM or any adjournment thereof, as the case may be, should you so wish.

12 November 2024

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

"2024 Framework Agreement"	the framework agreement for the Continuing Connected Transactions for the period from 1 January 2024 to 31 December 2024 (both days inclusive) entered into between the Company and CSSC on 27 October 2023 and approved by Independent Shareholders on 29 December 2023
"2024 Financial Services Framework Agreement"	the framework agreement for the continuing connected transactions of financial services for the period from 1 January 2024 to 31 December 2024 (both days inclusive) entered into between the Company and CSSC Finance on 27 October 2023, approved by the Independent Shareholders on 29 December 2023
"2025 Framework Agreement"	framework agreement for the Continuing Connected Transactions for the period from 1 January 2025 to 31 December 2025 (both days inclusive) entered into between the Company and CSSC on 27 September 2024, and conditional on approval by the Independent Shareholders at the EGM
"2025 Financial Services Framework Agreement"	framework agreement for the financial service transactions for the period from 1 January 2025 to 31 December 2025 (both days inclusive) entered into between the Company and CSSC Finance on 27 September 2024 and conditional on approval by the Independent Shareholders at the EGM
"A Share(s)"	domestic shares of the Company with nominal value of RMB1.00 each listed on the Shanghai Stock Exchange
"associate(s)"	has the meaning ascribed to it in the Hong Kong Listing Rules
"Board"	the board of Directors
"China Shipbuilding Group"	China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司). As at the Latest Practicable Date, China Shipbuilding Group held 804,128,590 Shares of the Company directly and indirectly, representing approximately 56.89% of the issued Shares of the Company, and was a controlling shareholder of the Company

"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 Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"connected subsidiary(ies)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions contemplated under the 2024 Framework Agreement and the 2025 Framework Agreement respectively, including (i) provision of products and services by the Group to the CSSC Group; (ii) provision of products and services by CSSC Group to the Group; (iii) provision of guarantee services CSSC Group to the Group; and (iv) provision of sales agency service by CSSC Group to the Group
"Continuing Connected Transactions of Financial Services"	the continuing connected transactions contemplated under the 2025 Financial Services Framework Agreement, including the financial services to be provided by CSSC Finance to the Group
"Contract Management Rules"	the contract management rules under the Group's internal procedures which were designed to seek to ensure that the contracts from time to time entered into by the Group are in compliance with the Civil Code of the People's Republic of China (中華人民共和國民法典), the Practice Note No. 16 – Contract Management of the Enterprise Internal Control (企業內部控制應用指引第16號－合同管理) and other relevant PRC laws and regulations. Such rules are applicable to all sale and purchase contracts of the Group so that all the suppliers or purchasers (as the case may be) would be treated equally and would submit their respective tender and compete with each other through the same platform
"controlling shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"CS Materials"	China National Shipbuilding Equipment & Materials Co., Ltd. (中國船舶集團物資有限公司), a wholly-owned subsidiary of CSSC

"CSSC"	China State Shipbuilding Corporation（中國船舶集團有限公司）. As at the Latest Practicable Date, CSSC controlled 804,128,590 Shares of the Company indirectly through China Shipbuilding Group, representing approximately 56.89% of the issued Shares of the Company, and was an indirect controlling shareholder of the Company
"CSSC Finance"	CSSC Finance Company Limited（中船財務有限責任公司）, a wholly-owned subsidiary of the CSSC Group
"CSSC Group"	CSSC and its subsidiaries (including connected subsidiaries of the Company)
"Deposits"	the deposits maintained by the Group from time to time with CSSC Finance under the financial services provided by CSSC Finance to the Group pursuant to the 2025 Financial Services Financial Services Framework Agreement
"Director(s)"	the director(s) of the Company
"DWT"	deadweight tonnage, the deadweight capacity with ton as unit
"EGM"	the third extraordinary general meeting of 2024 to be convened by the Company on 29 November 2024 for the Independent Shareholders to consider and, if thought fit, approve, among others, the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap); and the 2025 Framework Agreement, the 2025 Financial Service Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)
"FX Forward Contract(s)"	a foreign exchange forward contract or a set of such contracts proposed to be entered into by the Group under the 2025 Financial Services Framework Agreement to hedge against the Group's currency risk in relation to the possible appreciation/depreciation of RMB against foreign currencies
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares of the Company listed on the Hong Kong Stock Exchange

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huangpu Wenchong"	CSSC Huangpu Wenchong Shipbuilding Company Limited （中船黃埔文沖船舶有限公司）, a company established on 1 June 1981 in the PRC and as at the Latest Practicable Date, a non-wholly owned subsidiary of the Company and was owned as to 54.5371% by the Company
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in connection with the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap); and the 2025 Framework Agreement, the 2025 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)
"Independent Financial Adviser" or "Vinco Financial"	Vinco Financial Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap); and the 2025 Framework Agreement, the 2025 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps)
"Independent Shareholders"	Shareholders other than CSSC and its associates, none of them will be required to abstain from voting at the EGM to be convened for approval of the relevant resolutions
"Independent Third Party(ies)"	party who is a third party independent of the Company and its connected person(s)

"Latest Practicable Date"	5 November 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"NAFR"	the National Administration of Financial Regulation, formerly known as China Banking and Insurance Regulatory Commission
"PBOC"	People's Bank of China
"PRC"	the People's Republic of China
"Proposed Annual Caps"	the proposed annual caps for the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively
"Revised Annual Cap"	the revised annual cap in respect of the Sales Agency Services contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement)
"RMB"	Renminbi, the lawful currency of the PRC
"Sales Agency Fees"	service fees under the Sales Agency Services provided by CSSC Group to the Group pursuant to the 2024 Framework Agreement (as supplemented by the Supplemental Agreement)
"Sales Agency Services"	the sales agency services provided by CSSC Group to the Group under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	shares of RMB1.00 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"subsidiary(ies)"	has the meaning ascribed to it under the Hong Kong Listing Rules

"Supplemental Agreement"	the supplemental agreement to the 2024 Framework Agreement entered into between the Company and CSSC on 27 September 2024 and conditional on approval by the Independent Shareholders at the EGM
"USD"	United States Dollars, the lawful currency of the United States of America
"%"	per cent.

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

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

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

(H Shares Stock Code: 00317)

Executive Director:
Mr. Chen Liping

Non-Executive Directors:
Mr. Gu Yuan
Mr. Ren Kaijiang
Mr. Yin Lu

Independent Non-Executive Directors:
Mr. Lin Bin
Mr. Nie Wei
Mr. Li Zhijian
Ms. Xie Xin

Registered Office:
15th Floor,
No. 137 Gexin Road
Haizhu District
Guangzhou
the PRC

Post code:
510250

12 November 2024

To the H Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS IN RELATION TO THE REVISION OF EXISTING ANNUAL CAP UNDER THE 2024 FRAMEWORK AGREEMENT; THE 2025 FRAMEWORK AGREEMENT; AND THE 2025 FINANCIAL SERVICES FRAMEWORK AGREEMENT

I. INTRODUCTION

Reference is made to the announcements of the Company dated 27 September 2024 in relation to, among others, the terms and the Revised Annual Cap of the Transaction for Sales Agency Services contemplated under the Supplemental Agreement; and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively.

Vinco Financial 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 of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively, and whether such transactions are in the interests of the Company and its Shareholders as a whole. The letter from the Independent Board Committee to the Independent Shareholders is also included in this circular.

The purpose of this circular is to provide you with, among others, further details of (i) the Supplemental Agreement and the transaction for the Sales Agency Services contemplated thereunder; (ii) the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services; and (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in relation to the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services.

II. THE SUPPLEMENTAL AGREEMENT

1. Background

References are made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, the 2024 Framework Agreement, which, together with the transactions and the annual caps contemplated thereunder, were approved by the Independent Shareholders on 29 December 2023.

The Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2024 Framework Agreement and anticipates that the demand of the Group for the Sales Agency Services will exceed the previous projection to the effect that the existing annual cap for such services under the 2024 Framework Agreement will not be sufficient to meet the demand of the Group.

Accordingly, the Company and CSSC entered into the Supplemental Agreement on 27 September 2024 to increase the existing annual cap for the Sales Agency Services for the year ending 31 December 2024 to the Revised Annual Cap in order to cater for the Group's demand for such services and to facilitate the Group in capturing its potential business growth.

For the avoidance of doubt, the entering into and the implementation of the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap) are conditional upon the approval by the Independent Shareholders at the EGM. In any event, prior to obtaining the approval from the

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 2024 Framework Agreement.

2. Principal terms of the Supplemental Agreement

The principal terms of the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) are as follows:

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

(a) Provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies, mainly shipping products and for complete sets of supporting equipment, steel, non-ferrous metals and other materials for ship, environmental protection and heavy equipment, as well as some marine electrical equipment. The CSSC Group has the need to purchase ship products, complete sets of or auxiliary equipment while the Group has the capability of designing and manufacturing such products and could provide such products to the CSSC Group, or when the CSSC Group in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or when it is under temporary urgent needs in its production, it is necessary for the Group to provide materials and equipment in stock in an emergency, including the temporary provision of accessories by the Group to assist the CSSC Group in completing the production plan, the sale of waste materials by the Group to logistics companies under the CSSC Group, disposing fixed assets that are not in use by the Group to units under the CSSC Group; and

(b) Leasing, labour supply and technical services:

(i) Leasing: This mainly involves the provision of certain production areas and staff quarters leasing service by the Group to the CSSC Group;

(ii) Labour supply: This primarily involves the provision of training, shipbuilding and workforce lease. The Group can provide the CSSC Group with skills training and assessment, professional technical labour services related to the principal businesses of the Company, as well as provide labour leasing and labour service project contracting in the event of short-term surplus of labour;

(iii) Technical services: These mainly involve technical services such as product installation, usage, maintenance and repair provided by the Group to the CSSC Group, and provision of environmental protection services such as ship products and other engineering design, scientific research projects and professional services, self-produced software and relevant technical services.

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

(c) Provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc., mainly providing materials, accessories, machinery production equipment, tools and related logistics and distribution services required for the production of complete sets or supporting equipment for ships, environmental protection and heavy equipment. Such supplies and distribution services are required for the daily production and operation of the Group, and the Group can provide such materials, supplies, equipment and related services. The Group has joined the centralized procurement plan of organised by CS Materials, a member unit of the CSSC Group, and CS Materials shall provide major materials, supplies, equipment and related logistics and distribution services to reduce procurement costs and resist risks in the ship market. In addition, due to the temporary impact of production capacity or delivery time, the Group is required to purchase complete sets or ancillary equipment and parts from the CSSC Group, or during the production process of the Group, due to insufficient procurement for materials required for production, late delivery by the supplier or temporary demand for the materials, the materials will be provided by the inventory of the members of the CSSC Group; and when the Group needs to invest in fixed assets for production and operation, including the purchase of production equipment and construction of production base projects, etc. the CSSC Group can provide the Group with the required production equipment as well as products and services related to infrastructure projects such as turnkey management of engineering construction, equipment manufacturing, design, exploration and audit consulting.

(d) Leasing, labour supply and technical services, among which:

(i) Leasing: This mainly refers to the expansion of the Group's business scope by leasing the production sites, equipment and facilities of the CSSC Group and using utilities such as water and electricity to meet the needs of business development;

(ii) Labour supply: This mainly refers to the provision of outsourcing for ship segments (or steel structure components) and comprehensive services, lease of labour, etc. Among them, (a) outsourcing of ship segments (or steel structure components) refers to the Group outsourcing of ship segments (or steel structure components) to the CSSC Group for building in order to keep up with the production plan, in the event that the Group is constrained by limited production resources (such as sites, equipment or manpower); (b) lease of labour, which refers to the secondment of labour and labour engineering contracting to the CSSC Group during the peak production period of the Group; (c) comprehensive services, which represent services provided by the CSSC Group to the Group, such as advertising, exhibitions, medical, catering, conferences, nursery, training, property management and water and electricity resale;

(iii) Technical services: These mainly refer to the provision of design, scientific research project services, supporting software and related technical services for shipbuilding products or other projects, including in the event that the Group's production is constrained by design capability and time after receiving an order, the CSSC Group will provide such services in order to keep up with the production plan; the Group shall cooperate with the member units of the CSSC Group in research and development of new products and processes.

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

(e) Guarantee services mean that when the Group accepts orders or borrows funds from banks, it may need a guarantor according to the regulations, and the CSSC Group can provide guarantees for such business.

Sales agency services to be provided by the CSSC Group to the Group:

(f) Sales agency services (or commission), due to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners, which enables the Group to rely on the assistance of the CSSC Group in addition to its own external operations.

Items (a) to (f) are 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 on arm's length basis (and if is no or not 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 shall be fair and reasonable so far as the Shareholders are concerned. The parties shall enter into agreements for such transactions and the basis of pricing shall be specified in the agreements.

In respect of (a) above: for the provision of shipping products, electrical and mechanical equipment, and metallic materials by the Group to the CSSC Group, the pricing will be based on market price. The Group will determine the market price after taking into account of the following factors and after arm's length negotiation: (i) research on the prices of similar products on the market, including drawing reference from the public data of institutions such as the China Association of the National Shipbuilding Industry （中國船舶工業行業協會） (http://www.cansi.org.cn) and commissioning the China Shipbuilding Corporation Economic Research Center to collate industry price data and compile the research reports; and (ii) reference to the historical prices of similar products.

In respect of (b) above: for the provision of leasing, labour supply and technical services by the Group to the CSSC Group, the pricing will be no less favourable than that offered to independent third parties. The rental of the lease shall be based on market price obtained after market research of the Group with reference to the depreciation cost and amortization of assets and other expenses and after arm's length negotiation; the salary for labour supply is based on market price obtained after market research of the Group with reference to the average salary levels published by the Guangzhou Statistic Bureau（廣州市統計局）and after arm's length negotiation; the pricing of the technical service is based on the existing market standards of the shipping industry, the complexity of the work involved and specifications for the work and after arm's length negotiation.

In respect of (c) above: for the provision of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies etc. by the CSSC Group to the Group,

(i) The supply of electrical and mechanical engineering equipment, materials and supplies etc. will be based on market prices and not higher than those offered by Independent Third Parties. The market price is based on the market research of the Group on the prices of similar products and determined according to the production specifications and after arm's length negotiation;

(ii) For ancillary parts for ships, iron outfittings etc., as the unit price is low, sporadic and complicated, and often in urgent needs, the ordering time is relatively short, the unit price is negotiated once a year through costing and the Group's supplies department shall negotiate the ordering price with the supplier accordingly taking into account the market price of raw materials with reference to public data of third party websites and specification of the supplies required for the Group's production. The Group will obtain one or more quotations from Independent Third Parties. If the price of raw materials in the market changes significantly, the Group will make appropriate adjustments in accordance with the changes in the market;

(iii) For equipment for ships, if there is a member of the CSSC Group in the list of manufacturers for marine equipment, the member will participate in the competition between two or more manufacturers in the list of manufacturers comprising at least one Independent Third Party and the manufacturers under the CSSC Group, and the Group's supplies department shall negotiate the price in accordance with the normal practice, and the Group will determine the price according to the market price, but will also take into account factors such as the supply cycle, the quality of the manufacturer and the standard of services to select the manufacturer, but the prices are no less favourable than the conditions offered by Independent Third Party suppliers. If two or more competitors from CSSC Group are among the competitors, the pricing will be determined after arm's length negotiations with reference to historical transaction prices; if there is only one supplier from the CSSC Group for particular equipment (such as a specialized equipment where the CSSC Group has the proprietary ownership and/or right to exploit them) due to limitations in technical specifications or supply conditions and as a result, there will be only one associated supplier for a particular piece of equipment, the pricing will be negotiated by the Group with the supplier according to the recent contract of the equipment (with reference to its historical transaction prices) or a unit price converted from certain technical data for that piece of equipment, and taking into account the substantive circumstance including the market price of raw materials, to ensure that such price is fair and reasonable; and

(iv) The prices of the supplies and related logistics and distribution services procured centrally by the CSSC Group will not be less favourable than the conditions offered by Independent Third Party suppliers.

In respect of (d) above: for the provision of leasing, labour and technical services by the CSSC Group to the Group,

(i) Pricing of leases for production sites or dormitories provided by the CSSC Group to the Group. The lease prices are based on the market price or cost plus 10% management fee, and the market price is determined with reference to the property rent in the vicinity of the leased properties. The basis of the annual cap is the aggregate of annual depreciation expense and interest expenses calculated on the basis of the total value of the right-of-use assets recognized by the Group and the tax payable on the leased production bases and the dormitories;

(ii) Pricing of the provision of labour and technical services. Labour services are provided at the market prices, which are determined after arm's length negotiation based on the prices of labour services procured from the Independent Third Parties, the required skill specifications, the availability of labour and the average salary level published by the Guangzhou Municipal Bureau of Statistics, and the prices of the integrated services are no less favourable than the terms offered by the Independent Third Parties; and

(iii) Technical services: at market price, which is determined after arm's length negotiations with reference to the skill sets required by the prevailing market standards in the shipbuilding industry, the complexity of the work involved and the industry-specific job specifications.

In respect of (e) above: In accordance with the normal market practice and guarantee fee not higher than the CSSC Group's external guarantee fee rate, the relevant terms are no less favourable than the conditions offered by Independent Third Party guarantors.

In respect of (f) above: for provision of sales agency services by the CSSC Group to the Group, the pricing of sales agency fees (commissions) shall follow the international industry practice (i.e. the pricing shall be determined by the Group after conducting market research including by way of discussing with various independent third party shipowners on the normal sales agency fees charged and with other large corporate business owners in the industry on the agency fee rates charged by their internal sales agency entities) and in general will not exceed 1.5% of the contract price, and is payable in proportion to the progress payment per vessel. In addition, the intermediary agency fees received by the CSSC Group on behalf of foreign intermediaries shall be paid by the CSSC Group on behalf of the intermediaries.

Term: The term of the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) shall be for the period from 1 January 2024 to 31 December 2024 (both days inclusive).

3. Revision of annual cap

Pursuant to the Supplemental Agreement, conditional upon the approval by the Independent Shareholders at the EGM, the existing annual cap for the Sales Agency Services under the 2024 Framework Agreement for the year ending 31 December 2024 will be revised to the Revised Annual Cap as follows:

Unit: RMB in ten thousand

Transaction	Existing Annual Cap For the year ending 31 December 2024	Revised Annual Cap For the year ending 31 December 2024
Sales Agency Services provided by the CSSC Group to the Group:		
Sales Agency Fees	3,200	4,132

Save for the above revision of the existing annual cap to the Revised Annual Cap, the other terms of the 2024 Framework Agreement, including the principal terms of the agreement, the pricing policy and the existing annual caps for such other transactions under the 2024 Framework Agreement remain unchanged.

4. Historical Amount

The table below sets out the historical amount of the Sales Agency Services for the eight months ended 31 August 2024 and the comparisons with the annual cap under the 2024 Framework Agreement for the year ending 31 December 2024.

Unit: RMB in ten thousand

Transaction	Existing Annual Cap For the year ending 31 December 2024	Historical Amount For the eight months ended 31 August 2024 *(Note 1)*
Sales Agency Services provided by the CSSC Group to the Group:		
Sales Agency Fees	3,200	2,032

Note:

1. The historical amount in respect of the Sales Agency Services for the eight months ended 31 August 2024 was an unaudited figure.

The actual transaction amounts for the Continuing Connected Transactions under the 2024 Framework Agreement for the eight months ended 31 August 2024 and up to the Latest Practicable Date did not exceed their respective annual caps thereunder.

Prior to the obtaining of the approval of the Independent Shareholders at the EGM in relation to the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Cap), the Company will conduct the Continuing Connected Transactions in accordance with the terms of the 2024 Framework Agreement. The actual transaction amounts for the Continuing Connected Transactions from 1 January 2024 and up to the date of the EGM are not expected to exceed their existing annual caps under the 2024 Framework Agreement for the year ending 31 December 2024.

5. Basis For Determining The Revised Annual Cap

The Revised Annual Cap is determined taking into account primarily the historical transaction amounts, production orders in hand, expected orders and anticipated total production value of the Group. In particular, the market witnesses the acceptance of orders for civil vessels remaining on the higher side in 2024, and the production schedule for the orders on hand of the Company and the order acceptance plan for 2024 are better than expected.

Specifically, for the eight months ended 31 August 2024, the historical transaction amount in relation to the Sales Agency Services of approximately RMB20.32 million represented a utilisation rate of approximately 63.5% of the existing annual cap for the year ending 31 December 2024 (the "**Existing Annual Cap**"). The Revised Annual Cap is determined with reference to (i) the historical transaction amount as mentioned above; (ii) the anticipated total production value of the Group in 2024 (the "**Revised Production Schedule 2024**"); and (iii) new orders accepted by the Group and the Sales Agency Fees payable in proportion to the progress payment per vessel (not exceeding 1.5% generally). Based on the Revised Production Schedule 2024 which is prepared based on the actual production progress for the eight months ended 31 August 2024, the updated production value of the Group for the year ending 31 December 2024 represents an increase of approximately 8.34% as compared with that derived from the then production schedule prepared at the time of determining the Existing Annual Cap. In addition, the expected transaction amount for the four months ending 31 December 2024 would be approximately RMB21.00 million, of which approximately RMB17.85 million would be payable in the four months ending 31 December 2024 in relation to the progress payment and approximately RMB3.00 million would be derived from new orders and expected completion schedule. As there is an increase in the orders accepted by the Group, and the Sales Agency Fees payable in proportion to the progress payment per vessel (not exceeding 1.5% generally) will increase correspondingly, hence, the annual cap for the Sales Agency Fees for the Sales Agency Services provided by the CSSC Group to the Group under the 2024 Framework Agreement is required to be revised as the Revised Annual Cap, thereby meeting the needs of the Group on business development, order acceptance and product sales timely.

6. Reasons for the Benefits of Entering into the Supplemental Agreement

The Group used to leverage on the CSSC Group's reputation in the international shipbuilding market, its long-established relationships with shipowners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interests 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 the specific transactions. The rate of brokerage fees will vary according to the tonnage and type of vessels. 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 interests of the Group.

Further, the Board has reviewed the continuing connected transaction for the Sales Agency Services under the 2024 Framework Agreement against the background of the Group's operations as mentioned above and anticipates that the demand of the Group for the Sales Agency Services provided by the CSSC Group pursuant to the 2024 Framework Agreement will exceed the previous projection to the effect that the existing annual cap for the Sales Agency Services under the 2024 Framework Agreement will not be sufficient to meet the demand of the Group. Accordingly, the Company entered into the Supplemental Agreement with CSSC in order to cater for the Group's demand for such services and to facilitate the Group in capturing its potential business growth.

On bases summarised above and given that (i) the continuing connected transactions the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) are entered into in 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 (excluding the Directors who were required to abstain from voting on the relevant Board resolution in relation to the Supplemental Agreement but including the independent non-executive Directors, the view of whom are set out in the letter from the Independent Board Committee in this circular after taking into account of the advice from the Independent Financial Adviser) are of the view that the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) is entered into in the normal and ordinary course of business on normal commercial terms, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

III. THE 2025 FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, the 2024 Framework Agreement.

As the 2024 Framework Agreement governing the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2024 to 31 December 2024 will be completed on 31 December 2024, the Company and CSSC entered into the 2025 Framework Agreement on 27 September 2024 to continue and govern such Continuing Connected Transactions between the Group and CSSC Group for the period from 1 January 2025 to 31 December 2025.

The Directors (excluding the Directors who are required to abstain from voting on the relevant Board resolution in relation to the 2025 Framework Agreement but including the independent non-executive Directors, the view of whom are set out in the letter from the Independent Board Committee in this circular after taking into account of the advice form the Independent Financial Adviser) are of the view that the 2025 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 Proposed Annual Caps) that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The entering into and the implementation of the 2025 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, pending approval by the Independent Shareholders at the EGM, the Company shall continue to comply with the terms of the 2024 Framework Agreement and the continuing connected transactions contemplated thereunder (together with the relevant annual caps).

2. Principal terms of the 2025 Framework Agreement

The principal terms of the 2025 Framework Agreement are as follows:

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

(a) Provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies, mainly shipping products and for complete sets of supporting equipment, steel, non-ferrous metals and other materials for ship, environmental protection and heavy equipment, as well as some marine electrical equipment. The CSSC Group has the need to purchase ship products, complete sets of or auxiliary equipment while the Group has the capability of designing and manufacturing such products and could provide such products to the CSSC Group, or when the CSSC Group in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or when it is under temporary urgent needs in its production, it is necessary for the Group to provide materials and equipment in stock in an emergency, including the temporary provision of accessories by the Group to assist the CSSC Group in completing the production plan, the sale of waste materials by the Group to logistics companies under the CSSC Group, disposing fixed assets that are not in use by the Group to units under the CSSC Group; and

(b) Leasing, labour supply and technical services:

(i) Leasing: This mainly involves the provision of certain production areas and staff quarters leasing service by the Group to the CSSC Group;

(ii) Labour supply: This primarily involves the provision of training, shipbuilding and workforce lease. The Group can provide the CSSC Group with skills training and assessment, professional technical labour services related to the principal businesses of the Company, as well as provide labour leasing and labour service project contracting in the event of short-term surplus of labour;

(iii) Technical services: These mainly involve technical services such as product installation, usage, maintenance and repair provided by the Group to the CSSC Group, and provision of environmental protection services such as ship products and other engineering design, scientific research projects and professional services, self-produced software and relevant technical services.

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

(c) Provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc., mainly providing materials, accessories, machinery production equipment, tools and related logistics and distribution services required for the production of complete sets or supporting equipment for ships, environmental protection and heavy equipment. Such supplies and distribution services are required for the daily production and operation of the Group, and the CSSC Group can provide such materials, supplies, equipment and related services. The Group has joined the centralized procurement plan of organised by CS Materials, a member unit of the CSSC Group, and CS Materials shall provide major materials, supplies, equipment and related logistics and distribution services to reduce procurement costs and resist risks in the ship market. In addition, due to the temporary impact of production capacity or delivery time, the Group is required to purchase complete sets or ancillary equipment and parts from the CSSC Group, or during the production process of the Group, due to insufficient procurement for materials required for production, late delivery by the supplier or temporary demand for the materials, the materials will be provided by the inventory of the members of the CSSC Group; and when the Group needs to invest in fixed assets for production and operation, including the purchase of production equipment and construction of production base projects, etc. the CSSC Group can provide the Group with the required production equipment as well as products and services related to infrastructure projects such as turnkey management of engineering construction, equipment manufacturing, design, exploration and audit consulting.

(d) Leasing, labour supply and technical services, among which:

(i) Leasing: This mainly refers to the expansion of the Group's business scope by leasing the production sites, equipment and facilities of the CSSC Group and using utilities such as water and electricity to meet the needs of business development;

(ii) Labour supply: This mainly refers to the provision of outsourcing for ship segments (or steel structure components) and comprehensive services, lease of labour, etc. Among them, (a) outsourcing of ship segments (or steel structure components) refers to the Group outsourcing of ship segments (or steel structure components) to the CSSC Group for building in order to keep up with the production plan, in the event that the Group is constrained by limited production resources (such as sites, equipment or manpower); (b) lease of labour, which refers to the secondment of labour and labour engineering contracting to the CSSC Group during the peak production period of the Group; (c) comprehensive services, which represent services provided by the CSSC Group to the Group, such as advertising, exhibitions, medical, catering, conferences, nursery, training, property management and water and electricity resale;

(iii) Technical services: These mainly refer to the provision of design, scientific research project services, supporting software and related technical services for shipbuilding products or other projects, including in the event that the Group's production is constrained by design capability and time after receiving an order, the CSSC Group will provide such services in order to keep up with the production plan; the Group shall cooperate with the member units of the CSSC Group in research and development of new products and processes.

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

(e) Guarantee services mean that when the Group accepts orders or borrows funds from banks, it may need a guarantor according to the regulations, and the CSSC Group can provide guarantees for such business.

Sales agency services to be provided by the CSSC Group to the Group:

(f) Sales agency services (or commission), due to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners, which enables the Group to rely on the assistance of the CSSC Group in addition to its own external operations.

Items (a) to (f) are 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 on arm's length basis (and if is no or not 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 shall be fair and reasonable so far as the Shareholders are concerned. The parties shall enter into agreements for such transactions and the basis of pricing shall be specified in the agreements.

In respect of (a) above: for the provision of shipping products, electrical and mechanical equipment, and metallic materials by the Group to the CSSC Group, the pricing will be based on market price. The Group will determine the market price after taking into account of the following factors and after arm's length negotiation: (i) research on the prices of similar products on the market, including drawing reference from the public data of institutions such as the China Association of the National Shipbuilding Industry (中國船舶工業行業協會) (http://www.cansi.org.cn) and commissioning the China Shipbuilding Corporation Economic Research Center to collate industry price data and compile the research reports; and (ii) reference to the historical prices of similar products.

In respect of (b) above: for the provision of leasing, labour supply and technical services by the Group to the CSSC Group, the pricing will be no less favourable than that offered to independent third parties. The rental of the lease shall be based on market price obtained after market research of the Group with reference to the depreciation cost and amortization of assets and other expenses and after arm's length negotiation; the salary for labour supply is based on market price obtained after market research of the Group with reference to the average salary levels published by the Guangzhou Statistic Bureau（廣州市統計局）and after arm's length negotiation; the pricing of the technical service is based on the existing market standards of the shipping industry, the complexity of the work involved and specifications for the work and after arm's length negotiation.

In respect of the determination of the lease, based on the Accounting Standards for Business Enterprises No. 21 – Leases, (i) for fixed assets under operating lease, depreciation shall be recognised based on the depreciation policy adopted for similar assets; and (ii) for other operating lease assets, a systemic and reasonable amortization approach shall be adopted in compliance with the corporate accounting standards applicable to such assets. Accordingly, the Group adopted the depreciation cost and amortization of assets as the reference point, and taking into account of the leased area, geographical location and condition of the relevant premises and the prevailing market rates for similar properties in the surrounding area, as well as the capital costs associated with inclusion of fixed assets in the leased premises and management costs for the properties under the lease to conclude the rental amount with CSSC Group.

In terms of existing market standard for pricing of technical service, the Group will form a market quotation based on the costs it has incurred pertaining to areas such as labour, design software maintenance and management, coupled with the complexity of the work involved. Labour costs will be calculated referencing the salary level of technical service providers in the market. At the same time, the Group will refer to the historical price of technical service fees and consider factors such as technical complexity and workload, and accordingly negotiate with the technical service provider on a fair basis.

In respect of (c) above: for the provision of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies etc. by the CSSC Group to the Group,

(i) The supply of electrical and mechanical engineering equipment, materials and supplies etc. will be based on market prices and not higher than those offered by Independent Third Parties. The market price is based on the market research of the Group on the prices of similar products with reference to public data of third party websites such as Icaigou (愛採購) and determined according to the production specifications and after arm's length negotiation. The Company will obtain one or more quotations from Independent Third Parties;

(ii) For ancillary parts for ships, iron outfittings etc., as the unit price is low, sporadic and complicated, and often in urgent needs, the ordering time is relatively short, the unit price is negotiated once a year through costing and the Group's supplies department shall negotiate the ordering price with the supplier accordingly taking into account the market price of raw materials with reference to public data of third party websites such as Icaigou (愛採購), Steel Home (鋼之家) and Mysteel (我的鋼鐵) and specification of the supplies required for the Group's production. The Group will obtain one or more quotations from Independent Third Parties. If the price of raw materials in the market changes significantly, the Group will make appropriate adjustments in accordance with the changes in the market;

(iii) For equipment for ships, if there is a member of the CSSC Group in the list of manufacturers for marine equipment, the member will participate in the competition between two or more manufacturers in the list of manufacturers comprising at least one Independent Third Party and the manufacturers under the CSSC Group, and the Group's supplies department shall negotiate the price in accordance with the normal practice, and the Group will determine the price according to the market price, but will also take into account factors such as the supply cycle, the quality of the manufacturer and the standard of services to select the manufacturer, but the prices are no less favourable than the conditions offered by Independent Third Party suppliers. If two or more competitors from CSSC Group are among the competitors, the pricing will be determined after arm's length negotiations with reference to historical transaction prices; if there is only one supplier from the CSSC Group for particular equipment (such as a specialized equipment where the CSSC Group has the proprietary ownership and/or right to exploit them) due to limitations in technical specifications or supply conditions and as a result, there will be only one associated supplier for a particular piece of equipment, the pricing will be negotiated by the Group with the supplier according to the recent contract of the equipment (with reference to its historical transaction prices) or a unit price converted from certain technical data for that piece of equipment, and taking into account the substantive circumstance including the market price of raw materials, to ensure that such price is fair and reasonable; and

(iv) For the pricing of the supplies and related logistics and distribution services procured centrally by the CSSC Group, the price will be determined between the parties annually based on actual costs taking into account the market price of such materials or services (including with reference to the market price as quoted on the public data of third party websites such as Steel Home（鋼之家）and Mysteel（我的鋼鐵）and the specification of the production needs of the Group) and after arm's length negotiation. The Company will obtain one or more quotations from Independent Third Parties to ensure that the prices will not be less favourable than the conditions offered by Independent Third Party suppliers.

In respect of (d) above: for the provision of leasing, labour and technical services by the CSSC Group to the Group,

(i) Pricing of leases for production sites or dormitories provided by the CSSC Group to the Group. The lease prices are based on the market price or cost plus 10% management fee, and the market price is determined with reference to the property rent in the vicinity of the leased properties. The basis of the annual caps is the aggregate of annual depreciation expense and interest expenses calculated on the basis of the total value of the right-of-use assets recognized by the Group and the tax payable on the leased production bases and the dormitories.

In terms of the determination of the rental of the lease, the Group recognises right-of-use assets and lease liabilities (except for short-term leases and leases of low-value assets) on the commencement date of the lease term for newly associated leases in accordance with the Accounting Standards for Business Enterprises No. 21 – Leases and uses the total amount of the right-of-use assets recognised to determine the annual cap on annual lease-related associated transactions.

Right-of-use assets (the right to use the underlying assets in the lease term for a lessee) are initially measured at cost. The cost includes:

(i) The amount of the initial measurement of the lease liability (lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease term);

(ii) The amount of lease payments paid on or before the commencement date of the lease term for which there is lease incentive, and reduced by the amount of the lease incentives that have been enjoyed;

(iii) The initial direct costs incurred by the lessee; and

(iv) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, reinstatement work or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Accordingly, the annual cap for the leasing is determined based on the total amount of the right-of-use assets recognised on the commencement date of the lease, and the lease consideration (that is, lease payments to be made), which constitutes the cost of the right-of-use assets, is determined based on the market price or cost plus a 10% management fee, whereby: the market price is determined with reference to the property rentals in the vicinity of the property leased; and the cost is determined on the basis of depreciated cost and amortisation of assets and other expenses;

(ii) Pricing of the provision of labour and technical services. Labour services are provided at the market prices, which are determined after arm's length negotiation based on the prices of labour services procured from the Independent Third Parties, the required skill specifications, the availability of labour and the average salary level published by the Guangzhou Municipal Bureau of Statistics, and the prices of the integrated services are no less favourable than the conditions offered by the Independent Third Parties; and

(iii) Technical services: at market price, which is determined after arm's length negotiations with reference to the skill sets required by the prevailing market standards in the shipbuilding industry, the complexity of the work involved and the industry-specific job specifications.

In respect of (e) above: In accordance with the normal market practice and guarantee fee not higher than the CSSC Group's external guarantee fee rate, the relevant terms are no less favourable than the conditions offered by Independent Third Party guarantors.

In respect of (f) above: for provision of sales agency services by the CSSC Group to the Group, the pricing of sales agency fees (commissions) shall follow the international industry practice (i.e. the pricing shall be determined by the Group after conducting market research including by way of discussing with various independent third party shipowners on the normal sales agency fees charged and with other large corporate business owners in the industry on the agency fee rates charged by their internal sales agency entities) and in general will not exceed 1.5% of the contract price, and is payable in proportion to the progress payment per vessel. In addition, the intermediary agency fees received by the CSSC Group on behalf of foreign intermediaries shall be paid by the CSSC Group on behalf of the intermediaries.

In practice, when comprising the prices of "similar" products and services, the business units will prepare the procurement requests based on the technical requirements of individual projects, upon which the procurement units shall obtain the prevalent price ranges of the required products and services available from the above public sources and considered, among other, the nature, the technical specifications, the quantity available and the timeframe whereby such supplies and services will be available to the Group, taking into account of facts such as the product specifications and customization requirements from the Group's customers, in order to ensure that prices of the products and services are no less favourable to those offered by/provided to independent third parties.

Term: Conditional upon approval by the Independent Shareholders at the EGM, the term of the 2025 Framework Agreement shall be for the period from 1 January 2025 to 31 December 2025 (both days inclusive).

3. Historical Amounts

The table below sets out the amounts of each category of the continuing connected transactions for the eight months ended 31 August 2024 and the comparison with the respective annual caps approved by the Independent Shareholders under the 2024 Framework Agreement. The Directors will closely monitor that the transaction amounts of all categories of the continuing connected transactions for the year ending 31 December 2024 to ensure the amounts will not exceed their respective annual caps for 2024 under the 2024 Framework Agreement. The unaudited transaction amounts for all categories of the continuing connected transactions for the eight months ended 31 August 2024 did not exceed the respective annual caps for those transactions.

Unit: RMB in ten thousand

Transactions	Historical Annual Caps For the year ending 31 December 2024	Historical Amounts For the eight months ended 31 August 2024 *(Note 1)*
Products and services provided by the Group to the CSSC Group:		
Shipping products, electrical and mechanical engineering equipment and metallic supplies etc.	298,770	53,713
Leasing, labour supply and technical services, etc.	14,650	3,530
Products and services provided by the CSSC Group to the Group:		
Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.	960,141	305,565
Leasing, labour supply and technical services	157,043	37,653
Guarantee services provided by the CSSC Group to the Group:		
Guarantee fee *(Note 2)*	640	–
Sales agency services provided by the CSSC Group to the Group:		
Sales agency fees *(Note 3)*	3,200	2,032

Notes:

1. The figures for the eight months ended 31 August 2024 were unaudited figures.

2. The maximum guaranteed amounts for the year ending 31 December 2024 did not exceed RMB1,600 million.

3. Reference is made to the announcement of the Company dated 27 September 2024 and the section headed "The Supplemental Agreement" in this letter above regarding, among other things, the Company's intention to amend the annual cap for the Sales Agency Fees under the 2024 Framework Agreement in relation to the provision of Sales Agency Services by CSSC Group to the Group from RMB32 million to RMB41.32 million. The above adjustment to the annual cap on Sales Agency Fees under the 2024 Framework Agreement is subject to consideration and approval by the Independent Shareholders at the EGM.

4. Proposed Annual Caps

The table below sets out the Proposed Annual Caps for each category of the Continuing Connected Transactions for 2025.

Unit: RMB in ten thousand

Transactions	**Proposed Annual Caps For the year ending 31 December 2025**
Products and services provided by the Group to CSSC Group:	
(a) Shipping products, electrical and mechanical engineering equipment and metallic supplies etc.	273,780
(b) Leasing, labour supply and technical services, etc.	16,050
Products and services provided by the CSSC Group to the Group:	
(c) Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.	1,060,135
(d) Leasing, labour supply and technical services	137,925
Guarantee services provided by the CSSC Group to the Group:	
(e) Guarantee fee *(Note 1)*	640
Sales agency services provided by the CSSC Group to the Group:	
(f) Sales agency fees	6,700

Notes:

1. The maximum guarantee amount for the year ending 31 December 2025 will not exceed RMB1,600 million.

5. Basis for Determining the Proposed Annual Caps

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

In determining the Proposed Annual Caps, the Directors have taken into account the Group's better than expected new shipbuilding order intake and shipbuilding output value in 2024, the expected year-on-year increase in production value in 2025, and the increase in the volume of connected transactions such as supplies purchases and labour services due to product restructuring as compared to previous years.

Based on its estimated output value and production plan in 2025, some of the Proposed Annual Caps under the 2025 Framework Agreement have changed year-on-year.

Products and services provided by the Group to the CSSC Group

(i) In respect of the provision of marine products, electrical and mechanical equipment and metal supplies, etc. by the Group to the CSSC Group, the annual caps under the 2025 Framework Agreement decreased compared with the annual caps under the 2024 Framework Agreement, it was mainly with reference to the amount of transactions expected to be incurred by the Group for the whole year of 2024, combined with the year-on-year increase in (i) the Group's order on hand and proposed commitments; and (ii) the Group's expected sales of products for the offshore wind business to CSSG Group in 2025;

(ii) In respect of leasing, labour and technical services, etc., the annual caps under the 2025 Framework Agreement are mainly estimated based on past transactions and contracts on hand;

Products and services provided by the CSSC Group to the Group

(iii) In respect of the provision of marine equipment, electrical and mechanical equipment, ancillary parts and materials and supplies, etc., the annual caps under the 2025 Framework Agreement increased compared with the annual caps under the 2024 Framework Agreement, it was mainly attributable to: taking into account the amount of transactions expected to occur by the Group for the whole year of 2024, in conjunction with (i) the expected year-on-year increase in the amount of procurement based on the growth in the production value; and (ii) according to the production schedule of part of the order in hand, the procurement of materials and equipment will mainly occur in 2025;

(iv) In respect of the lease, labour and technical services, etc., the annual caps under the 2025 Framework Agreement decreased compared with the annual caps under the 2024 Framework Agreement, it was mainly with reference to the amount of transactions expected to be incurred by the Group for the whole year of 2024, combined with (i) the expected increase in labour and technical service fees based on the growth in production value and the actual condition such as the point of time at which the technical service fees for the product orders are incurred; and (ii) the Group proposes to add new long-term leases with CSSC Group in 2025 which will result in the formation of right of use assets;

Guarantee services provided by the CSSC Group to the Group

(v) In respect of the guarantee fee, the annual caps under the 2025 Framework Agreement are mainly estimated by combining the conditions such as the order acceptance plan for 2025; and

Sales agency services provided by the CSSC Group to the Group

(vi) In respect of the sales agency fee, the annual caps under the 2025 Framework Agreement are mainly based on the production schedules of the orders on hand and the order acceptance plan for 2025.

Specifically, the Directors have taken into account of the following in determining the above Proposed Annual Caps:

Products and services provided by the Group to the CSSC Group

(a) Shipping products, electrical and mechanical engineering equipment and metallic supplies etc.

The Proposed Annual Caps are determined taking into account the amount of transactions expected to be incurred by the Group for the year ending 31 December 2024, combined with the year-on-year increase in (i) the Group's order on hand and proposed commitments; and (ii) the Group's expected sales of products for the offshore wind business to the CSSG Group in 2025. The formulation of the forecast of the Proposed Annual Caps for the year ending 31 December 2025 (the "**2025 Forecast**") has taken into account of the sale of electrical and mechanical engineering equipment of approximately RMB160 million, the sale of metallic supplies of approximately RMB1,750 million, and the sale of waste and other low value products of approximately RMB130 million, whilst other sundry supplies of approximately RMB1 million and fixed assets of approximately RMB165 million are expected to be sold to the CSSC Group in 2025.

The historical amount of provision of shipping products, electrical and mechanical engineering equipment and metallic supplies etc. to the CSSC Group for the eight months ended 31 August 2024 was approximately RMB537.13 million, representing approximately 18.0% of the historical annual cap for the year ending 31 December 2024. The expected transaction amount would be approximately RMB1,025.90 million for the four months ending 31 December 2024. The low utilisation rate for the year ending 31 December 2024 was mainly due to change of business plan in relation to sales of metallic supplies. The construction of the facilities of offshore wind power with a contract price of approximately RMB1,000 million was cancelled due to the short establishment and lack of qualifications and capabilities of one of the members of the Group. Also, due to the changes in market demand, the CSSC Group had not made the procurement orders for steel and LNG storage tanks from the Group.

(b) Leasing, labour supply and technical services, etc.

Whilst taking into account primarily the historical transaction amounts, orders in hand, expected orders, material costs and anticipated total production value of the Group, the Proposed Annual Caps comprise (i) leasing fee of approximately RMB63.00 million, (ii) labour fee of approximately RMB21.00 million and (iii) technical fee of approximately RMB60.00 million.

The aforesaid transaction amount for the provision of labour supply of approximately RMB21.00 million is determined based on the orders in hand and the expected orders. Further, in 2025, the Group (i) will provide labour support services of approximately RMB12.0 million to the CSSC Group; and (ii) will receive approximately RMB8.4 million in 2025 if the progress of a labour support service would delay from 2024, the contract of which was signed in August 2024. In relation to technical services, whilst some of the projects are undergoing negotiations, it is expected that such transaction amount in relation to technical services with the CSSC Group would be approximately RMB35.0 million.

The historical amount of the leasing, labour supply and technical services for the eight months ended 31 August 2024 was approximately RMB35.30 million, representing approximately 24.1% of historical annual cap for the year ending 31 December 2024. It is estimated that the expected transaction amount would be approximately RMB90.65 million for the four months ending 31 December 2024.

Products and services provided by the CSSC Group to the Group

(c) Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.

Whilst based primarily on the shipbuilding orders undertaken by the Group and the production schedule of the Group, the Proposed Annual Caps are determined taking into account (i) the expected year-on-year increase in the amount of procurement based on the growth in the production value of approximately RMB8,213 million; (ii) a project delayed from 2024 of approximately RMB2,000 million; and (iii) construction work of approximately RMB300 million.

When compared against the Group's production plan for 2024, the expected production value has increased by approximately 12.0% for the year ending 31 December 2025 as compared to the year ending 31 December 2024. Thus, the expected transaction amount for the year ending 31 December 2025 will increase to approximately RMB8,213 million as compared to the total expected transactions for the year ending 31 December 2024 of approximately RMB7,300 million.

The historical transaction amount for the procurement of the equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. from the CSSC Group for the eight months ended 31 August 2024 was approximately RMB3,055.65 million, representing approximately 31.8% of the historical annual cap for the year ending 31 December 2024. The Directors expect that the transaction amount of provision of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. for the four months ending 31 December 2024 would be approximately RMB4,300.9 million, representing approximately 44.3% of the existing annual cap, when compared to the historical amount of provision of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. for the four months ended 31 December 2021, 2022 and 2023, accounting for approximately 45.4%, 38.2% and 43.9% of the annual caps for the respective periods.

(d) Leasing, labour supply and technical services

With reference to the 2025 Forecast, the Proposed Annual Caps were comprised of leasing of approximately RMB180 million, labour supply of approximately RMB620 million and technical services of approximately RMB570 million. Based on the Production Plan 2025, the expected production value has increased by approximately 12.0% for the year ending 31 December 2025 as compared to the year ending 31 December 2024. Thus, the expected transaction amount of labour supply and technical services for the year ending 31 December 2025 will increase by approximately RMB68.0 million and approximately RMB22.5 million respectively as compared to the total expected transactions of labour supply and technical services for the year ending 31 December 2024. For technical services, the Group has taken into account (i) the growth of production value; (ii) the technical services fee payable to the CSSC Group in 2021 to 2023 which was delayed and is expected to be paid in 2025 with the transaction amount of approximately RMB200 million; and (iii) one of the project will be completed by end of 2024 and the technical services fee is payable in 2025.

The historical transaction amount for procurement of leasing, labour supply and technical services from the CSSC Group for the eight months ended 31 August 2024 was approximately RMB376.53 million, representing approximately 24.0% of the existing annual cap for the year ending 31 December 2024. The low utilisation rate was mainly due to no orders for part of the key products had been received by the Group for production and therefore the technical services fees and labour supply fees paid to the CSSC Group had become lower.

Sales agency services to be provided by the CSSC Group to the Group:

(e) Sales agency fees

The determination of the Proposed Annual Caps has taken into account of the production plan of the Group for 2025, whereby 55 vessels of the Group will reach the point of payment of sales agency fees according to the production progresses. It is expected to sell the vessels through the CSSC Group and to pay approximately RMB54.0 million, the calculation of sales agency fee for 2025 was based on the total contract sum and expected production process. Further, the Group is expected to have sales agency fee of approximately RMB10.0 million and RMB3.0 million taking account into the expected new production contracts and expected deposit paid, respectively.

The historical transaction amount for the eight months ended 31 August 2024 was approximately RMB20.32 million, representing approximately 63.5% of the historical annual cap for the year ending 31 December 2024. The Company entered into the Supplemental Agreement on 27 September 2024 to increase the Existing Annual Cap to the Revised Annual Cap to cater for the Group's demand for such services and to facilitate the Group in capturing its potential business growth. Please refer to the section headed "II. The Supplemental Agreement – 5. Basis for Determining the Revised Annual Cap" in this letter above for details.

6. Reasons for and Benefits of Entering into the 2025 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, techniques 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 operation and production schedules for shipbuilding in 2025.

In addition, the Directors have taken into consideration of the following in relation to each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement:

(i) The CSSC Group has the need to purchase shipping products and complete sets or accessories of equipment while the Group has the capability of designing and manufacturing such products and can provide such products to the CSSC Group; or when the CSSC Group is facing a shortage in equipment, materials or accessories caused by insufficient procurements, or delay in delivery of goods by suppliers, or when the CSSC Group is urgently required to meet orders from its customers which temporarily exceeded the production capacity of the CSSC Group, the Group may provide various equipment, materials and accessories to the CSSC Group to meet its routine and urgent production needs, on conditions to be determined based on comparable prices on the market. In addition, the Group can handle waste materials through the logistic company of the CSSC Group and dispose of the fixed assets, that are no longer in use to the Group, to the CSSC Group.

The products and services to be provided by the Group to the CSSC Group are different from those to be provided by the CSSC Group to the Group. The products and services to be provided by the Group to the CSSC Group mainly consist of the sales of ship products, electrical and mechanical engineering equipment and metallic supplies, while the products and services to be provided by the CSSC Group to the Group are mainly for the raw materials and equipment for shipbuilding, technical services for the entire ship and comprehensive services. The CSSC Group has to produce the shipping products and equipment, while the Group has the capability to design and manufacture the products which are required for the production of the CSSC Group. The Board is of the view that there is no mutual provision of similar services.

(ii) 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. The Group will provide to the CSSC Group labour supply, primarily providing training and supplying short-term labour, shipbuilding labour supply etc. According to the demands for technicians, the Group may provide to the CSSC Group services for staff skill training and appraisals and technical services relating to businesses of the Group and short-term labour supply when the CSSC Group is in short of labour force for shipbuilding services. Besides, the Group will provide technical services such as installation, usage and maintenance services and design, research and development, self-developed software and related technical services of shipping products or other engineering in relation to the businesses of the Group 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 leverage its excess production capacity and existing shipbuilding-related techniques to earn additional income for the Group.

(iii) The shipping equipment, electrical and mechanical engineering equipment, accessories and materials and supplies purchased by the Group from the CSSC Group mainly for the provision of materials, accessories, equipment, tools and related logistics and delivery services required for the production of complete sets or accessories for ship, environmental protection and heavy equipment. The Group also uses logistics and related services, etc. provided by the CSSC Group. The Group purchases these types of equipment and services from the CSSC Group and 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; (ii) the CSSC Group is able to obtain competitive prices on certain materials by making bulk order through its centralised purchase system; and (iii) the Group needs to invest in fixed assets for production and operations, CSSC Group can provide the Group with the required production equipment, 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 materials and equipment through bulk purchase from the CSSC Group.

(iv) Labour services primarily include the secondment of labour force and subcontracting of shipbuilding works or steel structure works to the CSSC Group during the Group's peak production period. Given that the need for labour varies in different stages of production, the Directors consider that procurement of labour with specialised skills from the CSSC Group during the Group's peak production period 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 and equipment, the Group also engages the CSSC Group to provide design and technical services to meet the requirements for different production progresses. The Group has purchased the comprehensive services from the CSSC Group for years on terms no less favourable than terms available from Independent Third Parties, and thus the Directors believe that it would be more cost-efficient for the Group to retain the CSSC Group for provision of the comprehensive services.

(v) The provision of guarantee services in respect of the Group's borrowings or operating activities by the CSSC Group constitutes financial assistance by a connected person in favour of the Group. Considering that (i) the guarantee is to be provided by the CSSC Group in favour 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 services, the Directors consider that the guarantee to be provided by the CSSC Group will be more efficient than the services offered by other Independent Third Parties. The finance department and the relevant management members 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 Parties for providing similar services in order to ensure that the Group can obtain the most favourable terms available at all the relevant times and that, among others, the Contract Management Rules are complied with.

(vi) The Group used to leverage on the CSSC Group's reputation in the international shipbuilding market, its long-established relationships with shipowners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interests 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 the specific transactions. The rate of brokerage fees will vary according to the size and type of vessels. 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 interests of the Group.

On bases summarised above and given that (i) the Continuing Connected Transactions are entered into under the usual and ordinary course of business of the Group and the CSSC Group; and (ii) the Group will be benefited from better allocation of resources with the CSSC Group and hence enjoy competitive cost advantages, the Directors (excluding those who were required to abstain from voting on the relevant Board resolution in relation to the 2025 Framework Agreement but including the independent non-executive Directors, the views of whom are set out in the letter from the Independent Board Committee in this circular after taking into account the advice from the Independent Financial Adviser) are of the view that the 2025 Framework Agreement is entered into in the normal and ordinary course of business on normal commercial terms, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IV. THE 2025 FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, 2024 Financial Services Framework Agreement.

As the 2024 Financial Services Framework Agreement governing the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2024 to 31 December 2024 (both days inclusive) will be completed on 31 December 2024, the Company and CSSC Finance entered into the 2025 Financial Services Framework Agreement on 27 September 2024 to continue and govern the financial services between the Group and CSSC Finance for the period from 1 January 2025 to 31 December 2025.

The Directors (excluding the Directors who are required to abstain from voting on the relevant Board resolution in relation to the 2025 Financial Services Framework Agreement but including the independent non-executive Directors, the view of whom are set out in the letter from the Independent Board Committee in this circular after taking into account of the advice form the Independent Financial Adviser) are of the view that the 2025 Financial Services 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 Proposed Annual Caps) that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The entering into and the implementation of the 2025 Financial Services 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, pending approval by the Independent Shareholders at the EGM, the Company shall continue to comply with the terms of the 2024 Financial Services Framework Agreement and the continuing connected transactions contemplated thereunder (together with the relevant annual caps).

2. Principal terms of the 2025 Financial Services Framework Agreement

The principal terms of the 2025 Financial Services Framework Agreement are as follows:

Scope: The services to be provided by CSSC Finance to the Group:

(a) Deposit services: The Group has opened a deposit account with CSSC Finance. CSSC Finance provides the Group with various types of deposit business services, including demand deposits, call deposits, time deposits and agreement deposits;

(b) Lending services: CSSC Finance shall, to the extent as permitted by laws, regulations and policies of the State, in accordance with the requirements of the NAFR and in conjunction with its own operating principles and credit policies, fully support the Group's capital needs in its business development, design scientific and reasonable financing solutions and provide loan services for the Group. For business applications that meet the conditions for loans from CSSC Finance, the Group will be given priority under the same conditions;

(c) Other and bank credit services: CSSC Finance shall provide collection and payment services and auxiliary services related to settlement business to the Group. Based on a comprehensive evaluation of the Group's operation and management and risk profile, CSSC Finance shall approve a consolidated credit line for the Group, which guarantees made by CSSC Finance for the Group's potential liabilities for compensation and payment arising from relevant economic activities, including on-balance sheet businesses such as loans, trade finance, bill financing and various advances, and off-balance sheet businesses such as acceptance of bills, letters of guarantee and unused irrevocable loan commitments; and

(d) Foreign exchange services such as forward settlement and sale of foreign exchange: CSSC Finance shall, to the extent as permitted by laws, regulations and policies of the State, provide the Group with various types of foreign exchange business, including forward settlement and sale of foreign exchange, spot settlement and sale of foreign exchange, RMB foreign exchange swaps, foreign exchange trading and other foreign exchange related ancillary services. The Group negotiates and enters into contracts such as forward settlement and sale of foreign exchange with CSSC Finance, agreeing on the currency, amount and exchange rate of RMB against foreign exchange for future settlement and the completion deadline.

Pricing: The Continuing Connected Transactions of Financial Services shall be conducted in the usual course of business of the Group and on normal commercial terms on the basis that are fair (and if there are no or not sufficient comparable transactions to assess whether they are conducted on normal commercial terms and on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties), such transactions shall be fair and reasonable so far as the shareholders of the Group are concerned. The parties shall enter into an agreement in respect of such transactions and the basis of pricing shall be specified in the agreement.

In respect of (a) above, the interest rate at which CSSC Finance takes the Group's Deposits is based on the deposit rate standard set by the PBOC, which should be no less favourable than the conditions offered by Independent Third Parties.

In respect of (b) above, the Group's borrowings from CSSC Finance are at rates no higher than the lending rates prescribed by the PBOC, which should be no less favourable than the conditions offered by Independent Third Party lenders.

In respect of (c) above, the charges are based on the standards set by the PBOC; the Group's financial handling charge standards for banking credit services with CSSC Finance should not be less favourable than the conditions offered by Independent Third Parties for credit services.

In respect of (d) above, the Group's handling fee rates for foreign exchange business such as forward settlement and sale of foreign exchange with CSSC Finance should not be less favourable than those charged by Independent Third Parties.

Term:	Conditional upon approval by the Independent Shareholders at the EGM, the term of the 2025 Financial Services Framework Agreement shall be for the period from 1 January 2025 to 31 December 2025 (both days inclusive).

3. Historical Amounts

The table below sets out the amounts of each category of the Continuing Connected Transactions of Financial Services for the eight months ended 31 August 2024 and the comparison with the respective annual caps approved by the Independent Shareholders under the 2024 Financial Services Framework Agreement. The Directors will closely monitor that the transaction amounts of the Continuing Connected Transactions of Financial Services for the year ending 31 December 2024 to ensure the amounts will not exceed their respective annual caps for 2024 under the 2024 Financial Services Framework Agreement. The unaudited transaction amounts for the Continuing Connected Transactions of Financial Services for the eight months ended 31 August 2024 did not exceed the annual caps for those transactions.

Unit: RMB in ten thousand

Transactions	**Historical Annual Caps For the year ending 31 December 2024**	**Historical Amounts For the eight months ended 31 August 2024** *(Note 1)*
Financial services provided by CSSC Finance to the Group:		
(a) (1) Maximum outstanding daily balance on the Deposits	1,665,000	1,454,490
(2) Aggregate interest on the Deposits for the year	25,100	12,291
(b) (1) Maximum outstanding daily balance on loans	180,000	5,000
(2) Aggregate interest on loans for the year	4,300	59
(c) (1) Maximum limit on other and bank credit services	723,600	92,171
(2) Aggregate fees on financial and bank credit services	810	26
(d) Maximum outstanding daily balance of foreign exchange services such as forward settlement and sale of foreign exchange	300,000	152,908

Notes:

1. The figures for the eight months ended 31 August 2024 were unaudited figures.

4. Proposed Annual Caps

The table below sets out the Proposed Annual Caps for Continuing Connected Transactions of Financial Services for 2025.

Unit: RMB in ten thousand

Transactions	Proposed Annual Cap For the year ending 31 December 2025
Financial services provided by CSSC Finance to the Group:	
(a) (1) Maximum outstanding daily balance on the Deposits	1,870,000
(2) Aggregate interest on the Deposits for the year	33,900
(b) (1) Maximum outstanding daily balance on loans	180,000
(2) Aggregate interest on loans for the year	4,300
(c) (1) Maximum limit on other and bank credit services	723,600
(2) Aggregate fees on other and bank credit services	810
(d) Maximum outstanding daily balance of foreign exchange services such as forward settlement and sale of foreign exchange	450,000

5. Basis for Determining the Proposed Annual Caps

In determining the Proposed Annual Caps, the Directors have taken into account the growth of the Group's production value for 2025 and the increase in the total amount of capital. In accordance with the general plan for capital receipts and expenditures for 2025, after estimation of the cash inflow and outflow at various stages during 2025, the capital stock, capital requirements and relevant businesses at various stages during the year will increase as compared to 2024, among which:

(a) Deposit services

The Proposed Annual Caps of the maximum outstanding daily balance on the Deposits are mainly determined based on estimated annual cash flows of the Group. The year-on-year increase in the annual cap under the 2025 Financial Services Framework Agreement is mainly due to the expectation that certain product node payments will be collected centrally during a certain period under the Group's orders on hand and new orders acceptance plan, resulting in an increase in peak deposits at a certain point and a corresponding increase in the total interest accruing therefrom.

Specifically, the aggregate interest on the Deposits for the eight months ended 31 August 2024 was approximately RMB122.91 million, representing approximately 49.0% of the Proposed Annual Caps in respect of the aggregate interest on the Deposits for the year ending 31 December 2024. Meanwhile, the expected maximum daily balance on the Deposits for the four months ending 31 December 2024 would be approximately RMB14.5 billion and the aggregate interest on the Deposits for the four months ending 31 December 2024 would be approximately RMB120.71 million.

The maximum daily balance had been calculated with reference to current cash position, the expected monthly cash inflow, cash outflow, new loans and repayment of loans. To this, the Group has taken into account of, among others, (i) the historical maximum daily balance of the Deposits (including accrued interest) with CSSC Finance for the eight months ended 31 August 2024; and (ii) the cash flow projection for the year ending 31 December 2024 to determine the Proposed Annual Cap for the maximum outstanding daily balance. To this, the Directors considers that the sales and purchases from ordinary course of business of the Group will record an expected growth in production value of approximately 12.0% in 2025; and that in 2025, there will be a periodic working capital deficiency in some months due to seasonal influences such as the Lunar New Year holiday, and therefore, the Company would need short-term financing to meet the capital needs of production and operations. The aforesaid cash flow projection is prepared on this basis and together with the three-year fixed deposits maintained by the Group.

The Proposed Annual Caps in respect of the aggregate interest on the Deposits for the year ending 31 December 2025 is based on the CSSC Finance's interest rate. Whereas the Proposed Annual Caps in respect of the aggregate interest on the Deposits is calculated based on 1.05% to 3.30% of the Proposed Annual Caps on the maximum daily balance of the Deposits. The interest rates vary as the duration of deposits and type of deposits are different. Meanwhile, the interest rates provided by CSSC Finance were higher than that provided by the PBOC, and CSSC Finance's interest rate will adjust from time to time according to PBOC interest rate policy.

(b) Foreign exchange services such as forward settlement and sale of foreign exchange:

The Company is subject to high exchange rate risk as the Group's ship export orders are denominated in USD, where some of the domestic ships orders are denominated in USD but payable in RMB. Based on the Group's output value and foreign exchange collection plan for 2025, it is expected that the Group's foreign exchange business such as forward settlement and sale of foreign exchange with CSSC Finance in 2025, will increase accordingly.

Specifically, the Proposed Annual Cap is mainly determined with reference to the purchase orders received from foreign buyers (from ship buyers who will settle the purchases in foreign currencies) of the Group for the year ending 31

December 2025. To this, the Group expects the order from foreign buyers purchase orders (the "**Foreign Orders**") (denominated in USD) would be at approximately RMB4,637.43 million for the year ending 31 December 2025. Taking into account (i) based on the forward contracts on hand as at 31 August 2024, which will be still in force in 2025, of approximately RMB2,613.79 million; (ii) in the fourth quarter of 2024, the Group expects to sign new forward contracts of approximately RMB386.21 million; (iii) the expected forward contracts to be signed in 2025 of approximately RMB1,420.00 million which is based on the order from foreign buyers purchase orders which is 30.6% of the Foreign Orders for the year ending 31 December 2025; and (iv) a buffer of approximately RMB80 million due to fluctuation of foreign exchange rate, the maximum daily balance of forward settlement and sale of foreign exchange amounts to RMB4,500.00 million for the year ending 31 December 2025.

6. Reasons for and Benefits of Entering into the 2025 Financial Services Framework Agreement

The Continuing Connected Transactions of Financial Services allow the Group to fully leverage the financial services resources of CSSC Finance in order to provide a full range of financial services to the Group's business operations to support the Group's development. In addition, the Directors have taken into consideration the following in relation to the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement:

(i) The Group maintains the Deposits with CSSC Finance from time to time. The interest rate on the Deposits is based on the deposit rates published by the PBOC from time to time and is no less favourable than the conditions offered by Independent Third Parties. 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 by the CSSC Group to the Group via CSSC Finance to the Group.

(ii) Apart from maintaining the Deposits with CSSC Finance, the Group also obtains the provision of loans from CSSC Finance to meet the operational and production needs and to maintain the liquidity necessary for the Group from time to time. The loans will be charged by CSSC Finance at a lending rate not higher than lending rate prescribed by the PBOC or on terms no less favourable than the lending rate(s) offered by Independent Third Parties proving similar services in the PRC.

The Directors consider that the provision of the loans granted by 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 granted 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 various financial services, including on-balance sheet businesses such as loans, bill financing and various advances, and off-balance sheet businesses such as acceptance of bills, letters of guarantee and unused irrevocable loan commitments. In the past, the Group used the other and bank credit services provided by Independent Third Parties and/or CSSC Finance. The engagement of CSSC Finance for provision of the other and bank credit services would enable the Group to obtain more competitive terms. Given the business relationship between the Group and CSSC Finance, the Directors believe that the financial and bank credit services to be offered by CSSC Finance will be more efficient than the services offered by other general domestic commercial banks or institutions.

(iv) The Company's ship export orders are denominated in USD and some domestic ship orders are also denominated in RMB with reference to USD. As such, the Company is subject to higher exchange rate risk. The Group entered into FX Forward Contracts with Independent Third Party banks and/or CSSC Finance to hedge against its currency risk in the past. 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 banks or CSSC Finance as to the exchange rate, transaction period and transaction amount regarding specific currency whenever it intends to enter into a FX Forward Contract. If the terms are more favourable than those offered by Independent Third Parties to the Group, the Group will enter into FX Forward Contracts with CSSC Finance. For each FX Forward Contract with CSSC Finance, there will be one transaction between the Group and CSSC Finance. Such transaction will take place on a pre-agreed transaction date.

The number of contracts to be entered with CSSC Finance depends on the hedging needs of the Group. In particular, it depends on the timing of inflow of cash denominated in USD 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 USD 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 as 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 provides 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 its Shareholders as a whole.

On bases summarised above and given that (i) the Continuing Connected Transactions of Financial Services are entered into under the usual and ordinary course of business of the Group and the CSSC Finance; and (ii) the Group will be benefited from cooperation with CSSC Finance and hence enjoy competitive cost advantages, the Directors (excluding the Directors who were required to abstain from voting on the relevant Board resolution in relation to the 2025 Financial Services Framework Agreement but including the independent non-executive Directors, the views of whom are set out in the letter from the Independent Board Committee in this circular after taking into account the advice from the Independent Financial Adviser) are of the view that the 2025 Financial Services Framework Agreement is entered into in the normal and usual course of business on normal commercial terms, is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

7. Risk Control relating to the Deposits under the 2025 Financial Services 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 others, 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 Finance or members of the CSSC Finance; 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 NAFR and that the major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the NAFR and other relevant laws and regulations;

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

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

In order to safeguard the interests of the Shareholders, the Group has adopted certain guidelines and principles in monitoring, among other things, the arrangements for the Deposits. These include an assessment of the fund operation and control of risk exposure of the 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 the 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 and the auditors of the Company and strict compliance of risk monitoring by the NAFR on the CSSC Finance.

V. FINANCIAL EFFECTS

1. Financial effects of the Sales Agency Services transaction on the Group

As mentioned above, whilst there is an increase in the orders accepted by the Group given an overall relatively high acceptance of orders for civil vessels in the market in 2024, and the production schedule for the orders on handoff the Company and the order acceptance plan for 2024 are better than expected; meanwhile, whereas the Sales Agency Fees are payable in proportion of the progress payment per vessel, the increase in the Sales Agency Fees corresponds to the increase in the progress payment by the shipowner, the Directors do not consider that the Sales Agency Services transaction would have an adverse impact to the Group's earnings. There is no impact of such transaction on the assets and liabilities of the Group.

2. Financial effects of the provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc. by CSSC Group to the Group

The shipping equipment, electrical and mechanical engineering equipment, accessories and materials and supplies purchased by the Group from the CSSC Group mainly for the provision of materials, accessories, facilities and equipment, tools and related logistics and delivery services required for the production of complete sets or accessories for ship, environmental protection and heavy equipment. The Group also uses logistics and related services, etc. provided by the CSSC Group. The Group purchases these types of equipment and services from the CSSC Group and other independent suppliers so as to meet its routine and urgent needs. As such, the provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies, etc. by CSSC Group to the Group would have no impact on the Group's earnings and liabilities, whilst those equipment and accessories etc. would be recognised as inventories upon receipt, thereby increasing the Group's assets, and will correspondingly decrease when they are installed in the ship and delivered to the Group's customers.

3. Financial effects of the Deposits transaction on the Group

The Group maintains the Deposits at CSSC Finance from time to time. Such deposits are on short term basis, and can fully leverage the transitional arrangements of funding to the Company to support 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, which will generate the interest income and in turn support its working capital. The deposit interest rate offered by CSSC Finance will be based on the deposit interest rate promulgated by the 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 2025 Financial Services Framework Agreement. The deposit transactions would have no impact on the Group's assets and liabilities. As the Group can earn interests through the Deposits, the deposit transactions would increase the Group's earnings. 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 NAFR on CSSC Finance.

4. Financial effects of FX Forward Contracts

The Company's ship export orders are denominated in USD and some domestic ship orders are also denominated in USD with reference to RMB. The recognised assets and liabilities in USD and the unrecognised ship settlement in USD lead to foreign currency risk, which may affect the results of operation of the Group. The FX Forward Contracts thus hedge the Company's currency risk. The effect on the Group's earnings would be a net gain or loss from exposure hedging representing the difference between the foreign exchange gain or loss on the asset or liability and the change in the fair value of the FX Forward Contracts. The FX Forward Contracts would have no impact to the Group's assets and liabilities.

VI. INTERNAL CONTROL MEASURES

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 of the continuing connected transaction under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement), the Continuing Connected Transaction under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services under the 2025 Financial Services Framework Agreement.

Such arrangements shall include:

(i) each continuing connected transaction 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;

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

(iii) 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 accordance 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 Transactions are conducted under fair and reasonable terms and accordingly whether the interest of the Company will be affected.

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

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

(ii) each unit has to ensure that the relevant transaction amount shall not exceed the assigned annual caps strictly; and

(iii) in the event that there is a proposed increase in transaction amount due to production or operation need by a unit which might exceed the assigned annual caps to such unit, the proposed transaction shall not be conducted without prior approval from the Board office and the finance department of the Group. Such unit shall submit an application, together with a budget report, to the finance department of the Group at least four months prior to the proposed transaction.

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

(i) there is work allocation for each unit of the Company in relation to management of the continuing connected transactions and a leader and responsible person will be appointed for the management of such transactions;

(ii) in order to monitor the utilisation rate of the annual caps, there is monthly reporting system with strict management and rigid control;

(iii) each unit has to comply with the policy of the Company strictly for monitoring and inspection of the continuing connected transactions and issue warning when the utilization rate is close to the annual caps; and

(iv) compliance with the internal policy in relation to continuing connected transactions of the Company is taken into account in the economic assessment of each unit of the Company.

The Board is of the view that there are adequate internal controls in place to ensure that the individual transactions are conducted within the 2024 Framework Agreement (as supplemented by the Supplemental Agreement), the 2025 Framework Agreement and 2025 Financial Services Framework Agreement.

No material reliance on the CSSC Group

Despite the amount of the Proposed Annual Caps is substantial when compared with the historical revenue of the Group, the Directors are of the view that, in addition to the internal control measures to safeguard the interest of the Company and its Shareholders, there is no material reliance on CSSC Group on the following grounds:

(i) The business relationship between the Company and CSSC Group is unlikely to be materially adversely changed or terminated.

As disclosed in the section headed "Information about the Parties" below, the Company is a core subsidiary and platform of CSSC. The Company is a large comprehensive marine and defense equipment enterprise group incorporating four sectors of maritime equipment, namely, maritime defense equipment, maritime transport equipment, maritime development equipment and maritime technology application equipment. Its principal business includes independent production and operation and manufacturing and providing customers with high-quality products through research and development of ships, seeking orders and implementing customized order production. It is also mainly engaged in assembly and construction in the shipbuilding and offshore engineering industrial chain.

Meanwhile, CSSC is a State-authorized investment institution directly supervised and administered by the SASAC. Its core business includes shipbuilding, ship-repairing, processing, export/import of marine equipment and other diversified businesses. CSSC Finance is a wholly-owned subsidiary of CSSC Group principally engaged in provision of various financial services. As at the Latest Practicable Date, CSSC controlled 804,128,590 Shares indirectly through China Shipbuilding Group, representing approximately 56.89% of the issued Shares of the Company, and is an indirect controlling Shareholder of the Company.

CSSC Group and the Group have established a stable and long-term business relationship for the procurement and sales of marine-related products and services over the years. Given CSSC's majority shareholding in the Group and the alignment of the business scopes of the CSSC Group and the Group, the development of the Group matches that of the CSSC Group. The Directors consider that the mutual trust built over the years render any material adverse change or termination of the relationship among the parties unlikely.

Further, the Directors are of the view that the long-term business cooperation, including the implementation of the transactions contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, is mutually beneficial to both CSSC Group and the Group. It enables both parties to leverage on each other's expertise and capacities in their respective regime in terms of shipping-related products, engineering equipment, material suppliers as well as production facility and manpower resources, technical services and sales agency services for more efficient operations and to better serve their respective business and customer needs. Please also refer to the sections headed "Reasons for and Benefits of Entering into the 2025 Framework Agreement" and "Reasons for and Benefits of Entering into the 2025 Financial Services Framework Agreement" for details.

(ii) Based on the unaudited management account of the Group, for the year ended 31 December 2022, the year ended 31 December 2023 and the eight months ended 31 August 2024, the procurement of products and services by the Group from CSSC Group amounted to approximately RMB5,178.06 million, RMB7,873.85 million and RMB3,432.18 million, accounting for approximately 39.32%, 47.59% and 30.05% of the total purchases of the Group, whilst the sales of products and services by the Group to CSSC Group for the respective year/period amounted to approximately RMB261.47 million, RMB338.10 million and RMB572.43 million, accounting for approximately 2.04%, 2.09% and 5.06% of the operating income derived by the principal business of the Group for the respective year/period.

Whereas the Group recorded its procurement of products and services from CSSC Group as a percentage of its total purchases for the eight months ended 31 August 2024 lower than that for the year ended 31 December 2023, the increase in the Group's revenue generated from sales of products and services to CSSC Group as a percentage of its operating income from principal business for the eight months ended 31 August 2024 when compared to that for the year ended 31 December

2023 was mainly attributable to an order of a relatively higher contract amount received from CSSC Group for their production and operational needs during the period, and such percentage remains to be relatively insignificant.

The further increase in certain of the Proposed Annual Caps was mainly driven by the expected year-on-year increase of 12% in production value of the Group with reference to the historical transaction amounts, orders in hand and expected orders, etc.. Please refer to the paragraphs headed "Basis for Determining the Proposed Annual Caps" under the sections headed "2025 Framework Agreement" and "2025 Financial Services Framework Agreement". Based on the above, the Directors do not consider that there is undue reliance by the Group on CSSC Group.

(iii) The Group has been operating independently from the CSSC Group. The Group has full rights, hold and enjoy the benefit of all relevant licenses, have sufficient capital and employees necessary to make all decisions on, and to carry out, own business operation independent from the CSSC Group and will continue to do so after the entering of the 2025 Framework Agreement. Each of CSSC Group and the Group has its own team of quality personnel to be responsible for the day-to-day operations and is responsible for its own employee recruitment. There has also been no material reliance on the part of the Group for CSSC Group in sourcing of production projects or the resources required to carry out those projects.

(iv) The Proposed Annual Caps serve as the maximum limit of potential transaction amounts to be conducted between the Group and the CSSC Group. There is also no procurement or purchase commitment by either party to the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement. The procurement and purchase obligations under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement are non-exclusive, and merely provides the Group with an additional option in sourcing qualified suppliers and as an additional sales channel (as the case may be). The Group is free to negotiate and select its suppliers or customers which can offer more favourable terms to the Group.

VII. INFORMATION ABOUT THE PARTIES

The Company

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in Southern China. As at the Latest Practicable Date, the Company had a major non-wholly owned subsidiary, namely Huangpu Wenchong. The Group's principal products of shipbuilding and marine products include military ships, marine police equipment and public service ships as the representative defense equipment, feeder containerships, dredgers, offshore engineering platforms and wind power installation platforms as the representative marine offshore products as well as energy equipment, high-end steel structures, construction machinery, environmental protection equipment and industrial internet platforms as the representative marine application business products.

CSSC

CSSC is a state-authorized investment institution directly supervised and administered by the SASAC, and its core business includes shipbuilding, ship-repairing, processing, export/import of marine equipment, diversified businesses such as other steel structure manufacturing and international cooperation, joint venture operations, financing, technology trading and workforce exportation. As at the Latest Practicable Date, CSSC, the indirect controlling shareholder of the Company, controlled 804,128,590 Shares of the Company indirectly through China Shipbuilding Group, representing 56.89% of the issued Shares of the Company.

CSSC Finance

CSSC Finance is a wholly-owned subsidiary of CSSC 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.

VIII. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Regarding the revision of existing annual cap under the 2024 Framework Agreement

Since CSSC is an indirect controlling shareholder of the Company, CSSC is a connected person of the Company. Accordingly, the transactions contemplated under the 2024 Framework Agreement constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the proposed annual caps of the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) exceed 5% on annual basis, the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental 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.

The provision of guarantee services by the CSSC Group to the Group pursuant to the 2024 Framework Agreement constitutes financial assistance received by the Group from a connected person. As (i) the provision of guarantee 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 such guarantee services, according to Rule 14A.90 of the Hong Kong Listing Rules, the provision of the guarantee services by the CSSC Group to the Group under the 2024 Framework Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the proposed annual caps of the continuing connected transactions under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) are more than 25% but below 100% on annual basis, the continuing connected transactions contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) constitute the major transactions of the Company that are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Regarding the 2025 Framework Agreement

Since CSSC is an indirect controlling shareholder of the Company, CSSC is a connected person of the Company. Accordingly, the transactions contemplated under the 2025 Framework Agreement constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the Proposed Annual Caps of the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) under the 2025 Framework Agreement exceed 5% on annual basis, the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2025 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.

The provision of guarantee services by the CSSC Group to the Group pursuant to the 2025 Framework Agreement constitutes financial assistance received by the Group from a connected person. As (i) the provision of guarantee 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 such guarantee services, according to Rule 14A.90 of the Hong Kong Listing Rules, the provision of the guarantee services by the CSSC Group to the Group under the 2025 Framework Agreement is exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the Proposed Annual Caps of the Continuing Connected Transactions under the 2025 Framework Agreement exceed 25% but are all less than 100% on annual basis, the Continuing Connected Transactions contemplated under the 2025 Framework Agreement constitute a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Meanwhile, as one or more of the applicable percentage ratios in relation to the provision of shipping products, electrical and mechanical engineering equipment, accessories, materials and supplies by the CSSC Group to the Group under the 2025 Framework Agreement exceed 25% but all are less than 100% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, the provision of shipping products, electrical and mechanical engineering equipment, accessories, materials and supplies by the CSSC Group to the Group under the 2025 Framework Agreement constitute a non-exempt connected transaction and also a major transaction of the Company independently and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

Regarding the 2025 Financial Services Framework Agreement

Since CSSC is an indirect controlling shareholder of the Company and CSSC Finance is a wholly-owned subsidiary of the CSSC Group, CSSC Finance is a connected person of the Company. Accordingly, the transactions contemplated under the 2025 Financial Services Framework Agreement constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) on an annual basis for the Proposed Annual Caps for the Continuing Connected Transactions of Financial Services under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group) exceed 5%, the Continuing Connected Transactions of Financial Services (save for the provision of the loans, other and bank credit services by CSSC Finance to the Group) contemplated under the 2025 Financial Services Framework Agreement constitute non-exempt continuing connected transactions of the Company that are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The provision of the loans, other and bank credit services by CSSC Finance to the Group pursuant to 2025 Financial Services Framework Agreement constitute financial assistance received by the Group from a connected person. As (i) the provision of abovementioned 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 such financial services, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the provision of the loans, other and bank credit services by CSSC Finance to the Group pursuant to 2025 Financial Services Framework Agreement is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 25% and one of them exceeds 100% for the Deposit Services and foreign exchange services such as forward settlement and sale of foreign exchange under the 2025 Financial Services Framework Agreement, the Deposit Services and foreign exchange services such as forward settlement and sale of foreign exchange under the 2025 Financial Services Framework Agreement constitute non-exempt continuing connected transactions and major transactions (as such services do not involve an acquisition or disposal of assets) of the Company that are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

IX. DIRECTORS' INTEREST IN THE ABOVE TRANSACTIONS

Since each of Mr. Chen Liping, Mr. Gu Yuan, Mr. Ren Kaijiang and Mr. Yin Lu holds managerial positions at the CSSC Group and/or its associates, in accordance with the Company's internal control policy on connected transactions, they had abstained from voting on relevant Board resolutions to approve (among others) the entering into of the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap); and the 2025 Framework Agreement, the 2025 Financial Services Framework Agreement and the terms and the Proposed Annual Caps of the transactions contemplated thereunder. Save for the above, none of the Directors had or was deemed to have a material interest in the above matter and had to abstain from voting on the relevant Board resolutions.

X. THE EGM

The EGM will be held at the conference room of the Company at 15th Floor, Marine Tower, No. 137 Gexin Road, Haizhu District, Guangzhou, the PRC at 10:30 a.m. on Friday, 29 November 2024. The notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

China Shipbuilding Group and CSSC International Holding Company Limited (together holding 804,128,590 Shares of the Company, representing 56.89% of all the issued Shares of the Company, as at the Latest Practicable Date) will abstain from voting in relation to the relevant resolutions at the forthcoming EGM. The Company confirms that China Shipbuilding Group and CSSC International Holding Company Limited controls the voting rights in respect of their shares of the Company.

Save for the above, to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the resolutions to be proposed at the EGM and will abstain from voting at the EGM.

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 his/her behalf. The proxy need not be a Shareholder. In order to ensure validity. the H Shareholders must deliver the completed proxy forms and other authorization documents (if any) to the H shares registrar of the Company, Hong Kong

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

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

XI. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will close from Tuesday, 26 November 2024 to Friday, 29 November 2024 (both days inclusive), during which period no transfer of Shares will be registered.

XII. RECOMMENDATIONS

Taking into account of the further details of the Supplemental Agreement, the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, the Board (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular after taking into account the advice from the Independent Financial Adviser) is of the view that the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreements and the 2025 Financial Services Framework Agreement are on normal commercial terms and are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole. Accordingly, the Board recommends all Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Supplemental Agreement and the transaction contemplated thereunder (including the Revised Annual Cap), and the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

XIII. FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board
CSSC Offshore & Marine Engineering (Group) Company Limited
Li Zhidong
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 Shares Stock Code: 00317)

12 November 2024

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS IN RELATION TO THE REVISION OF EXISTING ANNUAL CAP UNDER THE 2024 FRAMEWORK AGREEMENT; THE 2025 FRAMEWORK AGREEMENT; AND THE 2025 FINANCIAL SERVICES FRAMEWORK AGREEMENT

We refer to the circular dated 12 November 2024 (the "**Circular**") issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively, as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, respectively. Vinco Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 58 of this Circular and the text of a letter from the Independent Financial Adviser, as set out on pages 61 to 97 of this Circular, both of which provide details of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement (including the Revised Annual Cap), and the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement (together with the Proposed Annual Caps), respectively. Your attention is also drawn to the additional information set out in Appendix II to the Circular.

Having considered the terms of the Supplemental Agreement (including the Revised Annual Cap), and the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement (including the Proposed Annual Caps), the advice of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, and the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms and are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions for approving the transaction for the Sales Agency Services and the Revised Annual Cap contemplated under the Supplemental Agreement, and each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services and the Proposed Annual Caps contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement to be proposed at the EGM.

Yours faithfully
For and on behalf of the
Independent Board Committee
Mr. Lin Bin **Mr. Nie Wei** **Mr. Li Zhijian** **Ms. Xie Xin**
Independent non-executive Directors

The following is the text of a letter of advice from Vinco Financial to the Independent Board Committee and the Independent Shareholders in connection with the terms and (i) the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; and (ii) Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement, respectively, which has been prepared for the purpose of incorporation in this circular:

VINCO 榮高
Vinco Financial Limited

12 November 2024

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS IN RELATION TO
(I) THE REVISION OF EXISTING ANNUAL CAP UNDER THE 2024 FRAMEWORK AGREEMENT;
(II) THE 2025 FRAMEWORK AGREEMENT AND THE 2025 FINANCIAL SERVICES 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 terms and (i) the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; and the terms and the (ii) Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement, respectively, details of which are set out in the "Letter from the Board" of the circular (the "**Circular**") issued by the Company to the Shareholders dated 12 November 2024 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.

The Supplemental Agreement

Reference is made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, the 2024 Framework Agreement, which, together with the transactions and the annual caps contemplated thereunder, were approved by the Independent Shareholders on 29 December 2023.

The Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2024 Framework Agreement and anticipates that the demand of the Group for the Sales Agency Services will exceed the previous projection to the effect that the existing annual cap for such services under the 2024 Framework Agreement will not be sufficient to meet the demand of the Group.

Accordingly, the Company and CSSC entered into the Supplemental Agreement on 27 September 2024 to increase the existing annual cap for the Sales Agency Services for the year ending 31 December 2024 to the Revised Annual Cap in order to cater for the Group's demand for such services and to facilitate the Group in capturing its potential business growth.

Continuing Connected Transactions under the 2025 Framework Agreement and Continuing Connected Transactions of Financial Services under the 2025 Financial Services Framework Agreement

Reference is made to the announcements of the Company dated 27 September 2024 in relation to, among other things, the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement.

2025 Framework Agreement

Reference is made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, the 2024 Framework Agreement. As the 2024 Framework Agreement governing the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2024 to 31 December 2024 will be completed on 31 December 2024, the Company and CSSC entered into the 2025 Framework Agreement to continue and govern such Continuing Connected Transactions between the Group and CSSC Group for the period from 1 January 2025 to 31 December 2025.

2025 Financial Services Framework Agreement

Reference is made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023. As the 2024 Financial Services Framework Agreement governing the continuing connected transactions between the Group and the CSSC Finance for the period from 1 January 2024 to 31 December 2024 will be completed on 31 December 2024, the Company and CSSC Finance entered into the 2025 Financial Services Framework Agreement to continue and govern the financial services between the Group and CSSC Finance for the period from 1 January 2025 to 31 December 2025.

Hong Kong Listing Rules Implication

As at the Latest Practicable Date, CSSC is an indirect controlling shareholder of the Company, and is therefore a connected person of the Company. Accordingly, the transactions contemplated under (i) the 2024 Framework Agreement (as supplemented by the Supplemental Agreement); and (ii) the 2025 Framework Agreement constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

Revision of existing annual cap under the 2024 Framework Agreement

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the proposed annual caps of the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) exceed 5% on annual basis, the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental 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.

Regarding the 2025 Framework Agreement

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the Proposed Annual Caps of the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) under the 2025 Framework Agreement exceed 5% on annual basis, the Continuing Connected Transactions (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2025 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.

The provision of guarantee services by the CSSC Group to the Group pursuant to the 2025 Framework Agreement constitutes financial assistance received by the Group from a connected person. As (i) the provision of guarantee 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 such guarantee services, according to Rule 14A.90 of the Hong Kong Listing Rules, the provision of the guarantee services by the CSSC Group to the Group under the 2025 Framework Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules for the proposed annual caps of the Continuing Connected Transactions under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) and for the Proposed Annual Caps of the Continuing Connected Transactions under the 2025 Framework Agreement are more than 25% but below 100% on annual basis, the Continuing Connected Transactions contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) and the Continuing Connected Transactions under the 2025 Framework Agreement constitute the major transactions of the Company that are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Meanwhile, as one or more of the applicable percentage ratios in relation to the provision of shipping products, electrical and mechanical engineering equipment, accessories, materials and supplies by the CSSC Group to the Group under the 2025 Framework Agreement exceed 25% but all are less than 100% calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules, the provision of shipping products, electrical and mechanical engineering equipment, accessories, materials and supplies by the CSSC Group to the Group under the 2025 Framework Agreement constitute a non-exempt connected transaction and also a major transaction of the Company independently and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

Regarding the 2025 Financial Services Framework Agreement

As at the Latest Practicable Date, CSSC is an indirect controlling shareholder of the Company and CSSC Finance is a wholly-owned subsidiary of the CSSC Group and therefore CSSC Finance is a connected person of the Company. Accordingly, the transactions contemplated under the 2025 Financial Services Framework Agreement constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) on an annual basis for the Proposed Annual Caps for the Continuing Connected Transactions of Financial Services under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group) exceed 5%, the Continuing Connected Transactions of Financial Services (save for the provision of the loans, other and bank credit services by CSSC Finance to the Group) contemplated under the 2025 Financial Services Framework Agreement constitute non-exempt continuing connected transactions of the Company that are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The provision of the loans, other and bank credit services by CSSC Finance to the Group pursuant to 2025 Financial Services Framework Agreement constitute financial assistance received by the Group from a connected person. As (i) the provision of abovementioned 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 such financial services, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the provision of the loans, other and bank credit services by CSSC Finance to the Group pursuant to 2025 Financial Services Framework Agreement is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 25% and one of them exceeds 100% for the Deposit Services and foreign exchange services such as forward settlement and sale of foreign exchange under the 2025 Financial Services Framework Agreement, the Deposit Services and foreign exchange services such as forward settlement and sale of foreign exchange under the 2025 Financial Services Framework Agreement constitute non-exempt continuing connected transactions and major transactions (as such services do not involve an acquisition or disposal of assets) of the Company that are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

China Shipbuilding Group and CSSC International Holding Company Limited (together holding 804,128,590 Shares of the Company, representing 56.89% of all the issued Shares of the Company, as at the Latest Practicable Date) will abstain from voting in relation to the relevant resolutions at the forthcoming EGM. The Company confirms that China Shipbuilding Group and CSSC International Holding Company Limited controls the voting rights in respect of their shares of the Company. Save for the above, to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the resolutions to be proposed at the EGM and will abstain from voting at the EGM.

Independent Board Committee

The Independent Board Committee comprising Mr. Lin Bin, Mr. Nie Wei, Mr. Li Zhijian and Ms. Xie Xin, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of (A) the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; (B) the terms and the Proposed Annual Caps of each of (i) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group). We have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of each of (i) the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; (ii) the Continuing Connected Transactions contemplated under the 2025 Framework

Agreement; and (iii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group). In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Hong Kong Listing Rules, our role is to give you an independent opinion as to whether the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, the Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement are in the ordinary and usual course of business of the Group on normal commercial terms, and in the interests of the Company and Independent Shareholders as a whole and whether the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, the Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Our Independence

As at the Latest Practicable Date, we were not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rules to act as the Independence Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated thereunder and (A) the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; (B) the terms and the Proposed Annual Caps of each of (i) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group). We are eligible to give independent advice and recommendations on the transactions contemplated thereunder and (A) the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; (B) the terms and the Proposed Annual Caps of each of (i) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group). Apart from the normal professional fees payable to us in connection with the present appointment as the Independent

Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. During the past two years, we were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of each of three continuing connected transactions and major transactions (the "**Appointments**"), details of which are set out in the circulars of the Company dated 1 December 2022, 31 March 2023 and 7 December 2023, respectively. The professional fees in connection with the Appointments have been fully settled and we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on (A) the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement; (B) the terms and the Proposed Annual Caps of each of (i) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group), and the transactions contemplated thereunder.

B. BASIS OF OUR OPINION AND RECOMMENDATION

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

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

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

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

We consider that we have reviewed all currently available information and documents particularly, (i) the annual report of the Company for the year ended 31 December 2023; (ii) the interim report of the Company for the six months ended 30 June 2024; (iii) the management accounts of the Company for the eight months ended 31 August 2024; (iv) the 2024 Framework Agreement; (v) the 2024 Financial Services Framework Agreement; (vi) the Supplemental Agreement; (vii) the circular of the Company dated 7 December 2023 in relation to the 2024 Framework Agreement and 2024 Financial Service Framework Agreement; (viii) the 2025 Financial Services Framework Agreement; (ix) the 2025 Framework Agreement; (x) the announcement of the Company dated 27 September 2024 in relation to the Continuing Connected Transactions under 2025 Framework Agreement; (xi) the announcement of the Company dated 27 September 2024 in relation to the Continuing Connected Transactions of Financial Services under the 2025 Financial Services Framework Agreement; (xii) the historical transactions between the Group and the CSSC Group under the 2024 Framework Agreement; (xiii) historical transactions between the Group and the Independent Third Parties and their samples of transaction documents; (xiv) the Contract Management Rules; (xv) board minutes in relation to internal control; (xvi) the forecast of the Revised Annual Cap of the Sales Agency Services contemplated under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) (the "**Revised Cap Forecast**"); and (xvii) the forecast of the Proposed Annual Caps for 2025 (the "**2025 Forecast**"). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the entering into the Supplemental Agreement and the transactions for the Sales Agency Services contemplated thereunder (including the Revised Annual Cap), the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement and continuing connected transactions contemplated thereunder, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereto).

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms and the Revised Annual Cap of the transaction for the Sales Agency Services contemplated under the Supplemental Agreement, the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2025 Financial Services Framework Agreement (including the Proposed Annual Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the fairness and reasonableness of (A) the terms and the Revised Annual Caps of the transactions for the Sales Agency Services contemplated under the Supplemental Agreement; (B) the terms and the Proposed Annual Caps of each of (i) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement; and

(ii) the Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group) and whether such (A) the transactions contemplated thereunder the Supplemental Agreement (including the Revised Annual Caps); (B) the Continuing Connected Transactions contemplated under the 2025 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2025 Financial Services Framework Agreement 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 parties involved

(i) Information of the Company

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in Southern China. As at the Latest Practicable Date, the Company has a major non-wholly owned subsidiary, Huangpu Wenchong. The Group's principal products of shipbuilding and marine products include military ships, marine police equipment and public service ships as the representative defense equipment, feeder containerships, dredgers, offshore engineering platforms and wind power installation platforms as the representative marine offshore products as well as energy equipment, high-end steel structures, construction machinery, environmental protection equipment and industrial internet platforms as the representative marine application business products.

(ii) Information of CSSC

CSSC is a state-authorised investment institution directly supervised and administered by the SASAC, and its core business includes shipbuilding, ship-repairing, processing, export/import of marine equipment, diversified businesses such as other steel structure manufacturing and international cooperation, joint venture operations, financing, technology trading and workforce exportation. As at the Latest Practicable Date, CSSC, the indirect controlling shareholder of the Company, controlled 804,128,590 Shares of the Company indirectly through China Shipbuilding Group, representing 56.89% of the issued Shares of the Company.

(iii) Information of CSSC Finance

CSSC Finance is a wholly-owned subsidiary of the CSSC 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.

2. Reasons for entering into the Supplemental Agreement

As stated in the Letter from the Board, the Group used to leverage on the CSSC Group's reputation in the international shipbuilding market, its long-established relationships with shipowners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interests 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 the specific transactions. The rate of brokerage fees will vary according to the tonnage and type of vessels. 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 interests of the Group.

Further, we noted that the Board has reviewed the various existing continuing connected transactions of the Group contemplated under the 2024 Framework Agreement against the background of the Group's operations and anticipates that the demand of the Group for the Sales Agency Services will exceed the previous projection to the effect that the existing annual cap for such services under the 2024 Framework Agreement will not be sufficient to meet the demand of the Group.

Having considered that (i) the Continuing Connected Transactions under the 2024 Framework Agreement (as supplemented by the Supplemental Agreement) 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, we are of the view that the entering into of the Supplemental Agreement, together with the adoption of the Revised Annual Cap, are conducted in the ordinary and usual course of the Group's business and are in the interests of the Company and the Shareholders as a whole.

Summary of the principal terms of the Supplemental Agreement

a. Review of historical annual cap

As disclosed in the circular dated 7 December 2023 ("**2023 CCT Circular**"), the Company entered into the 2024 Framework Agreement with the CSSC Group pursuant to which the Group will provide products or services to CSSC and CSSC will provide products or services to the Group. Based on the current estimation by the Group, the demand of the Group for the Sales Agency Services will exceed the previous projection and the projected transaction amount with CSSC for the year ending 31 December 2024 will exceed the existing annual cap of the transactions set under the 2024 Framework Agreement. On 27 September 2024, the Company entered into the Supplemental Agreement to revise the existing annual cap for the Sales Agency Services under the 2024 Framework Agreement for the year ending 31 December 2024 from RMB32 million to RMB41.32 million.

The table below sets out the historical amount of the Sales Agency Services for the eight months ended 31 August 2024 and the comparisons with the existing annual cap for the Sales Agency Services under the 2024 Framework Agreement for the year ending 31 December 2024 and the Revised Annual Cap.

	Existing annual cap For the year ending 31 December 2024	**Historical amount For the eight months ended 31 August 2024** *(Note1)*	**Utilisation rate For the eight months ended 31 August 2024**	**Revised Annual Cap For the year ending 31 December 2024**
Sales Agency Services provided by the CSSC Group to the Group:				
Sales Agency Fees	32 million	20.32 million	63.5%	41.32 million

Note:

1. The historical amount in respect of the Sales Agency Services for the eight months ended 31 August 2024 was unaudited figures.

The actual transaction amounts for the Continuing Connected Transactions under the 2024 Framework Agreement for the eight months ended 31 August 2024 and up to the Latest Practicable Date did not exceed their respective annual caps thereunder.

Prior to the obtaining of the approval of the Independent Shareholders at the EGM in relation to the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Cap), the Company will conduct the Continuing Connected Transactions in accordance with the terms of the 2024 Framework Agreement. The actual transaction amounts for the Continuing Connected Transactions from 1 January 2024 and up to the date of the EGM are not expected to exceed their existing annual caps under the 2024 Framework Agreement for the year ending 31 December 2024.

b. Principal terms of the Supplemental Agreement

As confirmed by the management of the Group, save for the above revision of the existing annual cap to the Revised Annual Cap, the other terms of the 2024 Framework Agreement, including the principal terms of the agreement, the pricing policy and the existing annual caps for such other transactions under the 2024 Framework Agreement remain unchanged. The principal terms of the Supplemental Agreement have been set out in the paragraph headed "THE SUPPLEMENTAL AGREEMENT" of the Letter from the Board.

We have reviewed the 2024 Framework Agreement and the Supplemental Agreement and found there is no difference of the terms stated between the two agreements. Since the terms for the transactions which their annual cap required to be revised under the 2024 Framework Agreement remain unchanged as found and had been reviewed by the independent financial adviser in the 2023 CCT Circular in relation to the 2024 Framework Agreement and the 2024 Financial Services Framework Agreement, we are of the view that the terms for Continuing Connected Transactions of the Supplemental Agreement are no less favourable to the Group than terms available from Independent Third Parties, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

c. The Revised Annual Cap

As depicted from the table above, we note that the relevant utilisation rate of the existing annual cap for Sales Agency Services is approximately 63.5% for the eight months ended 31 August 2024. After discussing with the management of the Company, having taken into consideration of (i) historical transaction amount for the eight months ended 31 August 2024 under the 2024 Framework Agreement; (ii) the anticipated total production value of the Group in 2024 (the "**Revised Production Schedule 2024**"); and (iii) new orders accepted by the Group and the Sales Agency Fees payable in proportion to the progress payment per vessel (not exceeding 1.5% generally) will increase correspondingly, the Group expects the existing annual cap for the Sales Agency Fees for the Sales Agency Services provided by the CSSC Group to the Group under the 2024 Framework Agreement is required to be revised as the Revised Annual Cap, thereby meeting the needs of the Group on business development, order acceptance and product sales timely.

In order to assess whether the Revised Annual Cap is fair and reasonable, we have discussed with the management of the Company in relation to the basis and assumptions on the Revised Annual Cap and we have considered the following aspects. In 2024, the number of civil vessels acceptances remaining on the higher side in 2024, resulting in sales agency service fees expected to exceed targets. We have obtained and reviewed the Revised Production Schedule 2024 and compare the production schedule as forecasted for the existing annual cap under the 2024 Framework Agreement. We noted that the revised production value has increased by approximately 8.34%. As confirmed by the management of the Company, the Revised Production Schedule 2024 was based on the actual production progress for the eight months ended 31 August 2024.

We have also obtained the Revised Cap Forecast which included (i) the historical transaction amount for the eight months ended 31 August 2024; and (ii) expected transaction amount for the four months ending 31 December 2024 of approximately RMB21.00 million, of which approximately RMB17.85 million would be payable in the four months ending 31 December 2024 in relation to the progress payment and approximately RMB3.00 million are due to new orders and expected completion schedule. We have obtained and reviewed 10 sample documents of the Sales Agency Services, representing approximately 36.0% of the total Sales Agency Fee payable in the four months ending 31 December 2024. We consider the selected sample documents to be fair and representative because, in respect of the selection criteria, (i) they were selected of the highest amount of instalment of the Sales Agency Fee payable by the Group to the CSSC Group; (ii) they are the expected transactions that will take place within the period under the Supplemental Agreement to form part of the Revised Annual Cap; (iii) the instalment of the Sales Agency Fee are based on the terms of sample documents; and (iv) as we did not identify issues when we reviewed such samples therefore we did not require further samples. As such, we are of the view that the expected transaction amount for the four months ending 31 December 2024 of approximately RMB21.00 million is fair and reasonable.

Based on the above, having consider (i) the existing annual cap for Sales Agency Services for the year ending 31 December 2024 were utilised for 63.5%; (ii) new orders accepted by the Group and the Sales Agency Fees payable in proportion to the progress payment per vessel (not exceeding 1.5% generally) will increase correspondingly, we are of the view that the Revised Annual Cap is fair and reasonable.

3. Background of the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement

Continuing Connected Transactions contemplated under the 2025 Framework Agreement

As the 2024 Framework Agreement which governing the continuing connected transactions between the Group and the CSSC Group will be completed on 31 December 2024, the Company and CSSC entered into the 2025 Framework Agreement on 27 September 2024 to continue and govern such Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2025 to 31 December 2025.

The continuing connected transactions contemplated under the 2025 Framework Agreement and each a "Continuing Connected Transactions" are categorised as follows:

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

(a) Provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies, mainly for marine products, complete sets of supporting equipment, steel, non-ferrous metals and other materials for ship, environmental protection and heavy equipment, as well as some marine electrical equipment. The CSSC Group has the need to purchase ship products, complete sets of or auxiliary equipment while the Group has the capability of designing and manufacturing such products and could provide such products to the CSSC Group, or when the CSSC Group in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or when it is under temporary urgent needs in its production, it is necessary for the Group to provide materials and equipment in stock in an emergency, including the temporary provision of accessories by the Group to assist the CSSC Group in completing the production plan, the sale of waste materials by the Group to logistics companies under the CSSC Group, disposing fixed assets that are not in use by the Group to units under the CSSC Group; and

(b) Leasing, labour supply and technical services:

(i) Leasing: This mainly involves the provision of certain production areas and staff quarters leasing service by the Group to the CSSC Group;

(ii) Labour supply: This primarily involves the provision of training, shipbuilding and workforce lease. The Group can provide the CSSC Group with skills training and assessment, professional technical labour services related to the principal businesses of the Company, as well as provide labour leasing and labour service project contracting in the event of short-term surplus of labour; and

(iii) Technical services: These mainly involve technical services such as product installation, usage, maintenance and repair provided by the Group to the CSSC Group, and provision of environmental protection services such as ship products and other engineering design, scientific research projects and professional services, self produced software and relevant technical services.

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

(c) Provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc., mainly providing materials, accessories, machinery production equipment, tools and related logistics and distribution services required for the production of complete sets or supporting equipment for ships, environmental protection and heavy equipment. Such supplies and distribution services are required for the daily production and operation of the Group, and the CSSC Group can provide such materials, supplies, equipment and related services. The Group has joined the centralised procurement plan of organised by CS Materials, a member unit of the CSSC Group, and CS Materials shall provide major materials, supplies, equipment and related logistics and distribution services to reduce procurement costs and resist risks in the ship market. In addition, due to the temporary impact of production capacity or delivery time, the Group is required to purchase complete sets or ancillary equipment and parts from the CSSC Group, or during the production process of the Group, due to insufficient procurement for materials required for production, late delivery by the supplier or temporary demand for the materials, the materials will be provided by the inventory of the members of the CSSC Group; and when the Group needs to invest in fixed assets for production and operation, including the purchase of production equipment and construction of production base projects, etc. the CSSC Group can provide the Group with the required production equipment as well as products and services related to infrastructure projects such as turnkey management of engineering construction, equipment manufacturing, design, exploration and audit consulting.

(d) Leasing, labour supply and technical services, among which

(i) Leasing: This mainly refers to the expansion of the Group's business scope by leasing the production sites, equipment and facilities of the CSSC Group and using utilities such as water and electricity to meet the needs of business development;

(ii) Labour supply: This mainly refers to the provision of outsourcing for ship segments (or steel structure components) and comprehensive services, lease of labour, etc. Among them, (a) outsourcing of ship segments (or steel structure components) refers to the Group outsourcing of ship segments (or steel structure components) to the CSSC Group for building in order to keep up with the production plan, in the event that the Group is constrained by limited production resources (such as sites, equipment or manpower); (b) lease of labour, which refers to the secondment of labour and labour engineering contracting to the CSSC Group during the peak production period of the Group; (c) comprehensive services, which represent services provided by the CSSC Group to the Group, such as advertising, exhibitions, medical, catering, conferences, nursery, training, property management and water and electricity resale; and

(iii) Technical services: These mainly refer to the provision of design, scientific research project services, supporting software and related technical services for shipbuilding products or other projects, including in the event that the Group's production is constrained by design capability and time after receiving an order, the CSSC Group will provide such services in order to keep up with the production plan; the Group shall cooperate with the member units of the CSSC Group in research and development of new products and processes.

Sales agency services to be provided by the CSSC Group to the Group:

(e) Sales agency services (or commission), due to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners, which enables the Group to rely on the assistance of the CSSC Group in addition to its own external operations.

Continuing Connected Transactions of Financial Services contemplated under the 2025 Financial Services Framework Agreement

References are made to the announcement of the Company dated 27 October 2023 and the circular of the Company dated 7 December 2023 in relation to, among others, the 2024 Financial Services Framework Agreement. As the 2024 Financial Services Framework Agreement governing the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2024 to 31 December 2024 (both days inclusive) will be completed on 31 December 2024, the Company and CSSC Finance have entered into the 2025 Financial Services Framework Agreement to continue and govern the financial services between the Group and CSSC Finance for the period from 1 January 2025 to 31 December 2025.

The continuing connected transactions contemplated under the 2025 Financial Services Framework Agreement and each a "Continuing Connected Transaction of Financial Services" are categorised as follows:

Services to be provided by CSSC Finance to the Group

(a) Deposit services: The Group has opened a deposit account with CSSC Finance. CSSC Finance provides the Group with various types of deposit business services, including demand deposits, call deposits, time deposits and agreement deposits; and

(b) Foreign exchange services such as forward settlement and sale of foreign exchange: CSSC Finance shall, to the extent as permitted by laws, regulations and policies of the State, provide the Group with various types of foreign exchange business, including forward settlement and sale of foreign exchange, spot settlement and sale of foreign exchange, RMB foreign exchange swaps, foreign exchange trading and other foreign exchange related ancillary services. The Group negotiates and enters into contracts such as forward settlement and sale of foreign exchange with CSSC Finance, agreeing on the currency, amount and exchange rate of RMB against foreign exchange for future settlement and the completion deadline.

4. Reasons for entering into the 2025 Framework Agreement

As stated in the Letter from the Board, 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, techniques 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 2025 (the "**2025 Production Plan**"). According to the Production Plan 2025, the total production value is expected to increase in 2025, representing an increase by approximately 12.0% as compared to 2024 as revised in the Revised Production Schedule 2024. We note that the total production value in 2025 are calculated based on (i) the contract value of each vessel; and (ii) production schedule. There are 117 projects in total with production value in 2025 of approximately RMB22.5 billion, of which 91 projects had been signed with production value of approximately RMB17.6 billion. We have selected 20 signed contracts of highest value, which are expected to start production in 2025, representing not less than 15.0% of the total production value in the Production Plan 2025 and reviewed their contract value and timeline. We consider the selected samples of contracts are representative. As such, we are of the view that the Production Plan 2025 is properly prepared and fair and reasonable.

Based on (i) our discussion with the management of the Group; and (ii) the Production Plan 2025, we are of the view that the above-mentioned considerations are fair and reasonable in determining the Proposed Annual Caps.

The Continuing Connected Transactions under the 2025 Framework Agreement and the respective Proposed Annual Caps

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

A. Shipping products, electrical and mechanical engineering equipment, and metallic supplies etc.

As stated in the Letter from the Board, the CSSC Group has the need to purchase shipping products and complete sets or accessories of equipment while the Group has the capability of designing and manufacturing such products and could provide such products to the CSSC Group; or when the CSSC Group is facing a shortage in equipment, materials or accessories caused by insufficient procurements, or delay in delivery of goods by suppliers, or when the CSSC Group is urgently required to meet orders from its customers which temporarily exceeded the production capacity of the CSSC Group, the Group may provide various equipment, materials and accessories to the CSSC Group to meet its routine and urgent production needs, on conditions to be determined based on comparable prices on the market. In addition, the Group could handle waste materials through the logistic company of the CSSC Group and dispose of the fixed assets, that are no longer in use to the Group, to the CSSC Group.

The products and services to be provided by the Group to the CSSC Group are different from those to be provided by the CSSC Group to the Group. The products and services to be provided by the Group to the CSSC Group mainly consists of the sales of ships products, electrical and mechanical engineering equipment and metallic supplies, while the products and services to be provided by the CSSC Group to the Group are mainly for the raw materials and equipment for shipbuilding, technical services for the entire ship and comprehensive services. The CSSC Group has to produce the shipping products and equipment, while the Group has the capability to design and manufacture the products which are required for the production of the CSSC Group. The Board is of the view that there is no mutual provision of similar services.

As stated in the Letter from the Board, pursuant to the 2025 Framework Agreement, for the provision of shipping products, electrical and mechanical equipment, and metallic materials by the Group to the CSSC Group, the pricing will be based on market price. The Group will determine the market price after taking into account of the following factors and after arm's length negotiation: (i) research on the prices of similar products on the market, including drawing reference from the public data of institutions such as the China Association of the National Shipbuilding Industry（中國船舶工業行業協會）(http://www.cansi.org.cn) and commissioning the China Shipbuilding Corporation Economic Research Center to collate industry price data and compile the research reports; and (ii) reference to the historical prices of similar products. We have reviewed the contract price as well as market price of the respective equipment and/or material and noted that the sales prices charged to the CSSC Group are no less favourable than the prevailing market prices. Therefore, we are of the view that the terms offered by the CSSC Group were no less favourable than that offered by the 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 provision of shipping products, electrical and mechanical engineering equipment and metallic supplies etc. for the year ending 31 December 2025 is RMB2,737.8 million.

The historical amount of provision of shipping products, electrical and mechanical engineering equipment and metallic supplies etc. for the eight months ended 31 August 2024 was approximately RMB537.1 million, representing approximately 18.0% of the historical annual cap for the year ending 31 December 2024. The expected transaction amount would be approximately RMB1,025.9 million for the four months ending 31 December 2024. We understand from the management of the Group that the low utilisation rate for the year ending 31 December 2024 was mainly due to change of business plan in relation to sales of metallic supplies. As discussed with the management of the Group, the construction of the facilities of offshore wind power with a contract price of approximately RMB1,000.0 million was cancelled due to the short establishment and lack of qualifications and capabilities of one of the members of the CSSC Group. Also, due to the changes in market demand, the CSSC Group had not made the procurement orders for steel and LNG storage tanks from the Group. We have reviewed the four signed contracts of approximately RMB736.4 million and the internal documents for the change of business that were approved by the management of the Group. We are of the view that the reasons for low utilisation rate is reasonable.

As stated in the Letter from the Board, the Proposed Annual Caps are determined taking into account the amount of transactions expected to be incurred by the Group for the whole year of 2024, combined with the year-on-year increase in (i) the Group's order on hand and proposed commitments; and (ii) the Group's expected sales of products for the offshore wind business to CSSG Group in 2025. In the 2025 Forecast, the sales of shipping products of approximately RMB532 million, the sale of electrical and mechanical engineering equipment of approximately RMB160 million, the sale of metallic supplies of approximately RMB1,750 million, the sale of waste and other low value products of approximately RMB130 million, other sundry supplies of approximately RMB1 million and fixed assets of approximately RMB165 million are expected to sell to CSSC Group in 2025. We have obtained signed contracts approximately RMB2,199.5 million, representing approximately 80.3% of the Proposed Annual Caps in respect of provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies, and reviewed the terms, contract value and the expected transaction. As such, we are of the view that the 2025 Forecast is fair and reasonable.

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 shipping products, electrical and mechanical engineering equipment and metallic supplies for the year ending 31 December 2025 based on the 2025 Forecast and is fair and reasonable so far as the Independent Shareholders are concerned.

B. Leasing, labour supply and technical services etc.

The primary purpose for provision of production areas and staff quarters leasing service by the Group to the CSSC Group is to fully utilise certain properties held by the Group to gain cost efficiency on those properties. The Group will provide to the CSSC Group labour supply, primarily providing training and supplying short-term labour, shipbuilding labour supply etc. According to the demands for technicians, the Group may provide to the CSSC Group services for staff skill training and appraisals and technical services relating to businesses of the Group and short-term labour supply when the CSSC Group is in short of labour force for shipbuilding services. Besides, the Group will provide technical services such as installation, usage and maintenance services and design, research and development, self-developed software and related technical services of shipping products or other engineering in relation to the businesses of the Group 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 leverage its excess production capacity and existing shipbuilding-related techniques to earn additional income for the Group.

As set out in the Letter from the Board, for the provision of leasing, labour supply and technical services by the Group to the CSSC Group, the pricing will be no less favourable than that offered to independent third parties. The rental of the lease shall be based on market price obtained after market research of the Group with reference to the depreciation cost and amortisation of assets and other expenses and after arm's length negotiation; the salary for labour supply is based on market price obtained after market research of the Group with reference to the average salary levels published by the Guangzhou Statistic Bureau（廣州市統計局）and after arm's length negotiation; the pricing of the technical service is based on the existing market standards of the shipping industry, the complexity of the work involved and specifications for the work and after arm's length negotiation. In respect of the determination of the lease, based on the Accounting Standards for Business Enterprises No. 21 – Leases, (i) for fixed assets under operating lease, depreciation shall be recognised based on the depreciation policy adopted for similar assets; and (ii) for other operating lease assets, a systemic and reasonable amortization approach shall be adopted in compliance with the corporate accounting standards applicable to such assets. Accordingly, the Group adopted the depreciation cost and amortization of assets as the reference point, and taking into account of the leased area, geographical location and condition of the relevant premises and the prevailing market rates for similar properties in the surrounding area, as well as the capital costs associated with inclusion of fixed assets in the leased premises and management costs for the properties under the lease to conclude the rental amount with CSSC Group. In terms of existing market standard for pricing of technical service, the Group will form a market quotation based on the costs it has incurred pertaining to areas such as labour, design software maintenance and management, coupled with the complexity of the work involved. Labour costs will be calculated referencing the salary level of technical service providers in the market. At the same time, the Group will refer to the historical price of technical service fees and consider factors such as technical complexity and workload, and accordingly negotiate with the technical service provider on a fair basis. We have obtained and reviewed technical services agreements entered into between the Group and the CSSC Group on a randomly basis and note that quotations from Independent Third Parties would be obtained by the Group in order to ensure the price offered by the Group is no less favourable than those enjoyed by the Independent Third Parties and note that the pricing of technical services were determined by the parties at arm's length negotiation and no less favourable than those enjoyed by Independent Third Parties. The contract sum of the above samples represent more than 5% of the historical amount of continuing connected transactions in respect of leasing, labour supply and technical services in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria,

(i) they were all transactions under the 2024 Framework Agreement which were randomly selected and involved relevant sales to the CSSC Group from the Group; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice..

Based on the above, we are of the view that the terms for the provision of leasing, labour supply, and technical services etc. are on normal commercial terms, and are fair and reasonable so far as the Company and 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 leasing, labour supply and technical services etc. to the CSSC Group for the year ending 31 December 2025 is RMB160.50 million. The historical amount of the leasing, labour supply and technical services for the eight months ended 31 August 2024 was approximately RMB35.30 million, representing approximately 24.1% of historical annual cap for the year ending 31 December 2024. The Company estimates that the expected transaction amount would be approximately RMB90.65 million for the four months ending 31 December 2024. We have reviewed three leasing agreements in aggregate amount of approximately RMB37.5 million and six labour and technical agreements in aggregate amount of approximately RMB31.0 million and noted that the amounts would be payable in the four months ending 31 December 2024.

As stated in the Letter from the Board, the Proposed Annual Caps are determined taking into account primarily the historical transaction amounts, orders in hand, expected orders, material costs and anticipated total production value of the Group. We have obtained the 2025 Forecast. The Proposed Annual Caps are composed of (i) leasing fee of approximately RMB63.00 million, (ii) labour fee of approximately RMB21.00 million and (iii) technical fee of approximately RMB60.00 million.

We have obtained three vessels leasing agreements and each of their annual leasing fees are RMB18 million, RMB20 million and RMB23 million respectively. Therefore, the Group projects the leasing fee receipt in 2025 will be approximately RMB61.0 million, representing approximately 96.8% of the total expected leasing fee in 2025. As confirmed by the Directors, for the provision of labour supply, based on the orders in hand and the expected orders, it is expected that the provision of labour supply will be approximately RMB21.0 million in 2025. We understand from the management of the Group that in 2025 the Group (i) will provide labour support services of approximately RMB12.0 million to the CSSC Group; and (ii) will receive approximately RMB8.4 million in 2025 if the progress of a labour support service would delay from 2024, the contract of which was signed in August 2024. In relation to technical services, we have obtained and reviewed the contracts of approximately RMB25.0 million. Some of the projects are under negotiation and the Group expects such transaction amount in relation to technical services with the CSSC Group would be approximately RMB35.0 million. As such, we are of the view that the 2025 Forecast is fair and reasonable.

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 and technical services etc. to the CSSC Group for the year ending 31 December 2025 is fair and reasonable so far as the Independent Shareholders are concerned.

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

C. Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.

As stated in the Letter from the Board, the shipping equipment, electrical and mechanical engineering equipment, accessories and materials and supplies purchased by the Group from the CSSC Group mainly for the provision of materials, accessories, equipment, tools and related logistics and delivery services required for the production of complete sets or accessories for ship, environmental protection and heavy equipment. The Group seeks to acquire these types of equipment and services from the CSSC Group and other independent suppliers so as to meet its routine and urgent needs. Considering that (i) the CSSC Group is centralised in manufacturing some of such equipment; (ii) the CSSC Group is able to obtain competitive prices on certain materials by making bulk order through its centralised purchase system; and (iii) the Group needs to invest in fixed assets for production and operations, CSSC Group can provide the Group with the required production equipment, 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 materials and equipment through bulk purchase 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) The supply of electrical and mechanical engineering equipment, materials and supplies etc. will be based on market prices and not higher than those offered by Independent Third Parties. The market price is based on the market research of the Group on the prices of similar products with reference to public data of third party websites such as Icaigou（愛採購）with reference to public data of third party websites and determined according to the production specifications and after arm's length negotiation. The Company will obtain one or more quotations from Independent Third Parties;

(ii) For ancillary parts for ships, iron outfittings etc., as the unit price is low, sporadic and complicated, and often in urgent needs, the ordering time is relatively short, the unit price is negotiated once a year through costing and the Group's supplies department shall negotiate the ordering price with the supplier accordingly taking into account the market price of raw materials with reference to public data of third party websites such as Icaigou (愛採購), Steel Home (鋼之家) and Mysteel (我的鋼鐵) and specification of the supplies required for the Group's production. The Group will obtain one or more quotations from Independent Third Parties. If the price of raw materials in the market changes significantly, the Group will make appropriate adjustments in accordance with the changes in the market;

(iii) For equipment for ships, if there is a member of the CSSC Group in the list of manufacturers for marine equipment, the member will participate in the competition between two or more manufacturers in the list of manufacturers comprising at least one Independent Third Party and the manufacturers under the CSSC Group, and the Group's supplies department shall negotiate the price in accordance with the normal practice, and the Group will determine the price according to the market price, but will also take into account factors such as the supply cycle, the quality of the manufacturer and the standard of services to select the manufacturer, but the prices are no less favourable than the conditions offered by Independent Third Party suppliers. If two or more competitors from CSSC Group are among the competitors, the pricing will be determined after arm's length negotiations with reference to historical transaction prices; if there is only one supplier from the CSSC Group for particular equipment (such as a specialised equipment where the CSSC Group has the proprietary ownership and/or right to exploit them) due to limitations in technical specifications or supply conditions and as a result, there will be only one associated supplier for a particular piece of equipment, the pricing will be negotiated by the Group with the supplier according to the recent contract of the equipment (with reference to its historical transaction prices) or a unit price converted from certain technical data for that piece of equipment, and taking into account the substantive circumstance including the market price of raw materials, to ensure that such price is fair and reasonable; and

(iv) The prices of the supplies and related logistics and distribution services procured centrally by the CSSC Group, the price will be determined between the parties annually based on actual costs taking into account the market price of such materials or services (including with reference to the market price as quoted on the public data of third party websites such as Steel Home (鋼之家) and Mysteel (我的鋼鐵) and the specification of the production needs of the Group) and after arm's length negotiation. The Company will obtain one or more quotations from Independent Third Parties to ensure that the prices will not be less favourable than the conditions offered by Independent Third Party suppliers.

As discussed with the management of the Group, the Group will conduct market research on the prices of similar products with reference to public data of third party websites: (i) Icaigou（愛採購）(https://b2b.baidu.com/), (ii) Steel Home（鋼之家）(https://www.steelhome.cn/) and (iii) Mysteel（我的鋼鐵）(https://www.mysteel.com/) if there is technical specifications or limitations on conditions of supply in order to make negotiation with the CSSC Group by making reference to the market price of similar products. Based on our discussion with the management of the Group, the Group obtains quotations from the Independent Third Parties to ensure the prices offered by the CSSC Group are no less favourable to those offered by the Independent Third Parties, which is part of the pricing policies. In addition, we have obtained and reviewed agreements on a randomly basis under each of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies entered into between the CSSC Group and the Group and note that there are at least two quotations from Independent Third Parties obtained by the Group regarding the procurement of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies before entering into each of the agreements, 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. In respect of the prices of the supplies and related logistics and distribution services, we have obtained and reviewed agreements entered into in 2024 on a randomly basis. We note that the prices of the supplies and related logistics and distribution services are no less favourable to those offered by the Independent Third Party. The contract sum of the above samples represent more than 5% of the historical amount of continuing connected transactions in respect of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria, (i) they were all transactions under the 2024 Framework Agreement which were randomly selected and involved relevant purchases by the Group from the CSSC Group; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice.

Having considered the above, we are of the view that purchasing of the relevant equipment, materials and services contemplated under the 2025 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 Cap in respect of the provision of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. for the year ending 31

December 2025 is RMB10,601.35 million. The Proposed Annual Caps were mainly determined based on the shipbuilding orders received by the Group and the production schedule of the Group. The historical transaction amount for the eight months ended 31 August 2024 was approximately RMB3,055.65 million, representing approximately 31.8% of the historical annual cap for the year ending 31 December 2024. As advised by the Company, the expected transaction amount of provision of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. for the four months ending 31 December 2024 would be approximately RMB4,300.9 million, representing approximately 44.3% of the existing annual cap. We have compared the historical amount of provision of equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc. for the four months ended 31 December 2021, 2022 and 2023 and note that the relevant transactions amount for the four months ended 31 December 2021, 2022 and 2023 was approximately 45.4%, 38.2% and 43.9%. Therefore we are of the view that the expected transaction amount for the year ending 31 December 2024 based on the historical transactions is fair and reasonable.

As stated in the Letter from the Board, the Proposed Annual Caps are determined taking into account (i) the expected year-on-year increase in the amount of procurement based on the growth in the production value of approximately RMB8,213 million; (ii) a project delayed from 2024 of approximately RMB2,000 million; and (iii) construction work of approximately RMB300 million. We have obtained the 2025 Forecast. Based on the Production Plan 2025, the expected production value has increased by approximately 12.0% for the year ending 31 December 2025 as compared to the year ending 31 December 2024. Thus, the expected transaction amount for the year ending 31 December 2025 will increase to approximately RMB8,213 million as compared to the total expected transactions for the year ending 31 December 2024 of approximately RMB7,300 million. In this regard, we have obtained and reviewed 15 contracts of procurements related to the production of vessels, the completion of which will be due within 2025, representing more than approximately 50% of the expected transactions of approximately RMB8,213 million. As discussed with the management of the Group, other than the expected transaction as mentioned above, we received and reviewed the internal documents of the project delayed from 2024 of approximately RMB2,000 million and understand that the project would start in 2025, which is expected to complete in 2025. In relation to the construction work, we have obtained and reviewed the progress documents and invoices of approximately RMB292 million.

Based on the above, we are of the view that the basis adopted to determine the Proposed Annual Caps in respect of the shipping equipment, electrical and mechanical engineering equipment, accessories and materials and supplies etc. provided by the CSSC Group for the year ending 31 December 2025 is fair and reasonable so far as the Independent Shareholders are concerned.

D. Leasing, labour supply and technical services

Labour services primarily include the secondment of labour force and subcontracting of shipbuilding works or steel structure works to the CSSC Group during the Group's peak production period. Given that the need for labour varies in different stages of production, the Directors consider that procurement of labour with specialised skills from the CSSC Group during the Group's peak production period 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 and equipment, the Group also engages the CSSC Group to provide design and technical services to meet the requirements for different production progresses. The Group has purchased the comprehensive services from the CSSC Group for years on terms no less favourable than terms available from Independent Third Parties, and thus the Directors believe that it would be more cost-efficient for the Group to retain the CSSC Group for provision of the comprehensive services.

As stated in the Letter from the Board, the pricing policy of the transactions in relation to the leasing, labour supply and technical service shall be as follow:

(i) Pricing of leases for production sites or dormitories provided by the CSSC Group to the Group. The lease prices are based on the market price or cost plus 10% management fee, and the market price is determined with reference to the property rent in the vicinity of the leased properties. The basis of the annual caps is the aggregate of annual depreciation expense and interest expenses calculated on the basis of the total value of the right-of-use assets recognised by the Group and the tax payable on the leased production bases and the dormitories.

In terms of the determination of the rental of the lease, the Group recognises right-of-use assets and lease liabilities (except for short term leases and leases of low-value assets) on the commencement date of the lease term for newly associated leases in accordance with the Accounting Standards for Business Enterprises No. 21 – Leases and uses the total amount of the right-of-use assets recognised to determine the annual cap on annual lease-related associated transactions.

Right-of-use assets (the right to use the underlying assets in the lease term for a lessee) are initially measured at cost. The cost includes:

(i) The amount of the initial measurement of the lease liability (lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease term);

(ii) The amount of lease payments paid on or before the commencement date of the lease term for which there is lease incentive, and reduced by the amount of the lease incentives that have been enjoyed;

(iii) The initial direct costs incurred by the lessee; and

(iv) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, reinstatement work or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Accordingly, the annual cap for the leasing is determined based on the total amount of the right-of-use assets recognised on the commencement date of the lease, and the lease consideration (that is, lease payments to be made), which constitutes the cost of the right-of-use assets, is determined based on the market price or cost plus a 10% management fee, whereby: the market price is determined with reference to the property rentals in the vicinity of the property leased; and the cost is determined on the basis of depreciated cost and amortisation of assets and other expenses;

(ii) Pricing of the provision of labour and technical services. Labour services are provided at the market prices, which are determined after arm's length negotiation based on the prices of labour services procured from the Independent Third Parties, the required skill specifications, the availability of labour and the average salary level published by the Guangzhou Municipal Bureau of Statistics, and the prices of the integrated services are no less favourable than the conditions offered by the Independent Third Parties; and

(iii) Technical services: at market price, which is determined after arm's length negotiations with reference to the skill sets required by the prevailing market standards in the shipbuilding industry, the complexity of the work involved and the industry-specific job specifications.

As discussed with the management of the Company, there was no production sites or dormitories provided by the CSSC Group to the Group in 2024. As for the provision of labour, we obtained and received labour contracts signed with the CSSC Group in 2024 on a randomly basis and reviewed the terms of the contracts. We compared the terms with those signed with the Independent Third Parties and note that the unit prices offered by the CSSC Group are no less favourable than the terms offered by the Independent Third Parties. Also, we have checked the average salary level published by the Guangzhou Municipal Bureau of Statistics and obtained relevant market research on the labour cost. We note that the unit prices offered by the CSSC Group are comparable to the average salary level published by the Guangzhou Municipal Bureau of Statistics. For the technical services, as advised by the management of the Group, although the technical services required specific skill sets offered by the Group, the CSSC Group made reference to the prevailing market standards in the shipbuilding industry. We obtained and reviewed technical contracts signed with the CSSC Group in 2024 on a randomly basis and each of them consisted of at least two quotations from the Independent Third Parties. We understand that the quotations made by the shipbuilding companies have been indicators of the market. We note that the prices offered by the Group are close to the market price. The contract sum of the above samples represent more than 5% of the historical amount of continuing connected transactions in respect of leasing, labour supply and technical services in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria, (i) they were all transactions under the 2024 Framework Agreement which were randomly selected and involved relevant purchases by the Group from the CSSC Group; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice.

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, and 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 and technical services by the CSSC Group for the year ending 31 December 2025 is RMB1,379.25 million. The historical transaction amount for the eight months ended 31 August 2024 was approximately RMB376.53 million, representing approximately 24.0% of the historical annual cap for the year ending 31 December 2024. In this respect, we have enquired the management of the Group and understand that the low utilisation rate was mainly due to no orders for part of the key products had been received by the Group for production and therefore the technical services fees and labour supply fees paid to the CSSC Group had become lower.

According to the 2025 Forecast, the Proposed Annual Caps were comprised of leasing of approximately RMB180 million, labour supply of approximately RMB620 million and technical services of approximately RMB570 million. In respect of leasing, we have obtained and reviewed two leasing agreements and noted the annual leasing fee of each leasing agreements would be RMB100 million and RMB80 million respectively. Based on the Production Plan 2025, the expected production value has increased by approximately 12.0% for the year ending 31 December 2025 as compared to the year ending 31 December 2024. Thus, the expected transaction amount of labour supply and technical services for the year ending 31 December 2025 will increase by approximately RMB68.0 million and approximately RMB22.5 million respectively as compared to the total expected transactions of labour supply and technical services for the year ending 31 December 2024. In respect of labour supply, we have obtained and reviewed three contracts and their contract value represent more than approximately 50% of the expected transaction amount of approximately 620 million based on the growth of the production value. For technical services, the Group has taken into account (i) the growth of production value; (ii) the technical services fee payable to the CSSC Group in 2021 to 2023 which was delayed and is expected to be paid in 2025 with the transaction amount of approximately RMB200 million; and (iii) one of the project will be completed by end of 2024 and the technical services fee is payable in 2025.

Having considered the above, we are of the view that the basis for determining the Proposed Annual Caps for the year ending 31 December 2025 for leasing, labour supply and technical services is fair and reasonable so far as the Independent Shareholders are concerned.

Sales agency services to be provided by the CSSC Group to the Group:

E. Sales agency fees

As advised by the management of the Group, the pricing of sales agency fees (commissions) shall follow the international industry practice (i.e. the pricing shall be determined by the Group after conducting market research including by way of discussing with various independent third party shipowners on the normal sales agency fees charged and with other large corporate business owners in the industry on the agency fee rates charged by their internal sales agency entities) and in general will not exceed 1.5% of the contract price, and is payable in proportion to the progress payment per vessel. In addition, the intermediary agency fees received by the CSSC Group on behalf of foreign intermediaries shall be paid by the CSSC Group on behalf of the intermediaries. We obtained and received agency contracts entered into in 2024 on a randomly basis and note that the commission is less than 1.5%. The contract amount of each of the above samples represent more than 5% of the historical transaction amount of continuing connected transactions in respect of sales agency fees in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria, (i) they were all transactions under the 2024 Framework Agreement which were randomly selected and involved relevant purchases by the Group from the CSSC Group; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice. As confirmed by the Directors, it is an international industry practice to have an in-house broker for each shipbuilding company. We have obtained an inquiry made by the Group to an Independent Third Party agency and note that the agency fee is 2%. We are of the view that the terms of the sales agency services provided by the CSSC Group is no less favourable than the terms offered by the Independent Third Party agency.

As stated in the Letter from the Board, Group used to leverage on the CSSC Group's reputation in the international shipbuilding market, its long-established relationships with shipowners and its bargaining power to sell the Group's products. Therefore, the Directors are of the view that it is in the interests 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 the specific transactions. The rate of brokerage fees will vary according to the tonnage and type of vessels. 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 interests of the Group.

Having considered the above, we are of the view that sales agency services contemplated under the 2025 Framework Agreement will enables the Group to rely on the assistance of the CSSC Group in addition to its own external operations due to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the sales agency fees for the year ending 31 December 2025 is RMB67.00 million. The historical transaction amount for the eight months ended 31 August 2024 was approximately RMB20.32 million, representing approximately 63.5% of the historical annual cap for the year ending 31 December 2024. As the Company and CSSC entered into the Supplemental Agreement on 27 September 2024 to increase the existing annual cap for the Sales Agency Services for the year ending 31 December 2024 to the Revised Annual Cap in order to cater for the Group's demand for such services and to facilitate the Group in capturing its potential business growth, please refer to the above section "2. Reasons for entering into the Supplemental Agreement" for further analysis in respect of the historical transaction amount of the Sales Agency Services.

The determination of the Proposed Annual Caps has taken into account the Production Plan 2025. As advised by the management of the Group, the Group has 55 vessels will reach the point of payment of sales agency fees according to the production progresses. It is expected to sell the vessels through the CSSC Group and to pay approximately RMB54.0 million. As advised by the Company, the calculation of sales agency fee for 2025 was based on the total contract sum and expected production process. Further, the Group is expected to have sales agency fee of approximately RMB10.0 million and RMB3.0 million taking account into the expected new production contracts and expected deposit paid respectively.

Based on the above, we are of the view that the basis adopted to determine the Proposed Annual Caps in respect of the sales agency services for the year ending 31 December 2025 is fair and reasonable so far as the Independent Shareholders are concerned.

5. Reasons for entering into the 2025 Financial Services Framework Agreement

a. Deposits services

As stated in the Letter from the Board, the Group maintains the Deposits with CSSC Finance from time to time. The interest rate on the Deposits is based on the deposit rates published by the PBOC from time to time and is no less favourable than the conditions offered by Independent Third Parties. 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 by the CSSC Group to the Group via CSSC Finance to the Group.

As set out in the paragraph headed "Risk Control relating to the Deposits under the 2025 Financial Services 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 for comparable financial services provided to CSSC Finance or members of the CSSC Finance; and those of the comparable financial services the Company may obtain from other financial institutions. Furthermore, the Group will adopt certain guidelines and principles in monitoring, amongst other things, the arrangements for the Deposits. 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 NAFR on the CSSC Finance.

Pursuant to the 2025 Financial Services Framework Agreement, interests on the Deposits will be based on rates on deposits published by the PBOC from time to time. We have obtained and reviewed deposit slips with different deposit period and thus the interest rates provided to us on a randomly basis by the Company relating to deposit interest rates offered by CSSC Finance on RMB deposits to the Group and note that the rates were more favourable to those quoted by the PBOC at the relevant time. The deposit amounts of each of the above samples represent more than 5% of the historical maximum amount of daily balance of deposits in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria, (i) they were all transactions under the 2024 Financial Services Framework Agreement which were randomly selected and involved deposits with CSSC Finance; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice.

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 daily balance on the Deposits with CSSC Finance amount to RMB18,700.00 million for the year ending 31 December 2025. The Proposed Annual Caps in respect of the aggregate interest on the Deposits which amount to RMB339.00 million for the year ending 31 December 2025. The maximum daily balance on the Deposits for the eight months ended 31 August 2024 was approximately RMB14.5 billion. The aggregate interest on the Deposits for the eight months ended 31 August 2024 was approximately RMB122.91 million, representing approximately 49.0% of the Proposed Annual Caps in respect of the aggregate interest on the Deposits for the year ending 31 December 2024. We note that the expected maximum daily balance on the Deposits for the four months ending 31 December 2024 would be approximately RMB14.5 billion and the aggregate interest on the Deposits for the four months ending 31 December 2024 would be approximately RMB120.71 million. We received the schedule of deposits and the calculation of interest of respective deposits for the four months ending 31 December 2024. We are of the view that the expected maximum daily balance on the Deposits and the aggregate interest on the Deposits for the four months ending 31 December 2024 are fair and reasonable.

As advised by the Group, the maximum daily balance had been calculated with reference to current cash position, the expected monthly cash inflow, cash outflow, new loans and repayment of loans. We have reviewed (i) the historical maximum daily balance of deposits (including accrued interest) with CSSC Finance for the eight months ended 31 August 2024; and (ii) the cash flow projection for the year ending 31 December 2024. We have further discussed with the management of the Group and note that the Group takes into account (a) the sales and purchases from ordinary course of business of the Group with reference to the expected growth in production value of approximately 12.0% in 2025; and (b) in 2025, there will be a periodic working capital deficiency in some months due to seasonal influences such as the Lunar New Year holiday. Therefore, the Company needs short-term financing to meet the capital needs of production and operations. In addition, we have reviewed a list of three-year fixed deposits As such, we are of the view that the cash flow projection for the year ending 31 December 2025 is properly prepared and the maximum daily balance for the year ending 31 December 2025 is fair and reasonable. As confirmed by the Company, the Proposed Annual Caps in respect of the aggregate interest on the Deposits for the year ending 31 December 2025 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 1.05% to 3.30% of the Proposed Annual Caps on the maximum daily balance of the Deposits. The interest rates vary as the duration of deposits and type of deposits are different. We have reviewed the interest rate basis published by the PBOC and released that the interest rate provided by CSSC Finance was higher than that provided by the PBOC. Therefore, we are of the view that the terms offered by the CSSC Finance were no less favourable than that offered by the Independent Third Parties. Furthermore, as confirmed by the Company, CSSC Finance's interest rate table will adjust from time to time according to PBOC'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.

b. Foreign exchange services such as forward settlement and sale of foreign exchange, etc.

As stated in the Letter from the Board, CSSC Finance shall, to the extent as permitted by laws, regulations and policies of the State, provide the Group with various types of foreign exchange business, including forward settlement and sale of foreign exchange, spot settlement and sale of foreign exchange, RMB foreign exchange swaps, foreign exchange trading and other foreign exchange related ancillary services. The Group negotiates and enters into contracts such as forward settlement and sale of foreign exchange with CSSC Finance, agreeing on the currency, amount and exchange rate of RMB against foreign exchange for future settlement and the completion deadline.

Based on our discussion with the Company, the nature of the FX Forward Contracts is derivatives, whose settlement is based on the difference between the forward exchange rate at the establishment and the spot exchange rate at the time of settlement so as to limit the currency risk of the Group. The Group's ship export orders are denominated in US dollars, where some of the domestic ships orders are denominated in USD but payable in RMB. The Group's exposure is that there is a fixed currency rate for the FX Forward Contracts for not more than 95% of the contracted amount and the payment for the remaining 5% of the contracted amount will be with reference to the relevant currency rate at the date of payment in general. CSSC Finance will enter into the FX Forward Contracts with the Group and provide the currency requested in the contract.

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 have obtained and reviewed on a randomly basis and compared historical FX Forward Contract entered into between the Group and CSSC Finance against the then forward rate quotations provided by Independent Third Parties, respectively, 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 in 2024. The contract sum of the above samples represent more than 5% of the historical maximum amount of forward settlement and sale of foreign exchange in 2024. We consider the above samples of agreements are fair and representative because, in respect of the selection criteria, (i) they were all transactions under the 2024 Financial Services Framework Agreement which were randomly selected and involved forward settlement with CSSC Finance; (ii) they were transactions that took place within 2024; (iii) as we did not identify issues when we reviewed such samples therefore we did not require further samples and this sample size is in line with our usual practice.. Therefore, we are of the view that the terms offered by the CSSC Finance were no less favourable than that offered by the Independent Third Parties.

Proposed Annual Caps

As set out in the Letter from the Board, the maximum daily balance of forward settlement and sale of foreign exchange amounts to RMB4,500.00 million for the year ending 31 December 2025. The maximum daily balance for the eight months ended 31 August 2024 were approximately RMB1,529.08 million.

As advised by the Company, the above estimated principal amounts are mainly determined with reference to the purchase orders received from foreign buyers (from ship buyers who will settle the purchases in foreign currencies) of the Group for the year ending 31 December 2025. As we understand from the management of the Company, the Group expects the order from foreign buyers purchase orders (the "**Foreign Orders**") (denominated in US dollars) would be at approximately RMB4,637.43 million for the year ending 31 December 2025. Taking into account (i) based on the forward contracts on hand as at 31 August 2024, which will be still in force in 2025, of approximately RMB2,613.79 million; (ii) in the fourth quarter of 2024, the Group expects to sign new forward contracts of approximately RMB386.21 million; (iii) the expected forward contracts to be signed in 2025 of approximately RMB1,420.00 million which is based on the order from foreign buyers purchase orders which is 30.6% of the Foreign Orders for the year ending 31 December 2025; and (iv) a buffer of approximately RMB80 million due to fluctuation of foreign exchange rate, the maximum daily balance of forward settlement and sale of foreign exchange amounts to RMB4,500.00 million for the year ending 31 December 2025. We have obtained and received the list of forward contracts and noted that there are 25 contracts which would be still in force in 2025.

Based on the above, we are of the view that the basis for determining the Proposed Annual Caps for maximum daily balance of forward settlement and sale of foreign exchange 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.

No material reliance on the CSSC Group

As disclosed in the Letter from the Board and based on our discussion with the management of the Company, we understand that (i) the business relationship between the Company and CSSC Group is unlikely to be materially adversely changed or terminated because CSSC is a state-authorised investment institution directly supervised and administered by the SASAC and CSSC Finance is a wholly-owned subsidiary of CSSC Group principally engaged in provision of various financial services and CSSC Group and the Group have established a stable and long-term business relationship for the procurement and sales of marine-related products and services over the years; (ii) the Group remained to have a significant portion of procurement and sales activities derived from Independent Third Parties for the eight months ended 31 August 2024; (iii) the Group has been operating independently from the CSSC Group. The Group has full rights, hold and enjoy the benefit of all relevant licenses; sufficient capital and employees necessary to make all decisions on, and to carry out, own business operation independent from the CSSC Group and will continue to do so after the entering of the 2025 Framework Agreement; and (iv) there is no procurement or purchase commitment by either party to the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement. The Group is free to negotiate and select its suppliers or customers which can offer more favourable terms to the Group.

The Directors are of the view that the long-term business cooperation, including the implementation of the transactions contemplated under the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement, is mutually beneficial to both CSSC Group and the Group. It enables both parties to leverage on each other's expertise and capacities in their respective regime in terms of shipping-related products, engineering equipment, material suppliers as well as production facility and manpower resources, technical services and sales agency services for more efficient operations and to better serve their respective business and customer needs.

Based on our independent analysis, we note that the Group's procurement of products and services from CSSC Group were approximately RMB5,178.06 million, RMB7,873.85 million and RMB3,432.18 million for the two years ended 31 December 2023 and eight months ended 31 August 2024, respectively, representing approximately 39.32%, 47.59% and 30.05% of the total purchases of the Group, respectively, whilst the sales of products and services by the Group to CSSC Group were approximately RMB261.47 million, RMB338.10 million and RMB572.43 million for the two years ended 31 December 2023 and eight months ended 31 August 2024, respectively representing approximately 2.04%, 2.09% and

5.06% of the operating income derived by the principal business of the Group. Taking into account (i) the mutual trust built over the years render any material adverse change or termination of the relationship among the parties unlikely; (ii) the Group has been operating independently from the CSSC Group; (iii) there is no procurement or purchase commitment by either party to the 2025 Framework Agreement and the 2025 Financial Services Framework Agreement; and (iv) the business relationship between the Company and CSSC Group had never adversely affected the Group's operating performance and financial position and had not been detrimental to the interest of the Group and the Shareholders as a whole, we are of the view that the Group does not materially rely on the continuing connected transactions with the CSSC Group.

Risk Control Relating to the Deposits under the 2025 Financial Services 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 CBIRC and that the major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the CBIRC and other relevant laws and regulations;

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

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

In order to safeguard the interests of the Shareholders, the Group has adopted certain principles and standards in monitoring, amongst other things, the arrangements for the Deposits. 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. Therefore, 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 and the auditors of the Company and strict compliance of risk monitoring by the NAFR on the CSSC Group. As such, we are of the view that the risk control relating to the Deposits under the 2025 Financial Services Framework Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OPINION

Having considered the above reasons, we are of the view that (i) the Supplemental Agreement (including the Revised Annual Cap); (ii) the 2025 Framework Agreement and the Continuing Connected Transactions (including the respective Proposed Annual Caps); and (iii) the 2025 Financial Services Framework Agreement and the Continuing Connected Transactions of Financial Services (including the respective Proposed Annual Caps) are entered in the ordinary and usual course of business of the Group and on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders; and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM approving (i) the Supplemental Agreement (including the Revised Annual Cap); (ii) the 2025 Framework Agreement and the Continuing Connected Transactions (including the respective Proposed Annual Caps); and (iii) the 2025 Financial Services Framework Agreement and the Continuing Connected Transactions of Financial Services (including the respective Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Vinco Financial Limited

Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Financial 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.

I. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements together with relevant notes thereto of the Company for the years ended 31 December 2021, 2022, and 2023 have been disclosed in the following documents published on the website of HKEXnews (www.hkexnews.hk) and the website of the Company (comec.cssc.net.cn):

The annual report of the Company for the year ended 31 December 2021 published on 29 April 2022 (page 74 to page 271). Please see below the link to the Annual Report 2021 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042902188.pdf

The annual report of the Company for the year ended 31 December 2022 published on 26 April 2023 (page 83 to page 279). Please see below the link to the Annual Report 2022 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042601469.pdf

The annual report of the Company for the year ended 31 December 2023 published on 25 April 2024 (page 95 to page 281). Please see below the link to the Annual Report 2023 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0425/2024042500077.pdf

The interim report of the Company for the six months ended 30 June 2024 published on 26 September 2024 (page 42 to page 220). Please see below the link to the Interim Report 2024 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0926/2024092600029.pdf

II. INDEBTEDNESS

As at 30 September 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had bank borrowings of approximately RMB5,726.10 million, including short-term bank borrowings of approximately RMB288.00 million, long-term bank borrowings due within one year of RMB1,374.00 million and long-term bank borrowings of approximately RMB4,064.10 million. The earliest maturity date of the bank borrowings was 22 November 2024 and the latest maturity date of the bank borrowings was 5 June 2036.

As at 30 September 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, save as disclosed and after due and reasonable enquiries by the Directors, the bank borrowings were unguaranteed and unsecured.

As at 30 September 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had lease liability of approximately RMB178.25 million and the lease liability payable in a year was approximately RMB69.3 million. The lease liability was unguaranteed and unsecured.

Save as aforementioned, and apart from intra-group liabilities within the Group and normal trade business, at the close of business on 30 September 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, loans or other similar indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases, operating lease, hire purchase commitments, guarantees or other contingent liabilities.

III. 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.

IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the first half of 2024, the Group kept up with the continuous improvement trend of the global new shipbuilding market, made scientific planning for operating and receiving orders, took technological innovation as the driving force, focused on main ship types, batch ship types and green ship types, and secured orders worth of RMB13.343 billion, representing a period-on-period increase of 82.13%, and completed 88.36% of the annual plan, of which the amount of shipbuilding orders reached RMB12.574 billion, with a total of 9 types of 35 ships of new shipbuilding orders received. The Group continued to consolidate its competitive advantages in the field of feeder container ships, bulk carriers and multi-purpose/heavy lift vessels, and successfully expanded the market for small and medium-sized gas ships and medium-sized container ships. At the same time, the Group accelerated the green transformation and development of its products, and among new orders, the proportion of alternative-fueled vessels increased, and the order structure continued to be optimized.

Under the favourable situation of statured production tasks, the Group made continued efforts in high-quality production, management improvement, digital transformation and other aspects, and tapped into potential efficiency, thereby achieving steady increase in production output, and simultaneously improving efficiency indicators. During the six months ended 30 June 2024, the Group completed and delivered 16 ships with a total of 536,900 DWT and achieved an operating income of RMB8.729 billion, representing a period-on-period increase of 45.91%. The net profit attributable to the shareholders of the Company amounted to RMB147 million, representing a period-on-period increase of 1,059.43%.

As at 30 June 2024, the Group held orders with the total contract value of approximately RMB61.35 billion, of which the total contract value of shipbuilding orders on hand was approximately RMB59.69 billion, including 129 ship products and 1 offshore equipment with a total of 4,619,300 DWT; and the total contract value of the orders for offshore wind power equipment, ship repairs and other non-shipbuilding products was approximately RMB1.66 billion.

The policy environment provides favorable conditions. The National Central Economic Work Conference noted that the Chinese economy will face numerous opportunities in 2024, and the basic trend of economic recovery and long-term improvement remains unchanged. China proposed a number of national policies and measures to stabilize the economic fundamentals, such as "developing new productive forces" and "implementing high-quality development actions for key manufacturing industry chains", and issued special implementation plans focusing on technological innovation, safe and stable supply chain, marine engineering equipment, cruise ships and yachts, deep-sea aquaculture equipment, and green and intelligent development of inland river ships. Local governments have made specific arrangements aimed at "building strong manufacturing provinces" and "building strong manufacturing cities", which will create a favorable environment for the sustained growth and leap-forward development of the Group.

The fundamentals of the defense industry show a long-term improvement trend. Amidst the complexities of the international landscape, characterized by heightened instability and uncertainty, it is imperative for China to fortify its national defense capabilities in the long term. National defense construction serves as the core driving force for the development of the national defense industry. The year 2024 marks the latter journey of the "14th Five-Year Plan" period. With the continuous development of equipment technology, unmanned equipment has brought about major changes in the way of combat, and new combat fields and models drive the continuous equipment upgrades and the constant development of emerging equipment, which will create conducive conditions for the development of the defense industry.

The shipbuilding industry market maintains a booming momentum. It is expected that the world will still be in a high interest rate and high inflation cycle in the short term, and relatively tight shipbuilding resources bolster the negotiating power of shipyards, and the demand for upgrading supporting equipment coupled with labor shortages leads to higher costs, so that ship prices face significant upward pressure with limited room for downward adjustments. At the same time, the MEPC 80 session of the International Maritime Organization has delineated specific timelines and relevant requirements for achieving net zero emissions, and the European Union Carbon Emissions Trading System (EU-ETS) has been officially extended to the shipping industry. Therefore, the increased investment in alternative fuels and green technologies as well as reduced-speed navigation may lead to an increase in shipping costs, coupled with the shipping bypass caused by the geopolitics of the Red Sea crisis, freight rates will remain at high level.

The application industry is experiencing rapid development. In the first half of 2024, the newly installed capacity of wind power in China was 25.8GW, representing a period-on-period increase of 12.4%; of which, the newly installed capacity of offshore wind power and onshore wind power was 0.83GW and 25.0GW, respectively, representing a period-on-period decrease of 24.5% and increase of 14.3%, respectively. The installation of the offshore wind power was slightly lower than expected resulting from the impact of the construction commencement. Due to the traditional wind power installation season in the second half the year, coupled with the delayed construction of the offshore wind power, partial project start-up and grid connection was postponed. It is expected that China will witness an intensive grid connection period in the second half of the year. The industrial Internet industry will sustain rapid development, and the ongoing evolution and application of 5G technology will further improve the scope and depth of the industrial Internet.

The Group is committed to building high-quality marine equipment to strengthen the military and serve the nation, by focusing on the marine industry and developing harmoniously to become a world-class listed marine defense equipment company with reasonable industrial structure, leading core technologies, excellent services and strong international competitiveness.

The Group adheres to the enterprise spirit of "innovation, efficiency, cooperation and win-win", follows the development concept of "devoting to both manufacturing and service", and actively builds up three major industrial layouts of "marine defense equipment industry", "ship and offshore engineering equipment industry" and "marine science and technology innovation and application industry", fully aligns with major strategies including the "Belt and Road" initiative, military-civilian integration development for the building of a strong manufacturing country and a strong maritime country, promoting the expansion and extension of the traditional manufacturing industry in a direction towards higher value, so as to strengthen and optimise its main business, vigorously expand emerging industries, accelerate the Company's transformation and upgrading, and achieve high-quality development.

I. RESPONSIBILITY STATEMENT

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

II. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was 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 of shareholder	Class of shares	Number of long positions held (shares)	Capacity	Approximate shareholding percentage of issued H Shares (%)	Approximate shareholding percentage of issued A Shares (%)	Percentage of total issued share capital (%)
China State Shipbuilding Corporation Limited	A Shares	481,337,700 (L)	Beneficial owner	–	58.60	34.05
CSSC International Holding Company Limited	H Shares	322,790,890 (L)	Beneficial owner	54.52	–	22.84

Note: L = Long position

Save as disclosed above, so far as was 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.

III. 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 Issuers.

As at the Latest Practicable Date,

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

- none of the Directors or their associates had any direct or indirect interest in any assets which had been, since 31 December 2023 (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.

IV. COMPETING INTERESTS AND OTHER INTERESTS

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

None of the Directors or their associates were materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

V. EXPERT

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

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

As at the Latest Practicable Date, Vinco Financial

- did not have any direct or indirect shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- did not have any direct or indirect interest in any assets which had been, since 31 December 2023 (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.

Vinco Financial has given and has not withdrawn its written consent to the issue of this circular with its letter of advice and the references to its name and logo in the form and context in which it is included. The letter of advice from Vinco Financial is given as of the date of this circular for incorporation herein.

VI. LITIGATION

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

VII. 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 2023, the date to which the latest published audited financial statements of the Company were made up.

VIII. MATERIAL CONTRACT

The Group has entered into the following contract (not being contract entered into in the ordinary course of business) within two years immediately preceding the date of this circular and which are or may be material:

- the equity transfer agreement entered into by Wenchong Shipyard, Baoding Fengfan Group Co., Ltd. (保定風帆集團有限責任公司), Shanghai Shipbuilding Technology Research Institute (上海船舶工藝研究所), China Shipbuilding International Trading Co., Ltd. (中船國際貿易有限公司), China Shipbuilding Trading Shanghai Co., Ltd. (中國船舶工業貿易上海有限公司), Xi'an Hualei Machinery Electronics Group Co., Ltd. (西安華雷機械電子集團有限公司), China Shipbuilding Group Fenxi Heavy Industry Co., Ltd. (中國船舶集團汾西重工有限責任公司), China Shipbuilding Industry Corporation Chongqing Shipbuilding Co., Ltd. (中國船舶重工集團重慶船舶工業有限公司), China Shipbuilding Group Co., Ltd. 760 Research Institute (中國船舶集團有限公司第七六〇研究所), and Nanjing CSSC Oasis Machinery Co., Ltd. (南京中船綠洲機器有

限公司）on 1 June 2023, pursuant to which, among other things, Wenchong Shipyard agreed to transfer a 0.126% equity interest of CSSC Finance to Nanjing CSSC Oasis Machinery Co., Ltd. at a consideration of RMB25.218 million.

IX. GENERAL

The registered office of the Company is located at 15th Floor, Marine Tower, No. 137 Gexin Road, Haizhu District, Guangzhou, the PRC, post code: 510250.

The H share registrar and H share transfer office of the Company is Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The company secretary of the Company is Mr. Li Zhidong. Mr. Li Zhidong, aged 58, senior engineer. He graduated from Shanghai Jiaotong University with a bachelor's degree, majored in ship engineering, in engineering in July 1987 and graduated from China Europe International Business School with a master degree, majoring in business administration in November 1997. He served as head of general office, chief legal advisor, assistant to general manager, board secretary and Hong Kong company secretary of Guangzhou Shipyard International Company Limited（廣州廣船國際股份有限公司）. He is currently secretary to the Board and Hong Kong company secretary of the Company.

The following directors are directors or employees of the CSSC Group: Mr. Chen Liping is the director of Guangzhou Shipyard International Company Limited; Mr. Gu Yuan is the deputy general manager of the department of assets management of CSSC; Mr. Ren Kaijiang is the director of CSSC Science & Technology Co., Ltd.（中船科技股份有限公司）and Chongqing Chuandong Shipbuilding Heavy Industry Company Limited（重慶川東船舶重工有限責任公司）; and Mr. Yin Lu is the deputy general manager of the department of safety, quality and environment of CSSC. Save as disclosed above, so far as known to the Directors, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had 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.

X. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of HKEXnews at (www.hkexnews.hk) and the website of the Company (comec.cssc.net.cn) from the date of this circular up to and including the date of the EGM:

- the Supplemental Agreement;
- the 2025 Framework Agreement;
- the 2025 Financial Services Framework Agreement;
- the written consent of Vinco Financial; and
- the letter of advice dated 12 November 2024 from Vinco Financial to the Independent Board Committee and the Independent Shareholders.

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

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

(H Shares Stock Code: 00317)

NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING OF 2024 AND CLOSURE OF REGISTER OF MEMBERS

NOTICE IS HEREBY GIVEN that the third extraordinary general meeting of 2024 (the "**EGM**") of CSSC Offshore & Marine Engineering (Group) Company Limited (the "**Company**") will be held at the conference room of the Company at 15th Floor, Marine Tower, No. 137 Gexin Road, Haizhu District, Guangzhou, The People's Republic of China (the "**PRC**") at 10:30 a.m. on Friday, 29 November 2024, at which the following matters will be proposed for consideration:

ORDINARY RESOLUTIONS

1. To consider and approve the resolution on the signing of the Supplemental Agreement to the 2024 Continuing Connected Transactions Framework Agreement between the Company and China State Shipbuilding Corporation;

2. To consider and approve the resolution on the signing of the 2025 Continuing Connected Transactions Framework Agreement between the Company and China State Shipbuilding Corporation; and

3. To consider and approve the resolution on the signing of the 2025 Financial Services Framework Agreement between the Company and CSSC Finance Company Limited.

In order to determine the entitlement of the shareholders of overseas listed foreign shares ("**H Shares**") to attend the EGM, the register of members of the Company will be closed from 26 November 2024 to 29 November 2024 (both days inclusive). Holders of H Shares who have lodged the duly completed transfer documents accompanied by the relevant share certificates with the Company's H share registrar, Hong Kong Registrars Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on 25 November 2024, the transferee but not the transferor shall be regarded as holder of the relevant H Shares and will be entitled to attend and vote at the EGM. Holders of H Shares whose names are recorded in the register of member of the Company on 29 November 2024 are entitled to attend the EGM.

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

Guangzhou, 12 November 2024

As at the date of this notice, the Board comprises eight Directors, namely executive Director Mr. Chen Liping; non-executive Directors Mr. Gu Yuan, Mr. Ren Kaijiang and Mr. Yin Lu; and independent non-executive Directors Mr. Lin Bin, Mr. Nie Wei, Mr. Li Zhijian and Ms. Xie Xin.

Notes:

1. For details of the resolutions to be considered at the EGM and other related matters, please refer to the announcement of the Company dated 27 September 2024 published on the website of The Stock Exchange of Hong Kong Limited and the circular despatched on 12 November 2024.

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 needs not be a shareholder of the Company. In order to ensure validity, completed proxy forms and other authorization documents (if any) must be delivered to the registered office of the Company not less than 24 hours before the time scheduled for the holding of the EGM (in case of holders of A shares). Holders of H shares must deliver completed proxy forms and other authorization documents (if any) to the Company's H share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the proxy from will not preclude the shareholders from attending and voting in person at the EGM should they so wish.

3. The resolutions at the EGM will be voted on by poll.

4. Shareholders and proxies must show their identification documents when attending the EGM.

5. The EGM 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 Board of Directors' Office of CSSC Offshore & Marine Engineering (Group) Company Limited at 15th Floor, Marine Tower, No. 137 Gexin Road, Haizhu District, Guangzhou, the PRC (post code: 510250).

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