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*(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**

### **2023 FRAMEWORK AGREEMENT**

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



**Vinco Financial Limited**

As the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) which governs the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2020 to 31 December 2022 will expire on 31 December 2022, the Company and CSSC have entered into 2023 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2023 to 31 December 2023.

The entering into and the implementation of the 2023 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.

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 2023 Framework Agreement exceed 5% on annual basis, the Continuing Connected Transaction (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2023 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. For the Continued Connected Transactions, the Company will comply with all reporting and independent non-executive Directors review 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 2023 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, the provision of the guarantee services by the CSSC Group to the Group under the 2023 Framework Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

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 2023 Framework Agreement, exceed 25% but less than 75% 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 2023 Framework Agreement constitute a non-exempt connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and subject to the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

## **THE EGM**

The Company will convene the EGM at which ordinary resolutions will be proposed to approve, among others, the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps. A circular containing, among others, details of the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps, a letter from the Independent Board Committee and a letter of advice from Vinco Financial will be despatched to the Shareholders on or before 1 December 2022 as additional time is required to compile the information and prepare the circular. Pursuant to the Hong Kong Listing Rules, China Shipbuilding Group and its associates will abstain from voting in relation to the ordinary resolutions to be put forward at the EGM for the purpose of approving the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps. Vinco Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

Shareholders and potential investors may refer to the circular to be despatched by the Company for more details.

## **I. BACKGROUND**

Reference is made to the announcement of the Company dated 30 December 2019, the circular of the Company dated 5 February 2020, the announcement of the Company dated 10 September 2020 and the circular of the Company dated 8 October 2020 in relation to, among others, 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement).

As the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) governing the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2020 to 31 December 2022 will be completed on 31 December 2022, the Company and CSSC have entered into the 2023 Framework Agreement to continue and govern the continuing connected transactions between the Group and CSSC Group for the period from 1 January 2023 to 31 December 2023.

The Directors (excluding the view of the independent non-executive Directors who will provide their view based on the advice to be provided by the Independent Financial Advisor of the Company) are of the view that the 2023 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 2023 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 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) and the continuing connected transactions contemplated thereunder (together with the relevant annual caps).

## **II. 2023 FRAMEWORK AGREEMENT**

The 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement) which governs the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2020 to 31 December 2022 will expire on 31 December 2022. To continue the continued transactions contemplated under the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement), on 28 October 2022, the Company and CSSC entered into the 2023 Framework Agreement to continue and to govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2023 to 31 December 2023.

## Principal Terms of the 2023 Framework Agreement

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 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.
- (b) Utilities, primarily the supply of wind, water and electrical power and gas, namely, the supply of energy such as wind, water, electricity and gas by the Group to the CSSC Group during the production and service process of the CSSC Group; and
- (c) 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 subsidiaries, joint ventures and associated companies of 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 land restoration 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:**

- (d) Provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc., mainly providing materials, accessories, facilities and 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, facilities, equipment and related services. The Group has joined the centralized procurement plan of organised by China Shipbuilding Industrial Complete Equipment & Logistics Co., Ltd.\* (“CS Logistics”, a member unit of the CSSC Group), and CSSC Logistics 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.
- (e) 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 power such as water and electricity to meet the needs of business development;

- (ii) Labour supply: This mainly refers to the provision of outsourcing and comprehensive services for ship segments (or steel structure components), 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:**

- (f) 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:**

- (g) Sales agency services, 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;

**Procurement agency services to be provided by the CSSC Group to the Group:**

- (h) Procurement agency services, due to the fact that the CSSC Group has a stronger bargaining power when purchasing imported materials owing to the large amount of procurements and may guarantee a relatively timely delivery time.

Items (a) to (h) 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 COMEC 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, based on market price.

In respect of (b) above, based on the costs plus a 20%-25% management fee or at a price no less favourable than that enjoyed by Independent Third Parties.

In respect of (c) above, no less favourable than those enjoyed by Independent Third Parties.

In respect of (d) above:

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;

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. 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;

For equipment for ship, 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, 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, due to technical specifications or limitations on conditions of supply and there may be only one associated supplier for a particular piece of equipment, the Group shall negotiate a price with the supplier based on the recent contract price or a unit price converted from certain technical data for that piece of equipment, taking into account the market price of raw materials and other factors, provided that the price is no less favourable than the conditions offered by an Independent Third Party supplier;

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 (e) above: the lease price is based on market rate or cost plus a 10% management fee; the annual cap is based on the sum of the total value of the right-of-use assets recognised by the Group and the annual depreciation and interest charges calculated on the basis of the tax payable on the leased production sites and staff quarters; labour services are priced at market rate; comprehensive services are priced at a rate no less favourable than the conditions offered by Independent Third Parties; technical services are priced at market rate.

In respect of (f) 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 (g) above: sales agency fee (or commission), which is generally not more than 1.5% of the contract amount in accordance with international practice 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 respect of (h) above: the procurement agency fees, which are generally calculated at 1-2% of the contract amount in accordance with international practice, shall be paid by the Group to the CSSC Group.



Term: Conditional upon approval by the Independent Shareholders at the EGM, the term of the 2023 Framework Agreement shall be for the period from 1 January 2023 to 31 December 2023 (both days inclusive).

## Historical Amounts and Proposed Annual Caps

### *Historical Amounts*

The table below sets out the amounts of each category of the continuing connected transactions for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 and the comparison with the respective annual caps approved by the Independent Shareholders under the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement). The Directors will closely monitor that the transaction amounts of all categories of the continuing connected transactions for the year ending 31 December 2022 to ensure the amounts will not exceed their respective annual caps for 2022 under the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement). The audited transaction amounts for all categories of the Continuing Connected Transactions for the two years ended 31 December 2020 and 2021 and the unaudited transaction amounts for all categories of the continuing connected transactions for the nine months ended 30 September 2022 did not exceed the respective annual caps for those transactions.

*Unit: RMB million*

Transactions	Historical Annual Caps			Historical Amounts		
	For the year ended 31 December			For the year ended 31 December		For the nine months ended 30 September
	2020	2021	2022	2020	2021	2022
<b>Products and services provided by the Group to the CSSC Group:</b>						
(a) Shipping products, electrical and mechanical engineering equipment and metallic supplies etc.	4,812.47	3,501.35	2,673.54	1,259.62	663.83	176.30
(b) Utilities	1.92	1.60	1.60	0.83	0.08	0.23
(c) Leasing, labour supply, environmental business and design and technical services, etc.	155.20	48.93	44.00	10.65	17.78	13.71

*(Note 1)*

Transactions	Historical Annual Caps			Historical Amounts		
	For the year ended 31 December			For the year ended 31 December		For the nine months ended
	2020	2021	2022	2020	2021	30 September 2022
<b>Products and services provided by the CSSC Group to the Group:</b>						
(d) Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.	6,219.49	6,125.90	7,073.54	5,430.57	5,082.25	3,144.63
(e) Leasing, labour supply and technical services	530.67	517.40	594.55	399.60	267.16	233.01
<b>Guarantee services provided by the CSSC Group and its member entities to the Group:</b>						
(f) Guarantee fee ( <i>Note 2</i> )	12.80	12.80	12.80	–	–	–
<b>Sales agency services provided by the CSSC Group to the Group:</b>						
(g) Sales agency fees	46.13	30.16	34.07	18.53	26.65	12.57
<b>Procurements agency services provided by the CSSC Group to the Group:</b>						
(h) Procurements agency fees	3.74	3.30	3.83	0.04	0.72	0.06

*Notes:*

1. The figures for the nine months ended 30 September 2022 were unaudited figures.
2. The maximum guaranteed amounts for the three years ended 31 December 2020, 2021 and 2022 did not exceed RMB4,800 million, RMB4,800 million and RMB1,600 million respectively.

## ***Proposed Annual Caps***

The table below sets out the Proposed Annual Caps for each category of the Continuing Connected Transactions for 2023.

*Unit: RMB million*

<b>Transactions</b>	<b>Proposed Annual Cap for the year ended 31 December 2023</b>
<b>Products and services provided by the Group to CSSC Group:</b>	
(a) Shipping products, electrical and mechanical engineering equipment and metallic supplies etc.	1,630.00
(b) Utilities	0.50
(c) Leasing, labour supply, environmental business and design and technical services, etc.	106.50
<b>Products and services provided by the CSSC Group to the Group:</b>	
(d) Equipment for ship, electrical and mechanical engineering equipment, ancillary parts and material supplies, etc.	8,500.00
(e) Leasing, labour supply and technical services	936.50
<b>Guarantee services provided by the CSSC Group and its member entities to the Group:</b>	
(f) Guarantee fee ( <i>Note 1</i> )	6.40
<b>Sales agency services provided by the CSSC Group to the Group:</b>	
(g) Sales agency fees	47.10
<b>Procurements agency services provided by the CSSC Group to the Group:</b>	
(h) Procurement agency fees	0.30

*Note:*

1. The maximum guarantee amount for the year ended 31 December 2023 will not exceed RMB1,600 million.

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 expected year-on-year increase in production value in 2023 in accordance with the arrangements of Huangpu Wenchong's production and operation plan for 2023, 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.

### **Reasons for Entering into the 2023 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 production schedules for shipbuilding in 2023.

In addition, the Directors have taken into consideration of the followings regarding each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement:

- (a) 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 fixed assets to the CSSC Group that are no longer applicable to the 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.

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

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

- (c) 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.
- (d) 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. 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 centralized purchase system; and (iii) the Group needs to invest in fixed assets for production and operations, CSSC Group can provide COMEC 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.

- (e) 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.
- (f) The provision of guarantee services or mortgages in respect of the Group's borrowings or operating activities by the CSSC Group constitutes financial assistance by a connected person 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.
- (g) 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.

- (h) Pricing of purchase agency fees is determined and agreed based on arm's length negotiation between the parties, having reference to the then prevailing market practices. However, counterparty which offers the lowest agency fee shall not be the sole determining factor. In deciding whether the Group will choose to transact with any particular counterparty, the Group will consider the terms offered by counterparty for purchase of imported materials by the Group as a whole, including the delivery schedule of the imported materials, whether the counterparty will make advance payment of the purchase price in foreign currency on the Group's behalf and the payment terms available to the Group, etc.. The procurement department and the relevant deputy general manager of the Group will be responsible for reviewing and scrutinizing the terms offered by the CSSC Group to the Group against those provided to the Group by third party service providers for providing similar services in order to 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.

On bases summarized above and given that (i) the Continuing Connected Transactions are entered into under the usual and ordinary course of business of the Group and the CSSC Group; and (ii) the Group will be benefited from better allocation of resources with the CSSC Group and hence enjoy competitive cost advantages, the Directors (excluding the view of the independent non-executive Directors who will provide their view based on the advice to be provided by the Independent Financial Advisor) are of the view that the terms of the 2023 Framework Agreement and each of the Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **III. INFORMATION ABOUT THE PARTIES**

#### **Information about the Company**

The Company is a core subsidiary and platform of CSSC (a large-scale state-owned enterprise) in Southern China. As at the date of this announcement, 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.

#### **Information about 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 date of this announcement, CSSC, the indirect controlling shareholder of the Company, controls 827,278,590 Shares of the Company indirectly through China Shipbuilding Group, representing 58.52% of the issued Shares of the Company.

#### **IV. IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, CSSC is an indirect controlling shareholder of the Company, and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the 2023 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 2023 Framework Agreement exceed 5% on annual basis, the Continuing Connected Transaction (save for the guarantee services provided by CSSC and its member entities to the Group) contemplated under the 2023 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. For the Continued Connected Transactions, the Company will comply with all reporting and independent non-executive Directors review 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 2023 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, the provision of the guarantee services by the CSSC Group to the Group under the 2023 Framework Agreement are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

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 2023 Framework Agreement, exceed 25% but less than 75% 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 2023 Framework Agreement constitute a non-exempt connected transaction and also a major transaction of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and subject to the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

China Shipbuilding Group and its associates (together holding 827,278,590 Shares of the Company, representing 58.52% of the issued Shares of the Company, as at the date of this announcement) will abstain from voting in relation to the resolution in respect of the terms and Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement at the forthcoming EGM.



Since each of Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Xiang Huiming, Mr. Chen Ji, Mr. Gu Yuan and Mr. Ren Kaijiang 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 2023 Framework Agreement, the terms and Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement.

Save for the above, to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, (i) none of the Shareholders has a material interest in the resolution to be proposed at the EGM and will abstain from voting at the EGM, and (ii) none of the Shareholders has a material interest in the transactions in relation to the terms and Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement and have to abstain from voting on the Board resolution.

## **V. CIRCULAR AND EGM**

The Company will convene the EGM to seek, among other things, the Independent Shareholders' prior approval on the entering into of the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps. China Shipbuilding Group and its associates will abstain from voting on the approval of the relevant resolutions proposed at the EGM.

The Company has formed an Independent Board Committee comprising of all the independent non-executive Directors to advise the Independent Shareholders whether, among other things, the terms of the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Vinco Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on, among other things, the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps. A circular containing, among others, details of the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps, a letter from the Independent Board Committee and a letter of advice from the Independent Financial Adviser, will be dispatched to the H Shareholders and posted on the website of Hong Kong Stock Exchange at [www.hkexnews.com.hk](http://www.hkexnews.com.hk), the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn) and the website of the Company at [comec.cssc.net.cn](http://comec.cssc.net.cn) by 1 December 2022 as additional time is required to compile the information and prepare the circular.

## VI. DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement)”	framework agreement for the continuing connected transactions for the period from 1 January 2020 to 31 December 2022 (both days inclusive) entered into between the Company and CSSC on 30 December 2019 and approved by Independent Shareholders on 26 February 2020 and the supplemental agreement (the “Supplemental Agreement”) entered into between the Company and CSSC on 10 September 2020 and approved by the Independent Shareholders on 23 October 2020
“2023 Framework Agreement”	framework agreement for the continuing connected transactions for the period from 1 January 2023 to 31 December 2023 (both days inclusive) entered into between the Company and CSSC on 28 October 2022, and conditional on approval by the Independent Shareholders at EGM
“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Company”	CSSC Offshore & Marine Engineering (Group) Company Limited, a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the 2023 Framework Agreement, 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 and its member entities to the Group; and (iv) provision of agent services by CSSC Group to the Group, further details of which are set out in the section headed “Principal terms of the 2023 Framework Agreement” in this announcement
“Contract Management Rules”	the contract management rules under the Group’s internal procedures which were designed to seek to ensure that the contracts from time to time entered into by the Group are in compliance with the Contract Law of the PRC (中華人民共和國合同法), the Practice Note No. 16 – Contract Management of the Enterprise Internal Control (企業內部控制應用指引第 16 號-合同管理) and other relevant PRC laws and regulations. Such rules are applicable to all sale and purchase contracts of the Group so that all the suppliers or purchasers (as the case 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
“China Shipbuilding Group”	China State Shipbuilding Corporation Limited* (中國船舶工業集團有限公司). As at the date of this announcement, China Shipbuilding Group holds 827,278,590 Shares of the Company directly or indirectly, representing approximately 58.52% of the issued Shares of the Company, and is a controlling shareholder of the Company
“CSSC”	China State Shipbuilding Corporation* (中國船舶集團有限公司). As at the date of this announcement, CSSC controls 827,278,590 Shares of the Company indirectly through China Shipbuilding Group, representing approximately 58.52% of the issued Shares of the Company, and is an indirect controlling shareholder of the Company
“CSSC Group”	CSSC and its subsidiaries
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the Independent Shareholders to consider and approve, if thought fit, the 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of the Company listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huangpu Wenchong”	CSSC Huangpu Wenchong Shipbuilding Company Limited* (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 date of this announcement, a non-wholly owned subsidiary of the Company and is owned as to 54.5371% by the Company
“Independent Third Party(ies)”	party who is a third party independent of the Company and its connected person(s)

“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 2023 Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
“Independent Financial Adviser” or “Vinco Financial”	Vinco Financial Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the 2023 Framework Agreement and the transactions contemplated thereunder and 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 transactions
“PRC”	the People’s Republic of China
“Proposed Annual Caps”	the proposed annual caps for the Continuing Connected Transactions contemplated under the 2023 Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	shares of RMB1.00 each in the share capital of the Company
“%”	per cent.

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

Guangzhou, 28 October 2022

*As at the date of this announcement, the Board comprises ten Directors, namely executive Directors Mr. Chen Liping and Mr. Xiang Huiming, non-executive Directors Mr. Chen Zhongqian, Mr. Chen Ji, Mr. Gu Yuan and Mr. Ren Kaijiang and independent non-executive Directors Mr. Yu Shiyong, Mr. Lin Bin, Mr. Nie Wei and Mr. Li Zhijian.*