

13 December 2024

*To: The independent board committee and the independent shareholders
of Honghua Group Limited*

Dear Sir/ Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Purchase Framework Agreement, the Sales Framework Agreement, the Lease Framework Agreement, the Deposit Services and the Secured Loan Advancement Services under the Financial Services Framework Agreement (the “**Transactions**”) and their respective proposed annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 December 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Purchase Framework Agreement

On 10 December 2024, the Company and Dongfang Electric Corporation entered into the Purchase Framework Agreement, pursuant to which the Group shall purchase products (including but not limited to materials such as steel and paint, equipment, accessories, auxiliary materials and other related products) and services (including but not limited to processing services, technical services, inspection and testing services, transportation services, logistics services and other related services) from Dongfang Electric Corporation and its associates (the “**Purchase Transactions**”) for a term from 1 January 2025 to 31 December 2027.

The Sales Framework Agreement

On 10 December 2024, the Company and Dongfang Electric Corporation entered into the Sales Framework Agreement, pursuant to which the Group will sell products (including but not limited to structural parts such as weldments products for containers and steel structure products, semi-finished products, accessories, equipment, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, engineering services and other related services) to Dongfang Electric Corporation and its associates (the “Sales Transactions”) for a term from 1 January 2025 to 31 December 2027.

The Lease Framework Agreement

On 10 December 2024, the Company and Honghua Leasing entered into the Lease Framework Agreement, pursuant to which the Group shall purchase drilling and energy equipment leasing services from Members of Honghua Leasing, including but not limited to direct financial leasing services and operating leasing services, and shall pay rent to the Members of Honghua Leasing for such services (the “Finance Leasing Transactions”) for a term from 1 January 2025 to 31 December 2027.

The Financial Services Framework Agreement

On 10 December 2024, the Company and Dongfang Electric Finance entered into the Financial Services Framework Agreement, pursuant to which Dongfang Electric Finance will provide the Group with the Financial Services including, amongst others, the Deposit Services and the Secured Loan Advancement Services for a term from 1 January 2025 to 31 December 2027.

With reference to the Board Letter, the Transactions constitute continuing connected transactions and the Deposit Services also constitutes a major transaction of the Company. The Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Zhang Shiju, Ms. Li Yuedong and Mr. Wang Junren (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions (including the proposed annual caps thereunder) are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions (including the proposed annual caps thereunder) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committees and the independent shareholders of the Company in relation to (i) subscription of shares; (ii) application for whitewash waiver and (iii) special deal (details of which are set out in the Company's circular dated 23 March 2023). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors or the Company's management (the "Management"). We have assumed that all information and representations that have been provided by the Directors/Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors/Management, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Dongfang Electric Corporation, Honghua Leasing, Dongfang Electric Finance or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is principally engaged in research, design, manufacture, setting and sale of land rigs and related parts and components, design and manufacture of the offshore drilling module. Meanwhile it also provides clients with technical support services and drilling engineering services.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024 (with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 RMB'000 (unaudited)	For the six months ended 30 June 2023 RMB'000 (unaudited)	Year-on-year change %	For the year ended 31 December 2023 RMB'000 (audited)	For the year ended 31 December 2022 RMB'000 (audited)	Year-on-year change %
Revenue	2,776,000	2,494,437	11.29	5,473,234	4,476,104	22.28
- Land drilling rigs	869,464	1,154,829	(24.71)	2,354,279	743,183	216.78
- Parts and components and others	1,425,650	881,723	61.69	2,197,894	2,254,776	(2.52)
- Drilling engineering services	173,795	227,679	(23.67)	396,254	419,292	(5.49)
- Fracturing services	307,091	230,206	33.40	524,807	1,058,853	(50.44)
Gross (loss)/profit	301,514	152,202	98.10	541,773	459,893	17.80
(Loss)/profit for the period/year attributable to owners of the Company	2,419	(154,192)	N/A	(386,597)	(634,418)	(39.06)

As illustrated in the above table, the Group's revenue increased from approximately RMB4.48 billion for the year ended 31 December 2022 ("FY2022") to approximately RMB5.47 billion for the year ended 31 December 2023 ("FY2023"), representing a year-on-year increase of approximately 22.28%. According to the 2023 Annual Report, such increase was mainly due to the growth in revenue generated from land drilling rigs segment, which was the result of (i) expansion of such business segment in both domestic and overseas market; and (ii) development in the field of offshore equipment. The Group's gross profit for FY2023 also increased by approximately 17.80% as compared to that for FY2022 and the Group's loss for the year attributable to owners of the Company decreased by approximately 39.06% from approximately RMB634.42 million for FY2022 to approximately RMB386.60 million for FY2023. With reference to the 2023 Annual Report and as confirmed by the Management, such improvements were mainly due to (i) the aforesaid increase in the Group's revenue; and (ii) decrease in net impairment losses on financial assets and contract assets.

As illustrated in the above table, the Group's revenue increased from approximately RMB2.49 billion for the six months ended 30 June 2023 ("1H2023") to approximately RMB2.78 billion for the six months ended 30 June 2024 ("1H2024"), representing a year-on-year increase of approximately 11.29%. With reference to the 2024 Interim Report and as confirmed by the Management, such increase was mainly due to (i) that the Group continued to secure orders for drilling equipment and components from high-end customers in the Middle East and domestically; (ii) the fracturing services fully entered the coalbed methane development industry; and (iii) the offshore wind power business (under the Group's parts and components and others segment) continued to consolidate its position in the offshore wind large jacket segment, with effective orders doubling from 1H2023. Moreover, the Group's gross profit for 1H2024 increased significantly by approximately 98.10% as compared to that for 1H2023, and the Group recorded profit attributable to owners of the Company for 1H2024 as compared to loss for the period attributable to

owners of the Company for 1H2023. With reference to the 2024 Interim Report and as confirmed by the Management, such improvements were mainly due to (i) the aforesaid increase in the Group's revenue; and (ii) decrease in net finance expenses.

With reference to the 2024 Interim Report, in terms of high-end drilling equipment, the products launched by the Group continue to advance towards high-end and intelligent direction; in terms of fracturing business, the Group's fracturing business has taken the lead and is expected to further expand the market size of coalbed methane in the second half of 2024; and in terms of new energy, the Group will continue to rely on the advantages of the controlling shareholders in technology, industrial chain construction and business model to help the Group obtain orders for offshore wind power products and services.

Information on Dongfang Electric Corporation

With reference to the Board Letter, Dongfang Electric Corporation is one of the largest energy equipment manufacturing enterprise groups in the PRC, mainly engaged in offshore wind power, electric motors, geothermal power generation and distributed energy applications. Dongfang Electric Corporation is controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. As Dongfang Electric Corporation directly and indirectly holds approximately 58.52% of the issued share capital of the Company as at the Latest Practicable Date, it is a controlling shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company.

Information on Honghua Leasing

With reference to the Board Letter, Honghua Leasing, a company incorporated in the PRC, is a wholly-owned subsidiary of Dongfang Electric Corporation. Honghua Leasing is an associate of Dongfang Electric Corporation and therefore a connected person of the Company.

Information on Dongfang Electric Finance

With reference to the Board Letter, Dongfang Electric Finance is a limited liability company incorporated in the PRC. Dongfang Electric Finance's main business includes provision of finance and fund-raising consultancy, credit accreditation and related advisory and agency services to members units; assisting members units in receipt and payment of transaction amounts; and arrangement of entrustment loans and entrustment investment among members units. DFEC (a subsidiary of Dongfang Electric Corporation) and Dongfang Electric Corporation holds 95% and 5% of the shares of Dongfang Electric Finance respectively. Dongfang Electric Finance is an associate of Dongfang Electric Corporation and therefore a connected person of the Company.

A. THE PURCHASE FRAMEWORK AGREEMENT

1. Reasons for entering into the Purchase Framework Agreement

With reference to the Board Letter, the purchase of the products and services by the Group from Dongfang Electric Corporation and its associates is based on consideration of the competitive edges of Dongfang Electric Corporation and its associates such as qualifications, experience, centralised procurement, payment terms and transportation capabilities, all of which are conducive to meeting the Group's needs for product quality and delivery time. The purchase of products, equipment and services from Dongfang Electric Corporation and its associates will enable optimal allocation and integration of resources. The Group and the business divisions of Dongfang Electric Corporation can complement each other in terms of resources. Centralised procurement through Dongfang Electric Corporation can reduce costs and improve efficiency, facilitate the formation of a more stable and powerful supply chain network, and ensure the stable supply of key resources to support its activities. Therefore, the entering into of the Purchase Framework Agreement is conducive to broadening the customer base and sales channels of the Group, expanding the sales market share of the Group and increasing the sales revenue of the Group. The Group and Dongfang Electric Corporation and its associates have a well-established cooperation foundation and smooth communication, which is conducive to the implementation and furtherance of the transactions. In addition, through business cooperation in multiple projects, the Company and Dongfang Electric Corporation can make full use of the industrial foundation and advantages of both parties, and further enhance the strength of both parties.

As advised by the Management, the Group intended to continue to deepen the co-operation in various aspects such as (a) electricity, power generation equipment, new energy and oil related equipment and ancillary materials; and (b) oil and gas related construction and services, between the Group and Dongfang Electric Corporation since it became a substantial Shareholder on 18 July 2023.

As also advised by the Management, the purchases conducted under the Purchase Transactions purchases are mainly applied for re-sale to or production of products for sale to the Group's end-customers. Accordingly, the Purchase Transactions are part of, or in connection with, the Company's principal business activities and are expected to grow the Company's revenue and/or provide the Company with overall business and operational convenience as well as synergistic benefits, which are favourable for the Company to increase its business volume in the market, stabilize its customer base, enhance its overall business strategic development, and strengthen its competitiveness in the market.

Having considered the above factors, we concur with the Directors that the Purchase Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Purchase Framework Agreement

Date

10 December 2024

Parties

- (1) The Company (as purchaser and on behalf of its subsidiaries); and
- (2) Dongfang Electric Corporation (as seller, for itself and on behalf of its associates)

Term

From 1 January 2025 to 31 December 2027

Subject matter

The Group shall purchase products (including but not limited to materials such as steel and paint, equipment, accessories, auxiliary materials and other related products) and services (including but not limited to processing services, technical services, inspection and testing services, transportation services, logistics services and other related services) from Dongfang Electric Corporation and its associates.

Pricing principles

With reference to the Board Letter, the relevant terms for the provision of the products and services by Dongfang Electric Corporation and its associates to the Group will be determined based on the nature of each transaction. The details of pricing will be determined on an arm's length basis after taking into account a combination of factors, such as the quality of the products and services to be provided by Dongfang Electric Corporation and its associates in accordance with the Group's request, payment terms and transportation conditions and with reference to the prevailing market prices (including the quotation for similar products and services offered by Independent Third Parties), and on normal commercial terms and terms no less favourable than terms of the transactions between the Group and Independent Third Parties.

Furthermore, prices payable by the Group to Dongfang Electric Corporation and its associates for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
 - (i) The price offered by Dongfang Electric Corporation and its associates to an Independent Third-Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. The prices of any given products or services shall be based on the prevailing market prices for the same or comparable products or services obtained by the Group from Independent Third-Party suppliers in the ordinary course of business and on normal commercial terms. The Group will solicit quotations from at least two Independent Third-Party suppliers to

ensure that the purchase price paid to Dongfang Electric Group under comparable conditions does not exceed the price offered by such Independent Third Parties; or

- (ii) the price obtained by the Group by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws; and
- (b) where there are no market prices for the relevant products and services which meet the specific business needs of the Group, the prices shall be the cost plus an appropriate service fee. The appropriate service fee shall be determined by the parties to the transactions after arm's length negotiations with reference to the normal commercial terms. The products and services to be acquired by the Group from Dongfang Electric Corporation vary in terms of category, complexity, and technical specifications. Accordingly, the service fee for these products and services will vary. Notwithstanding, the service fee shall generally not exceed 15% of the cost.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third-Party suppliers; and (ii) communication with Independent Third-Party suppliers on the prices of similar products and services by means of phone calls and e-mails.

For our due diligence purpose, we obtained a summary list of all individual agreements regarding the Purchase Transactions for the period from 26 October 2022 (being the effective date of the existing framework agreement) to 31 December 2022 (the “2022 Period”), FY2023 and the nine months ended 30 September 2024 (“9M2024”), and randomly selected one individual agreement for each period (three individual agreements in total) from the list (“**Sampling on Purchase Transactions**”). The Company provided us with the selected agreements with corresponding internal approval records demonstrating that the prices of the product/service procured were not higher than those offered by independent third parties.

With reference to the Board Letter, the Company has formulated a number of measures and policies, including connected transaction administrative measures and management measures, to ensure that all connected transactions of the Company are effectively controlled and monitored. The Group will, through its internal control procedures and a series of risk management arrangements (the “**IC Procedures**”) in accordance with the regulatory requirements, endeavour to maintain its independence in decision-making as well as the fairness of the prices and terms of each continuing connected transaction. Details of the IC Procedures are set out under the section headed “6. INTERNAL CONTROL” of the Board Letter.

With reference to the 2023 Annual Report, the independent non-executive Directors have reviewed, among other things, the continuing connected transactions (including the Purchase Transactions) for FY2023 and confirmed that such continuing

connected transactions were (i) conducted in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with relevant agreements governing such continuing connected transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole (the “INEDs Confirmation”).

The Company’s auditors were also engaged to report on the Group’s continuing connected transactions (including the Purchase Transactions) for FY2023 in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. Regarding the Group’s continuing connected transactions (including the Purchase Transactions), the auditors of the Company confirmed to the Board that nothing has come to their attention that causes them to believe that such continuing connected transactions (i) have not been approved by the Board; (ii) were not made in accordance with the pricing policy of the Company; (iii) were not conducted, in all material respects, in accordance with the relevant agreement governing such continuing connected transactions; and (iv) have exceeded the cap disclosed in previous announcements (the “Auditor Confirmation”).

Having taken into account that the IC Procedures include:

- (i) collecting information of counterparty by relevant department for selection; review of contracts by legal and risk control department, finance department, technical department, production department, quality department and other relevant departments; and evaluation, review and approval by the management of respective subsidiary to ensure fairness and reasonableness of relevant terms and pricing;
- (ii) implementation of pricing mechanism in the Dongfang Electric Continuing Connected Transactions is subject to strict scrutiny by finance department, technical department and relevant business departments of the Company;
- (iii) the Board office, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;
- (iv) with regard to the Purchase Framework Agreement, the Group will keep and continue to update a centralised list of eligible suppliers who are shortlisted based on their procurement qualifications, capability to procure products with specific technical requirements and the Group’s past experience in dealing with the respective suppliers. Prior to the entering into of the transactions by the purchaser and the seller under the Purchase Framework Agreement, the business department of the purchaser shall submit an

application and the procurement department of the purchaser shall organise the selection of suppliers from the list, which shall also be subject to consideration and approval by the management of the purchaser(s) so as to ensure the fairness and reasonableness of the relevant terms and pricing; and

- (v) independent non-executive Directors and the Company's auditor's annual review/report,

we consider that implementation of the IC Procedures would ensure fair pricing of the Purchase Transactions.

Having considered the results of the Sampling on Purchase Transactions, the INEDs Confirmation and the Auditor Confirmation, we do not doubt the implementation of the relevant IC Procedures.

Proposed annual caps

Set out below are (i) the historical transaction amounts of the Purchase Transactions for 2022 Period, FY2023 and 9M2024, together with the existing annual caps for 2022 Period and two years ending 31 December 2024; and (ii) the proposed annual caps of the Purchase Transactions for the three years ending 31 December 2027 (the "Purchase Cap(s)") as extracted from the Board Letter:

	For the period from 26 October 2022 to 31 December 2022 RMB 'million	For the year ended 31 December 2023 RMB 'million	For the year ending 31 December 2024 ("FY2024") RMB 'million
Historical transaction amount	101.84	209.62	310.84 ^(Note)
Existing annual caps	550	1,000	1,000
Utilisation rate	18.52%	20.96%	Undetermined
	For the year ending 31 December 2025 ("FY2025") RMB 'million	For the year ending 31 December 2026 ("FY2026") RMB 'million	For the year ending 31 December 2027 ("FY2027") RMB 'million
Purchase Caps	1,000	1,300	1,600

Note: The figure was for 9M2024.

With reference to the Board Letter, the Purchase Caps were determined based on the factors as set out under the sub-section headed “Proposed Annual Caps and Basis of Determination” under the section headed “2. PURCHASE FRAMEWORK AGREEMENT” of the Board Letter.

In order to further assess the fairness and reasonableness of the Purchase Caps, we obtained from the Company the calculation of the Purchase Caps for the three years ending 31 December 2027 (the “Purchase Caps Calculation”).

Purchase Cap for FY2025

According to the Purchase Caps Calculation, we noted that:

- (i) the Purchase Cap for FY2025 was the sum of (a) estimated amount of the Purchase Transactions for FY2024 (the “**2024 Estimated Purchase Amount**”) of approximately RMB503 million; and (b) estimated amount of additional demand for the Purchase Transactions for FY2025 (the “**2025 Estimated Additional Purchase Demand**”) of approximately RMB497 million; and
- (ii) the 2024 Estimated Purchase Amount was estimated by annualizing historical amount of the Purchase Transactions for 9M2024 based on the proportion of historical amount of the Purchase Transactions for the nine months ended 30 September 2023 and FY2023.

In respect of the 2025 Estimated Additional Purchase Demand, the Management advised us that it is expected to be mainly derived from:

- (i) the estimated demand for steel of Sichuan Honghua Petroleum Equipment Co., Ltd.* (四川宏華石油設備有限公司) (“**Sichuan Honghua**”, being a wholly-owned subsidiary of the Company) due to the sales agreement for intelligent drilling rigs entered into between Sichuan Honghua and a Middle East client (with reference to the Company’s voluntary announcement dated on 17 July 2024, the Client is a global leading oil enterprise and one of the largest drilling contractors in the Middle East region. Sichuan Honghua shall provide the client with several sets of global advanced artificial island drilling rigs equipped with artificial intelligent drilling software.); and
- (ii) the estimated demand for the products and services of Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. (“**Honghua (Jiangsu)**”, being a wholly-owned subsidiary of the Company) due to several orders in hand and intended collaborative wind power projects.

The Company also provided us with executed agreements, letters of intent or project bid documents which indicate contract amounts of relevant projects/orders for the aforementioned projects/orders of Sichuan Honghua and Honghua (Jiangsu), and the estimated purchase amounts for procurement of materials/services to carry out relevant transactions.

In light of the above, we consider that the Purchase Cap for FY2025 is fair and reasonable.

Purchase Caps for FY2026 and FY2027

As illustrated in the above table, the Purchase Cap increases by (i) RMB300 million from FY2025 to FY2026; and (ii) RMB300 million from FY2026 to FY2027. According to the Purchase Caps Calculation, we noted that such increases were mainly for catering further possible growth of the Purchase Transactions in FY2026 and FY2027. According to the Purchase Caps Calculation, we noted that the 2024 Estimated Purchase Amount represented an increase of approximately RMB294 million as compared to the historical amount of the Purchase Transactions for FY2023, which indicates further possible growth in the amount of the Purchase Transactions in future.

With reference to the Board Letter and as advised by the Management, the increasing Purchase Caps also cater for the Group's procurement demand for raw materials and other materials in respect of its offshore wind power business. The Company's offshore wind power business is primarily engaged in offshore wind power pile foundation projects and its revenue has been booked under the Group's parts and components and others segment.

As illustrated under the section headed "Information on the Group" above, revenue from the Group's parts and components and others segment increased by approximately 61.69% from 1H2023 to 1H2024. With reference to the Board Letter, given the industry policies, market conditions, the Company's market share in offshore wind power jackets, and its current and potential orders, the Company plans to increase investment in equipment to further expand production capacity. It is expected that the investment scale and output value of the Group's offshore wind power business will experience steady growth over the next three years.

We noticed that:

- (i) On 29 May 2024, the State Council of the PRC issued the Energy Saving and Carbon Reduction Action Plan for 2024-2025* (《2024-2025年節能降碳行動方案》), which stated that the PRC government should increase the development efforts of non-fossil energy sources, develop offshore wind power in a reasonable and orderly manner, promote the large-scale development and utilization of marine energy, and drive the development and utilization of distributed new energy sources.
- (ii) On 30 October 2024, the National Development and Reform Commission of the PRC issued the Guiding Opinions on Vigorously Implementing Actions to Replace Renewable Energy* (《關於大力實施可再生能源替代行動的指導意見》), which stated that the PRC government should comprehensively enhance the supply capacity of renewable energy, promote the cluster development of offshore wind power, carry out deep-sea floating offshore wind power, and promote the deep integration operation of solar thermal, wind, and solar photovoltaic systems.

In light of the above, we consider that the Purchase Caps for FY2026 and FY2027 are fair and reasonable.

Shareholders should note that as the Purchase Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of cost to be incurred from the Purchase Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Purchase Transactions will correspond with the Purchase Caps.

Having considered the principal terms of the Purchase Transactions as set out above, we are of the view that the terms of the Purchase Transactions (including the Purchase Caps) are on normal commercial terms and are fair and reasonable.

B. THE SALES FRAMEWORK AGREEMENT

1. Reasons for entering into the Sales Framework Agreement

With reference to the Board Letter, due to the production needs of the projects, Dongfang Electric Corporation and its associates need to purchase a large number of products and services including materials, equipment and parts and components related to the projects. The Group currently possesses relevant products and technical services, which can meet the needs of the projects of Dongfang Electric Corporation and its associates. The entering into of the Sales Framework Agreement is conducive to selling relevant products and technical services to Dongfang Electric Corporation, thus increasing the Group's revenue. In addition, the entering into of the Sales Framework Agreement is in line with the business development needs of the Group, achieving full synergic effect between the Group and Dongfang Electric Corporation and its associates in a fair and reasonable manner, and realising the complementarity of resources and win-win situation for both parties.

In addition, the Management advised us that the Sales Transactions are part of, or in connection with, the Group's principal business activities and are expected to increase the Group's revenue and provide the Group with overall business and operational convenience as well as synergistic benefits, which are favourable for the Company to increase its business volume in the market, stabilise its customer base, enhance its overall business strategic development, and strengthen its competitiveness in the market.

Having considered the above factors, we concur with the Directors that the Sales Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Sales Framework Agreement

Date

10 December 2024

Parties

- (1) The Company (as seller and on behalf of its subsidiaries); and
- (2) Dongfang Electric Corporation (as purchaser, for itself and on behalf of its associates)

Term

From 1 January 2025 to 31 December 2027

Subject matter

The Group will sell products (including but not limited to structural parts such as weldments products for containers and steel structure products, semi-finished products, accessories, equipment, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, engineering services and other related services) to Dongfang Electric Corporation and its associates.

Pricing principles

With reference to the Board Letter, the relevant terms for the provision of the products and services by the Group to Dongfang Electric Corporation and its associates will be determined based on the nature of each transaction. The details of pricing will be determined on an arm's length basis after taking into account a combination of factors such as the quality of the products and services provided by the Group as requested by the Dongfang Electric Group and its associates, payment terms and transportation conditions, with reference to the prevailing market prices (referring to the quotation for similar products and services offered by Independent Third Parties), and on normal commercial terms and terms no less favourable than terms of the transactions between the Group and Independent Third Parties.

Furthermore, prices payable by Dongfang Electric Corporation and its associates to the Group for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
 - (i) the price offered by the Group to an Independent Third-Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. The prices of any given products or services shall be determined by reference to the selling prices of the same or similar products or services offered by the Group (and/or its subsidiaries) to Independent Third-Party customers in the ordinary course of business and on normal commercial terms. The Group will compare the price

offered to the relevant purchaser with the prices of the same or similar products or services, with comparable specifications (including, but not limited to, quantity, credit terms, and delivery methods), as provided to at least two Independent Third-Party customers, to ensure that the price offered to the relevant purchaser is not more favorable than the price offered to the Group's Independent Third-Party customers; or

- (ii) the price obtained by Dongfang Electric Corporation and its associates by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the forms of the open tender or negotiated tender shall comply with the requirements of applicable laws; and
- (b) where there are no market prices for the relevant products and services which meet the specific business needs of Dongfang Electric Corporation and its associates, the prices shall be the cost plus an appropriate service fee. The appropriate service fee shall be determined by the parties to the transactions after arm's length negotiations with reference to the normal commercial terms. The service fee percentage shall generally not be less than 5%, and in no event shall it be lower than the percentage offered to the Independent Third Parties under equivalent conditions.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third-Party customers; and (ii) communication with Independent Third-Party suppliers on the prices of similar products and services by means of phone calls and e-mails.

For our due diligence purpose, we obtained a summary list of all individual agreements regarding the Sales Transactions for the period from 2022 Period, FY2023 and the 9M2024, and randomly selected one individual agreement for each period (three individual agreements in total) from the list (the "Sampling on Sales Transactions").

For the selected agreement with service which could be directly compared with an independent third party, the Company provided us the selected agreement and an agreement for the same service provided to the independent third party. We noted from the aforesaid documents that the price under the selected agreement was not less than the price charged under the agreement for the same service provided to the independent third party.

For each of the two selected agreements with product/service which could not be directly compared with independent third parties, the Company provided us (i) the selected agreement with relevant cost breakdown; and (ii) an agreement for comparable transaction (in nature) with independent third parties with relevant cost breakdown. We noted from the aforesaid documents that the mark-up rates for the prices charged under the two selected agreements were not less than the mark-up rates for the prices charged under agreements with independent third parties.

As aforementioned, the Group will, through its IC Procedures in accordance with the regulatory requirements, endeavour to maintain its independence in decision-making as well as the fairness of the prices and terms of each continuing connected transaction. Details of the IC Procedures are set out under the section headed “6. INTERNAL CONTROL” of the Board Letter.

With reference to the 2023 Annual Report, the independent non-executive Directors reviewed relevant continuing connected transactions of the Company (including the Sales Transactions) during FY2023 and provided the INEDs Confirmation. The Company’s auditor was also engaged to report on the Group’s continuing connected transaction (including the Sales Transactions) and provided the Auditor Confirmation.

Having taken into account that the IC Procedures include:

- (i) collecting information of counterparty by relevant department for selection; review of contracts by legal and risk control department, finance department, technical department, production department, quality department and other relevant departments; and evaluation, review and approval by the management of respective subsidiary to ensure fairness and reasonableness of relevant terms and pricing;
- (ii) implementation of pricing mechanism in the Dongfang Electric Continuing Connected Transactions is subject to strict scrutiny by finance department, technical department and relevant business departments of the Company;
- (iii) the Board office, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;
- (iv) with regard to the Sales Framework Agreement, the Group strictly follows the internal sales policy to perform relevant pricing and approval procedures. For each type of sales contract, the relevant procedures set forth the functional departments that are required to participate the contract review and due diligence, as well as detailed review standards. Depending on the consideration of the contracts, the Group will implement a tiered structure of execution authority in the contract signing phase; and
- (v) independent non-executive Directors and the Company’s auditor’s annual review/report,

we consider that implementation of the IC Procedures would ensure fair pricing of the Sales Transactions.

Having considered the results of the Sampling on Sales Transactions, the INEDs Confirmation and the Auditor Confirmation, we do not doubt the implementation of the relevant IC Procedures.

3. Proposed annual caps

Set out below are (i) the historical transaction amounts of the Sales Transactions for the 2022 Period, FY2023 and 9M2024, together with the existing annual caps for the 2022 Period and two years ending 31 December 2024; and (ii) the proposed annual caps of the Sales Transactions for the three years ending 31 December 2027 (the “Sales Cap(s)”) as extracted from the Board Letter:

	For the period from 26 October 2022 to 31 December 2022 RMB 'million	For the year ended 31 December 2023 RMB 'million	For the year ending 31 December 2024 RMB 'million
Historical transaction amount	87.97	302.72	111.06 ^(Note)
Existing annual caps	500	800	800
Utilisation rate	17.59%	37.84%	Undetermined
	For the year ending 31 December 2025 RMB 'million	For the year ending 31 December 2026 RMB 'million	For the year ending 31 December 2027 RMB 'million
Sales Caps	400	550	550

Note: The figure was for 9M2024.

With reference to the Board Letter, the Sales Caps were determined based on the factors as set out under the sub-section headed “Proposed Annual Caps and Basis of Determination” under the section headed “3. SALES FRAMEWORK AGREEMENT” of the Board Letter.

In order to further assess the fairness and reasonableness of the Sales Caps, upon our request, we obtained from the Company the calculation of the Sales Caps for each of the three years ending 31 December 2027 (the “Sales Caps Calculation”).

Sales Cap for FY2025

According to the Sales Caps Calculation, we noted that:

- (i) the Sales Cap for FY2025 was the sum of (a) estimated amount of the Sales Transactions for FY2024 (the “**2024 Estimated Sales Amount**”) of approximately RMB189 million; and (b) estimated additional amount of the Sales Transactions for FY2025 (the “**2025 Estimated Additional Sales Amount**”) of approximately RMB211 million;
- (ii) the 2024 Estimated Sales Amount was estimated by annualizing historical amount of the Sales Transactions for 9M2024 based on the proportion of the historical amount of the Sales Transactions for the nine months ended 30 September 2023 and FY2023.

In respect of the 2025 Estimated Additional Sales Amount, the Management advised us that it is expected to be mainly derived from the potential demand from a member of Dongfang Electric Corporation for drilling rigs (the “**Potential Drilling Rigs Sales**”). The Company also provided us with the supporting documents for the Potential Drilling Rigs Sales, including internal correspondences and internal meeting records showing the estimated amount and expected time schedule for the Potential Drilling Rigs Sales. Moreover, the Management also advised us that the Potential Drilling Rigs Sales marks the first cooperation with the members of Dongfang Electric Corporation regarding the sales of drilling rigs, representing the ongoing deep collaboration in oil related equipment and ancillary materials between the Group and Dongfang Electric Corporation since it became a substantial Shareholder on 18 July 2023.

In light of the above, we consider that the Sales Cap for FY2025 is fair and reasonable.

Sales Caps for FY2026 and FY2027

As illustrated in the above table, the Sales Cap increases by RMB150 million from FY2025 to FY2026 and FY2027. According to the Sales Caps Calculation, such increases are derived from an intentioned collaborative project between Honghua (Jiangsu) and a member of Dongfang Electric Corporation which is expected to commence in 2026 and be carried out throughout 2026 and 2027 (the “**2026/2027 Collaborative Project**”). The Company also provided us with the supporting document for the 2026/2027 Collaborative Project which demonstrated project overview, estimated demand of RMB300 million for services and products under the Sales Transactions. Accordingly, an increase of RMB150 million is incorporated in the Sale Caps for FY2026 and FY2027.

In light of the above, we consider that the Sales Caps for FY2026 and FY2027 are fair and reasonable.

Shareholders should note that as the Sales Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of revenue to be generated from the Sales Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Sales Transactions will correspond with the Sales Caps.

Having considered the principal terms of the Sales Transactions as set out above, we are of the view that the terms of the Sales Transactions (including the Sales Caps) are on normal commercial terms and are fair and reasonable.

C. THE LEASE FRAMEWORK AGREEMENT

1. REASONS FOR ENTERING INTO THE LEASE FRAMEWORK AGREEMENT

With reference to the Board Letter, the entering into of the Lease Framework Agreement meets the business needs of the Group. The leasing of relevant equipment by the Group from Dongfang Electric Corporation and its associates is based upon consideration of the competitive edges of Dongfang Electric Corporation and its associates such as qualifications, experience, advantages in terms of equipment, payment terms and transportation capabilities, all of which are conducive to meeting the Group's needs for the use of its products. After leasing equipment such as electric fracturing pumps and gas generators from Dongfang Electric Corporation and its associates, the Group will use such equipment to provide construction and operation services to third-party customers, for leasing or for its own use to increase the revenue from the related businesses. Therefore, the entering into of the Leasing Framework Agreement is conducive to broadening the customer base and service channels of the Group, expanding the market share of the Group and increasing the sales revenue of the Group. The Group and Dongfang Electric Corporation and its associates have a well-established cooperation foundation and smooth communication, which is conducive to the implementation and furtherance of transactions. In addition, through business cooperation in multiple projects, the Company and Dongfang Electric Corporation can make full use of the industrial foundation and advantages of both parties, and further enhance the strength of both parties.

As advised by the Management, the Finance Leasing Transactions are part of, or in connection with, the Company's principal business activities and are expected to provide the Company with overall business and operational convenience as well as synergistic benefits, which are favourable for the Company to increase its business volume in the market, stabilise its customer base, enhance its overall business strategic development, and strengthen its competitiveness in the market.

Having considered the above factors, we concur with the Directors that the Finance Leasing Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Lease Framework Agreement

Date

10 December 2024

Parties

- (1) The Company (as the lessee and on behalf of its subsidiaries); and
- (2) Honghua Leasing (as the lessor, for itself and on behalf of its subsidiaries)

Term

From 1 November 2025 to 31 December 2027

Subject matter

The Group shall purchase drilling and energy equipment leasing services from Members of Honghua Leasing, including but not limited to direct financial leasing services and operating leasing services, and shall pay rent to the Members of Honghua Leasing for the provision of the afore-mentioned leasing services.

Pricing principles

With reference to the Board Letter, in terms of the direct finance leasing services, the lease consideration is made up of the purchase price of the leased equipment, the lease interest and handling fee (if any) agreed by both parties. The lease consideration will be determined after arm's length negotiations between the Group and the Members of Honghua Leasing with reference to the market price of finance leased assets of the same type. The Members of Honghua Leasing will purchase the leased properties from suppliers according to the instructions and selection of the Group, and then lease the properties to the Group for an agreed term and receive lease payment on a periodic basis. The principal amount is the purchase price of the leased properties from the suppliers which is negotiated by the Group with the suppliers on normal commercial terms and by reference to the market price of such properties.

In terms of the operating leasing services, the lease consideration is made up of the corresponding rent and handling fee (if any) payable during the lease term. The lease consideration will be determined after arm's length negotiations between the Group and the Members of Honghua Leasing with reference to the market price of operating leased assets of the same type. Members of Honghua Leasing will purchase the leased properties and own the assets and then lease the same back to the Group for an agreed term and receive an agreed amount of rent on a periodic basis.

In determining whether the purchase price of the leased equipment procured by Dongfang Electric Corporation under direct finance leasing services is fair and reasonable and in the interests of the Company, the Group will consult with at least

two Independent Third-Party suppliers via email, fax, or telephone to obtain quotations and historical rental prices for similar types of leased equipment. The price will be determined by reference to local comparable market prices, either derived from these consultations or assessed by professional appraisal agencies. If no comparable market price is available, the price will be negotiated based on factors such as equipment depreciation, management fees, relevant taxes (including value-added tax and surcharges), and reasonable profits.

In determining the lease interest paid to the Members of Honghua Leasing, the Company will consider, among other things: (i) market conditions and the benchmark interest rate for term loans announced by the PBOC from time to time; (ii) terms and conditions no less favourable to the Group than those offered by similarly qualified lessors; and (iii) the incremental borrowing rate of the lessee, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

In financial leasing, handling fees generally refer to service fees charged by the lessor for providing consulting services to the lessee. These services typically cover industry-specific advice, project-related guidance, and tax-related consulting. This fee structure is common in the leasing industry and is usually determined through negotiation, based on prevailing industry standards. In connection with the execution of any individual written agreement under the Lease Framework Agreement, the lessor may charge the lessee a one-time, non-refundable handling fee. The terms of this fee shall be no less favorable to the lessee than those offered by Independent Third Parties for similar services. The rate of the handling fee shall, among other factors, reflect the rates charged by other major financial institutions for financial leases involving similar assets or, if applicable, refer to the rates published by the PBOC from time to time. The specific terms and rate of the handling fee shall be clearly stated in the individual written contracts.

With reference to the Board Letter and as advised by the Management, for FY2022, FY2023 and the period from 1 January 2024 to 24 April 2024, the provision of leasing services by Honghua Leasing to other members of the Group was intra-group transaction of the Group, and did not constitute connected transactions of the Group. After 24 April 2024, the provision of leasing services by Honghua Leasing to the Group would constitute connected transactions of the Group. Nevertheless, no such transaction was conducted during the period from 25 April 2024 to 30 September 2024.

As aforementioned, the Group will, through its IC Procedures in accordance with the regulatory requirements, endeavour to maintain its independence in decision-making as well as the fairness of the prices and terms of each continuing connected transaction. Details of the IC Procedures are set out under the section headed “6. INTERNAL CONTROL” of the Board Letter.

Having taken into account that the IC Procedures include:

- (i) collecting information of counterparty by relevant department for selection; review of contracts by legal and risk control department, finance department and other relevant departments; and evaluation, review and approval by the management of respective subsidiary to ensure fairness and reasonableness of relevant terms and pricing;
- (ii) implementation of pricing mechanism in the Dongfang Electric Continuing Connected Transactions is subject to strict scrutiny by finance department and relevant business departments of the Company;
- (iii) the Board office, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;
- (iv) with respect to the Lease Framework Agreement, the finance department is responsible for collecting and monitoring information under the Lease Framework Agreement. Before entering into individual lease contracts under the Lease Framework Agreement, the finance department will compare the major terms and financing costs associated with such arrangements with the major terms and financing costs charged by at least two independent third parties that provide finance leases of similar size and nature. The Group intends to obtain relevant quotations from independent third parties, which must at least be comparable to Honghua Leasing in terms of operating scale and financial status and pick the best option after comprehensive evaluation. The finance department and other relevant operating departments of the Group are jointly responsible for reviewing the transaction terms of the individual agreements governed by the Lease Framework Agreement, especially the fairness and reasonableness of the pricing terms therein.; and
- (v) independent non-executive Directors and the Company's auditor's annual review/report,

we consider that implementation of the IC Procedures would ensure fair pricing of the Finance Leasing Transactions.

3. Proposed annual caps

Set out below are the proposed annual caps of the direct financial leasing services (the “**Direct Financial Leasing Cap(s)**”) and the operating leasing services (the “**Operating Leasing Cap(s)**”) under the Lease Framework Agreement for the three years ending 31 December 2027 as extracted from the Board Letter:

	For the year ending 31 December 2025 RMB 'million	For the year ending 31 December 2026 RMB 'million	For the year ending 31 December 2027 RMB 'million
Direct Financial Leasing Caps	150	150	150
Operating Leasing Caps	350	350	350

With reference to the Board Letter, the Direct Financial Leasing Caps and the Operating Leasing Caps were determined based on the factors as set out under the sub-section headed “Proposed Annual Caps and Basis of Determination” under the section headed “4. LEASE FRAMEWORK AGREEMENT” of the Board Letter.

Direct Financial Leasing Caps

Upon our enquiry, the Management advised us that an independent third party leased a series of oil drilling equipment to the Group for its business operation. The Group expect to lease similar equipment from Members of Honghua Leasing by way of direct financial leasing. The estimated principal amount of a series of oil drilling equipment which are expected to be purchased by the Members of Honghua Leasing and lease to the Group (by way of direct financial leasing) is based on the value of the equipment leased from the aforesaid independent third party. The Company provided us with a copy the leasing agreement entered into between the Group and the aforesaid independent third party which set out the value of the equipment (RMB150 million in aggregate).

In addition, the Management advised us that (i) the aforesaid expected lease by way of direct financial leasing may commence during the three years ending 31 December 2027; and (ii) the Company expects the lease interest to be paid will not be materially different from the Group’s existing cost of borrowings (which is usually adopted as discount rate under IFRS 16 (Leases) right-of-use assets). Accordingly, the aggregated value of the aforesaid equipment (i.e. RMB150 million) formed the base of the Direct Financial Leasing Caps.

Having considered the above, we are of the view that the Direct Financial Leasing Caps for the three years ending 31 December 2027 are fair and reasonable.

Operating Leasing Caps

In order to further assess the fairness and reasonableness of the Operating Leasing Caps, upon our request, we obtained from the Company the calculation of the Operating Leasing Caps for the three years ending 31 December 2027 (the “Operating Leasing Caps Calculation”).

According to the Operating Leasing Caps Calculation, we noted that the Operating Financial Leasing Caps for the three years ending 31 December 2027 were calculated based on the estimated annual leasing expenses for a series of leasing projects in respect of oil drilling and new energy equipment such as electric fracturing pump equipment, gas

generators and their supporting control systems and the large components required (the “Operating Leasing Projects”). As advised by the Management, such estimated annual leasing expenses were estimated based on the existing operating leasing agreements for the Operating Leasing Projects entered into between the Group and other operating leasing services providers (the “Existing Operating Leasing Agreements”). As the Company intends to strengthen business cooperation in the operating leasing with Honghua Leasing after Honghua Leasing became a connected person of the Company on 24 April 2024, the Company intends to transfer the procurement of operating leasing services for Operating Leasing Projects from the aforesaid other operating leasing services providers to the Members of Honghua Leasing. For our due diligence purpose, we obtained from the Company copies of the Existing Operating Leasing Agreements and cross checked the annual leasing expenses under which with those applied in the Operating Leasing Caps Calculation.

Having considered the Operating Leasing Caps Calculation and the abovementioned factors, we are of the view that the Operating Leasing Caps for the three years ending 31 December 2027 are fair and reasonable.

Shareholders should note that as the Direct Financial Leasing Caps and the Operating Leasing Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of cost to be incurred from the Finance Leasing Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Finance Leasing Transactions will correspond with the Direct Financial Leasing Caps and the Operating Leasing Caps.

Having considered the principal terms of the Finance Leasing Transactions as set out above, we are of the view that the terms of the Finance Leasing Transactions (including the Direct Financial Leasing Caps and the Operating Leasing Caps) are on normal commercial terms and are fair and reasonable.

D. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Reasons for entering into the Financial Services Framework Agreement

With reference to the Board Letter, the entering into of the Financial Services Framework Agreement between the Company and Dongfang Electric Finance is in line with the financial policies of the Group. The major reasons for and benefits of entering into the Financial Services Framework Agreement are as follows:

(i) To increase interest income and save finance costs

Subject to compliance with the relevant laws, regulations and regulatory requirements, Dongfang Electric Finance will provide the Deposit Services to the Group on normal commercial terms or more favourable terms, which will help increase the interest income of the Group. With the deposit arrangements with Dongfang

Electric Finance, the Group could handle the settlement activities through its internal accounts at Dongfang Electric Finance with reduced charges, which can reduce the financial handling fees of the Group.

(ii) To raise the efficiency of fund utilisation

The Deposit Services of Dongfang Electric Finance will strengthen the Company's centralised management of the funds of its subsidiaries and shorten the time for capital transfers, which is beneficial for the Group to enhance fund management and control and to reduce the time for funds in transit, thereby accelerating cash flows.

(iii) To enhance the management and control of the Group's funds

Dongfang Electric Finance has a cutting-edge information system, through which the Group can access the latest information on its collection and payment of funds as well as the status of fund balance, thereby reducing and avoiding operational risks.

(iv) To meet the needs for working funds

By entering into the Financial Services Framework Agreement with Dongfang Electric Finance, the Group will be able to obtain such loans that meet the needs for working funds for actual business operations, particularly, given the overall business environment of the global oil and gas sectors, and difficulties in obtaining third-party borrowings from the market at low costs in a stable manner.

Having considered (i) that the Deposit Services and the Loan Advancement Services (including the Secured Loan Advancement Services) are required for the Group's business operation; and (ii) the reasons for and benefits of the Deposit Services and the Loan Advancement Services (including the Secured Loan Advancement Services) as set out above, we concur with the Directors that the Deposit Services and the Loan Advancements Services (including the Secured Loan Advancement Services) are in the interests of the Company and the Shareholders as a whole and are conducted under the ordinary and usual course of business of the Group.

2. Principal terms of the Financial Services Framework Agreement

Date

10 December 2024

Parties

- (1) The Company (as the services purchaser and on behalf of its subsidiaries);
and
- (2) Dongfang Electric Finance (as the services supplier)

Term

1 January 2025 to 31 December 2027

Subject matter

Dongfang Electric Finance will provide the Group with the Financial Services including the Deposit Services, the Loan Advancement Services and the Settlement Services.

Pricing principles

With reference to the Board Letter, the prices of the transactions under the Financial Services Framework Agreement shall be determined in accordance with the following pricing policy:

- (i) in respect of the Deposit Services: the deposit interest rate applicable to the Group's deposits at Dongfang Electric Finance shall not be lower than the interest rates offered by major state-owned commercial banks in the PRC for comparable deposits for the same periods, and shall be determined on normal commercial terms; and
- (ii) in respect of the Loan Advancement Services: the interest rates for the loans granted by Dongfang Electric Finance to the Group shall be in accordance with the relevant regulations of the PBOC and the relevant lending interest rate policies and regulations of Dongfang Electric Finance. At the time of entering into each loan contract, both parties shall negotiate with each other based on the then market conditions, and the interest rate shall generally not exceed the interest rate of loans obtained by the Group from major commercial banks in the PRC during the same period.

With reference to the Board Letter and as confirmed by the Management, the Group did not place any deposit with Dongfang Electric Finance for the 2022 Period and FY2023. For our due diligence purpose, in respect of the Deposit Services, we obtained a list of deposit balances regarding the deposits placed by the Group with Dongfang Electric Finance (the "Deposit Balance(s)") for the 9M2024 (the "Deposit List") from the Company. We randomly selected three Deposit Balance from the Deposit List for 9M2024 (the "Sampling on Deposit Services") and the Company provided us with deposit record of each selected Deposit Balance, together with information on the published interest rates offered by two independent major commercial banks in the PRC for the corresponding period. We noted from the aforesaid documents that the interest rates offered by Dongfang Electric Finance were not less than those offered by independent major commercial banks in the PRC.

With reference to the Board Letter and as confirmed by the Management, the Group did not conduct any Secured Loan Advancement Services with Dongfang Electric Finance for the 2022 Period, FY2023 and 9M2024.

As aforementioned, the Group will, through its IC Procedures in accordance with the regulatory requirements, endeavour to maintain its independence in decision-making as well as the fairness of the prices and terms of each continuing connected transaction. Details of the IC Procedures are set out under the section headed “6. INTERNAL CONTROL” of the Board Letter.

With reference to the 2023 Annual Report, the independent non-executive Directors reviewed relevant continuing connected transactions of the Company (including the Financial Services provided by Dongfang Electric Finance) during FY2023 and provided the INEDs Confirmation. The Company’s auditor was also engaged to report on the Group’s continuing connected transaction (including the Financial Services provided by Dongfang Electric Finance) and provided the Auditor Confirmation.

Having taken into account that the IC Procedures include:

- (i) collecting information of counterparty by relevant department for selection; review of contracts by legal and risk control department and finance department; and evaluation, review and approval by the management of respective subsidiary to ensure fairness and reasonableness of relevant terms and pricing;
- (ii) implementation of pricing mechanism in the Dongfang Electric Continuing Connected Transactions is subject to strict scrutiny by finance department of the Company;
- (iii) the Board office, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;
- (iv) with regard to the Deposit Services, the personnel in the finance department of the Group is responsible for comparing the interest rates offered by at least two major state-owned commercial banks in the PRC, so as to confirm that the interest rates offered by Dongfang Electric Finance are not less favourable than such interest rates in respect of the Group;
- (v) with regard to the Loan Advancement Services, the personnel in the finance department of the Group is responsible for comparing the lending rates offered by Dongfang Electric Finance against the benchmark lending rates announced by the PBOC, and further against the lending rates offered by at least two major commercial banks in the PRC, so as to confirm that the lending rates offered by Dongfang Electric Finance are not higher than the rates applicable to the same type of loan services provided by major commercial banks in the PRC to the Group, and loan agreements shall be

determined on normal commercial terms. Each of the loans of the Group at Dongfang Electric Finance will be submitted to the management of the Group for review and approval in accordance with the relevant policies; and

- (vi) independent non-executive Directors and the Company's auditor's annual review/report,

we consider that implementation of the IC Procedures would ensure fair determination of interest rates of the Deposit Services and the Loan Advancement Services.

Having considered the results of the Sampling on Deposit Services, the INEDs Confirmation and the Auditor Confirmation, we do not doubt the implementation of the relevant IC Procedures.

3. Proposed annual caps

Set out below are (i) the historical maximum daily balance of deposits placed by the Group with Dongfang Electric Finance (including accrued interests) for the 2022 Period, FY2023 and 9M2024, together with the existing annual caps for the Deposit Services for the 2022 Period and the two years ending 31 December 2024; (ii) the historical maximum daily balance of secured loan (including accrued interest) provided by Dongfang Electric Finance to the Group for the 2022 Period, FY2023 and 9M2024, together with the existing annual caps for the Secured Loan Advancement Services for the 2022 Period and the two years ending 31 December 2024; and (iii) the proposed annual caps of the Deposit Services (the "Deposit Cap(s)") and Secured Loan Advancement Services (the "Secured Loan Cap(s)") for the three years ending 31 December 2027 as extracted from the Board Letter:

	For the period from 26 October 2022 to 31 December 2022 RMB 'million	For the year ended 31 December 2023 RMB 'million	For the year ending 31 December 2024 RMB 'million
Historical maximum daily balance of deposits placed by the Group with Dongfang Electric Finance (including accrued interests)	Nil	Nil	Approximately 211 ^(Note)
Existing annual caps for the Deposit Services	1,200	1,800	1,800
Utilisation rate	Nil	Nil	Undetermined
Historical maximum daily balance of secured loan (including accrued interests) provided by Dongfang Electric Finance to the Group	Nil	Nil	Nil

	For the period from 26 October 2022 to 31 December 2022 RMB 'million	For the year ended 31 December 2023 RMB 'million	For the year ending 31 December 2024 RMB 'million
Existing annual caps for the Secured Loan Advancement Services	1,200	1,800	1,800
Utilisation rate	Nil	Nil	Undetermined
	For the year ending 31 December 2025 RMB 'million	For the year ending 31 December 2026 RMB 'million	For the year ending 31 December 2027 RMB 'million
Deposit Caps	2,000	2,000	2,000
Secured Loan Caps	500	500	500

Note: The figure was for 9M2024.

With reference to the Board Letter, the Deposit Caps and Secured Loan Caps were determined based on the factors as set out under the sub-section headed “Proposed Annual Caps and Basis of Determination” under the section headed “5. FINANCIAL SERVICES FRAMEWORK AGREEMENT” of the Board Letter.

Deposit Caps

In order to further assess the fairness and reasonableness of the Deposit Caps, upon our request, we obtained from the Company the calculation of the Deposit Caps for each of the three years ending 31 December 2027 (the “**Deposit Caps Calculation**”)

According to the Deposit Caps Calculation, the Deposit Caps for the three years ending 31 December 2027 were calculated with taking into account of:

- (i) The Group’s cash and cash equivalents, and pledged bank deposits of approximately RMB994 million in aggregate as at 30 September 2024. With reference to the Board Letter and based on the information provided by the Company, the highest balance of the Group’s cash and cash equivalents, and pledged bank deposits in aggregate for FY2022, FY2023 and 9M2024 reached approximately RMB1.8 billion.
- (ii) the Group’s total outstanding syndicated loan balance of approximately RMB1.03 billion as at 30 September 2024. With reference to the Board Letter, given the size of the loan being substantial, the Group intends to seek financial support from Dongfang Electric Finance to refinance the loan. The fund from Dongfang

Electric Finance will first reach the Group's account with Dongfang Electric Finance immediately after withdrawal from Dongfang Electric Finance and before the repayment of the syndicated loan.

In light of the above, we consider that the Deposit Caps of RMB2 billion for the three years ending 31 December 2027 are fair and reasonable.

Secured Loan Caps

In order to further assess the fairness and reasonableness of the Secured Loan Caps for the three years ending 31 December 2027, upon our request, we obtained from the Company the calculation of the Secured Loan Caps for each of the three years ending 31 December 2027 (the "Secured Loan Caps Calculation").

According to the Secured Loan Caps Calculation, we noted that the Secured Loan Caps for the three years ending 31 December 2027 were formulated with reference to (i) the secured loan facility of RMB350 million granted by Dongfang Electric Finance to the Group; and (ii) further potential demand for the Secured Loan Advancement Services.

The Management advised us that, although no secured loan was drawn under the aforesaid facility agreement, the Group may utilise such facility to support its business operation and development in future.

In addition, the Management advised us that as the Group will continue to expand the drilling rigs and marine engineering related business in the future. The Secured Loan Advancement Services may be required given that (i) the loans for drilling rigs and marine engineering projects usually involve collateral conditions; and (ii) the credit terms as provided by Dongfang Electric Finance are relatively more flexible and stable than those provided by other independent third-party financial institutions.

As further advised by the Management, the Group is expected to maintain the same level of the demands for the Secured Loan Advancement Services for each of the three years ending 31 December 2027. Accordingly, the Secured Loan Caps for each of the three years ending 31 December 2027 are the same.

In light of the above, we consider that the Secured Loan Caps for the three years ending 31 December 2027 are fair and reasonable.

Shareholders should note that as the Deposit Caps and the Secured Loan Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of deposits to be placed under the Deposit Services and loans to be obtained under the Secured Loan Advancement Services. Consequently, we express no opinion as to how closely the actual deposits to be placed under the Deposit Services and loans to be obtained under the Secured Loan Advancement Services will correspond with the Deposit Caps and the Secured Loan Caps.

Having considered the principal terms of the Deposit Services and the Secured Loan Advancement Services as set out above, we are of the view that the terms of the Deposit Services and the Secured Loan Advancement Services (including the Deposit Caps and the Secured Loan Caps) are on normal commercial terms and are fair and reasonable.

LISTING RULES IMPLICATION

The Management confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transactions must be restricted by their respective proposed annual caps; (ii) the terms of the Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (for the products sale and service provision); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the proposed annual caps. In the event that the total amounts of the Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Management, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.