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 2023 FRAMEWORK AGREEMENT AND THE 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT; AND INCREASING THE GUARANTEE AMOUNT FOR 2022 BY A SUBSIDIARY

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 6 to 45 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 46 to 47 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 48 to 77 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, 16 December 2022. The notice of the EGM together with the proxy form have been despatched to the Shareholders and published on the website of HKEXnews (www.hkexnews.hk) and the website of the Company (comec.cssc.net.cn) on 28 October 2022. Whether or not you are able to attend the EGM, you are requested to complete and return the relevant 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.

1 December 2022

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

"2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement)"	the 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 the Independent Shareholders on 26 February 2020, and as supplemented by 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 Financial Services Framework Agreement"	framework agreement for the Continuing Connected Transaction of Financial Services for the period from 1 January 2023 to 31 December 2023 (both days inclusive) entered into between the Company and CSSC Finance on 28 October 2022, and conditional upon approval by the Independent Shareholders at the EGM
"2023 Framework Agreement"	the 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 upon approval by the Independent Shareholders at the EGM
"Articles of Association"	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
"associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Board"	the board of Directors
"CBIRC"	China Banking and Insurance Regulatory Commission
"Company"	CSSC Offshore & Marine Engineering (Group) Company Limited, a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the 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

"Continuing Connected Transactions"	the continuing connected transactions contemplated under the 2023 Framework Agreement, including (i) the provision of products and services, etc. by the Group to the CSSC Group; (ii) the provision of products and services, etc. by CSSC Group to the Group; (iii) the provision of guarantee services by the CSSC Group to the Group; (iv) the provision of sales agency services by the CSSC Group to the Group; and (v) the provision of procurement agency services by the 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 circular
"Continuing Connected Transactions of Financial Services"	the continuing connected transactions contemplated under the 2023 Financial Services Framework Agreement, including the provision of (i) deposit services; (ii) lending services; (iii) other and bank credit services; and (iv) foreign exchange services by CSSC Finance to the Group, further details of which are set out in the section headed "Principal terms of the 2023 Financial Services Framework Agreement" in this circular
"Contract Management Rules"	the contract management rules under the Group's internal procedures which were designed to seek to ensure that the contracts from time to time entered into by the Group are in compliance with the Contract Law of the PRC（中華人民共和國合同法）, the Practice Note No. 16 – Contract Management of the Enterprise Internal Control（企業內部控制應用指引第16號－合同管理）and other relevant PRC laws and regulations. Such rules are applicable to all sale and purchase contracts of the Group so that all the suppliers or purchasers (as the case 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 Latest Practicable Date, China Shipbuilding Group held 827,278,590 Shares directly and indirectly, representing approximately 58.52% of all the issued Shares of the Company, and was a controlling Shareholder of the Company

"CSSC"	China State Shipbuilding Corporation*（中國船舶集團有限公司）. As at the Latest Practicable Date, CSSC controlled 827,278,590 Shares of the Company indirectly through China Shipbuilding Group, representing approximately 58.52% 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 CSSC
"CSSC Group"	CSSC and its subsidiaries
"CSSC Internet"	CSSC Industrial Internet Co., Ltd.*（中船工業互聯網有限公司）, a wholly-owned subsidiary of Huangpu Wenchong as at the Latest Practicable Date
"CSSC Logistics"	China Shipbuilding Industry Complete Logistics Co., Ltd.* （中船工業成套物流有限公司）, a wholly-owned subsidiary of CSSC
"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 2023 Financial Services Framework Agreement
"Director(s)"	the director(s) of the Company
"DWT"	deadweight tonnage, the deadweight capacity with ton as unit
"EGM"	the second extraordinary general meeting of 2022 to be convened by the Company for the Shareholders to consider and, if thought fit, approve the 2023 Framework Agreement, the 2023 Financial Service Framework Agreement and the transactions contemplated thereunder and the Proposed Annual Caps, and the resolution on increasing the guarantee amount for 2022 by a subsidiary
"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 2023 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
"H Shareholder(s)"	holder(s) of the H Share(s)
"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
"Huangchuan Ocean Engineering"	Guangzhou Huangchuan Ocean Engineering Co., Ltd.* (廣州黃船海洋工程有限公司), a wholly-owned subsidiary of Huangpu Wenchong as at the Latest Practicable Date
"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 2023 Framework Agreement and the 2023 Financial Services 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 SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the 2023 Framework Agreement and the 2023 Financial Services 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 resolutions
"Independent Third Party(ies)"	party(ies) independent of the Company and its connected person(s)

"Latest Practicable Date"	25 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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 2023 Framework Agreement and the 2023 Financial Services Framework Agreement, respectively
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	shares of RMB1.00 each in the share capital of the Company
"subsidiary(ies)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"USD"	United States Dollars, the lawful currency of the United States of America
"Wenchuan Heavy Industrial"	Guangzhou Wenchuan Heavy Industrial Co., Ltd.* (廣州文船重工有限公司), a wholly-owned subsidiary of Huangpu Wenchong as at the Latest Practicable Date
"Wenchong Shipyard"	Guangzhou Wenchong Shipyard Co., Ltd* (廣州文沖船廠有限責任公司), a wholly-owned subsidiary of Huangpu Wenchong as at the Latest Practicable Date
"%"	per cent.

* *The English names of the PRC entities referred to in this circular are translations from their Chinese names and are for identification purpose only. If there are any inconsistencies, the Chinese names shall prevail.*

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

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

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

(H Shares Stock Code: 00317)

Executive Directors:
Mr. Chen Liping
Mr. Xiang Huiming

Non-Executive Directors:
Mr. Chen Zhongqian *(Vice-chairman)*
Mr. Chen Ji
Mr. Gu Yuan
Mr. Ren Kaijiang

Independent Non-Executive Directors:
Mr. Yu Shiyou
Mr. Lin Bin
Mr. Nie Wei
Mr. Li Zhijian

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

Post code:
510250

1 December 2022

To the H Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS IN RELATION TO THE 2023 FRAMEWORK AGREEMENT AND THE 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT; AND INCREASING THE GUARANTEE AMOUNT FOR 2022 BY A SUBSIDIARY

I. INTRODUCTION

Reference is made to the announcements of the Company dated 28 October 2022 in relation to, among others, 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 2023 Framework Agreement and the 2023 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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2023 Framework Agreement and the 2023 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 Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2023 Framework Agreement and the 2023 Financial Services Framework Agreement, respectively; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding terms and the Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services; (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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services; and (iv) increasing the guarantee amount for 2022 by a subsidiary.

II. THE 2023 FRAMEWORK AGREEMENT AND THE 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. The 2023 Framework Agreement

A. 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, the 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 expire on 31 December 2022, the Company and CSSC entered into the 2023 Framework Agreement to continue and govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2023 to 31 December 2023.

The Directors (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) 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 those 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 contemplated thereunder (together with the Proposed Annual Caps) is conditional upon the approval by the Independent Shareholders at the EGM. In any event, pending the 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).

B. Details of the 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 on-going transactions 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 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 etc. 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. Whereas the CSSC Group has the need to purchase ship products and complete sets of or auxiliary equipment, 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 in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or upon its temporary urgent needs during the production process, and requires the Group to provide materials and equipment in stock to meet the emergency, as well as 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 etc. that are not in use by the Group to the 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 etc.:

(i) Leasing: This mainly involves the provision of production sites 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 etc. related to the principal businesses of the Company; and 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-developed software and relevant ancillary technical services.

Products and services etc. 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., comprising mainly 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. Whilst such supplies and distribution services are required for the daily production and operation of the Group, the CSSC Group can provide such materials, supplies, facilities, equipment and related services. The Group has joined the centralized procurement plan of organised by CSSC 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, where the Group suffers the temporary impact of production capacity or delivery time and 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 upon temporary urgent needs, the materials can be provided by the members of the CSSC Group with their inventory stock; and when the Group needs to invest in fixed assets for its 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 consultation.

(e) Leasing, labour supply and technical services etc., 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 the accompanying utilities such as water and electricity power 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, among which, (a) outsourcing of ship segments (or steel structure components), which 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 as to advertising, exhibitions, medical, catering, conferences, nursery, training, property management and water and electricity resale, etc., provided by the CSSC Group to the Group;

(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 is constrained by its design capability and time after receiving an order and requires the CSSC Group to provide such services in order to meet the production needs; the cooperation and research between the Group and the member units of the CSSC Group on new products and techniques and other services.

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

(f) Guarantee services, which refers to that when the Group accepts orders or borrows funds from banks, it may need a guarantor pursuant 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, which is attributable to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners, thereby enabling the Group to leverage 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, which is attributable to the stronger bargaining power of the CSSC Group when purchasing imported materials owing to the large amount of procurements and may ensure 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 the Group and on normal commercial terms and on arm's length basis (and if there are 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 they 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 prices no less favourable than those 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 multifarious, and those products are often in urgent needs with a relatively short ordering time, 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 etc., if there is a member of the CSSC Group in the list of manufacturers for marine equipment, the member will participate in the competition with two or more manufacturers comprising of 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, whereby 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 will be no less favourable than the conditions offered by Independent Third Party suppliers. If, due to technical specifications or limitations on conditions of supply (such as a specialized equipment where the CSSC Group had the proprietary ownership and/or right to exploit them) and as a result, there would be only one associated supplier for a particular piece of equipment, the Group shall ensure the price to be fair and reasonable with reference to the recent contract price 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 and the relevant authority-guided price;

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 rental of the lease 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 no 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: in accordance with the international industry practice, the sales agency fee (or commission) will generally not exceed 1.5% of the contract amount 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 to them.

In respect of (h) above: in accordance with the international industry practice, the procurement agency fee will be generally calculated at 1%-2% of the contract amount and is payable by COMEC 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).

C. 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 comparisons 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 2022
	2020	*2021*	*2022*	*2020*	*2021*	*(Note 1)*
Products and services etc. provided by the Group to the CSSC Group:						
(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 and technical services, etc.	155.20	48.93	44.00	10.65	17.78	13.71
Products and services etc. provided by the CSSC Group to the Group:						
(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, etc.	530.67	517.40	594.55	399.60	267.16	233.01
Guarantee services provided by the CSSC Group to the Group:						
(f) Guarantee fees *(Note 2)*	12.80	12.80	12.80	–	–	–
Sales agency services provided by the CSSC Group to the Group:						
(g) Sales agency fees	46.13	30.16	34.07	18.53	26.65	12.57
Procurements agency services provided by the CSSC Group to the Group:						
(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 annual caps for the maximum guaranteed amounts for the three years ended 31 December 2020, 2021 and 2022 shall 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

Transactions	Proposed Annual Cap for the year ending 31 December 2023
Products and services etc. provided by the Group to the CSSC Group:	
(a) Shipping products, electrical and mechanical engineering equipment and metallic supplies, etc.	1,630.00
(b) Utilities	0.50
(c) Leasing, labour supply and technical services, etc.	106.50
Products and services etc. provided by the CSSC Group to the Group:	
(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, etc.	936.50
Guarantee services provided by the CSSC Group to the Group:	
(f) Guarantee fee *(Note 1)*	6.40
Sales agency services provided by the CSSC Group to the Group:	
(g) Sales agency fees	47.10
Procurements agency services provided by the CSSC Group to the Group:	
(h) Procurement agency fees	0.30

Note:

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

Considerations 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, production schedule, material costs and anticipated total production value of the Group. In determining the Proposed Annual Caps, the Directors have taken into account:

(i) In recent years, there have been obvious signs of recovery in the new shipbuilding market. In 2021, the demand of the new shipbuilding market rebounded beyond expectations, and the Group has made a breakthrough in the operating orders received by taking advantage of the rebound in the shipbuilding market. In 2021, the amount of operating orders received amounted to RMB32.524 billion, representing a year-on-year increase of 248.3%.

(ii) Based on past experience, according to the production process, it generally takes about two years from the receipt of shipbuilding orders to the production process, and thus the large number of orders received by the Group in 2021 will be proceeded to production from 2023 onwards.

(iii) According to the Group's production plan for 2023, the total production value is expected to increase significantly in 2023 by approximately 38% as compared to 2022, while the volume of connected transactions such as material procurement and labour supply services will increase as compared to previous years due to the product technical specification and function upgrade and changes in product mix leading to the expected increased use of raw materials and labour resources in the production process.

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

The products and services etc. to be provided by the Group to the CSSC Group

(a) Provision of shipping products, electrical and mechanical equipment, and metallic supplies, etc.

In respect of the Proposed Annual Caps for the year ending 31 December 2023, the Directors have primarily taken into account: (i) for the provision of shipping products, the current negotiations between the Group and the CSSC Group in relation to the sales of a finished shipping product in the amount of approximately RMB800 million; (ii) for the electrical and mechanical equipment, and metallic supplies, the estimated amount of the orders in hand and expected orders of sales of electrical and mechanical equipment, and metallic supplies by the Group to the CSSC Group of RMB540 million; and (iii) for the sales of waste materials and other low-value products, based on the historical transaction amount and the estimated increase of 38% in the total production value of 2023 as compared to 2022, leading to an increase in the amount to approximately RMB130 million; and (iv) for the sales of fixed assets, based on the relevant discussions between the Group and the CSSC Group, it is expected that the sales of fixed assets to the latter will amount to approximately RMB160 million.

(b) Utilities

For the year ending 31 December 2022, the estimated transaction amount for the provision of utilities by the Group to a member of the CSSC Group will be approximately RMB0.50 million. The Group expects that the transaction amount for the provision of utilities will remain stable during the year ending 31 December 2023.

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

In respect of the Proposed Annual Caps for the year ending 31 December 2023, the Directors have primarily taken into account: (i) for the provision of leasing, based on the current negotiations between the Group and the CSSC Group in respect of certain finished shipping products and the ship production facilities and equipment available for temporary leasing, the estimated leasing fee is approximately RMB86.50 million; (ii) for the provision of labour supply, based on the orders in hand and the expected orders, it is expected that there will be an increase in the provision of labour services and the estimated amount is approximately RMB5.00 million; (iii) for the technical services, combining with the historical transaction amounts, the business development plan of CSSC Internet, a wholly-owned subsidiary of Huangpu Wenchong, and the CSSC Group being its major customer, the Group's revenue from the provision of technical services will increase by approximately RMB15.00 million.

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

(d) Provision of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies, etc.

In respect of the Proposed Annual Caps for the year ending 31 December 2023, the Directors have primarily taken into account: (i) the procurement amount of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies etc. for the year ending 31 December 2022 of approximately RMB5.0 billion as estimated by the Group; (ii) based on past experience, in accordance with the production process, the Group will need to incur substantial costs for the procurement of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies etc. approximately two years after receiving orders for shipbuilding. For the large number of operating orders received by the Group in 2021, the procurement of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies will be conducted from 2023 onwards. Based on the production plan for 2023, the estimated total production value in 2023 will increase by approximately 38% as compared to 2022; and (iii) the procurement amount will increase as compared to previous years due to changes in product mix as well as product technical specification and function upgrade, leading to a higher proportion of materials and equipment procurement costs for certain types of vessels.

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

In respect of the Proposed Annual Caps for the year ending 31 December 2023, the Directors have primarily taken into account: (i) the transaction amount of the leasing, labour supply and technical services for the year ending 31 December 2022 of approximately RMB566 million as estimated by the Group; (ii) the increase of approximately 38% in the estimated total production value of the Group for 2023 as compared with that for 2022 according to the production plan for 2023; and (iii) changes in the Group's product mix as well as product technical specification and function upgrade, with certain vessels under construction having a higher technical content and these labour and technical services will increase as compared to previous years.

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

(g) Sales agency fees

The payment of the sales agency fees is made to the CSSC Group on the basis of the shipbuilding prepayment and proportion of progress payment of the vessel. In determining the Proposed Annual Caps for the year ending 31 December 2023, the Directors have taken into account: (i) orders in hand as well as the production progress and the payment due dates for 2023, and given the estimated increase in the total production value in 2023, the progress payment collected will increase, leading to a corresponding increase in the sales agency fee; (ii) the plan to undertake operating orders in 2023.

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

(h) Procurement agency fees

The Company will arrange procurement of imported supplies according to its production and operation plan for the coming years. When determining the Proposed Annual Caps for the year ending 31 December 2023, the Directors have taken into account: (i) the historical transaction amounts; and (ii) the production plan of the Group for the year ending 31 December 2023.

Further information on the pricing policy

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 utilities by the Group to the CSSC Group, the pricing will be based on the costs plus a 20-25% management fee or no less favourable than that offered to independent third parties. Such management fee is based on the expenses, administrative costs and other miscellaneous expenses involved in the provision of utilities with reference to the internal operational budget and measures formulated by the Company and after arm's length negotiation or in terms no less favourable than those offered to Independent Third Parties. The margin of 20% to 25% 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 fair and reasonable to defray the relevant administrative costs and the miscellaneous expenses including maintenance costs and depreciation charges) from time to time incurred by the Group for provision of such utilities facilities the Group.

As for the electrical power supplied by the Group to the CSSC Group, the monthly electricity charges by the Group to the CSSC Group shall be the aggregate of (i) the electrical power tariff determined based on monthly electrical power meter readings and the applicable tariff rates set by relevant government authorities in the PRC from time to time; and (ii) depreciation and maintenance costs shared by the CSSC Group in proportion to their respective monthly electrical power consumptions. Whilst the electricity is provided by the China Southern Power Grid (中國南方電網), the utilities' cost charged to the CSSC Group for the supply of electricity power will be no less favourable than the standard electricity rate charged by the China Southern Power Grid. As such, the utilities costs charged to the CSSC Group will be no less favourable than those terms available to the Group offered by Independent Third Parties.

In respect of (c) 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 (d) 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) For the pricing of 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 with two or more 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 due to limitations in technical specifications or supply conditions (such as a specialized equipment where the CSSC Group has the proprietary ownership and/or right to exploit them) and as a result, there will be only one associated supplier for a particular piece of equipment, the pricing will be determined on arm's length basis with reference to the most recent purchase price of the equipment under consideration by the Group (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 and the relevant authority-guided price;

(ii) The pricing of electrical and mechanical equipment will be based on market price and no higher than the prices 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; and

(iii) For the pricing of accessories, materials and supplies, considering the low unit price and the short order time, the price will be determined between the parties annually based on actual costs taking into account the market price of raw materials (which is based on the market price with reference to 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.

In respect of (e) above: for the provision of leasing, labour supply and technical services by the CSSC Group to the Group, the rental of the lease shall be based on market price or the costs plus 10% management fee where the market price is based with reference to the rentals of properties surrounding the property to be leased; the pricing of labour supply shall be based on market price which is determined with reference to the pricing of labour services procured from Independent Third Parties, the specification of the skills required, the available supply of labour and the average salary level published by the Guangzhou Statistic Bureau and after arm's length negotiation; pricing for technical services shall be based on market price which is with reference to the technology portfolio required pursuant to the existing market standards of the shipbuilding industry, the complexity of the work involved and the specifications for the work in the industry and after arm's length negotiation.

In respect of (g) 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 and will not exceed 1.5% of the contract price. The Group has conducted market research including by way of discussing with various shipowners (including those being Independent Third Parties) on the normal sales agency fees charged and with other large corporate owners in the industry on the agency fee rates charged by their internal sales agency entities. To the best of the Company's knowledge, information and belief, the rate of sales agency fees should be in line with international industry practice.

In respect of (h) above: for the provision of procurement agency services by the CSSC Group to the Group, the pricing of procurement agency fees shall follow the international industry practice and be calculated at 1%-2% of the contract price. Whilst according to the requirements of the Import Agency Handling Fee Collection Method* (《進口代理手續費收取辦法》) published by the Department of Price (formerly known as the State Price Bureau) of the National Development and Reform Commission, import agencies can charge agency fees of 0.5%-2% depending on the size of the contract amount. The Group shall make reference to the domestic agency fee rates or in the major market areas of the agency products before entering into individual transaction contracts. The Group also obtain timely information as to the international industry practice by means of discussing with the international and domestic procurement agencies and shipowners which have operations in both the PRC locally as well as shipping procurements across various jurisdictions globally (including those being Independent Third Parties) to understand the prevailing domestic agency fee rates or fee rates in the major market areas of the agency products. To the best of the Company's knowledge, information and belief, the fee rates should be in line with international industry practice.

D. 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 operation and production schedules for shipbuilding in 2023.

In addition, the Directors have taken into consideration of the following in relation to 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 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 applicable 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.

(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 at terms no more favourable than those offered to Independent Third Parties.

Given that the Group is not principally engaged in the 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 equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies, etc. purchased by the Group from the CSSC Group are 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 whilst 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 to meet the Group; 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 by the Group to the CSSC Group. Given that the need for labour varies in different stages of production, the Directors consider that procurement of labour with specialised skills by the Group from the CSSC Group will be beneficial to the Group as it will 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 those 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 the provision of comprehensive services.

(f) The provision of guarantee services in respect of the Group's borrowings or operating activities by the CSSC Group constitutes a 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 has been 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 obtain shipbuilding orders. 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 offer 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.

On the bases as 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 benefit from better allocation of resources with the CSSC Group and hence enjoy competitive cost advantages, the Directors (including the view of 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) 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 its Shareholders as a whole.

2. 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT

A. 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, the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement).

Pursuant to the latest revised Rules Governing the Listing of Stocks and Guideline No. 5 on Self-regulation of Listed Companies-Transactions and Connected Transactions on the Shanghai Stock Exchange and the relevant regulatory requirements, the Group shall enter into separate agreements for financial services with CSSC Finance. 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 expire on 31 December 2022, the Company and CSSC Finance entered into the 2023 Financial Services Framework Agreement to continue and govern the financial services between the Group and CSSC Finance for the period from 1 January 2023 to 31 December 2023.

The Directors (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) are of the view that the 2023 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 those 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 Financial Services Framework Agreement and the Continuing Connected Transactions of Financial Services (together with the Proposed Annual Caps) contemplated thereunder is conditional upon the approval by Independent Shareholders at the EGM. In any event, pending the 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).

B. Details of the 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 provision of financial services by CSSC Finance to the Group, on 28 October 2022, the Company and CSSC Finance entered into the 2023 Financial Services Framework Agreement to continue and to govern the financial services incurred between the Group and the CSSC Finance for the period from 1 January 2023 to 31 December 2023.

Principal Terms of the 2023 Financial Services Framework Agreement

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

(a) Deposit services: The Group has opened a deposit account with CSSC Finance, and the funds are deposited with CSSC Finance based on the principle of free deposit and retrieval access. 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, in accordance with the requirements of the CBIRC and in conjunction with its own operating principles and credit policies, fully support the Group's capital needs in its business development, structure 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 provides guarantees 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, financing leases, overdrafts and various advances, and off-balance sheet businesses such as acceptance of bills, issuance of letters of credit, letters of guarantee, standby letters of credit, confirmation of letters of credit, guarantees on bond issues, guarantees on borrowings, sales of assets with recourse, and unused irrevocable loan commitments.

(d) Foreign exchange services such as forward settlement and sale of foreign exchange, etc.: 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 such as forward settlement and sale of foreign exchange, 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 and on normal commercial terms on the basis of fairness (and if there are no or not sufficient comparable transactions to assess whether they are conducted on normal commercial terms, those will be carried out 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 agreements for such transactions and the basis of pricing shall be specified in the agreements.

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 terms 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 terms offered by Independent Third Party lenders.

In respect of (c) above, the charges are based on the standards set by the PBOC; the financial handling charge standards for bank credit services applicable to the Group by 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. In practice, CSSC Finance will not charge any handling fees.

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

C. Historical Amounts and Proposed Annual Caps

Historical Amounts

The table below sets out the amounts of each category of the Continuing Connected Transactions of Financial Services 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 the Continuing Connected Transactions of Financial Services 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 the Continuing Connected Transactions of Financial Services for the two years ended 31 December 2020 and 2021 and the unaudited transaction amounts for the Continuing Connected Transactions of Financial Services for the nine months ended 30 September 2022 did not exceed the annual caps for those transactions. In the announcement of the Company dated 28 October 2022 in relation to the 2023 Financial Services Framework Agreement, the historical amount of maximum outstanding daily balance on the Deposits for the nine months ended 30 September 2022 was disclosed as RMB619,194 million, which was a typographical error (please see Note 2 of the following table). The Company confirms that the historical amount of maximum outstanding daily balance on the Deposits for the nine months ended 30 September 2022 was RMB6,191.94 million and did not exceed its annual cap.

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 ending 30 September 2022
	2020	*2021*	*2022*	*2020*	*2021*	*(Note 1)*
Financial services provided by CSSC Finance to the Group:						
(a) (1) Maximum outstanding daily balance on the Deposits	6,235.00	6,235.00	6,235.00	6,179.87	6,191.94	6,191.94 *(Note 2)*
(2) Aggregate interest on the Deposits for the year	81.65	86.75	86.75	67.06	64.83	60.56
(b) (1) Maximum outstanding daily balance on loans	5,029.00	1,873.00	1,800.00	899.90	1,565.00	1,140.00
(2) Aggregate interest on loans for the year	105.86	70.56	70.56	7.13	28.86	13.39
(c) (1) Maximum limit on other and bank credit services	6,570.00	3,350.00	3,350.00	2,441.07	3,057.73	1,995.48
(2) Aggregate fees on other and bank credit services	3.62	4.22	4.82	2.23	1.72	0.86
(d) Maximum outstanding daily balance of forward settlement and sale of foreign exchange	4,740.56	2,000.00	2,000.00	3,475.65	1,889.16	1,993.03
(e) (1) Maximum limit of entrusted assets *(Note 3)* (maximum outstanding balance of a single day for the year)	3,000.00	3,500.00	3,500.00	2,150.00	3,450.00	1,640.00
(2) Proceeds from entrusted assets	44.55	73.50	73.50	15.47	27.74	10.92

Notes:

1. The figures for the nine months ended 30 September 2022 were unaudited figures.

2. Such figure was disclosed as "619,194" in the announcement of the Company dated 28 October 2022 in relation to the 2023 Financial Services Framework Agreement, and was a typographical error.

3. No entrusted asset services will occur between the Group and CSSC Finance under the 2023 Financial Services Framework Agreement.

Proposed Annual Caps

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

Unit: RMB million

Transaction	Proposed Annual Cap for the year ending 31 December 2023
Financial services provided by CSSC Finance to the Group:	
(a) (1) Maximum outstanding daily balance on the Deposits	7,500.00
(2) Aggregate interest on the Deposits for the year	111.00
(b) (1) Maximum outstanding daily balance on loans	1,800.00
(2) Aggregate interest on loans for the year	60.00
(c) (1) Maximum limit on other and bank credit services	5,720.00
(2) Aggregate fees on other and bank credit services	3.90
(d) Maximum outstanding daily balance of forward settlement and sale of foreign exchange	3,000.00

Considerations for Determining the Proposed Annual Caps

In determining the Proposed Annual Caps, the Directors have taken into account the expected increase in the total production value in 2023 of approximately 38% as compared to that in 2022 based on Huangpu Wenchong's arrangements on the production and operation plan for 2023 and the corresponding increase in capital stock, capital requirements and relevant businesses at various stages during the year in accordance with the master plan for capital receipts and expenditures for 2023.

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

Financial services to be provided by CSSC Finance to the Group

(a) Deposit services

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

The Proposed Annual Caps of the maximum outstanding daily balance on the Deposits are mainly determined based on estimated annual cash flows of the Group. Taking into account the expected increase in the Group's cash due to the expected growth in business development, it is expected that the Group's demand for deposit services from CSSC Finance and the total interest arising therefrom will increase accordingly. Having considered the substantial increase in the operating orders received by Huangpu Wenchong for the year ended 31 December 2021 and the substantial increase in the estimated total production value of the Group for 2023, the Group expects the cash inflow and outflow for the year ending 31 December 2023 to increase principally attributable to the expected cash generated from the sales and delivery of vessels and other products. Taking into consideration the historical amounts of the Deposits and the possible centralized collection of progress payments for certain products at a certain time period causing the Deposits to become relatively large at a given point in time, the Proposed Annual Caps should be able to meet the Group's demand for deposit services for the year ending 31 December 2023. The Proposed Annual Caps on total interest on the Deposits for the year ending 31 December 2023 are determined based on the current benchmark interest rate of the PBOC.

(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 US dollars, where some of the domestic ships orders are denominated in USD but payable in RMB. The operation of the FX Forward Contracts is closely related to the number of ship contracts entered or to be entered into by the Group, as well as the anticipated changes of the exchange rate(s)/interest rate(s) in the markets. The annual cap of the foreign exchange services for the year ending 31 December 2023 is based on (i) as at 31 December 2022, the closing balance of the FX Forward Contracts is estimated to be approximately RMB1,500 million; and (ii) the estimation of the total amount of contract sums that will be exposed to foreign exchange risk during the projected period.

D. Reasons for Entering into 2023 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 2023 Financial Services Framework Agreement:

(a) 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.

(b) 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.

(c) 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, trade finance, bill financing, financing leases, overdrafts and various advances, and off-balance sheet businesses such as acceptance of bills, issuance of letters of credit, letters of guarantee, standby letters of credit, confirmation of letters of credit, guarantees on bond issues, guarantees on borrowings, sales of assets with recourse, 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.

(d) 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 the Group's 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 summarized 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 (including the view of 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) are of the view that the terms of the 2023 Financial Services 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 its Shareholders as a whole.

E. Risk Control Relating to the Deposits under the 2023 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 or members of the CSSC Group; and those of the comparable financial services the Company may obtain from other financial institutions;

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

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

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

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

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

In order to safeguard the interests of the Shareholders, the Group has adopted certain guidelines and principles in monitoring, amongst other things, the 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 CBIRC on the CSSC Finance, the Directors (including the view of 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) are of the view that the arrangements for, amongst other things, the Deposits are in the interests of the Company and its Shareholders as a whole.

3. FINANCIAL EFFECTS

(i) 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.

(ii) 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 2023 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 CBIRC on CSSC Finance.

(iii) 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 RMB with reference to USD. 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.

4. INFORMATION ABOUT THE PARTIES

Information about the Company

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

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 Latest Practicable Date, CSSC, the indirect controlling shareholder of the Company, controlled 827,278,590 Shares of the Company indirectly through China Shipbuilding Group, representing 58.52% of the issued Shares of the Company.

Information about CSSC Finance

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

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

5. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Regarding the 2023 Framework Agreement

As 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 the CSSC Group to the Group) under the 2023 Framework Agreement exceed 5% on an annual basis, the Continuing Connected Transaction (save for the guarantee services provided by the CSSC Group to the Group) contemplated under the 2023 Framework Agreement constitute non-exempt continuing connected transactions of the Company 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 the 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 2023 Framework Agreement constitutes a 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 will be 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 pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in relation to the provision of equipment for ship, electrical and mechanical engineering equipment, accessories, materials and supplies etc. by the CSSC Group to the Group under the 2023 Framework Agreement exceed 25% but all are 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 the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

Regarding the 2023 Financial Services Framework Agreement

Pursuant to Rule 14.07 of the Hong Kong Listing Rules, as one or more of the applicable percentage ratios for the Proposed Annual Caps for the continuing connected transactions under the 2023 Financial Services Framework Agreement (save for the provision of lending services and other and bank credit services by CSSC Finance to the Group) exceed 5% on an annual basis, the continuing connected transactions (save for the provision of lending services and other and bank credit services by CSSC Finance to the Group) contemplated under the 2023 Financial Services Framework Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The provision of lending services and other and bank credit services by CSSC Finance to the Group pursuant to the 2023 Financial Services Framework Agreement constitutes a 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 will be granted in respect of such financial services, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the provision of lending services and other and bank credit services by CSSC Finance to the Group pursuant to the 2023 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 exceeds 25% but are all less than 100% for the maximum outstanding daily balance of the relevant Deposits and the maximum outstanding daily balance of the forward settlement and sale of foreign exchange under the 2023 Financial Services Framework Agreement, the provision of deposit services and foreign exchange services by CSSC Finance to the Group under the 2023 Financial Services Framework Agreement constitute the non-exempt continuing connected transactions and major transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

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 2023 Financial Services Framework Agreement, 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 2023 Framework Agreement and the 2023 Financial Services Framework Agreement, respectively. Save for the above, none of the Directors had or was deemed to have a material interest in the above matters and was required to abstain from voting on the relevant Board resolutions.

III. INCREASING THE GUARANTEE AMOUNT FOR 2022 BY A SUBSIDIARY

In order to meet the daily operation and business development needs of the Company and its subsidiaries, based on the "Resolution on the framework for the guarantee proposed to be provided by the Company and its subsidiaries for the year ending 2022 and its amounts" considered and approved at the annual general meeting of 2021, the Company has proposed to increase the additional guarantee amount from Huangpu Wenchong, a subsidiary of the Company, to its subsidiary, Wenchuan Heavy Industrial by RMB2,100 million (please refer to the circular and the announcement published by the Company on 29 April 2022 and 19 May 2022 for further details).

Pursuant to the Articles of Association and relevant regulations, and taking into account the actual production and operations of subsidiaries, the "Proposal on Increasing the Guarantee Amount for 2022 by a Subsidiary" has been considered and approved at the seventeenth meeting of the tenth session of the Board of the Company and is subject to the consideration at the EGM.

1. Status of Projected Guarantee Amount in the Year 2022 Before the Increase

On 19 May 2022, the Company convened the annual general meeting of 2021, at which considered and approved, among others, the "Resolution on the framework for the guarantee proposed to be provided by the Company and its subsidiaries for the year ending 2022 and its amounts". It is agreed that the maximum balance of guarantees for subsidiaries at any point in time in 2022 will not exceed RMB6,591 million, of which the maximum balance of guarantees for subsidiaries with a gearing ratio of 70% or more will not exceed RMB2,760 million and the maximum balance of guarantees for subsidiaries with a gearing ratio of less than 70% will not exceed RMB3,831 million. The additional guarantee amount for subsidiaries in 2022 will be RMB5.2 billion, of which the additional guarantee amount for subsidiaries with gearing ratios above 70% will be RMB2,434 million and the additional guarantee amount for subsidiaries with gearing ratios below 70% will not exceed RMB2,766 million. The above guarantee amount can be adjusted between the guaranteed parties whose gearing ratios is more than 70%, and between the guaranteed parties whose gearing ratios is less than 70%. The Chairman or another executive director of the Company have been given the authorization to sign the relevant legal documents. The guarantee will be valid from the date of the resolution at the 2021 annual general meeting until a new resolution is made or amended at the 2022 annual general meeting.

2. Status of Increase in Projected Guarantee Amount in the Year 2022

Based on the actual business needs of subsidiaries, it is proposed to increase the additional guarantee amount from Huangpu Wenchong, a subsidiary of the Company, to its subsidiary, Wenchuan Heavy Industrial by RMB2,100 million. Save from the above adjustment on guarantee amount, there is no change to other guarantees.

Upon the increasing, the maximum balance of guarantees for subsidiaries at any point in time in 2022 will not exceed RMB8,691 million, of which the maximum balance of guarantees for subsidiaries with a gearing ratio of 70% or more will not exceed RMB4,860 million and the maximum balance of guarantees for subsidiaries with a gearing ratio of less than 70% will not exceed RMB3,831 million. The additional guarantee amount for subsidiaries in 2022 will be RMB7,300 million, of which the additional guarantee amount for subsidiaries with gearing ratios above 70% will be RMB4,534 million and the additional guarantee amount for subsidiaries with gearing ratios below 70% will not exceed RMB2,766 million. The above guarantee amount can be adjusted between the guaranteed parties whose gearing ratios is more than 70%, and between the guaranteed parties whose gearing ratios is less than 70%.

The form of guarantee is the provision of guarantee by Huangpu Wenchong, a subsidiary of the Company, to its subsidiaries. The guarantee includes finance project guarantee, bank credit guarantee, parent guarantee and other guarantees, details of which are shown in the table below:

Guarantor	Guarantee	Shareholding percentage of the Guarantors	Latest gearing ratio of the guarantee	Balance of guarantee to date	Maximum balance of guarantees (RMB100 million)		Additional guarantee amount (RMB100 million)		The percentage of the guarantee amount accounts for the latest net assets of the listed company	Projected valid period of the guarantees	Whether related guarantees are provided	Whether counter-guarantees are provided
					Before adjustment	After adjustment	Before adjustment	After adjustment				
1. Controlling subsidiaries with gearing ratios above 70%										From the date of the resolution at the second extraordinary general meeting of 2022 until a new resolution is made or amended at the 2022 annual general meeting.	No	No
Huangpu Wenchong	Huangchuan Ocean Engineering	100%	109.25%	2.08	3.60	3.60	3.50	3.50				
Huangpu Wenchong	Wenchuan Heavy Industrial	100%	86.47%	1.65	24.00	45.00	20.84	41.84				
	Subtotal			**3.73**	**27.60**	**48.60**	**24.34**	**45.34**				
2. Controlling subsidiaries with gearing ratios below 70%												
Huangpu Wenchong	Wenchong Shipyard	100%	57.05%	6.46	37.61	37.61	26.96	26.96				
Huangpu Wenchong	CSSC Internet	100%	51.41%		0.70	0.70	0.70	0.70				
	Subtotal			**6.46**	**38.31**	**38.31**	**27.66**	**27.66**				
	Total			**10.19**	**65.91**	**86.91**	**52.00**	**73.00**	39.10%			

3. Projection on the Basic Conditions of the Guarantees

(1) Wenchuan Heavy Industrial

Wenchuan Heavy Industrial, a wholly-owned subsidiary of the Company's subsidiary Huangpu Wenchong, was registered at Nansha District, Guangzhou with a registered capital of RMB110,000,000. Its legal representative is Chen HongLing. Its principal activities are manufacturing of equipment for railways, ships, aerospace and other transport facilities. As at 31 December 2021, the company had total assets of RMB2,015,488,600, total liabilities of RMB1,742,830,000 and net assets of RMB272,658,700. For the year of 2021, the company achieved operating revenue of RMB1,349,524,800 and net profit of RMB25,223,800 with a gearing ratio of 86.47%.

(2) Huangchuan Ocean Engineering

Huangchuan Ocean Engineering, a wholly-owned subsidiary of the Company's subsidiary Huangpu Wenchong, was registered at Nansha District, Guangzhou with a registered capital of RMB68,000,000. Its legal representative is Chen BiaoHong. Its principal activities are manufacturing of equipment for railways, ships, aerospace and other transport facilities. As at 31 December 2021, the company had total assets of RMB2,175,277,700, total liabilities of RMB2,376,414,600 and net assets of RMB-201,136,900. For the year of 2021, the company achieved operating revenue of RMB1,009,501,400 and net profit of RMB61,905,600 with a gearing ratio of 109.25%.

(3) Wenchong Shipyard

Wenchong Shipyard, a wholly-owned subsidiary of the Company's subsidiary Huangpu Wenchong, was registered at Nansha District, Guangzhou with a registered capital of RMB1,420,178,455. Its legal representative is Chen BiaoHong. Its principal activities are manufacturing of equipment for railways, ships, aerospace and other transport facilities. As at 31 December 2021, the company had total assets of RMB5,160,239,400, total liabilities of RMB2,944,036,600 and net assets of RMB2,216,202,800. For the year of 2021, the company achieved operating revenue of RMB2,817,361,600 and net profit of RMB53,544,500 with a gearing ratio of 57.05%.

(4) CSSC Internet

CSSC Internet, a wholly-owned subsidiary of the Company's subsidiary Huangpu Wenchong, was registered at Huangpu District, Guangzhou with a registered capital of RMB10,000,000. Its legal representative is Zhu RenGui. Its principal activities are software and information technology services. As at 31 December 2021, the company had total assets of RMB31,905,500, total liabilities of RMB16,401,000 and net assets of RMB15,504,500. For the year of 2021, the company achieved operating revenue of RMB40,571,900 and net profit of RMB3,104,300 with a gearing ratio of 51.41%.

4. Key Requirements of the Guarantee Agreement

Given the relevant guarantee agreement has not yet been signed and in the event Huangpu Wenchong, a subsidiary, provide guarantee(s) to the above-mentioned guaranteed objects, the following requirements shall be incorporated into the guarantee agreement(s):

(1) Types of the guarantees: financing or loan guarantee arising from the funds being required for working capital of production and operations or basic construction projects, or settlement guarantee, parent company guarantee or bank credit facility and other guarantees arising from the production and operations process;

(2) Counterparty(ies) of the guarantees: financial or non-financial institutions incorporated by law (including CSSC Finance Company Limited) or buyers of engineering projects;

(3) Models of the guarantees: general guarantee or joint and several guarantee; and

(4) Maximum term of the guarantees: two years falling on the day subsequent to the due date of each debt under main contract.

5. Necessity and Reasonableness of the Additional Guarantee

The increase in the guarantee amount from Huangpu Wenchong to its subsidiary, Wenchuan Heavy Industrial is to meet the business development needs of the subsidiary and will not have any adverse impact on the Company's ability to continue as a going concern. There does not exist any form of transfer of resources or benefits, and its risks are kept under control without prejudice to the interest of the Company and its Shareholders as a whole.

6. Miscellaneous

(1) In order to enhance the efficiency of decision making, the Board and the general meeting of Shareholders are requested to authorise the Chairman or another executive director of the Company to sign the relevant legal documents.

(2) If this proposal is approved by the EGM, the guarantee will be valid from the date of the resolution at the Second EGM of 2022 until a new resolution is made or amended at the 2022 annual general meeting.

The above-mentioned resolution will be proposed at the EGM as an ordinary resolution for the Shareholders' consideration and approval.

IV. 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, 16 December 2022.

The notice convening the EGM and the proxy form have been sent to the Shareholders on 28 October 2022.

China Shipbuilding Group and CSSC International Holding Company Limited (together holding 827,278,590 Shares of the Company, representing 58.52% of all the issued Shares of the Company, as at the Latest Practicable Date) will abstain from voting in relation to the resolutions in respect of 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 2023 Framework Agreement and the 2023 Financial Services Framework Agreement, respectively, 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.

V. RECOMMENDATIONS

Taking into account of the further details of the 2022 Framework Agreement and the 2022 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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the aforementioned agreements are on conomal 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 2022 Framework Agreement and the 2022 Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

In addition, taking into account of the further details in relation to the increasing the guarantee amount for 2022 by a subsidiary, the Board (including the independent non-executive Directors) is of the view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

VI. 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)

1 December 2022

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION IN RELATION TO THE 2023 FRAMEWORK AGREEMENT AND THE 2023 FINANCIAL SERVICES FRAMEWORK AGREEMENT

We refer to the circular dated 1 December 2022 (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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2023 Framework Agreement and the 2023 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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated thereunder, 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 6 to 45 of this Circular and the text of a letter from the Independent Financial Adviser, as set out on pages 48 to 77 of this Circular, both of which provide details of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2023 Framework Agreement and the 2023 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 2023 Framework Agreement and the 2023 Financial Services Framework Agreement (together with 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 Proposed Annual Caps of each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services contemplated under the 2023 Framework Agreement and the 2023 Financial Services Framework Agreement 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 each of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services and the Proposed Annual Caps contemplated under the 2023 Framework Agreement and the 2023 Financial Services Framework Agreement to be proposed at the EGM.

Yours faithfully
For and on behalf of the
Independent Board Committee
Mr. Yu Shiyou **Mr. Lin Bin** **Mr. Nie Wei** **Mr. Li Zhijian**
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 terms and Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement and 2023 Financial Services Framework Agreement, which has been prepared for the purpose of incorporation in this circular:

VINCO 榮高

Vinco Financial Limited

1 December 2022

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 THE 2023 FRAMEWORK AGREEMENT AND THE 2023 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 (i) the Continuing Connected Transactions and (ii) the Continuing Connected Transactions of Financial Services, 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 1 December 2022 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 28 October 2022 in relation to, among others thing, the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2023 Financial Services Framework 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 expire on 31 December 2022, the Company and CSSC entered into the 2023 Framework Agreement to continue and govern the continuing connected transactions between the Group and the CSSC Group for the period from 1 January 2023 to 31 December 2023. Also, the Company and CSSC Finance has entered into the 2023 Financial Services Framework Agreement to continue and to govern the continuing connected transactions between the Group and CSSC Finance for the period from 1 January 2023 to 31 December 2023.

Hong Kong Listing Rules Implication

Regarding the 2023 Framework Agreement

As 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 an annual basis, the Continuing Connected Transactions (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 and 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 the 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 2023 Framework Agreement constitutes a 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 will be 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 pursuant to 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 all are 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 the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

Regarding the 2023 Financial Services Framework Agreement

Pursuant to Rule 14.07 of the Hong Kong Listing Rules, as one or more of the applicable percentage ratios for the Proposed Annual Caps for the continuing connected transactions under the 2023 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% on an annual basis, the continuing connected transactions (save for the provision of the loans, other and financial and credit services by CSSC Finance to the Group) contemplated under the 2023 Financial Services Framework Agreement constitute non-exempt continuing connected transactions of the Company and 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 financial and credit services by CSSC Finance to the Group pursuant to the 2023 Financial Services Framework Agreement constitutes a 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 will be 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 financial and credit services by CSSC Finance to the Group pursuant to the 2023 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 exceeds 25% but are all less than 100% for the maximum outstanding daily balance of the relevant Deposits and the maximum outstanding daily balance of the forward settlement and sale of foreign exchange under the 2023 Financial Services Framework Agreement, the provision of deposit services and foreign exchange services by CSSC Finance to the Group under the 2023 Financial Services Framework Agreement constitute the non-exempt continuing connected transactions and major transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and the relevant major transaction requirements under Chapter 14 of the Hong Kong Listing Rules.

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 2023 Financial Services Framework Agreement, the terms and the Proposed Annual Caps of each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement and the 2023 Financial Services Framework Agreement, respectively. Save for the above, none of the Directors had or was deemed to have a material interest in the above matters and was required to abstain from voting on the relevant Board resolutions.

Independent Board Committee

The Independent Board Committee comprising Mr. Yu Shiyou, Mr. Lin Bin, Mr. Nie Wei and Mr. Li Zhijian, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms and Proposed Annual Caps of (i) each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2023 Financial Services Framework Agreement. 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 Continuing Connected Transactions contemplated under the 2023 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2023 Financial Services Framework Agreement. 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 Proposed Annual Caps 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 Proposed Annual Caps 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 the terms and Proposed Annual Caps of (i) each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2023 Financial Services Framework Agreement. We are eligible to give independent advice and recommendations on the transactions contemplated thereunder and the terms and Proposed Annual Caps of (i) each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2023 Financial Services Framework Agreement. 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, there was no engagement between the Group and us. Also, 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 the terms and Proposed Annual Caps of (i) each of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement; and (ii) the Continuing Connected Transactions of Financial Services contemplated under the 2023 Financial Services Framework Agreement, and the transactions contemplated thereunder.

B. BASIS OF OUR OPINION AND RECOMMEDATION

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. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

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 2021 (the **"Annual Report 2021**"); (ii) the interim report of the Company for the six months ended 30 June 2022; (iii) the management accounts of the Company for the nine months ended 30 September 2022; (iv) the 2023 Framework Agreement; (v) the 2023 Financial Services Framework Agreement; (vi) the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement); (vii) the announcement of the Company dated 28 October 2022 in relation to the Continuing Connected Transactions under 2023 Framework Agreement; (viii) the Group's production plan for 2023 (the "**Production Plan 2023**"); (ix) the historical transactions between the Group and the CSSC Group under the 2020-2022 Framework Agreement; (x) historical transactions between the Group and the Independent Third Parties and their samples of transaction documents; (xi) the Contract Management Rules; (xii) board minutes in relation to internal control; and (xiii) the forecast of the Proposed Annual Caps for 2023 (the "**Forecast**"). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the entering into the 2023 Framework Agreement and the 2023 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 Continuing Connected Transactions contemplated under the 2023 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2023 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 the terms of the Continuing Connected Transactions contemplated under the 2023 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2023 Financial Services Framework Agreement and whether such Continuing Connected Transactions contemplated under the 2023 Framework Agreement and the Continuing Connected Transactions of Financial Services contemplated under 2023 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-authorized investment institution directly supervised and administered by 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, controls 827,278,590 Shares of the Company indirectly through China Shipbuilding Group, representing 58.52% of the issued Shares of the Company.

(iii) Information of CSSC Finance

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

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

2. Background of the Continuing Connected Transactions and the Continuing Connected Transactions of Financial Services

Continuing Connected Transactions

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 on-going transactions 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 govern the Continuing Connected Transactions between the Group and the CSSC Group for the period from 1 January 2023 to 31 December 2023.

The continuing connected transactions contemplated under the 2023 Framework Agreement and each a "**Continuing Connected Transaction**" are categorised as follows:

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

(a) Provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies etc., 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. Whereas the CSSC Group has the need to purchase ship products and complete sets of or auxiliary equipment, 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 in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or upon its temporary urgent needs during the production process, and requires the Group to provide materials and equipment in stock to meet the emergency, as well as 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 etc. that are not in use by the Group to the 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;

(c) Leasing, labour supply and technical services etc.:

(i) Leasing: This mainly involves the provision of production sites 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 etc. related to the principal businesses of the Company, and 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 land restoration and other engineering design, scientific research projects and professional services, self-developed software and relevant ancillary technical services.

Products and services etc. 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., comprising mainly 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. Whilst such supplies and distribution services are required for the daily production and operation of the Group, the CSSC Group can provide such materials, supplies, facilities, equipment and related services. The Group has joined the centralized procurement plan of organised by CSSC 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, where the Group suffers the temporary impact of production capacity or delivery time and 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 upon temporary urgent needs, the materials can be provided by the members of the CSSC Group with their inventory stock; and when the Group needs to invest in fixed assets for its 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 consultation; and

(e) Leasing, labour supply and technical services etc., 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 the accompanying utilities such as water and electricity power 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, among which, (a) outsourcing of ship segments (or steel structure components), which 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 as to advertising, exhibitions, medical, catering, conferences, nursery, training, property management and water and electricity resale, etc., provided by the CSSC Group to the Group; 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 is constrained by its design capability and time after receiving an order and requires the CSSC Group to provide such services in order to meet the production needs; the cooperation and research between the Group and the member units of the CSSC Group on new products and techniques and other services.

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

(f) Sales agency services, which is attributable to the reputation of the CSSC Group in the international shipping market and its long-term relationship with shipowners, thereby enabling the Group to leverage on the assistance of the CSSC Group in addition to its own external operations; and

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

(g) Procurement agency services, which is attributable to the stronger bargaining power of the CSSC Group when purchasing imported materials owing to the large amount of procurements and may ensure a relatively timely delivery time.

Continuing Connected Transactions of Financial Services

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, the 2020-2022 Framework Agreement (as supplemented by the Supplemental Agreement).

Pursuant to the latest Revised Rules Governing the Listing of Stocks and Guideline No. 5 on Self-regulation of Listed Companies-Transactions and Connected Transactions on the Shanghai Stock Exchange and the relevant regulatory requirements, the Group shall enter into separate agreements for financial services with CSSC Finance. 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 expire on 31 December 2022, the Company and CSSC Finance entered into the 2023 Financial Services Framework Agreement to continue and govern the financial services between the Group and CSSC Finance for the period from 1 January 2023 to 31 December 2023.

The continuing connected transactions contemplated under the 2023 Financial Services Framework Agreement and each a "Continuing Connected Transaction of Financial Services" are categorised as follows:

Financial services to be provided by CSSC Finance to the Group

(a) Deposit services: The Group has opened a deposit account with CSSC Finance, and under the principle of free access, the funds are deposited 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) 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 such as forward settlement and sale of foreign exchange, 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.

3. Reasons for entering into the 2023 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, technology, financial and credit services and other services necessary for the Group to conduct its business, and allow flexibility for better allocation of resources between each other so as to meet the anticipated operation and production schedules for shipbuilding in 2023.

As stated in the Letter from the Board, in determining the Proposed Annual Caps in respect of each of the Continuing Connected Transactions under the 2023 Framework Agreement, the Directors have taken into account: (i) in recent years, there have been obvious signs of recovery in the new shipbuilding market. In 2021, the demand of the new shipbuilding market rebounded beyond expectations, and the Group has made a breakthrough in the operating orders received by taking advantage of the rebound in the shipbuilding market. In 2021, the amount of operating orders received amounted to RMB32.524 billion, representing a year-on-year increase of 248.3%; (ii) based on past experience, according to the production process, it generally takes about two years from the receipt of shipbuilding orders to the production process, and thus the large number of orders received by the Group in 2021 will be proceeded to production from 2023 onwards; and (iii) according to the Production Plan 2023, the total production value is expected to increase significantly in 2023, representing an increase by approximately 38.2% as compared to 2022. In 2023, the proportion of production of specific vessels will increase and the production value of specific vessels will increase by approximately 59.5% in 2023 as compared to 2022. Also, there are product technical specification and function upgrade. Based on the above, the Group expects an increase of use of raw materials and labour resources in the production process.

We have obtained the list of the Group's operating orders for 2020 and 2021 and reviewed the Annual Report 2021 and note that the increase of 248.3% year-on-year and took orders for 17 types of new vessels totalling 85 ships in 2021. As discussed with the management of the Group, in 2021 in terms of civil products, the Group continued to consolidate its leading position in the niche market and achieved bulk take-up of main building vessels such as feeder containers, heavy lift vessels and bulk carriers, and had satisfactory results in high technology and high value-added products such as public service vessels, scientific research vessels, wind power installation platforms and gas carriers. The three types of products developed by the Company on its own, including the 1900 TEU and 3000 TEU feeder containers and 85,000 DWT bulk carrier, gained market recognition, and the technology-driven approach has formed a strong support for business development.

Additionally, we have obtained the Production Plan 2023. We note the total production value in 2022 and 2023 are calculated based on (i) the contract value of each vessel; and (ii) production schedule. There are 160 contracts in total with contract value of approximately RMB51.9 billion. 125 contracts had been signed with contract value of approximately RMB35.0 billion. We have selected 13 signed contracts of highest value, representing not less than 20.0% of the total contract value in the Production Plan 2023 and reviewed their contract value and timeline. As such, we are of the view that the Production Plan 2023 is properly prepared and fair and reasonable.

Based on (i) our discussion with the management of the Group; (ii) the Annual Report 2021; (iii) the Group's operating orders for 2020 and 2021; and (iv) the Production Plan 2023, 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 2023 Framework Agreement and the respective Proposed Annual Caps

Products and services etc. to be provided by the Group to 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.

As stated in the Letter from the Board, the CSSC Group has the need to purchase ship products, and complete sets of or auxiliary equipment, 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 in face of ordering insufficient equipment and auxiliary equipment, a delivery delay by suppliers or upon its temporary urgent needs during the production, and requires the Group to provide materials and equipment in stock to meet the emergency, as well as 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 etc. that are not in use by the Group to the units under the CSSC Group.

The Directors consider that the aforementioned 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 to the CSSC Group enable the Group to earn additional revenue and we concur with the Directors that it is a viable and beneficial arrangement for the Group from the commercial perspective.

As stated in the Letter from the Board, pursuant to the 2023 Framework Agreement, the pricing of the provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies etc. will be determined based on market prices, but in any event will be no less favourable than the then prevailing market prices paid by Independent Third Parties to the Group for similar products. We have randomly selected and reviewed three contracts entered into with CSSC Group noted that quotations would be obtained by the Group in order to ensure the price offered by the Group is no less favourable than those enjoyed by Independent Third Parties and note that the price of the shipping products, electrical and mechanical engineering equipment, and metallic supplies were determined by the parties at arm's length negotiation and no less favourable than those enjoyed by Independent Third Parties.

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

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies for the year ending 31 December 2023 is RMB1,630.0 million.

The historical amounts of provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies for the two years ended 31 December 2021 and nine months ended 30 September 2022 were approximately RMB1,259.62 million, RMB663.83 million and RMB176.30 million, respectively, representing approximately 26.2%, 19.0% and 6.6% of the historical annual caps for the three years ending 31 December 2022, respectively. We understand from the management of the Group that the low utilisation rate for the two years ending 31 December 2021 and nine months ended 30 September 2022 was mainly due to the unexpected improvement of international freight business from 2020 to 2021. As advised by the Company, the surge of the price of freight would encourage the Group to trade with international buyers who are Independent Third Parties instead of CSSC Group. Since the international buyers would pay higher price than the CSSC Group, trading with international buyers who are Independent Third Parties instead of CSSC Group would be in the interests of the Group and the Shareholders as a whole. We have conducted our desktop search and note that the China Containerized Freight Index (CCFI) (中國出口集裝箱運價指數) has been increasing from 2020 to 2021 and reached to the peak in the third quarter of 2021. We are of the view that the reasons for low utilisation rate is in line with the market trend and reasonable.

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, production schedule, material costs and anticipated total production value of the Group. In the Forecast, the sales of shipping products of approximately RMB800.0 million, the sale of electrical and mechanical engineering equipment of approximately RMB100.0 million, the sale of metallic supplies of approximately RMB440.0 million, the sale of waste and other low value products of approximately RMB130.0 million and the sale of fixed assets of approximately RMB160.0 million are expected to sell to CSSC Group in 2023. We have obtained signed contracts of approximately RMB1.2 billion, representing approximately 71.7% of the Proposed Annual Caps in respect of provision of shipping products, electrical and mechanical engineering equipment, and metallic supplies and an approved tender of approximately RMB68.9 million, and reviewed the terms, contract value. We also note that the expected transaction for the year ending 31 December 2023 is based on the historical transactions and the incremental production value in the Production Plan 2023. As confirmed by the management of the Group, the sale of waste is proportion to the increment of production value because the supplies used for production will not be used in another production line. As such, we are of the view that the Forecast is based on the signed contracts, historical transaction and the Production Plan 2023, and 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 2023 based on the Forecast and is fair and reasonable so far as the Independent Shareholders are concerned.

B. Utilities, primarily the supply of wind, water and electrical power and gas

In the course of its operations and provision of services, the Group shall provide utilities facilities of wind, water, electricity 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 which is based on the expenses, administrative costs and other miscellaneous expenses involved in the provision of utilities with reference to the internal operational budget and measures formulated by the Company and after arm's length negotiation or in terms no less favourable than those offered to Independent Third Parties.

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

Meanwhile, for electrical power supplied by the Group to the CSSC Group, we note that the monthly electricity charges by the Group to the CSSC Group shall be the aggregate of (i) the electrical power tariff determined based on monthly electrical power meter readings and the applicable tariff rates set by relevant government authorities in the PRC from time to time; and (ii) depreciation and maintenance costs shared by the CSSC Group in proportion to their respective monthly electrical power consumptions. We have reviewed six monthly electricity payment notes issued by the Group to the CSSC Group provided and understand the calculation of monthly electricity charges. The electricity is provided by the China Southern Power Grid (中國南方電網). We have reviewed the standard electricity rate and note that the utilities' cost charged to the CSSC Group is no less favourable than the standard electricity rate charged by the China Southern

Power Grid. As such, we are of the view that the utilities costs charged to the CSSC Group no less favourable than those terms available to the Group offered by Independent Third Parties, and is fair and reasonable.

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

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the provision of utilities to the CSSC Group for the year ending 31 December 2023 is RMB0.5 million.

The historical amounts of the utilities for the two years ended 31 December 2021 and nine months ended 30 September 2022 were approximately RMB0.83 million, RMB0.08 million and RMB0.23 million, respectively, representing approximately 43.2%, 5.0% and 14.4% of the historical annual caps for the three years ending 31 December 2022, respectively. We understand from the management of the Group that the low utilisation rate for the two years ended 31 December 2021 and nine months ended 30 September 2022 was mainly due to the coronavirus pandemic in PRC and the following reasons: (i) members of the CSSC Group has set up their own equipment for supply of water and electricity in 2021; and (ii) one of the members of the CSSC Group was no longer a subsidiary of the CSSC Group and thus the connected party of the Group. In 2022, the expected transaction of the provision of utilities to the dormitories and offices of another member of the CSSC Group would amount to approximately RMB0.5 million for the year ending 31 December 2022. We have obtained the list of historical transaction in respect of provision of utilities to the CSSC Group for the 10 months ended 31 October 2022 and randomly selected and reviewed three invoices. As confirmed by the management of the Group, the expected transactions for the three months ending 31 December 2022 is based on (i) incentive policy as given on 28 September 2022 which enhance the production by providing bonus to the employee who can meet the goal for the three months ending 31 December 2022, such as completion of production; and (ii) the second half year is more productive as the production was not affected by weather much as compared to the first half year. As such, we are of the view that the expected transaction of the provision of utilities to the CSSC Group which amount to approximately RMB0.5 million for the year ending 31 December 2022 is fair and reasonable.

As advised by the Company, the Proposed Annual Caps is determined with reference to the historical transaction amounts for nine months ended 30 September 2022 and the expected transaction for the three months ending 31 December 2022. As such, we are of the view that the Proposed Annual Caps in respect of the utilities for the year ending 31 December 2023 has set at RMB0.5 million is fair and reasonable.

C. 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 utilize certain properties held by the Group to gain cost efficiency on those properties. The Group will provide to the CSSC Group labour supply services, primarily providing training and supplying short-term labour, shipbuilding services etc. According to the demands for technicians, the Group may provide to CSSC Group services for staff training and appraisals and technical services relating to business 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 business 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 enable the Group to maximize the use of labour and to capitalise on its excess production capacity and existing shipbuilding-related techniques to earn additional revenue for the Group.

As set out in the Letter from the Board, the pricing of leasing, labour supply and technical services by the Group to the CSSC Group will be no less favourable than those enjoyed by Independent Third Parties. We have randomly selected and reviewed three lease agreements entered into between the Group and the CSSC Group and note that quotations from Independent Third Party 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 leasing were determined by the parties at arm's length negotiation and no less favourable than those enjoyed by Independent Third Parties. We have randomly selected and reviewed three labour supply agreements entered into between the Group and the CSSC Group and note that the labour cost is not less favourable than the average wages as published by the Statistics Bureau of Guangzhou Municipality (廣州市統計局). We have randomly selected and reviewed three technical services agreements entered into between the Group and the CSSC Group and note that quotations from Independent Third Party 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.

Based on the above, we are of the view that the terms for the provision of leasing, labour supply, and technical services 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 to the CSSC Group for the year ending 31 December 2023 is RMB106.5 million.

The historical amounts of the leasing, labour supply and technical services for the two years ended 31 December 2021 and nine months ended 30 September 2022 were approximately RMB10.65 million, RMB17.78 million and RMB13.71 million, respectively, representing approximately 6.9%, 36.3% and 31.2% of historical annual caps for the three years ending 31 December 2022, respectively. We understand from the management of the Group that the low utilisation rate for the two years ended 31 December 2021 and nine months ended 30 September 2022 was mainly due to the delay of commencement of certain projects as a result of the coronavirus pandemic in the PRC.

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, production schedule, material costs and anticipated total production value of the Group. We have obtained the Forecast for 2023. The Proposed Annual Caps was determined with reference to (i) leasing fee of approximately RMB70.0 million, (ii) labour cost for repairment of approximately RMB5.0 million and (iii) technical fee of approximately RMB15.0 million. It is noted that the leasing fee has increased by approximately RMB62.0 million.

We have obtained one leasing agreement of a jack-up rigs and its annual leasing fee is RMB20 million. The Group expects to lease two more same type of vessels to the CSSC Group with the same annual leasing fee as we understand in the our discussion with the Group and a minutes regarding the change of use of the two vessels. Further, we have obtained another leasing agreement of a vessel with annual leasing fee of RMB10 million. Therefore, the Group projects the leasing fee receipt in 2023 will be approximately RMB70.0 million. 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 there will be an increase in the provision of labour services and the estimated amount is approximately RMB5.0 million. In additional to the technical services, combining with the historical transaction amounts, the business development plan of CSSC Internet, a wholly-owned subsidiary of Huangpu Wenchong, and the CSSC Group being its major customer, the Group's revenue from the provision of technical services will be approximately RMB15.0 million, As such we are of the view that the 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 to the CSSC Group for the year ending 31 December 2023 is fair and reasonable so far as the Independent Shareholders are concerned.

Products and services etc. 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

As stated in the Letter from the Board, equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies, etc. 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 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;

(ii) For ancillary parts for ships, iron outfittings etc., as the unit prices are low, sporadic and multifarious, and those products are often in urgent needs with a relatively short ordering time , 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;

(iii) For equipment for ship etc., if there is a member of the CSSC Group in the list of manufacturers for marine equipment, the member will participate in the competition with two or more 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, whereby 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 will be no less favourable than the conditions offered by Independent Third Party suppliers. If, due to technical specifications or limitations on conditions of supply (such as a specialized equipment where the CSSC Group has the proprietary ownership and/or right to exploit them) and as a result, and there will be only one associated supplier for a particular piece of equipment, the Group shall ensure price to be fair and reasonable with reference to the recent contract price 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 and the relevant authority-guided price; 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.

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. In addition, we have randomly selected and reviewed three agreements in relation to the equipment, materials and services 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 shipbuilding equipment and materials before entering into each of the three 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.

Having considered the above, we are of the view that purchasing of the relevant equipment, materials and services contemplated under the 2023 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 purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies etc. from the CSSC Group for the year ending 31 December 2023 is RMB8,500.0 million. The Proposed Annual Caps was mainly determined based on the shipbuilding orders received by the Group and the production schedule of the Group. The historical transaction amounts for the two years ending 31 December 2021 and nine months ended 30 September 2022 were approximately RMB5,430.57 million, RMB5,082.25 million and RMB3,144.63 million, respectively, representing approximately 87.3%, 83.0% and 44.5% of the historical annual caps for the three years ending 31 December 2022, respectively. In this respect, we have enquired the management of the Group and understand that the low utilisation rate was mainly due to delay of commencement of certain ship production projects which was owned by the government. As advised by the Company, the expected transaction amount for the year ending 31 December 2022 would be approximately RMB5,057.5 million. We have reviewed the contracts and note that the transaction for the three months ending 31 December 2022 will be approximately RMB1,912.9 million.

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, production schedule, material costs and anticipated total production value of the Group. We have obtained the Forecast for 2023. The expected transactions in respect of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies amount to approximately RMB8,200.0 million for the year ending 31 December 2023. As advised by the Company, the expected transaction amount in respect of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies was based on the historical amount for the nine months ended 30 September 2022 and the expected transactions for the three months ending 31 December 2022, and the increase in expected purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies as a result of anticipated increase in procurement costs for the shipbuilding orders and improvement of products. We note that the Proposed Annual Caps has increased by approximately RMB3,442 million as compared to the expected transaction amount for the year ending 31 December 2022. We have received the Production Plan 2023 and note that the expected production value has increased by approximately 38.2% for the year ending 31 December 2023 as compared to the year ending 31 December 2022. As confirmed by the management of the Group and based on a list of standard production cost of a vessel we have received and understand the purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies represents approximately 82.7% of total production cost of that kind of vessel. It is understandable that the purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies vary for each type of vessels. Therefore, the increase in production value will increase the purchases of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies. We are of the view the estimate of procurement of equipment for ship, electrical and mechanical equipment, accessories, materials and supplies based on the increment of the production value in the Production Plan 2023 is appropriate. Thus, the expected transaction amount for the year ending 31 December 2023 will increase accordingly. We have reviewed the procurement plan based on the historical transaction amount and the forecast on the shipbuilding and are of the viewed the plan of shipbuilding orders is properly prepared. As confirmed by the management of the Group, it is expected that the purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies will increase by approximately 38.2% on the basis of the estimated total production value in 2023 and the increase in the proportion of production of specific vessels as compared with 2022. It is also noted that the production value of the specific vessels will increase by approximately 59.5%. Further, based on our discussion with the Directors, the Group expects additional increase of purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies, taking into account (i) specific vessels has relatively high production cost of materials and equipment; and (ii) certain specific vessels apply specialised materials and equipment pursuant to the quality requirements of the relevant government authority in the PRC. As part of our due diligence, we have conducted our desktop search and note that the specific vessels are designed with reference to (i) international standard and international law; and (ii) military standard. Taking into account (i) the complex design; (ii) the discussion between the Group and the relevant government authority about the unique specification; and (iii) specialised materials and equipment used in the production, we concur with the Directors' view and are of the view that the increase of the proportion of production of specific vessels in 2023 will increase the purchase of equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies. In addition, the Group had undertaken two construction projects of approximately RMB300.0 million, requiring the equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies from CSSC Group. As such, we are of the view that the expected increase in Proposed Annual Caps of approximately RMB3,442 million 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 equipment for ship, electrical and mechanical engineering equipment, accessories and materials and supplies etc. provided by the CSSC Group for the year ending 31 December 2023 is fair and reasonable so far as the Independent Shareholders are concerned.

E. Leasing, labour supply and technical services

Labour services primarily include the secondment of labour force and subcontracting of shipbuilding works or steel structure works by the Group to the CSSC Group. Given that the need for labour varies in different stages of production, the Directors consider that procurement of labour with special skills by the Group from the CSSC Group would be beneficial to the Group as it would not be required to maintain a large workforce of its own at all times. As the CSSC Group is specialized in the design of certain types of ship products or equipment, the Group also engages the CSSC Group to provide design and technical services to meet the requirements 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, 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 of the transactions in relation to the leasing, labour supply and technical service shall be on terms no less favourable to the Group than terms available from Independent Third Parties. We have randomly selected and reviewed three agreements entered by the CSSC Group and the Group and noted that there are at least two quotations obtained from the Independent Third Parties to ensure prices charged to the Group were not less favourable than those offered to Independent Third Parties. We have also reviewed at least one sample of contract for each other types of services including noise reduction engineering and ship production projects. Therefore, we are of the view that the pricing policy for the leasing, labour supply and technical service is on normal commercial terms.

Based on the above, we are of the view that the aforesaid terms of lease of production areas and equipment, labour supply and technical services, 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, and comprehensive services by the CSSC Group for the year ending 31 December 2023 is RMB936.5 million. The historical transaction amounts for the two years ending 31 December 2021 and nine months ended 30 September 2022 were approximately RMB399.60 million, RMB267.16 million and RMB233.01 million, respectively, representing approximately 75.3%, 51.6% and 39.2% of the historical annual caps for the three years ending 31 December 2022, respectively. In this respect, we have enquired the management of the Group and understand that the low utilisation rate was mainly due to the fact that the Group was able to produce two new products on its own with new technical skills and therefore the technical fee paid to the CSSC Group decreased.

According to the Forecast, the Proposed Annual Caps was mainly comprised of labour supply and technical services of approximately RMB930.0 million. We have reviewed several contracts in relation to the lease of production areas and equipment, labour supply and technical services, and comprehensive services for the two years ended 31 December 2021 and nine months ended 30 September 2022 and the corresponding calculation on the existing and future transactions. As advised by the Company, the expected transaction amount was based on the historical amount for the nine months ended 30 September 2022 and the expected transactions for the three months ending 31 December 2022, and the increase in shipbuilding orders of newly designed vessels. We note that the Proposed Annual Caps has increased by approximately RMB370.6 million as compared to the expected transaction amount for the year ending 31 December 2022. The expected production value of the shipbuilding orders has increased by approximately 38.2% for the year ending 31 December 2023 as compared to the year ending 31 December 2022. As confirmed by the management of the Group, each vessel requires labour supply and unique technical services from the CSSC Group. As the production increases, the labour supply and technical services will increase accordingly. As such, we are of the view that the estimate of labour supply and technical services from the CSSC Group based on the increment of the production value in the Production Plan 2023 is appropriate. In addition, there will be the technical specification and function upgrade and changes in the Group's products in 2023, with certain vessels under construction having a higher technical content and labour and technical services will increase as compared to previous years. As mentioned in the "*Products and services provided by the CSSC Group to the Group*" in this letter, the proportion of production of specific vessels increases in 2023. Other than the consideration of increase in production value in 2023, the Group requires additional labour and technical services, mainly due to certain specific vessel products apply specialised materials and equipment pursuant to the quality requirements of the relevant government authority in the PRC and the required specialised skills, and such labour services and technical services will be provided by one of the subsidiaries of the CSSC. In view of complexity in design, production and repairment, the Directors are of the view that the increase in amount of labour and technical services are fair and reasonable. We are of the view that the Group will require more technical services in addition to the increment of the production. Thus, the expected transaction amount for the year ending 31 December 2023 will increase accordingly. Having considered the above, we are of the view that the basis for determining the Proposed Annual Caps for the year ending 31 December 2023 for lease of production areas and equipment, labour supply and technical services, and comprehensive 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:

F. 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.

As advised by the management of the Group, in accordance with the international industry practice, the sales agency fee (or commission) will generally not exceed 1.5% of the contract amount 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 to then. 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%.

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 obtain shipmaking orders. 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 sales agency fees at the time of entering into the specific transactions. The rate of sales agency fee 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.

Having considered the above, we are of the view that procurement agency services contemplated under the 2023 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 2023 is RMB47.1 million. The historical transaction amounts for the two years ending 31 December 2021 and nine months ended 30 September 2022 were approximately RMB18.53 million, RMB26.65 million and RMB12.57 million, respectively, representing approximately 40.2%, 88.4% and 36.9% of the historical annual caps for the three years ending 31 December 2022, respectively. In this respect, we have enquired the management of the Group and understand that the low utilisation rate in 2020 was mainly due to decrease in export of ships and the increase in direct sales by the Group instead of the sales through the CSSC Group. In 2022, the Group expects the transactions will amount to approximately RMB30.0 million in accordance with the original sales plan.

The determination of the Proposed Annual Caps has taken into account the historical transactions amount for the two years ended 31 December 2021 and nine months ended 30 September 2022. As advised by the management of the Group, the Group has 69 contracts on hand and expect to pay approximately RMB25.0 million. As advised by the Company, the calculation of sales agency fee for 2023 was based on the total contract sum and expected production process. We have obtained the list of contracts on hand through the CSSC Group. We note that the sales agency fee will be paid in different production stages. The total sales agency fee to be paid in 2023 in respect of the contracts on hand is approximately RMB25.0 million. We have received the 4 contracts on hand and the corresponding agency contracts. The Group plans to sell vessels and undertake maintenance contracts and to pay sales agency fees of approximately RMB20.3 million and RMB1.8 million 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 2023 is fair and reasonable so far as the Independent Shareholders are concerned.

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

G. 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.

   As advised by the management of the Group, in accordance with the international industry practice, the procurement agency fee will be generally calculated at 1%-2% of the contract amount and is payable by the Group to the CSSC Group.

We have reviewed the contracts with procurement agency services and noted that the agency fees are not higher than 2%. We have obtained three contracts and three quotations made by Independent Third Parties and note that the agency fee offered by the Independent Third Parties is no less favourable than that by the CSSC Group.

Having considered the above, we are of the view that procurement agency services contemplated under the 2023 Framework Agreement will benefit the Group when purchasing imported materials owing to the large amount of procurements and may guarantee a relatively timely delivery time.

Proposed Annual Caps

As set out in the Letter from the Board, the Proposed Annual Caps in respect of the procurement agency fees for the year ending 31 December 2023 is RMB0.3 million. The historical transaction amounts for the two years ending 31 December 2021 and nine months ended 30 September 2022 were approximately RMB0.04 million, RMB0.72 million and RMB0.06 million, respectively, representing approximately 1.1%, 21.8% and 1.6% of the historical annual caps for the three years ending 31 December 2022, respectively. In this respect, we have enquired the management of the Group and understand that the low utilisation rate was mainly due to decrease in imported goods as a result of coronavirus pandemic in the PRC.

The determination of the Proposed Annual Caps has taken into account the historical transactions amount for the two years ended 31 December 2021 and nine months ended 30 September 2022, which were approximately RMB0.04 million, RMB0.72 million and RMB0.06 million, respectively. Despite the uncertainty of the pandemic in the PRC, the Group are of the view that it is necessary to perform the procurement through the CSSC Group to ensure the stability of supplies to the Group. As such, we are of the view that the basis adopted to determine the Proposed Annual Caps in respect of the procurement agency fees for the year ending 31 December 2023 is fair and reasonable so far as the Independent Shareholders are concerned.

4. Reasons for entering into the 2023 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 "Risks control relating to the Deposits under the 2023 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 those provided by CSSC Finance to CSSC or members of the CSSC Group or those obtained by the Company from other financial institutions. Furthermore, the Group will adopt certain guidelines and principles in monitoring the Deposits arrangements. The Deposits will also be subject to annual review conducted by the independent non-executive Directors, the auditors of the Company, and strict compliance of risk monitoring by the CBIRC on CSSC Finance.

Pursuant to the 2023 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 reviewed information provided to us 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.

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 RMB7,500.0 million for the year ending 31 December 2023. The Proposed Annual Caps in respect of the aggregate interest on the Deposits which amount to RMB111.0 million for the year ending 31 December 2023. The maximum daily balance on the Deposits for the two years ending 31 December 2021 and nine months ended 30 September 2022 remained at approximately RMB6.2 billion. The historical annual caps for the three years ending 31 December 2022 were almost fully utilised.

As advised by the Group, the maximum daily balance had been calculated with reference to current cash position, the expected 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 two years ended 31 December 2021 and the nine months ended 30 September 2022; and (ii) the cash flow projection for the year ending 31 December 2023. We have further discussed with the management of the Group and note that (a) the Group takes into account the sales and purchases from ordinary course of business of the Group to form the cash inflow and outflow; and (b) the loan repayment including interests and new loan are in accordance with approved loans. Further, we have received the list of loans and randomly selected four loan agreements and note that the cash flow projection has taken into account the monthly repayment of principal and interests in respective due date. As such, we are of the view that the cash flow projection for the year ending 31 December 2023 is properly prepared and the maximum daily balance for the year ending 31 December 2023 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 2023 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 1.48% of the Proposed Annual Caps on the maximum daily balance of the Deposits. We have reviewed the interest rate basis published by the PBOC and released that the interest rate provided by CSSC Finance has no significant difference compared to the PBOC. 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

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 such as forward settlement and sale of foreign exchange, 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. 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. In practice, CSSC Finance will not charge any handling fees.

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 USD, 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 80% of the contracted amount and the payment for the remaining 20% 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 randomly reviewed and compared three 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 from 2020 to 2022.

Proposed Annual Caps

As set out in the Letter from the Board, the maximum daily balance of forward settlement and sale of foreign exchange and other foreign exchange contracts amounts to RMB3,000.0 million for the year ending 31 December 2023. The maximum daily balance for the two years ended 31 December 2021 and nine months ended 30 September 2022 were approximately RMB3,475.65 million, RMB1,889.16 million and RMB1,993.03 million, respectively.

As advised by the Company, the above estimated principal amounts are mainly determined with reference to the purchase order (from ship buyers who will settle the purchases in foreign currencies) of the Group for the three years ending 31 December 2022. As we understand from the management of the Company, based on the expected increment of production value of approximately 38.2% for the year ending 31 December 2023, the Group expects the amount of foreign exchange contracts of forward settlement and sale of foreign exchange through the CSSC Group as a result of purchase orders received from foreign buyers would be at approximately RMB1,500.00 million for the year ending 31 December 2023. Based on current FX Forward Contracts on hand, the ending balance of forward settlement and sale of foreign exchange and other foreign exchange contracts will be approximately RMB1,500.0 million as at 31 December 2022. As such, the maximum daily balance of forward settlement and sale of foreign exchange is determined as RMB3,000.0 million for the year ending 31 December 2023.

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.

Risk Control Relating to the Deposits under the 2023 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 thing, ensuring the safety of the Deposits:

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

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

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

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

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

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

In order to safeguard the interests of the Shareholders, the Group has adopted certain guidelines and principles in monitoring, amongst other things, the 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 CBIRC on the CSSC Finance, we are of the view that the risk control relating to the Deposits is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

OPINION

Having considered the above reasons, we are of the view that (i) the 2023 Framework Agreement and the Continuing Connected Transactions (including the respective proposed annual caps) and (ii) the 2023 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 (i) the Independent Shareholders; and (ii) the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM approving (i) the 2023 Framework Agreement and the Continuing

Connected Transactions (including the respective proposed annual caps) and (ii) the 2023 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 FOR THE LAST THREE YEARS

The audited consolidated financial statements together with relevant notes thereto of the Company for the years ended 31 December 2019, 2020 and 2021 have been disclosed in the following documents published on the website of HKEXnews (www.hkexnews.hk) and the website of Company (comec.cssc.net.cn).

Annual report of the Company for the year ended 31 December 2019 published on 27 April 2020 (page 89 to page 273). Please see below a link to the Annual Report 2019 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700771.pdf

Annual report of the Company for the year ended 31 December 2020 published on 28 April 2021 (page 82 to page 293). Please see below a link to the Annual Report 2020 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800629.pdf

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 a 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

Interim report of the Company for the six months ended 30 June 2022 published on 27 September 2022 (page 36 to page 210). Please see below a link to the Interim Report 2022 posted on the website of the Hong Kong Stock Exchange:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0927/2022092700521.pdf

II. INDEBTEDNESS

As at 31 October 2022, 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 RMB6,633.08 million, including short-term bank borrowings of approximately RMB3,216.88 million, a long-term bank borrowings due within one year of RMB1,174.00 million and long-term bank borrowings of approximately RMB2,242.20 million. The earliest maturity date of the bank borrowings was 15 November 2022 and the latest maturity date of the bank borrowings was 5 June 2036.

As at 31 October 2022, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the guaranteed and unsecured bank borrowings of the Company were RMB390 million. There was a guarantee for RMB390 million by a member of the Group to another member of the Group. Save as disclosed and after due and reasonable enquiries by the Directors, the bank borrowings were unguaranteed and unsecured.

As at 31 October 2022, 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 RMB132.46 million and the lease liability payable in a year was approximately RMB70.52 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 31 October 2022, 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 material 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

The Company is a large comprehensive marine and defense equipment enterprise group incorporating four sectors of maritime equipment being maritime defense equipment, maritime transport equipment, maritime development equipment and maritime expedition equipment. Currently, the Company has one major subsidiaries, namely Huangpu Wenchong, and their principal activities cover four major segments including defense equipment, shipbuilding, offshore engineering and non-ship business, with principal products of shipbuilding and marine products including military ships, special supporting ships, business ships, offshore platform, as well as non-ship products including steel structures and sets of electro-mechanical equipment.

As a holding company, the Company currently focuses on asset operation and investment management. Its subsidiaries conduct independent production and operation and are engaged in manufacturing and providing customers with high-quality products through research and development of ships, seeking orders and implementing customised order production. The Company is mainly engaged in assembly and construction in the shipbuilding and offshore engineering industrial chain. It has extended to shipbuilding and offshore supporting products at the front end of the industrial chain and full life guarantee at the back end of the industrial chain.

In the first half of 2022, the Group recorded operating income of RMB4,271 million, representing a year-on-year decrease of 9.46% compared with last year, which was mainly affected by adjustment of product mix, with fewer completed products meeting performance obligations at a point of time and meeting the conditions for revenue recognition; and operating orders recorded RMB3,145 million, down by 45.1% compared with the corresponding period of last year, which was mainly affected by factors such as the impact on global economic growth by the pandemic and risk of stagflation and the decrease of the new ship orders sold worldwide. Net profit attributable to the shareholders of the Company amounted to RMB18.9067 million, earnings per Share were RMB0.0134, and earnings per Share after deduction of non-recurring gains and losses were RMB0.0015.

The international ship market is cyclical. Since the international financial crisis in 2008, the shipbuilding market has undergone more than ten years of adjustment. In 2021, the economy of major economies gradually recovered and the global economy resumed growth, which laid a good foundation for the recovery of maritime trade. At the same time, under the impact of global recurrent pandemic outbreak, continuous port congestion, imbalance between supply and demand in trade and supply chain disruptions, the shipping market as a whole strengthened significantly, and the new shipbuilding market demand rebounded beyond expectations. According to the data statistics of China Shipbuilding Corporation Economic Research Center, over 2021, on a global basis, orders were secured for 1,671 new ships for a total of 119.84 million DWT, an increase of 77.1% in terms of DWT. In 2021, the Group received operating orders amounting to RMB32.524 billion, representing a year-on-year increase of approximately 248.3%. In 2022, the pandemic and the risk of stagflation has affected global economic growth while the demand for new shipbuilding orders is expected to moderate throughout the year. In 2022, the Group expects the operating orders amounting to RMB11.416 billion.

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	Capacity	Number of shares held	Class of Shares held	Percentage of relevant class of Shares	Percentage of total issued share capital
China Shipbuilding Group	Beneficial owner	481,337,700 (L)	A Shares	58.60%	34.05%
CSSC International Holding Company Limited	Beneficial owner	345,940,890 (L)	H Shares	58.43%	24.47%

Note: L = Long position S = Short 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,

(a) 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

(b) none of the Directors or their associates had any direct or indirect interest in any assets which had been, since 31 December 2021 (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

(a) did not have any direct or indirect shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(b) did not have any direct or indirect interest in any assets which had been, since 31 December 2021 (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 2021, the date to which the latest published audited financial statements of the Company were made up.

VIII. MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts 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:

(a) the joint venture agreement dated 30 August 2022 and entered into among Wenchuan Heavy Industrial, CSSC Guangxi Ships and Maritime Engineering Co., Ltd.*（中船廣西船舶及海洋工程有限公司）and Guangxi Qinzhou Linhai Industrial Investment Group Co., Ltd.*（廣西欽州臨海工業投資集團有限公司）pursuant to which they agreed to establish a joint venture company, namely Guangxi Wenchuan Heavy Industrial Co., Ltd.*（廣西文船重工有限公司）, with a committed capital contribution of RMB300 million, RMB65 million and RMB55 million, respectively;

(b) the 2023 Framework Agreement; and

(c) the 2023 Financial Services Framework Agreement.

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 56, 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 Zhongqian is the chairman of Guangzhou Shipyard International Company Limited and a director of China CSSC Holdings Limited*（中國船舶工業股份有限公司）; Mr. Chen Liping is the director of Guangzhou Shipyard International Company Limited; Mr. Xiang Huiming is the director of China CSSC Holdings Limited; Mr. Chen Ji is the director and general manager of Guangzhou Shipyard International Company Limited and the chairman of Guangzhou Wenchong Ship Building and Repair Co., Ltd.*（廣州文沖船舶修造有限公司）; Mr. Gu Yuan is the deputy general manager of the department of assets 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）. 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:

(a) the 2023 Framework Agreement;

(b) the 2023 Financial Services Framework Agreement; and

(c) the written consent of Vinco Financial.