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

If you have sold or transferred all your shares in **COSCO SHIPPING International (Hong Kong) Co., Ltd.**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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中遠海運國際(香港)有限公司

COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

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

BALLAS
C A P I T A L

A letter from the Independent Board Committee is set out on page 26 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 52 of this circular.

A notice convening the SGM to be held at 47/F., COSCO Tower, 183 Queen's Road Central, Hong Kong on Monday, 30 December 2019 at 11:00 a.m. is set out on pages 63 to 65 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

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DEFINITIONS

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

“associate(s)”	the meaning ascribed to it in the Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“Bye-laws”	the bye-laws of the Company as may be amended from time to time;
“Caps”	for the purpose of Chapter 14A of the Listing Rules, means the proposed annual caps of the New Agreements (except the annual caps for the loan services contemplated under the New Financial Services Master Agreement) for each of the three financial years ending 31 December 2022 set out under the section headed “CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION” in the “LETTER FROM THE BOARD” in this circular;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“close associate(s)”	the meaning ascribed to it in the Listing Rules;
“Company”	COSCO SHIPPING International (Hong Kong) Co., Ltd., a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	the meaning ascribed to it in the Listing Rules;
“Continuing Connected Transactions”	the New Master Supply Agreement, the New Fuel Oil Master Agreement, the New Financial Services Master Agreement and the transactions contemplated thereunder (except loan services contemplated under the New Financial Services Master Agreement);

DEFINITIONS

“COSCO Finance”	中遠財務有限責任公司 (COSCO Finance Co. Limited*), a subsidiary of COSCO SHIPPING. 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company*) and 中國海運(集團)總公司 (China Shipping (Group) Company*) were merged and formed 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited*), COSCO Finance and 中海集團財務有限責任公司 (China Shipping Finance Company Limited*, a subsidiary of China Shipping (Group) Company*) was restructured, the restructured company was named 中遠海運集團財務有限責任公司 (COSCO Shipping Finance Co. Limited*);
“COSCO SHIPPING”	中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), a company established in the PRC and the holding company of COSCO SHIPPING (Hong Kong) and the ultimate holding company of the Company;
“COSCO SHIPPING Finance”	中遠海運集團財務有限責任公司 (COSCO Shipping Finance Co. Limited*), a company established in the PRC and a subsidiary of COSCO SHIPPING;
“COSCO SHIPPING Group”	COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and their subsidiaries and associates (other than the Group);
“COSCO SHIPPING (Hong Kong)”	COSCO SHIPPING (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and the immediate holding company of the Company which is wholly-owned by COSCO SHIPPING;
“Existing Agreements”	collectively, the Existing Master Supply Agreement, the Existing Fuel Oil Master Agreement and the Existing Financial Services Master Agreement;
“Existing Financial Services Master Agreement”	the master agreement entered into between the Company and COSCO Finance dated 15 November 2016 in respect of the provision of a range of financial services by COSCO Finance to the Group for the three financial years ending 31 December 2019;

DEFINITIONS

“Existing Fuel Oil Master Agreement”	the master agreement entered into between the Company and COSCO SHIPPING (Hong Kong) dated 15 November 2016 in respect of the trading and supply of fuel oil and/or related products and services between the Group and COSCO SHIPPING Group (including Fuel Oil Transactions and Fuel Oil Financial Services) for the three financial years ending 31 December 2019;
“Existing Master Supply Agreement”	the master agreement entered into between the Company and COSCO SHIPPING (Hong Kong) dated 15 November 2016 in respect of the provision of marine and general insurance brokerage services and the provision of shipping services and sale of shipping related and other materials and products by the Group to COSCO SHIPPING Group for the three financial years ending 31 December 2019;
“Fuel Oil Business”	the business of providing fuel oil and/or related products and services including marine bunker supplies, trading of fuel oil and related products and broker services;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an independent board committee of the Company comprising Messrs. Tsui Yiu Wa, Alec, Jiang, Simon X. and Alexander Reid Hamilton to advise the Independent Shareholders in relation to the Continuing Connected Transactions, the Major Transaction and the Caps;
“Independent Financial Adviser”	Ballas Capital Limited, being a licensed corporation to carry out type 1 (Dealing in Securities) and type 6 (Advising on Corporate Finance) regulated activities as defined under the SFO;
“Independent Shareholder(s)”	Shareholder(s) other than COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and any of their respective associates;
“Latest Practicable Date”	4 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Major Transaction”	the provision of deposit services by COSCO SHIPPING Finance to the Group under the New Financial Services Master Agreement;
“New Agreements”	collectively, the New Master Supply Agreement, the New Fuel Oil Master Agreement and the New Financial Services Master Agreement;
“New Financial Services Master Agreement”	the master agreement entered into between the Company and COSCO SHIPPING Finance dated 18 November 2019 in respect of the provision of a range of financial services by COSCO SHIPPING Finance to the Group, particulars of which are set out in the sub-section headed “CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION — THE NEW FINANCIAL SERVICES MASTER AGREEMENT” in the section headed “CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION” in the “LETTER FROM THE BOARD” in this circular;
“New Fuel Oil Master Agreement”	the master agreement entered into between the Company and COSCO SHIPPING (Hong Kong) dated 18 November 2019 in respect of trading and supply of fuel oil and related products including asphalt and services between the Group and COSCO SHIPPING Group (including Fuel Oil Transactions and Fuel Oil Financial Services), particulars of which are set out in the sub-section headed “CONTINUING CONNECTED TRANSACTIONS — THE NEW FUEL OIL MASTER AGREEMENT” in the section headed “CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION” in the “LETTER FROM THE BOARD” in this circular;

DEFINITIONS

“New Master Supply Agreement”	the master agreement entered into between the Company and COSCO SHIPPING (Hong Kong) dated 18 November 2019 in respect of the provision of marine and general insurance brokerage services and other services and the provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the Group to COSCO SHIPPING Group, particulars of which are set out in the sub-section headed “CONTINUING CONNECTED TRANSACTIONS — THE NEW MASTER SUPPLY AGREEMENT” in the section headed “CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION” in the “LETTER FROM THE BOARD” in this circular;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held to approve the Continuing Connected Transactions, the Major Transaction and the Caps in relation thereto;
“Share(s)”	the share(s) of the Company;
“Shareholder(s)”	the holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“US\$”	United States dollars, the lawful currency of the United States of America; and
“%”	per cent.

* *for identification purposes only*

LETTER FROM THE BOARD



中遠海運國際(香港)有限公司

COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

Executive Directors:

Mr. Wang Yuhang (*Chairman*)

Mr. Zhu Jianhui

(*Vice Chairman and Managing Director*)

Mr. Liu Gang

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Directors:

Mr. Ma Jianhua

Mr. Feng Boming

Mr. Chen Dong

Head office and Principal Place

of Business:

47th Floor, COSCO Tower

183 Queen's Road Central

Hong Kong

Independent non-executive Directors:

Mr. Tsui Yiu Wa, Alec

Mr. Jiang, Simon X.

Mr. Alexander Reid Hamilton

9 December 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND MAJOR TRANSACTION**

BACKGROUND

The Group has been carrying on transactions pursuant to the Existing Agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules as disclosed in the following announcement and circular of the Company:

- (a) the announcement of the Company dated 15 November 2016 in relation to, *inter alia*, the Existing Agreements; and
- (b) the circular of the Company dated 6 December 2016 in relation to, *inter alia*, the Existing Master Supply Agreement, the Existing Fuel Oil Master Agreement and the Existing Financial Services Master Agreement.

LETTER FROM THE BOARD

The Existing Agreements will expire on 31 December 2019 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. As announced in the announcement of the Company dated 18 November 2019, in view of the above and in order to accommodate certain new businesses between certain parties, on 18 November 2019, the following agreements were entered into by the Company:

- (a) the New Master Supply Agreement;
- (b) the New Fuel Oil Master Agreement; and
- (c) the New Financial Services Master Agreement.

The purpose of this circular is (i) to provide you with further information on the Continuing Connected Transactions, the Major Transaction and the Caps; (ii) to set out the recommendation of the Independent Board Committee; (iii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) to give the Shareholders the notice of the SGM, other information required by the Listing Rules and information regarding the ordinary resolutions to be proposed at the SGM.

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

On 18 November 2019, the Company entered into the following agreements which constitute continuing connected transactions of the Company subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules:

(A) CONTINUING CONNECTED TRANSACTIONS — THE NEW MASTER SUPPLY AGREEMENT

The principal terms of the New Master Supply Agreement are set out below:

- Date:** 18 November 2019
- Parties:** The Company; and
COSCO SHIPPING (Hong Kong)
- Subject matter:** (1) Provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group; and

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- (2) Provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation:
- (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services;
 - (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea or on land and ports, (ii) radio communication, satellite communication, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and
 - (c) the sale of coatings.

Duration: From 1 January 2020 to 31 December 2022 (both dates inclusive)

Terms and fees: The transactions contemplated under the New Master Supply Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties.

Others: The New Master Supply Agreement is conditional upon the approval by the Independent Shareholders of the New Master Supply Agreement and the Caps in relation thereto.

LETTER FROM THE BOARD

At any time during the term of the New Master Supply Agreement, the relevant member(s) of COSCO SHIPPING Group and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or purchase order(s) may be issued by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and approved by the latter, or invoice(s) or sales order(s) may be issued by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group and approved by the latter (as appropriate) from time to time in relation to any of the products, services or other subject matters contemplated under the New Master Supply Agreement upon and subject to the terms and conditions in compliance with those of the New Master Supply Agreement as may be agreed between the relevant parties.

Pricing policies:

The amount of service fees payable by COSCO SHIPPING Group under the New Master Supply Agreement will be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services).

The prices offered to COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively.

For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider the certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (including COSCO SHIPPING Group and at least three independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively.

LETTER FROM THE BOARD

Historical amounts:

The aggregate amounts recognised by the Group for the transactions contemplated under the Existing Master Supply Agreement in respect of each of the financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019 were HK\$1,239,337,189, HK\$1,111,883,956 and HK\$998,698,477 respectively.

Caps and basis of determination of such Caps:

The Caps of the transactions contemplated under the New Master Supply Agreement and the basis of determination of such Caps are set out as follows:

	Caps for the year ending 31 December		
	2020	2021	2022
	HK\$	HK\$	HK\$
Aggregate amount receivable by the Group for transactions contemplated under the New Master Supply Agreement	1,600,000,000	1,690,000,000	1,780,000,000

In determining the above Caps, the Company has (a) examined and compared the recent performance of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New Master Supply Agreement for the years of 2020 to 2022; and (c) considered the growth trend of the relevant businesses, the market conditions and in particular the following factors:

- (i) the recent price movements and trend of the vessels;
- (ii) the premium rate movements and trend quoted by insurance underwriters;
- (iii) the trend of shipping market in the forthcoming years;
- (iv) the expected increase in demand for ship trading agency services, marine equipment and spare parts for new build and existing vessels;
- (v) the expected increase in demand for insurance brokerage services including members of COSCO SHIPPING recently acquired and from re-insurance business in the forthcoming years; and
- (vi) the expected increase in demand for coatings from container manufacturers within COSCO SHIPPING Group, of which business has been expanded by recent acquisition.

LETTER FROM THE BOARD

Relationship between the Company and the connected persons:

Being the ultimate holding company and immediate holding company of the Company respectively, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) together with their associates are connected persons of the Company. Accordingly, the New Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Listing Rules implications:

As the applicable percentage ratios for the Caps of the transactions contemplated under the New Master Supply Agreement are expected to be higher than 5% on an annual basis, such transactions are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

(B) CONTINUING CONNECTED TRANSACTIONS — THE NEW FUEL OIL MASTER AGREEMENT

The principal terms of the New Fuel Oil Master Agreement are set out below:

Date:	18 November 2019
Parties	The Company; and COSCO SHIPPING (Hong Kong)
Subject matter:	Trading and supply of fuel oil and related products and services between the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) purchase or sale of fuel oil and related products including asphalt by the relevant member(s) of the Group from or to the relevant member(s) of COSCO SHIPPING Group (the “ Fuel Oil Transactions ”); and

LETTER FROM THE BOARD

- (b) provision of services by the relevant member(s) of COSCO SHIPPING Group to relevant member(s) of the Group to carry out arrangements at the instruction of and for and on behalf of the relevant member(s) of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the relevant member(s) of the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its Fuel Oil Business (the “**Fuel Oil Financial Services**”).

Duration: From 1 January 2020 to 31 December 2022 (both dates inclusive)

Terms and fees: The transactions contemplated under the New Fuel Oil Master Agreement shall be conducted on normal commercial terms and negotiated on arm’s length basis and the service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties.

Others: The New Fuel Oil Master Agreement is conditional upon the approval by the Independent Shareholders of the New Fuel Oil Master Agreement and the Caps in relation thereto.

At any time during the term of the New Fuel Oil Master Agreement, the relevant member(s) of COSCO SHIPPING Group and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or invoice(s), purchase order(s) or sales order(s) may be issued by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and approved by the latter or vice versa, or the relevant member(s) of the Group may give specific written instruction(s) to the relevant member(s) of COSCO SHIPPING Group (as appropriate) in relation to any of the products, services or other subject matters contemplated under the New Fuel Oil Master Agreement upon and subject to the terms and conditions in compliance with those of the New Fuel Oil Master Agreement as may be agreed between the relevant parties.

LETTER FROM THE BOARD

Pricing policies:

In respect of the Fuel Oil Financial Services, it is intended that (i) the relevant member(s) of COSCO SHIPPING Group will not charge member(s) of the Group any service fee in relation to the provision of the Fuel Oil Financial Services; (ii) member(s) of the Group shall only be responsible for all amounts payable to independent third parties (together with the related handling fees and other charges charged by such independent third parties) by relevant member(s) of COSCO SHIPPING Group for and on behalf of member(s) of the Group under the fuel oil and/or related products swap contracts and/or derivatives.

For the Fuel Oil Transactions, the service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and for this purpose, the following pricing policies will be followed:

- (a) fixed per unit consideration will be payable by or to the Group (as appropriate);
- (b) in determining the market rates for sale or purchase of fuel oil and related products including asphalt, the parties will refer to the mean price of fuel oil traded through Singapore as published by S&P Global Platts or market price of fuel oil as published by the government authority or other recognised organisations of supply ports in the pricing month or at the time of quotation as reference; and
- (c) the Group will also consider the prices offered to or by at least three independent third parties (based on similar quantity of fuel oil and related products) and compare to those offered to or by COSCO SHIPPING Group. In particular, the relevant sales and purchasing department (as appropriate) of the related companies within the Group will compare the selling price offered to or by different parties (both COSCO SHIPPING Group and at least three independent third parties) in respect of a similar quantity of fuel oil and related products for comparison.

Historical amounts:

The aggregate amounts recognised by the Group for the transactions contemplated under the Existing Fuel Oil Master Agreement in respect of each of the financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019 were US\$45,409,908, US\$49,201,044 and US\$5,954,457 respectively.

The aggregate amounts paid by the Group for the transactions contemplated under the Existing Fuel Oil Master Agreement in respect of each of the two years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 were US\$21,042,669, US\$34,667,576 and US\$5,948,210 respectively. The aggregate amounts received by the Group for the transactions contemplated under the Existing Fuel Oil Master Agreement in respect of each of the two years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 were US\$24,367,239, US\$14,533,468 and US\$6,247 respectively.

LETTER FROM THE BOARD

Caps and basis of determination of such Caps:

The Caps of the transactions contemplated under the New Fuel Oil Master Agreement and the basis of determination of such Caps are set out as follows:

	Caps for the year ending 31 December		
	2020	2021	2022
	US\$	US\$	US\$
Aggregate amount payable and receivable by the Group (but not offset) for transactions contemplated under the New Fuel Oil Master Agreement	45,000,000	45,000,000	45,000,000

In determining the above Caps, the Company has (a) examined and compared the recent transaction amounts of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New Fuel Oil Master Agreement for the years of 2020 to 2022, including the recent decrease in fuel trading business; (c) considered the intended increase in demand for purchases of asphalt from COSCO SHIPPING Group including the current anticipated purchase of 47,000–53,000 tonnes of asphalt at a unit price of US\$370–430 in each of the forthcoming years commencing the year 2020; (d) considered the possible fluctuation in the price of fuel oil and related products as well as the possible rise in marine fuel costs when the International Maritime Organization’s regulation capping the global fuel sulphur limit at 0.50% coming into force in 2020, as compared with that in 2019; and (e) considered the possible hedging arrangement against the risk of fuel oil and related products price fluctuation under the fuel oil and related products transactions of the Group in the forthcoming years and anticipated that the trading and supply of fuel oil and related products (other than asphalt) and services between the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group will not exceed US\$22,000,000 in each of the forthcoming years commencing the year 2020.

As a result of the liquidation of Coastal Oil Singapore Pte Ltd (“**Coastal Oil Singapore**”), a major supplier of Sinfeng Marine Services Pte. Ltd. (a wholly-owned subsidiary of the Company) (“**Sinfeng**”), the Group’s marine fuel business dropped significantly during the first half year of 2019. The Group has recently commenced to place orders with alternative suppliers to fill up part of the marine fuel oil supply previously provided by Coastal Oil Singapore and is in the course of seeking other reliable alternative suppliers. Meanwhile, the Group is also undergoing internal review to strengthen the internal control procedures into its fuel oil business operation. Currently, the Group expects the marine fuel business will gradually recover in the year 2020.

LETTER FROM THE BOARD

Relationship between the Company and the connected persons:

Being the ultimate holding company and immediate holding company of the Company respectively, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) together with their associates are connected persons of the Company. Accordingly, the New Fuel Oil Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Listing Rules implications:

As the applicable percentage ratios for the Caps of the transactions contemplated under the New Fuel Oil Master Agreement are expected to be higher than 5% on an annual basis, such transactions are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

(C) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION — THE NEW FINANCIAL SERVICES MASTER AGREEMENT

The principal terms of the New Financial Services Master Agreement (except loan services contemplated thereunder) are set out below:

Date:	18 November 2019
Parties:	The Company; and COSCO SHIPPING Finance
Subject matter:	Provision of a range of financial services, including the deposits services, loan services, settlement services, remittance services, entrusted loan services (as lending agent in entrusted loan arrangements among members of the Group) and acceptance bill services by COSCO SHIPPING Finance to the Group.
Duration:	From 1 January 2020 to 31 December 2022 (both dates inclusive)
Terms and fees:	The transactions contemplated under the New Financial Services Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the terms of the transactions (including the interest receivable by the Group and the fees (including the service fees and handling charges) payable under the financial services to COSCO SHIPPING Finance) shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties.

LETTER FROM THE BOARD

Others:

The New Financial Services Master Agreement (except the loan services contemplated thereunder) is conditional upon the approval by the Independent Shareholders of the New Financial Services Master Agreement (except the loan services contemplated thereunder) and the Caps in relation thereto.

At any time during the term of the New Financial Services Master Agreement, COSCO SHIPPING Finance and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or invoice(s) may be issued by COSCO SHIPPING Finance to the relevant member(s) of the Group and approved by the latter (as appropriate) in relation to any of the services contemplated under the New Financial Services Master Agreement upon and subject to the terms and conditions in compliance with those of the New Financial Services Master Agreement as may be agreed between the relevant parties.

Pricing policies:

Pricing policies to be adopted by COSCO SHIPPING Finance in determining the interest payable to or receivable by the Group (as appropriate) or service fees payable by the Group for the services (except loan services contemplated under the New Financial Services Master Agreement) are set out below:

Service nature:

Pricing principle

Deposit services

The interest rate for such deposit services shall be no lower than:

- (i) the floor rate for the same category of deposit services stipulated by the People's Bank of China from time to time; and
- (ii) the rate for the same category of deposit services offered by independent commercial banks in the PRC.

To ascertain the rate referred to in paragraph (ii) above, the Group will obtain quotations from at least three independent commercial banks for the same category of deposit services and compare to those obtained by the Group from COSCO SHIPPING Finance.

LETTER FROM THE BOARD

Other services

Service fees of other services approved by the CBIRC shall be determined in accordance with the following pricing principles:

- (i) the price to be complied with the fee standards prescribed by the People's Bank of China or CBIRC;
- (ii) no higher than those charged by independent commercial banks in the PRC for services of similar nature; and
- (iii) no higher than those charged by COSCO SHIPPING Finance to other member company(ies) of COSCO SHIPPING Group for services of similar nature.

To ascertain the service fees referred to in paragraph (ii) above, the Group will obtain quotations from at least three independent commercial banks for services of similar nature to the relevant category of other financial services and compare to those obtained by the Group from COSCO SHIPPING Finance.

Historical amounts:

The daily cash balance(s) of all cash deposits accounts of member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges in respect of settlement services, remittance services and entrusted loan services) paid by the Group to COSCO Finance in connection with the transactions (except transactions in connection with the provision of loan services) contemplated under the Existing Financial Services Master Agreement in respect of each of the financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019 were RMB803,153,649, RMB448,562,769 and RMB392,169,270 respectively.

The aggregate amount of all fees (including service fees and handling charges for other financial services) paid by the Group to COSCO Finance for the two years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 were RMB7,534, RMB1,535 and RMB17,901 respectively.

LETTER FROM THE BOARD

Caps and basis of determination of such Caps:

The Caps of the transactions contemplated under the New Financial Services Master Agreement and the basis of determination of such Caps are set out as follows:

	Caps for the year ending 31 December		
	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Amount of daily cash balance(s) of all cash deposits accounts of member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO SHIPPING Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the New Financial Services Master Agreement	1,075,000,000	1,130,000,000	1,185,000,000

The above Caps are calculated by aggregating the estimated maximum amount of daily cash balance(s) of all cash deposits accounts of each member of the Group maintained with COSCO SHIPPING Finance in the PRC with the estimated appropriate fees payable by the Group per year, with reference to the respective highest daily deposit amounts placed by each relevant member of the Group with COSCO Finance at different points of time during the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019, together amounting to approximately RMB1,107,000,000. In determining the above Caps, the Company has (a) examined and compared the recent transactions amounts of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New Financial Services Master Agreement for the years of 2020 to 2022; (c) considered the growth trend of the relevant businesses and in particular the strategies of the treasury management of the Group taking into account the business development plans, financial needs and anticipated cash flow of the Group as well as the

LETTER FROM THE BOARD

expected growth in the business of the Group, including the funding requirement for operation of asphalt business; and (d) considered the increase in the amount of daily deposit amounts by certain non-wholly owned subsidiaries.

Since the historical amounts of the service fees and handling charges for other financial services are immaterial and the Board currently expects that such service fees and handling charges will be immaterial during the term of the New Financial Services Master Agreement, the Company considers that there is no need to separate the annual caps for (a) the maximum amount of daily balance(s) of all cash deposits accounts of member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and (b) all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO SHIPPING Finance for transactions contemplated under the New Financial Services Master Agreement (except transactions in connection with the loan services).

Relationship between the Company and the connected persons:

Being the ultimate holding company and immediate holding company of the Company respectively, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) together with their associates are connected persons of the Company. COSCO SHIPPING Finance, being a subsidiary of COSCO SHIPPING, is also a connected person of the Company. Accordingly, the New Financial Services Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Listing Rules implications:

As the applicable percentage ratios for the Caps of the transactions (except loan services to be provided by COSCO SHIPPING Finance) contemplated under the New Financial Services Master Agreement are expected to be higher than 5% on an annual basis, such transactions are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The provision of deposit services to the Group under the New Financial Services Master Agreement also constitutes the provision of financial assistance by the Group to COSCO SHIPPING Finance under Rule 14.04(1)(e) of the Listing Rules. Since the applicable percentage ratios for the provision of such deposit services and the other financial services (except loan services) under the New Financial Services Master Agreement exceeds 25%, it constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

The provision of loan services to the Group under the New Financial Services Master Agreement also constitutes the provision of financial assistance to the Group by COSCO SHIPPING Finance. As the loan transactions will be conducted on normal commercial terms or terms better to the Group and they will not be secured by the assets of the Group, pursuant

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to Rule 14A.90 of the Listing Rules, the loan transactions contemplated under the New Financial Services Master Agreement are exempt from shareholders' approval and annual review requirements.

CAPITAL RISK CONTROL MEASURES UNDER THE NEW FINANCIAL SERVICES MASTER AGREEMENT

Under the New Financial Services Master Agreement, COSCO SHIPPING Finance shall:

- (i) in order to ensure the security of the funds of the members of the Group, ensure that the funds management information system (a) operates safely, (b) has attained the security standards for commercial banks in the PRC, and (c) has adopted the certification authority security certificate mode;
- (ii) operate strictly in compliance with the risk monitoring indicator guidelines for finance companies issued by the CBIRC from time to time, and ensure that its main regulatory indicators such as gearing ratio and liquidity ratio comply with the requirements of the CBIRC and other relevant PRC laws and regulations; and
- (iii) submit monthly financial statements to the Company by the fifth business day of the following month.

Further, under the New Financial Services Master Agreement, if any member of the Group cannot withdraw any or all of the deposits placed with COSCO SHIPPING Finance, the Group has the right to offset such deposit amounts against any amounts of outstanding loan owing by the Group to COSCO SHIPPING Finance. On the other hand, if any member of the Group is unable to repay the outstanding loans owing by the Group to COSCO SHIPPING Finance (whether in part or in full), COSCO SHIPPING Finance has the right to offset such outstanding loans due from the Group against the deposits placed by the Group with COSCO SHIPPING Finance.

In practice, the Group usually diversifies the cash deposits with a number of banks and financial institutions in order to obtain more competitive deposit interest rates for securing higher yields. The finance & accounting division of the Company will monitor the interest rates on deposits as well as service fees charged for other financial services by the People's Bank of China and other major commercial banks in the PRC as shown on their respective official websites from time to time.

In respect of the deposits placed by the Group with COSCO SHIPPING Finance, the articles of association of COSCO SHIPPING Finance states that COSCO SHIPPING (being the ultimate holding company of the Company) has undertaken to increase the capital of COSCO SHIPPING Finance in the event that COSCO SHIPPING Finance has difficulty in fulfilling its payment obligation. This provides an assurance to the Group on the safety and liquidity of the Group's deposited funds with COSCO SHIPPING Finance.

LETTER FROM THE BOARD

The finance & accounting division of the Company will closely monitor the transactions under the New Financial Services Master Agreement and will report to the management of the Company on a regular basis.

The aforesaid capital risk control measures will be able to mitigate the financial risks which may be exposed to the Company to the largest extent, and safeguard the interests of the Company and its shareholders. The Directors are of the view that the above capital risk control measures are reasonable and effective in monitoring the relevant transactions in all material respects.

PAYMENT TERMS

For the transactions contemplated under the New Master Supply Agreement, payment terms will vary from 30 days to 120 days credits depending on the market practices for different categories of services and transactions contemplated thereunder.

For the transactions contemplated under the New Fuel Oil Master Agreement, payment terms will usually be around 30 days credits.

For the transactions contemplated under the New Financial Services Master Agreement, payment terms will be agreed with reference to customary business practices.

Given that the payment terms with various trading parties including COSCO SHIPPING Group and other independent third parties are determined after considering certain applicable factors including the types of the respective trading parties' transaction and payment history, market position and creditworthiness, and all payment terms under the New Agreements will be negotiated on arm's length basis which are in line with prevailing market practices and are no less favourable to the Group than those available to or from independent third party, the Board is of the view that the payment terms of the New Agreements are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP AND THE CONNECTED PERSONS

The Group is principally engaged in the provision of shipping services and general trading.

COSCO SHIPPING Group is one of the largest shipowners in the world.

COSCO SHIPPING is principally engaged in shipping, terminal, logistics, shipping finance, equipment manufacturing and shipping services etc..

COSCO SHIPPING (Hong Kong) is principally engaged in shipping services, expressways investment, property investment and management, information technology, industrial manufacturing and marine fuel oil trading, etc..

COSCO SHIPPING Finance is a non-bank financial institution approved and regulated by the People's Bank of China and the CBIRC and is principally engaged in providing financial services to the COSCO SHIPPING Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

By entering into the New Master Supply Agreement and the New Fuel Oil Master Agreement and the transactions contemplated thereunder, the Group will benefit in securing the market share and be facilitated to develop further business in relation to the shipping services businesses.

By entering into the New Financial Services Master Agreement and the transactions contemplated thereunder, the Group will benefit in negotiating more favourable terms with COSCO SHIPPING Finance, an intra-group service provider as compared with other commercial banks or financial institutions. In view of the cooperation history between COSCO SHIPPING Finance and the Company, the Group is expected to benefit from COSCO SHIPPING Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks.

The Directors (including the independent non-executive Directors) are of the view that the Continuing Connected Transactions and the Major Transaction are and will be entered into in the ordinary and usual course of business of the Group and are and will be on normal commercial terms and the terms thereof and the Caps in relation to the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

While some of the Directors (none of which are independent non-executive Directors) are also directors of COSCO SHIPPING (Hong Kong), the details of which are set out in the section headed "DISCLOSURE OF INTERESTS" in Appendix II to this circular, none of the Directors will be involved in the negotiation of the individual agreements contemplated under the New Agreements nor will derive personal gains from the Group entering into the New Agreements and the transactions contemplated thereunder. As such, none of the Directors has a material interest in the New Agreements. Accordingly, none of them is required to abstain from voting on the relevant board resolutions to approve the New Agreements and the transactions contemplated thereunder under the Bye-laws or the Listing Rules.

INTERNAL CONTROL PROCEDURES FOR THE GROUP

In addition to the annual review by the auditors and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, as part of the Group's internal controls systems to ensure that the transactions between the Group and its connected persons are conducted in accordance with the pricing policy under the New Agreements, the Company will implement the following internal control arrangements:

- (a) The Company has formulated "Connected Transaction Management Method" which was incorporated into the rules and regulations of the Company. All divisions of the Company and its subsidiaries must follow the requirements under "Connected Transaction Management Method".

LETTER FROM THE BOARD

- (b) The internal audit team of the Company will regularly examine the pricing of transactions under the New Agreements including reviewing the transaction records of the Company for the purchase or provision of similar goods or services from or to independent third parties.
- (c) Connected transaction coordination working team (the “**Working Team**”), comprising, among others, responsible persons of various functional divisions of the Company, was set up. Any proposed new connected transaction would be reported to the Working Team in order to carry out all necessary compliance procedures before entering into such connected transaction.
- (d) Connected transaction amounts incurred with 2 months forecast would be updated on monthly basis by the colleagues of subsidiaries of the Company and various functional divisions through an intranet system. Members of the Working Team are responsible for overseeing the connected transaction amounts incurred in a timely manner such that the transactions can be conducted within the annual caps.

The Directors are of the view that the above methods and procedures can ensure that the pricing and other contract terms for the Group’s continuing connected transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders and that the continuing connected transactions are conducted as agreed in the relevant New Agreement and in compliance with Chapter 14A of the Listing Rules.

IMPLICATIONS ON THE LISTING RULES

As the applicable percentage ratios for the Caps in relation to the Continuing Connected Transactions are expected to be higher than 5% on an annual basis, the Continuing Connected Transactions and the Caps in relation thereto are subject to the reporting, announcement, shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

The provision of deposit services to the Group under the New Financial Services Master Agreement also constitutes the provision of financial assistance by the Group to COSCO SHIPPING Finance under Rule 14.04(1)(e) of the Listing Rules. Since the applicable percentage ratios for the provision of such deposit services and the other financial services (except loan services) under the New Financial Services Master Agreement exceeds 25%, it constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements thereunder.

The provision of loan services to the Group under the New Financial Services Master Agreement also constitutes the provision of financial assistance to the Group by COSCO SHIPPING Finance. As the loan transactions will be conducted on normal commercial terms or terms better to the Group and they will not be secured by the assets of the Group, pursuant to Rule 14A.90 of the Listing Rules, the loan transactions contemplated under the New Financial Services Master Agreement are exempt from shareholders’ approval and annual review requirements.

LETTER FROM THE BOARD

The SGM will be convened for the Independent Shareholders to approve the New Master Supply Agreement, the New Fuel Oil Master Agreement, the New Financial Services Master Agreement (except loan services contemplated thereunder), the transactions contemplated thereunder and the Caps in relation thereto by poll.

In view of the interests of COSCO SHIPPING and COSCO SHIPPING (Hong Kong) in the Company, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) and their respective associates will abstain from voting in relation to the resolutions to approve the New Master Supply Agreement, the New Fuel Oil Master Agreement and the New Financial Services Master Agreement (except loan services contemplated thereunder) and the Caps in relation thereto.

As at the Latest Practicable Date, COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and their respective associates were interested in, controlled and were entitled to exercise control over 1,013,641,486 Shares, representing approximately 66.12% of the issued share capital of the Company.

SGM

There is set out on pages 63 to 65 of this circular a notice convening the SGM to be held at 47/F., COSCO Tower, 183 Queen's Road Central, Hong Kong on Monday, 30 December 2019 at 11:00 a.m. at which ordinary resolutions will be proposed for the approval by the Independent Shareholders the Continuing Connected Transactions, the Major Transaction and the Caps.

Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong but in any event not later than forty-eight (48) hours before the time appointed for the holding of the SGM or any adjournment thereof. The completion and return of the enclosed form of proxy will not preclude you from attending and voting at the SGM or any adjournment should you so wish.

Shareholders whose names appear in the share register of members of the Company as at the close of business on Friday, 27 December 2019 are entitled to attend and vote at the SGM. In order to be eligible to attend and vote at the meeting, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 December 2019.

In compliance with the Listing Rules and pursuant to the Bye-laws, the votes to be taken at the SGM in respect of the Continuing Connected Transactions, the Major Transaction and the Caps will be taken by poll, the results of which will be announced after the SGM.

Tricor Abacus Limited, the Company's branch share registrar and transfer office in Hong Kong, will serve as the scrutineer for the vote-taking.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Continuing Connected Transactions, the Major Transaction and the Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the resolutions to be proposed in the SGM to approve the Continuing Connected Transactions, the Major Transaction and the Caps.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser which are respectively set out on page 26 and pages 27 to 52 of this circular. Additional information is also set out in the Appendices to this circular for your information.

By Order of the Board
COSCO SHIPPING International (Hong Kong) Co., Ltd.
Zhu Jianhui
Vice Chairman and Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中遠海運國際(香港)有限公司

COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

9 December 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

We refer to the circular dated 9 December 2019 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Continuing Connected Transactions, the Major Transaction and the Caps and to advise the Independent Shareholders as to the fairness and reasonableness of the same. The Independent Financial Adviser, Ballas Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 25 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, the Major Transaction and the Caps as set out on pages 27 to 52 of the Circular.

After taking into consideration the advice from the Independent Financial Adviser, we concur with the views of the Independent Financial Adviser and consider that, as far as the Independent Shareholders are concerned, the terms of the Continuing Connected Transaction, the Major Transaction and the Caps are fair and reasonable, and the Continuing Connected Transactions, the Major Transaction and the Caps are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms and in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed in the SGM to approve the Continuing Connected Transactions, the Major Transaction and the Caps.

Yours faithfully,
Tsui Yiu Wa, Alec
Jiang, Simon X.
Alexander Reid Hamilton
Independent Board Committee

BALLAS
C A P I T A L

Unit 1802, 18/F
1 Duddell Street
Central
Hong Kong

9 December 2019

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND MAJOR TRANSACTION**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 9 December 2019, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Group has been carrying out various continuing connected transactions under the Existing Agreements each of which will expire on 31 December 2019. The Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time and therefore has entered into the New Agreements on 18 November 2019. The New Agreements comprise the New Master Supply Agreement, the New Fuel Oil Master Agreement and the New Financial Services Master Agreement.

Being the ultimate holding company and immediate holding company of the Company respectively, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) together with their associates are connected persons of the Company. Accordingly, the New Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company. As the applicable percentage ratios for the Caps in relation to the Continuing Connected Transactions exceed 5% on an annual basis, the Continuing Connected Transactions and the Caps in relation thereto are subject to the reporting, announcement, independent shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules. In view of the interests of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

COSCO SHIPPING and COSCO SHIPPING (Hong Kong) in the Company, COSCO SHIPPING and COSCO SHIPPING (Hong Kong) and their respective associates will abstain from voting in relation to the resolutions to approve the New Agreements and the Caps in relation thereto.

The independent board committee comprising all independent non-executive Directors, namely Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Caps.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company. The Directors have declared in a responsibility statement set out in the Appendix II to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We have reviewed documents including but not limited to the Company's internal procedures on continuing connected transactions, transaction documents of the Group's historical transactions with COSCO SHIPPING Group and independent third parties, underlying calculations of the proposed caps, the number of fleets owned by COSCO SHIPPING Group, and latest orders on hand for new vessels. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, COSCO SHIPPING (Hong Kong) or COSCO SHIPPING or any of their respective subsidiaries or associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, our sole responsibility is to ensure that such information has been correctly extracted from the relevant sources.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice, we have considered the following principal factors and reasons:

A. Background and reasons for entering into the New Agreements

Information on the Group

The Group is principally engaged in the provision of shipping services and general trading. The Company operates through six segments. Coatings segment is engaged in the production and sale of coatings. Marine equipment and spare parts segment is engaged in the trading of marine equipment and spare parts. Ship trading agency segment is engaged in the provision of agency services related to shipbuilding, ship trading and chartering businesses. Insurance brokerage segment is engaged in the provision of insurance brokerage services. Marine fuel and other products segment is engaged in the trading of marine fuel and other related products. General trading segment is engaged in the trading of asphalt and other products.

COSCO SHIPPING Group is one of the largest ship owners in the world. COSCO SHIPPING (Hong Kong) is the immediate holding company of the Company and is wholly-owned by COSCO SHIPPING. COSCO SHIPPING (Hong Kong) is principally engaged in shipping services, expressways investment, property investment and management, information technology, industrial manufacturing and marine fuel oil trading, etc..

The New Master Supply Agreement

Pursuant to the New Master Supply Agreement, the Group will supply products and provide services to COSCO SHIPPING Group as set out below from 1 January 2020 to 31 December 2022 (both dates inclusive):

1. provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group; and
2. provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation:
 - (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea or on land and ports, (ii) radio communication, satellite communication, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and
- (c) the sale of coatings.

Given the above, in particular the nature of the transactions as contemplated under the New Master Supply Agreement, the principal business of the Group as stated above and our analysis on the major terms of the said agreement (as elaborated below), we concur with the view of the management of the Company that the entering into of the New Master Supply Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

The New Fuel Oil Master Agreement

Pursuant to the New Fuel Oil Master Agreement, the Group and COSCO SHIPPING Group will conduct the trading and supply of fuel oil and/or related products and services as set out below from 1 January 2020 to 31 December 2022 (both dates inclusive):

1. purchase or sale of fuel oil and related products including asphalt by the relevant member(s) of the Group from or to the relevant member(s) of COSCO SHIPPING Group; and
2. provision of services by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group to carry out arrangements at the instruction of and for and on behalf of the relevant member(s) of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the relevant member(s) of the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its Fuel Oil Business.

Given the above, in particular the nature of the transactions as contemplated under the New Fuel Oil Master Agreement, the principal business of the Group as stated above and our analysis on major terms of the said agreement (as elaborated below), we concur with the view of the management of the Company that the entering into of the New Fuel Oil Master Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The New Financial Services Master Agreement

Pursuant to the New Financial Services Master Agreement, COSCO SHIPPING Finance shall provide a range of financial services, including the deposits services, loan services, settlement services, remittance services, entrusted loan services (as lending agent in entrusted loan arrangements among members of the Group) and acceptance bill services to the Group from 1 January 2020 to 31 December 2022.

COSCO SHIPPING Finance is a non-bank financial institution established with the approval of the People's Bank of China (“**PBOC**”) and operates under the relevant guidelines and requirements of CBIRC, which, pursuant to the relevant guidelines and requirements of 企業集團財務公司管理辦法 (translated as the Administration of the Finance Companies of Enterprises Groups Measures) (the “**Measures**”) issued by the China Banking Regulatory Commission (“**CBRC**”), which was subsequently merged to form CBIRC in April 2018, and effective on 28 December 2006, is allowed to provide treasury and other financial services to member companies of COSCO SHIPPING Group and the Group. Pursuant to the Measures, finance companies (including COSCO SHIPPING Finance) are subject to supervision and administration by CBIRC. The regulations on such finance companies are more stringent than those on commercial banks in certain respects, for example the capital adequacy ratio for finance companies of enterprise groups shall not be lower than 10% whereas such threshold for commercial banks is 8% as stipulated in 商業銀行資本管理辦法(試行) (translated as the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)) issued by CBRC and effective on 1 January 2013. We also noted from the articles of association of COSCO SHIPPING Finance that, COSCO SHIPPING (being the ultimate holding company of the Company) undertakes to increase the capital of COSCO SHIPPING Finance in the event that COSCO SHIPPING Finance has difficulty fulfilling its payment obligation. Under the New Financial Services Master Agreement, COSCO SHIPPING Finance agrees to deliver monthly financial statements to the Company on the fifth business day of the next month. We consider that such information right granted to the Company would facilitate the Group's better understanding and monitoring of the risk profile of COSCO SHIPPING Finance.

Furthermore, as advised by the Company, COSCO SHIPPING Finance, as an intra-group service provider, is more familiar with the business development of the Group and COSCO SHIPPING Group, and generally has better and more efficient communication with the Group and better understanding of the Group's operations and needs for financial services as compared to independent commercial banks and financial institutions. The Group may be able to negotiate more favourable terms with COSCO SHIPPING Finance as compared with independent commercial banks and financial institutions. As such, we concur with the view of the Directors that as compared with independent commercial banks in the PRC, COSCO SHIPPING Finance shall be in a better position to provide the Group with more expedient and efficient financial services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the above and our analysis on major terms of the said agreement (as elaborated below), we are of the view that the entering into of the New Financial Services Master Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

B. Major terms of the New Agreements

The New Master Supply Agreement

The New Master Supply Agreement sets out the general terms and conditions governing the relevant continuing connected transactions and at any time during the term of the New Master Supply Agreement, the relevant member(s) of COSCO SHIPPING Group and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or purchase order(s) may be issued by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and approved by the latter, or invoice(s) or sales order(s) may be issued by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group and approved by the latter (as appropriate) from time to time in relation to any of the products, services or other subject matters contemplated under the New Master Supply Agreement upon and subject to the terms and conditions in compliance with those of the New Master Supply Agreement as may be agreed between the relevant parties.

According to the New Master Supply Agreement, the transactions contemplated under the said agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The New Master Supply Agreement also provides that if the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group are unable to reach an agreement on terms of a specific transaction, none of them shall be obliged to enter into the relevant transaction.

As disclosed in the Letter from the Board, the amount of service fees payable by COSCO SHIPPING Group under the New Master Supply Agreement will be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services). As advised by the Company, the services fees for insurance brokerage services would be certain fixed percentages of the fee received by the insurance company, and the services fees for the shipping agency services would be certain fixed percentages of the selling price of the vessel. We understand from the Company that these fixed percentages are determined based on the prevailing market rates, and are applicable to all customers of the Group including both COSCO SHIPPING Group and the independent third parties.

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The prices offered to COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively.

For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (including COSCO SHIPPING Group and at least three independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively.

We have discussed with the Company and understood that the Group has in place internal procedures to ensure the relevant continuing connected transactions as contemplated under the New Master Supply Agreement will be (i) conducted on normal commercial terms; (ii) negotiated on an arm's length basis; and (iii) at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. We have obtained and reviewed the internal procedures of the Company with respect to the continuing connected transactions of the Company. Based on our work done, we are of the view that the Group has in place appropriate procedures to ensure that the pricings are determined on normal commercial terms. We have obtained from the Company and reviewed the transaction documents of the selected samples relating to the Group's historical transactions under the existing agreement and those with independent third parties for the comparable services or products. Based on our review, we note that there was a market reference to determine the pricing terms offered by the Group to COSCO SHIPPING Group being fair and reasonable to the Group and on normal commercial terms.

As stated in the Letter from the Board, for the transactions contemplated under the New Master Supply Agreement, payment terms will vary from 30 days to 120 days credits depending on the market practices for different categories of services and transactions contemplated thereunder. Given that the payment terms with various trading parties including COSCO SHIPPING Group and other independent third parties are determined after considering certain applicable factors including the types of the respective trading parties' transaction and payment history, market position and creditworthiness, and all payment terms under the New Master Supply Agreement will be negotiated on arm's length basis which are in line with prevailing market practices and are no less favourable to the Group than those available to or from independent third

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party, we concur with the view of the Board that the payment terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given the above, we concur with the view of the Directors that the terms of the New Master Supply Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The New Fuel Oil Master Agreement

The New Fuel Oil Master Agreement sets out the general terms and conditions governing the Fuel Oil Transactions and the Fuel Oil Financial Services, and at any time during the term of the New Fuel Oil Master Agreement, the relevant member(s) of COSCO SHIPPING Group and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or invoice(s), purchase order(s) or sales order(s) may be issued by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and approved by the latter or vice versa, or the relevant member(s) of the Group may give specific written instruction(s) to the relevant member(s) of COSCO SHIPPING Group (as appropriate) in relation to any of the products, services or other subject matters contemplated under the New Fuel Oil Master Agreement upon and subject to the terms and conditions in compliance with those of the New Fuel Oil Master Agreement as may be agreed between the relevant parties.

According to the New Fuel Oil Master Agreement, the transactions contemplated under the said agreement shall be conducted on normal commercial terms and negotiated on arm's length basis. The service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The New Fuel Oil Master Agreement also provides that if the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group are unable to reach an agreement on terms of a specific transaction, none of them shall be obliged to enter into the relevant transaction.

As disclosed in the Letter from the Board, in respect of the Fuel Oil Financial Services, it is intended that (i) the relevant member(s) of COSCO SHIPPING Group will not charge member(s) of the Group any service fee in relation to the provision of the Fuel Oil Financial Services; (ii) member(s) of the Group shall only be responsible for all the amounts payable to independent third parties (together with the related handling fees and other charges charged by such independent third parties) by relevant member(s) of COSCO SHIPPING Group for and on behalf of member(s) of the Group under the fuel oil and/or related products swap contracts and/or derivatives.

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For the Fuel Oil Transactions, the service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and for this purpose, the following pricing policies will be followed:

- (a) fixed per unit consideration will be payable by or to the Group (as appropriate);
- (b) in determining the market rates for sale or purchase of fuel oil and/or related products including asphalt, the parties will refer to the mean price of fuel oil traded through Singapore as published by S&P Global Platts or market price of fuel oil as published by the government authority or other recognised organisations of supply ports in the pricing month or at the time of quotation as reference; and
- (c) the Group will also consider the prices offered to or by at least three independent third parties (based on similar quantity of fuel oil and related products) and compare to those offered to or by COSCO SHIPPING Group. In particular, the relevant sales or purchasing department (as appropriate) of the related companies within the Group will compare the selling price offered to or by different parties (both COSCO SHIPPING Group and at least three independent third parties) in respect of a similar quantity of fuel oil and related products for comparison.

We have discussed with the Company and understood that the Group has in place internal procedures to ensure the relevant continuing connected transactions as contemplated under the New Fuel Oil Master Agreement will be (i) conducted on normal commercial terms; (ii) negotiated on an arm's length basis; and (iii) at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. We have obtained and reviewed the internal procedures of the Company with respect to the continuing connected transactions of the Company. Based on our work done, we are of the view that the Group has in place appropriate procedures to ensure that the pricings are determined on normal commercial terms. Regarding the Fuel Oil Transactions, we have obtained from the Company and reviewed the transaction documents of the selected samples relating to the Group's historical fuel oil transactions under the existing agreement and those with independent third parties of the Group for the comparable transactions. Based on our review, we note that there was a market reference to determine the pricing terms of the Fuel Oil Transactions being fair and reasonable to the Group and on normal commercial terms.

Regarding the Fuel Oil Financial Services, we understood from the Company that it is COSCO SHIPPING Group's policy to centralize all hedging activities within COSCO SHIPPING Group and the Group to several designated subsidiaries of COSCO SHIPPING Group which are responsible for handling all the hedging contracts with

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independent third parties. The transaction amounts for the Fuel Oil Financial Services are equal to the amounts payable to independent third parties for the fuel oil and/or related products swap contracts and/or derivatives, and COSCO SHIPPING Group does not charge any commission fee to the Group for handling such hedging contracts.

As stated in the Letter from the Board, for the transactions contemplated under the New Fuel Oil Master Agreement, payment terms will usually be around 30 days credits. Given that the payment terms with various trading parties including COSCO SHIPPING Group and other independent third parties are determined after considering certain applicable factors including the types of the respective trading parties' transaction and payment history, market position and creditworthiness, and all payment terms under the New Fuel Oil Master Agreement will be negotiated on arm's length basis which are in line with prevailing market practices and are no less favourable to the Group than those available to or from independent third party, we concur with the view of the Board that the payment terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given the above, we concur with the view of the Directors that the terms of the New Fuel Oil Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The New Financial Services Master Agreement

The New Financial Services Master Agreement sets out the general terms and conditions governing the relevant continuing connected transactions, and at any time during the New Financial Services Master Agreement, COSCO SHIPPING Finance and the relevant member(s) of the Group may from time to time enter into individual agreement(s), or invoice(s) may be issued by COSCO SHIPPING Finance to the relevant member(s) of the Group and approved by the latter (as appropriate) in relation to any of the services contemplated under the New Financial Services Master Agreement upon and subject to the terms and conditions in compliance with those of the New Financial Services Master Agreement as may be agreed between the relevant parties. The New Financial Services Master Agreement also provides that the Company has the right to, based on its business requirements, choose any financial institutions to provide the most appropriate financial services to the Group.

According to the New Financial Services Master Agreement, the transactions contemplated under the New Financial Services Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the terms of the transactions (including the interest receivable by the Group and the fees (including the service fees and handling charges) payable under the financial services to COSCO SHIPPING Finance) shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties.

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We have discussed with the Company and understood that the Group has in place internal procedures to ensure the relevant continuing connected transactions as contemplated under the New Financial Services Master Agreement will be (i) conducted on normal commercial terms; (ii) negotiated on an arm's length basis; and (iii) at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. We have obtained and reviewed the internal procedures of the Company with respect to the continuing connected transactions of the Company. Based on our work done, we are of the view that the Group has in place appropriate procedures to ensure that the pricings are determined on normal commercial terms.

Based on the information provided by the Company, the pricing principles for the financial services to be provided by COSCO SHIPPING Finance to the Group are as follows:

Service nature	Pricing principle
Deposit services	<p>The interest rate for such deposit services shall be no lower than:</p> <ul style="list-style-type: none">(i) the floor rate for the same category of deposit services stipulated by PBOC from time to time; and(ii) the rate for the same category of deposit services offered by independent commercial banks in the PRC. <p>To ascertain the rate referred to in paragraph (ii) above, the Group will obtain quotations from at least three independent commercial bank(s) for the same category of deposit services and compare to those obtained by the Group from COSCO SHIPPING Finance.</p>
Other services	<p>Service fees of other services approved by CBIRC shall be determined in accordance with the following pricing principles:</p> <ul style="list-style-type: none">(i) the price to be complied with the fee standards prescribed by PBOC or CBIRC;(ii) no higher than those charged by independent commercial banks in the PRC for services of similar nature; and

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(iii) no higher than those charged by COSCO SHIPPING Finance to other member company(ies) of COSCO SHIPPING Group for services of similar nature.

To ascertain the service fees referred to in paragraph (ii) above, the Group will obtain quotations from at least three independent commercial bank(s) for services of similar nature to the relevant category of other financial services and compare to those obtained by the Group from COSCO SHIPPING Finance.

During the term of the Existing Financial Services Master Agreement, COSCO Finance provided deposit services to the Group. We have reviewed the information provided by the Company relating to the deposit interest rates offered by COSCO Finance and those offered by independent commercial banks to the Group and note that the deposit interest rates offered by COSCO Finance were more favourable to the Group than those offered by independent commercial banks.

Further, the New Financial Services Master Agreement provides that in the event that the Group cannot withdraw all or part of its deposits placed with COSCO SHIPPING Finance, the Group shall have the right to offset the deposit amounts due to the Group from COSCO SHIPPING Finance against the loans advanced by COSCO SHIPPING Finance to the Group. On the other hand, in the event that the Group cannot repay all or part of the loans advanced by COSCO SHIPPING Finance to the Group, COSCO SHIPPING Finance shall have the right to offset the outstanding loan amounts due from the Group to COSCO SHIPPING Finance against the deposits placed by the Group with COSCO SHIPPING Finance.

As stated in the Letter from the Board, for the transactions contemplated under the New Financial Services Master Agreement, payment terms will be agreed with reference to customary business practices. We concur with the view of the Board that the payment terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given the above, we concur with the view of the Directors that the terms of the New Financial Services Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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C. The Caps

The caps for the New Master Supply Agreement

Set out below are the details of (i) the historical transaction amounts of the transactions contemplated under the Existing Master Supply Agreement for each of the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019 (the “**Review Period**”); and (ii) the proposed caps for the transactions contemplated under the New Master Supply Agreement (the “**Master Supply Caps**”) for each of the three financial years ending 31 December 2022:

(i) *Historical transaction amounts*

	For the financial year ended		For the nine
	31 December		months ended
	2017	2018	30 September
	<i>HK\$</i>	<i>HK\$</i>	2019
			<i>HK\$</i>
Aggregate amount recognized by the Group for the transactions contemplated under the Existing Master Supply Agreement	1,239,337,189	1,111,883,956	998,698,477

(ii) *Master Supply Caps*

	For the financial year ending 31 December		
	2020	2021	2022
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Aggregate amount receivable by the Group for the transactions contemplated under the New Master Supply Agreement	1,600,000,000	1,690,000,000	1,780,000,000

As stated in the Letter from the Board, in determining the above Master Supply Caps, the Company has (a) examined and compared the recent performance of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New

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Master Supply Agreement for the years of 2020 to 2022; and (c) considered the growth trend of the relevant businesses, the market conditions and in particular the following factors:

- (i) the recent price movement and trend of the vessels;
- (ii) the premium rate movement and trend quoted by insurance underwriters;
- (iii) the trend of shipping market in the forthcoming years;
- (iv) the expected increase in demand for ship trading agency services, marine equipment and spare parts for new build and existing vessels;
- (v) the expected increase in demand for insurance brokerage services including members of COSCO SHIPPING recently acquired and from re-insurance business in the forthcoming years; and
- (vi) the expected increase in demand for coatings from container manufacturers within COSCO SHIPPING Group of which business has been expanded by recent acquisition.

In assessing the fairness and reasonableness of the Master Supply Caps, we have discussed with the management of the Company to understand the principal basis and assumptions in the determination of the relevant caps, and reviewed the calculations of the caps provided by the Company. We understand that the Master Supply Caps are arrived at based on the aggregate estimated income mainly generated from (i) the provision of supply, installation, repair, logistics and agency services in relation to (a) existing and newly-built vessels, (b) oil drilling (onshore or offshore) projects, and (c) radio communication, satellite communication, navigation equipment and other materials; (ii) the sale of coatings (items (i) and (ii) collectively the “**Main Services**”); (iii) the provision of ship agency services; and (iv) the provision of insurance brokerage services.

Based on the cap calculation provided by the Company, we note that among the four categories of transactions as described above, the proposed caps for 2020 to 2022 relating to the provision of the Main Services by the Group represent approximately 86.0%, 86.3% and 86.1% of the Master Supply Caps for 2020, 2021 and 2022 respectively and the increase in the Master Supply Caps as compared to the historical amounts is also mainly attributable to the increase in the cap amount for the Main Services.

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We note that the transaction amount in relation to the provision of the Main Services by the Group is projected to grow in 2020 by approximately 14.6% as compared to the annualized amount for 2019. We have discussed with the Company and were advised that such projected growth in 2020 is determined after taking into account:

- (i) the estimated increase in the demand from COSCO SHIPPING Group for such services in light of the increase in number of fleets to be served by the Group with the ongoing business expansion of COSCO SHIPPING Group. In this regard, we have reviewed the information of the number of fleets owned by the COSCO SHIPPING Group in 2017 and that owned by COSCO SHIPPING Group currently, and note that the number of fleets increased by around 17.3% during the period;
- (ii) the expected increase in demand for the Group's coating products in view of COSCO SHIPPING Group's acquisition of a group of companies comprising Qidong Singamas Energy Equipment Co., Ltd., Qingdao Pacific Container Co., Ltd., Ningbo Pacific Container Co., Ltd., Singamas Container Holdings (Shanghai) Limited and Qidong Pacific Port Co., Ltd (collectively, the "**Singamas Group**") which are engaged in, among others, the manufacturing of dry freight, specialised and refrigerated containers in 2019 as set out in the announcement published by Singamas Container Holdings Limited (stock code: 716) on 6 May 2019; and
- (iii) the expected increase in demand for the Group's coating products from the COSCO SHIPPING Group. In this connection, we obtained and reviewed the internal guideline issued by COSCO SHIPPING in which it is set out that for container orders within the relevant members of COSCO SHIPPING Group, the relevant companies shall purchase container coating products from the Group.

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The cap amount for each of 2021 and 2022 for the provision of the Main Services is estimated to increase by approximately 6.0% and 5.1%, respectively, as compared to the cap of the Main Services of the immediately preceding year. We have discussed with the Company and understand that the aforesaid growth rates were determined after taking into account inflation and organic business growth. We note that the assumed growth rate of 6.0% and 5.1% for 2021 and 2022 respectively is relatively consistent with the growth rate of the estimated gross domestic product amounts of the PRC in current prices in 2021 (being approximately RMB111.2 trillion) as compared to 2020 (being approximately RMB102.8 trillion), and that of 2022 (being approximately RMB120.0 trillion) as compared to 2021 (being approximately RMB111.2 trillion) based on the statistics set out in the October 2019 edition of the International Monetary Fund's World Economic Outlook Database.

Based on the above, we are satisfied that the basis and assumptions used in determining the proposed caps for the provision of the Main Services by the Group is fair and reasonable.

Approximately 6.9% of the Master Supply Caps for 2020 is attributable to the estimated commission income from the provision of ship agency services by the Group. We note that the proposed cap for 2020 represent a discount of 21.0% to the historical transaction amount for 2017 (being the year which recorded the highest annual transaction amount during the Review Period). We have discussed with the Company and understand that the proposed cap for 2020 is determined taking into account the drop in transaction amounts in 2019 due to decrease in number of new vessels delivered to COSCO SHIPPING Group, and the expected number of new vessels to be delivered to COSCO SHIPPING Group. As advised by the Company, the number of new vessels to be delivered to COSCO SHIPPING Group will increase in 2020 based on the latest orders on hand for new vessels and the Company's best estimate on the delivery schedule of vessels.

The cap amount for each of 2021 and 2022 for the commission income from the provision of ship agency services by the Group is estimated to increase by approximately 5.0%, as compared to the cap of the immediately preceding year, taking into account inflation and organic business growth.

Based on the above, we are satisfied that the basis and assumptions used in determining the proposed caps for the provision of ship agency services by the Group is fair and reasonable.

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Approximately 4.3% of the Master Supply Caps for 2020 is attributable to the estimated income generated from provision of insurance brokerage services by the Group. We note that the proposed cap for insurance brokerage income for 2020 represents an increase of approximately 12.5% as compared to the historical transaction amount for 2017 (being the year which recorded the highest annual transaction amount during the Review Period). We have discussed with the Company and understand that when determining the estimated insurance brokerage income for 2020, the Company has taken into account the expected increase in demand from Orient Overseas (International) Limited (stock code: 316) (“OOIL”), in view of the acquisition of 50.46% of the issued shares of OOIL in 2018 by COSCO SHIPPING Holdings Co., Ltd (stock code:1919) as set out in the joint announcements dated 7 July 2017 and 27 July 2018 and the composite offer document dated 6 July 2018 published by COSCO SHIPPING Holdings Co., Ltd. and OOIL, and the completion announcement dated 17 August 2018 published by OOIL. After the acquisition, the Company has been introducing insurance brokerage services to OOIL and it is expected that the demand of OOIL for such services will begin to grow in 2020. The cap amount for each of 2021 and 2022 for the provision of insurance brokerage services by the Group is estimated to increase by approximately 9.2% as compared to the cap of the immediately preceding year, which, as advised by the Company, was mainly taken into account the estimated increase in insurance brokerage fee mainly arising from the aging of the vessels to be insured, the expansion of different kinds of insurance to be provided by the Group, inflation and the increasing demand from OOIL. In this regard, we have reviewed the information provided by the Company relating to the insurance premium charged for different aging vessels, and note that the insurance premium charged for old vessels was higher than that charged for new vessels. We also note from the Company’s annual report for 2018 that, the Group will actively explore the demand for reinsurance business and non-marine insurance business to broaden its business scope while modifying its existing businesses. Based on the above, we are satisfied that the basis and assumptions used in determining the proposed caps for the provision of insurance brokerage services by the Group is justifiable.

Given the above, we are of the view that the basis for determining the Master Supply Caps for each of the three financial years ending 31 December 2022 is fair and reasonable.

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The caps for New Fuel Oil Master Agreement

Set out below are the details of (i) the historical transaction amounts of the transactions contemplated under the Existing Fuel Oil Master Agreement for each of the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; and (ii) the proposed caps for the transactions contemplated under the New Fuel Oil Master Agreement (the “**Fuel Oil Caps**”) for each of the three financial years ending 31 December 2022:

(i) *Historical transaction amounts*

	For the financial year ended 31 December		For the nine months ended
	2017	2018	30 September 2019
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Aggregate amount recognized by the Group for the Fuel Oil Transactions contemplated under the Existing Fuel Oil Master Agreement	45,409,908	49,201,044	5,954,457
— Aggregate amount paid by the Group for the Fuel Oil Transactions contemplated under the Existing Fuel Oil Master Agreement	21,042,669	34,667,576	5,948,210
— Aggregate amount received by the Group for the Fuel Oil Transactions contemplated under the Existing Fuel Oil Master Agreement	24,367,239	14,533,468	6,247

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(ii) *Fuel Oil Caps*

	For the financial year ending 31 December		
	2020	2021	2022
	US\$	US\$	US\$
Aggregate amount payable and receivable by the Group (but not offset) for the transactions contemplated under the New Fuel Oil Master Agreement	45,000,000	45,000,000	45,000,000

As disclosed in the Letter from the Board, in determining the above Fuel Oil Caps, the Company has (a) examined and compared the recent transaction amounts of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New Fuel Oil Master Agreement for the years of 2020 to 2022, including the recent decrease in fuel trading business; (c) considered the intended increase in demand for purchases of asphalt from COSCO SHIPPING Group including the current anticipated purchase of 47,000–53,000 tonnes of asphalt at a unit price of US\$370–430 in each of the forthcoming years commencing the year 2020; (d) considered the possible fluctuation in the price of fuel oil and related products as well as the possible rise in marine fuel costs when the International Maritime Organization’s regulation capping the global fuel sulphur limit at 0.50% coming into force in 2020, as compared with that in 2019; and (e) considered the possible hedging arrangement against the risk of fuel oil and related products price fluctuation under the fuel oil and related products transactions of the Group in the forthcoming years and anticipated that the trading and supply of fuel oil and related products (other than asphalt) and services between the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group will not exceed US\$22.0 million in each of the forthcoming years commencing the year 2020.

In assessing the fairness and reasonableness of the Fuel Oil Caps, we have discussed with the management of the Company to understand the principal basis and assumptions used in determination of the Fuel Oil Caps. We note that the Fuel Oil Caps represents the aggregate of the purchase of fuel oil and related products by the Group from COSCO SHIPPING Group and the sale of fuel oil and related products by the Group to COSCO SHIPPING Group. We note that the Fuel Oil Caps for 2020 represents a discount of approximately 8.5% of the historical transaction amount for 2018 (the year of which recorded the highest transaction amount during the Review Period). On other hand, we note that the historical transaction amount declined significantly by 83.9% for the nine months ended 30

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September 2019 (on an annualized basis). As advised by the Company, such decline was mainly attributable to the filing of liquidation of Coastal Oil Singapore Pte Ltd (“**Coastal Oil**”), a major supplier of Sinfeng Marine Services Pte. Ltd. (an indirect wholly-owned subsidiary of the Company) (“**Sinfeng**”), for marine fuel and related products. Details of which are set out in the announcement of the Company 4 January 2019 (the “**Liquidation Announcement**”). As stated in the Liquidation Announcement, for the year ended 31 December 2017 and the six months ended 30 June 2018, the purchase costs from Coastal Oil Singapore by Sinfeng represented approximately 94% and 93% of the total purchase costs of Sinfeng for the same period, respectively. It was also stated in the Liquidation Announcement that the Board expected that the revenue of the Group would decrease significantly unless and until alternative suppliers to Coastal Oil Singapore are identified.

We have discussed with the Company and understand that the Company had been using its best endeavours to identify alternative suppliers to Coastal Oil Singapore. The Group has recently commenced to place orders with alternative suppliers to fill up part of the marine fuel oil supply previously provided by Coastal Oil Singapore and is in the course of seeking other reliable alternative suppliers. The supply of fuel oil products to the Group is expected to be recovered gradually in 2020 onwards. In addition, the Group expects to commence purchasing of asphalt from COSCO SHIPPING Group for trading purpose from 2020. We note that the proposed volume of asphalt to be purchased from COSCO SHIPPING Group for the Group’s trading is less than the Group’s historical sales volume of asphalt for each of 2017, 2018 and the nine months ended 30 September 2019 (on an annualized basis). In determining the relevant cap, the Company has also taken into account the possible rise in price of fuel oil for the coming three years. As the fuel oil price has been volatile and driven by a number of global economic factors and in view of the new regulation to be implemented on 1 January 2020 by the International Maritime Organisation to apply a lower global sulphur cap of 0.50% for marine fuels, which is expected to increase the overall costs of marine fuels consumption, the Company considers that it is necessary to account for the possible increase in fuel oil price when determining the relevant caps. Furthermore, in respect of the expected transaction amount of trading and supply of fuel oil and related products and services other than asphalts of no more than US\$22 million, we note that it is less than the historical transaction amount for 2018 (the year of which recorded the highest transaction amount during the Review Period). Based on the above, we consider that the basis and assumptions used for determining the relevant cap for 2020, which is fixed at a level similar to the historical transaction amounts in 2017, is reasonable.

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We note that the Fuel Oil Cap for each of 2021 and 2022 is identical to that of 2020. As advised by the Company, the management of the Company believes that the basis and assumptions adopted for determining the cap amount for 2020 as discussed above is sufficient to cater for the possible increase in volume and price in each of 2021 and 2022, and hence maintains the cap at the same level for each of 2020, 2021 and 2022.

Given the above, we are of the view that the basis for determining the Fuel Oil Caps for each of the three financial years ending 31 December 2022 is fair and reasonable.

The caps for the deposit service contemplated under the New Financial Services Master Agreement

Set out below are the details of (i) the maximum historical daily cash deposit of the Group maintained with COSCO Finance under the Existing Financial Services Master Agreement for each of the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; and (ii) the proposed caps for the deposit service contemplated under the New Financial Services Master Agreement for each of the three financial years ending 31 December 2022:

(i) *Historical transaction amounts*

	For the financial year ended		For the nine
	31 December		months ended
	2017	2018	30 September
	<i>Did not exceed</i>	<i>Did not exceed</i>	<i>Did not exceed</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Amount of daily cash balance(s) of all cash deposit accounts of member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services and entrusted loan services) paid by the Group to COSCO Finance for the transactions (except transactions in connection with the provision of loan services) contemplated under the Existing Financial Services Master Agreement	1,180,000,000	1,180,000,000	1,180,000,000
	with highest daily transaction volume of	with highest daily transaction volume of	with highest daily transaction volume of
	803,153,649	448,562,769	392,169,270

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the aggregate amount of all fee (including service fees and handling charges for other financial services) paid by the Group to COSCO Finance for the two financial years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 were RMB7,534, RMB1,535 and RMB17,901 respectively.

(ii) *Deposit Caps*

	For the financial year ending 31 December		
	2020	2021	2022
	RMB	RMB	RMB
Amount of daily cash balance(s) of all cash deposits accounts of member(s) of the Group maintained with COSCO SHIPPING Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO SHIPPING Finance for the transactions (except transactions in connection with the provision of loan services) contemplated under the New Financial Services Master Agreement (the “ Deposit Caps ”)	1,075,000,000	1,130,000,000	1,185,000,000

As stated in the Letter from the Board, in determining the Deposit Caps, the Company has (a) examined and compared the recent transactions amounts of the relevant member(s) of the Group for the two financial years ended 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019; (b) interviewed the management of the relevant member(s) of the Group to obtain opinion on the forecasts of the transactions contemplated under the New Financial Services Master Agreement for the years of 2020 to 2022; (c) considered the growth trend of the relevant businesses and in particular the strategies of the treasury management of the Group taking into account the business development plans, financial needs and anticipated cash flow of the Group as well as the expected growth in the business of the Group, including the funding requirement for operation of asphalt business; and (d) considered the increase in the amount of daily deposit amounts by certain non-wholly owned subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Deposit Caps

As advised by the Company, the Group receives cash deposit from (i) ship buyers under the ship trading agency services business; (ii) buyers under the coating business; (iii) buyers under the trading business (including asphalt trading); and (iv) insurance policy holders under the insurance brokerage services. We have obtained the respective highest deposit amounts placed by the members of the Group with COSCO Finance during the Review Period and note that these deposit amounts which were placed at different time added up to RMB1,107.1 million.

Approximately 37.2%, or RMB400.0 million, of the Deposit Caps for 2020 is attributable to the deposit for the ship trading agency services business by the Group. The relevant cap amount remains the same as that for 2020, 2021 and 2022. In relation to the ship trading agency services business, as advised by the Company, the Company expects that the highest vessel value of ships traded by the Group will be over RMB200.0 million per ship. Therefore, assuming the Company receives deposits from ship buyers for two vessels around the same period of time, it is possible for the Group to have occasional inflow of substantial amount of cash deposit. In this regard, we note that the highest daily deposit balance for the ship trading agency services business amounted to approximately RMB318.5 million during the Review Period.

Approximately 27.9%, or RMB300.0 million, of the Deposit Caps for 2020 is attributable to the deposit for the coating business by the Group. The relevant cap amount for each of 2021 and 2022 for the deposit for the coating business is estimated to increase by approximately 16.7% and 14.3%, respectively, as compared to the preceding year. In determining the relevant cap for the deposits from the coating business, the management has taken into account the expected increase in revenue due to the acquisition of Singamas Group and the increase in demand from COSCO SHIPPING Group as explained above section headed “The caps for New Master Supply Agreement”. Furthermore, we note that highest daily deposit balance from coating business during the Review Period of approximately RMB354.0 million is higher than the relevant cap amount for 2020 and similar to that for 2021.

Approximately 27.9%, or RMB300.0 million, of the Deposit Caps for 2020 is attributable to the deposit for the trading business (including asphalt trading) by the Group. The relevant cap amount remains the same as that for 2020, 2021 and 2022. In determining the relevant cap for the deposits from trading business (including asphalt trading), the management has taken into account (i) the concentrated payback period in asphalt trading; and (ii) the large amount of prepayment received for marine equipment trading, which means the Group may suddenly have a significant increase in cash balance on a given day. Furthermore, we note that highest daily deposit balance from trading business during the Review Period of approximately RMB371.6 million is higher than the relevant cap amount for 2020, 2021 and 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Approximately 7.0%, or RMB75.0 million, of the Deposit Caps for 2020 is attributable to the deposit for the insurance brokerage services by the Group. The cap amount for each of 2021 and 2022 for the deposit for the insurance brokerage services is estimated to increase by approximately 6.7% and 6.3%, respectively, as compared to the preceding year. In relation to the insurance brokerage services, the management has taken into account (i) the deposits stored with COSCO Finance during the Review Period; and (ii) the expected expansion in the Group's insurance business (including both marine and non-marine insurance business) which is expected to lead to the increase in insurance premium received. We note that the highest daily deposit balance for the insurance brokerage services amounted to approximately RMB63.0 million during the Review Period.

Furthermore, we note that the Deposit Caps for each of the three financial years represent only approximately 19.8%, 20.8% and 21.9% of the Group's total current deposits and cash and cash equivalents of approximately HK\$6,160.8 million as at 30 June 2019, respectively.

Given the above, we are of the view that the basis for determining the Deposit Caps for each of the three financial years ending 31 December 2022 is fair and reasonable.

Notwithstanding the above, we would like to highlight that as the Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2022, we express no opinion as to how closely the actual transaction amounts pursuant to the New Agreements shall correspond to the Caps.

D. Requirements by the Listing Rules regarding the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report that the Continuing Connected Transactions have been entered into:
 - in the ordinary and usual course of business of the Company;
 - on normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions:
- have received the approval of the Board;
 - are, in all material respects, in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
 - have been entered into, in all material respects, in accordance with the relevant agreement governing the Continuing Connected Transactions; and
 - have not exceeded the Caps.
- (c) the Company must allow, and ensure that the relevant counterparty to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (b) above; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the relevant transactions by way of the Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Continuing Connected Transactions and the Caps not being exceeded, we are of the view that appropriate measures are in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and the terms thereof as well as the Caps are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolution(s) to be proposed at the SGM to approve the Continuing Connected Transactions and the Caps.

Yours faithfully,

For and on behalf of

Ballas Capital Limited

Alex Lau

Cathy Leung

Managing Director

Director

Note: Mr. Alex Lau of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since 2003, and Ms. Cathy Leung of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since November 2019.

(1) FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (hk.coscoshipping.com):

- (a) on pages 121 to 205 of the annual report for the year ended 31 December 2016 published on 24 April 2017
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0424/ltn20170424577.pdf>);
- (b) on pages 113 to 197 of the annual report for the year ended 31 December 2017 published on 24 April 2018
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0424/ltn20180424985.pdf>);
- (c) on pages 117 to 193 of the annual report for the year ended 31 December 2018 published on 25 April 2019
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251775.pdf>);
and
- (d) on pages 18 to 67 of the interim report for the six months ended 30 June 2019 published on 12 September 2019
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0912/ltn20190912395.pdf>).

(2) INDEBTEDNESS*Indebtedness of the Group*

As at 31 October 2019, the Group had total outstanding borrowings of RMB55,000,000 (equivalent to approximately HK\$61,110,000) which were unsecured loans from a fellow subsidiary. These borrowings are unguaranteed.

Pledge of assets

As at 31 October 2019, the Group pledged the restricted bank deposits amounted RMB5,000,000 (equivalent to approximately HK\$5,555,000) for banking facilities and other purposes.

Financial guarantee

On 30 April 2012, the Group executed corporate guarantee of US\$21,500,000 (equivalent to approximately HK\$168,494,000) in favour of a bank as security for general banking facilities of US\$108,000,000 (equivalent to approximately HK\$846,387,000) granted by the bank to Double Rich Limited, in which the Company holds 18% equity interest. The guarantee of US\$21,500,000 (equivalent to approximately HK\$168,494,000) remains effective as at 31 October 2019.

Lease liabilities

As at 31 October 2019, the Group had lease liabilities amounted to approximately HK\$7,650,000 recognised in accordance with Hong Kong Financial Reporting Standard 16 “Leases”.

Saved as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, as at 31 October 2019, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowings (including but not limited to bank overdrafts and liabilities under acceptance (other than normal trade bills)), acceptance credits, finance lease or hire purchase commitments, mortgages and charges or any other material contingent liabilities or guarantees.

(3) WORKING CAPITAL

As at the Latest Practicable Date, having made careful enquiries and taking into account the financial resources available to the Group, including the fund generated from operation and cash and cash equivalents as well as the effect of the transactions contemplated under the New Financial Services Master Agreement, the Directors are of the view that the Group will have sufficient working capital for the Group’s requirements, that is for at least the next 12 months from the date of this circular, in the absence of unforeseen circumstances.

(4) FINANCIAL AND TRADING PROSPECT OF THE GROUP

Although the global shipping industry is facing with pressures from potential economic slowdown and capacity expansion exceeds demand growth, the Group, with the strong support from COSCO SHIPPING Group, will continue to implement the established development strategies to develop sustainable and profitable businesses, aiming for becoming a world class and leading shipping services company in China. The Group will continue pursuit for business development and organic growth in its core businesses, namely ship trading agency, insurance brokerage, coatings, marine equipment and spare parts, marine fuel and other products as well as general trading.

Given the financial resources and liquidity on hand as highlighted by a total cash and deposits of the Group in the amount of HK\$6,166,439,000 as at 30 June 2019, the Group has sufficient financial resources to support future business growth.

The Group will proactively explore new business models and enhance external marketing efforts, bring our advantages in upstream of shipping industry into full play and strive to become the leader with good use of Group’s synergy effect so as to serve the shipping enterprises within and outside COSCO SHIPPING Group. The Group will continue to secure and expand the business from customers within the COSCO SHIPPING Group and to ensure sufficient and competitive priced supply of products (including fuel oils and other related products) as well as other services are made available to the Group from relevant suppliers within the COSCO SHIPPING Group.

The Group will further enhance the effectiveness of its internal control and corporate governance. The Group will improve and strengthen its internal control system on a continuing basis to enhance the soundness and effectiveness of internal control, and take solid measures to ensure the effective implementation of internal control and promote the continuous improvement of its overall operation and management standard.

(5) IMPACT OF DEPOSIT SERVICES UNDER THE NEW FINANCIAL SERVICES MASTER AGREEMENT ON PROFIT, ASSETS AND LIABILITIES OF THE GROUP

As the provision of deposit services by COSCO SHIPPING Finance to the Group contemplated under the New Financial Services Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the terms of the transactions shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties, there will be no adverse material financial impact on the Group's earnings.

The Caps of the transactions contemplated under the New Financial Services Master Agreement (except loan services contemplated thereunder) for the three financial year ending 31 December 2020, 2021 and 2022 will be in the range between RMB1,075,000,000 and RMB1,185,000,000 being the upper limits of daily balance of all cash deposits accounts of members of the Group maintained with COSCO SHIPPING Finance, as well as all fees payable by the Group. With a total cash and deposits of the Group in the amount of HK\$6,166,439,000 as at 30 June 2019, the provision of deposit services by COSCO SHIPPING Finance to the Group under the New Financial Services Master Agreement will have no material impact on the Group's diversification of cash deposits with banks and financial institutions and there will be no material financial impact on the Group's assets and liabilities.

1. RESPONSIBILITY STATEMENT

This 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 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.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (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 the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

(i) Directors’ interests in the long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Capacity	Nature of interest	Number of ordinary shares of associated corporation held as at the Latest Practicable Date	Approximate percentage of the relevant class of the total issued shares of associated corporation as at the Latest Practicable Date
Mr. Zhu Jianhui	China COSCO Holdings Company Limited (now known as COSCO SHIPPING Holdings Co., Ltd.) (“China COSCO”)	Interest of spouse	Family	20,000 (A shares)	0.0003%
Mr. Zhu Jianhui	China Shipping Container Lines Company Limited (now known as COSCO SHIPPING Development Co., Ltd.)	Interest of spouse	Family	10,000 (A shares)	0.0001%
Mr. Feng Boming	COSCO SHIPPING Development Co., Ltd.	Beneficial owner	Personal	29,100 (A shares)	0.0003%
Mr. Liu Gang	China COSCO	Beneficial owner	Personal	10,900 (H shares)	0.0004%

(ii) **Directors' interests in the long positions in the underlying shares of equity derivatives of associated corporation***Share Options*

Name of Director	Name of associated corporation	Capacity	Nature of Interest	Exercise price (RMB)	Aggregate long position in the underlying shares of associated corporation as at the Latest Practicable Date	Approximate
						percentage of total number of issued A shares of the associated corporation as at the Latest Practicable Date
Mr. Feng Boming	COSCO SHIPPING Holdings Co., Ltd.	Interest of spouse	Family	4.10	530,000	0.01%

Note:

These share options were granted by COSCO SHIPPING Holdings Co., Ltd. (“**COSCO SHIPPING Holdings**”) on 3rd June 2019 (“**Date of Grant**”) pursuant to the A share option incentive scheme adopted by COSCO SHIPPING Holdings on 30th May 2019 and are exercisable at RMB4.10 per A share from 3rd June 2021 to 2nd June 2026 in the stipulated proportion as following:

- (a) 33% of the share options can be exercised during the period from the first trading day after 24 months (the second anniversary) from the Date of Grant to the last trading day of the 36 months from the Date of Grant.
- (b) 33% of the share options can be exercised during the period from the first trading day after 36 months (the third anniversary) from the Date of Grant to the last trading day of the 48 months from the Date of Grant.
- (c) 34% of the share options can be exercised during the period from the first trading day after 48 months (the fourth anniversary) from the Date of Grant to the last trading day of the 84 months from the Date of Grant.

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

- (i) none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (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 the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

- (ii) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole;
- (iii) none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2018, being the date up to which the latest published audited consolidated financial statements of the Group were made up; and
- (iv) Mr. Wang Yuhang being a Director, is also a director and chairman of COSCO SHIPPING (Hong Kong). Mr. Zhu Jianhui, being a Director, is also a director and president of COSCO SHIPPING (Hong Kong). Mr. Ma Jianhua, being a Director, is also a director and vice president of COSCO SHIPPING (Hong Kong). Mr. Feng Boming, being a Director, is also a director of COSCO SHIPPING (Hong Kong). Mr. Chen Dong, being a Director, is also general manager of Finance and Accounting Division of COSCO SHIPPING and a director of COSCO SHIPPING (Hong Kong). Mr. Liu Gang, being a Director, is also the vice president of COSCO SHIPPING (Hong Kong). COSCO SHIPPING (Hong Kong) and COSCO SHIPPING are deemed to have, an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not expiring or determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, the following Directors (including their respective close associates) were considered to have interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, particulars of which are set out below:

Name of Directors	Name of the entities which were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entities which were considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entities
Mr. Wang Yuhang	Company controlled by COSCO SHIPPING	Shipping services	director
Mr. Zhu Jianhui	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Ma Jianhua	Company controlled by COSCO SHIPPING	Shipping services	director
Mr. Feng Boming	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Chen Dong	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Liu Gang	Companies controlled by COSCO SHIPPING	Shipping services	director

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Directors control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these companies.

Save as disclosed herein, none of the Directors and their respective close associates had any interest in a business which competed or may compete with the business of the Group as at the Latest Practicable Date.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT

The following is the qualification of the expert who has given its opinion or advice which are contained in this circular:

Name	Qualification
Ballas Capital Limited	A licensed corporation to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2018, the date up to which the latest published audited consolidated financial statements of the Group were made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear.

The letter of advice given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders was made on 9 December 2019 for incorporation in this circular.

7. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular ending on the Latest Practicable Date, the following contracts (not being contracts in the ordinary course of business) have been entered into by the Group and are or may be material:

- (a) the capital increase and subscription agreement (the “**Capital Increase and Subscription Agreement**”) dated 28 May 2018 entered into between the Company and among others, 常熟耐素生物材料科技有限公司 (Nasurfar Biomaterial Technology

(Changshu) Co., Ltd.*) (“**Nasurfar**”) and the then existing shareholders of Nasurfar, pursuant to which the Company conditionally agreed to subscribe for 33% equity interest in Nasurfar by way of capital injection into Nasurfar in the sum of RMB89,830,000 (equivalent to approximately HK\$110,490,900);

- (b) the capital increase agreement (the “**Capital Increase Agreement**”) dated 13 July 2018 entered into between 深圳遠洋運輸股份有限公司 (Shenzhen Ocean Shipping Co., Ltd.*) (“**SZ Ocean Shipping**”), COSCO SHIPPING (Hong Kong) Insurance Brokers Limited (a wholly-owned subsidiary of the Company) (“**HK COSCO SHIPPING Insurance Brokers**”) and 遠通海務貿易(上海)有限公司 (Yuantong Marine Trade (Shanghai) Co., Ltd.*) (a wholly-owned subsidiary of the Company) (“**Yuantong (Shanghai)**”), pursuant to which, SZ Ocean Shipping, HK COSCO SHIPPING Insurance Brokers and Yuantong (Shanghai) agreed to contribute an aggregate amount of RMB40,000,000 (equivalent to approximately HK\$47,200,000) to 深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*) (“**SZ COSCO Insurance Brokers**”) in proportion to their respective shareholding in SZ COSCO Insurance Brokers.

Save as disclosed above, during the two years immediately preceding the date of this circular, no contracts (not being contracts entered into in the ordinary course of business) has been entered into by the Company and/or members of the Group and is or may be material.

8. LITIGATION

Coastal Oil Singapore, a major supplier of Sinfeng, has filed for liquidation as part of a creditors’ voluntary winding up operation on 13 December 2018 (the “**Coastal Oil’s Liquidation**”). For details of information relating to the Coastal Oil’s Liquidation and the matters arising subsequent to the Coastal Oil’s Liquidation (including demand against Sinfeng for certain alleged debts), please refer to the announcement of the Company dated 4 January 2019, the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019.

As at the Latest Practicable Date, save as disclosed in this circular, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

9. MISCELLANEOUS

- (a) Ms. Chiu Shui Suet, the Company Secretary of the Company since 2005 and also the secretary of six Board Committees of the Company and the Company Secretary of various subsidiaries of the Company. She is a solicitor and a member of the Law Society of Hong Kong, a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries.

* for identification purposes only

- (b) The registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and the principal place of business of the Company in Hong Kong are at 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following documents are available for inspection at the office of Messrs. Sit, Fung, Kwong & Shum of 9/F., York House, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of SGM.

- (i) the New Master Supply Agreement;
- (ii) the New Fuel Oil Master Agreement;
- (iii) the New Financial Services Master Agreement;
- (iv) the letter from the Independent Board Committee dated 9 December 2019;
- (v) the letter from the Independent Financial Adviser dated 9 December 2019;
- (vi) this circular;
- (vii) the consent letter issued by the Independent Financial Adviser referred to in paragraph headed "EXPERT" in this Appendix;
- (viii) the Existing Master Supply Agreement;
- (ix) the Existing Fuel Oil Master Agreement;
- (x) the Existing Financial Services Master Agreement;
- (xi) the Capital Increase and Subscription Agreement;
- (xii) the Capital Increase Agreement;
- (xiii) the Bye-laws; and
- (xiv) the annual reports for the financial years ended 31 December 2017 and 31 December 2018 of the Company.

NOTICE OF THE SGM



中遠海運國際(香港)有限公司

COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

(Incorporated in Bermuda with limited liability)

(Stock Code: 00517)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the “**Company**”) will be held on Monday, 30 December 2019 at 11:00 a.m. at 47/F., COSCO Tower, 183 Queen’s Road Central, Hong Kong or at any adjournment thereof for the purpose of considering and, if thought fit, to pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the New Master Supply Agreement and the Caps in relation thereto, each as defined and described in the circular of the Company dated 9 December 2019 (the “**Circular**”), a copy of the Circular marked “A” together with a copy of the New Master Supply Agreement marked “B” being tabled before the meeting and initialed by the chairman of the meeting for identification purpose, and all transactions contemplated thereunder and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified and any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the New Master Supply Agreement.”
2. “**THAT** the New Fuel Oil Master Agreement and the Caps in relation thereto, each as defined and described in the Circular, a copy of the New Fuel Oil Master Agreement marked “C” being tabled before the meeting and initialed by the chairman of the meeting for identification purpose, and all transactions contemplated thereunder and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified and any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the New Fuel Oil Master Agreement.”
3. “**THAT** the New Financial Services Master Agreement and the Caps in relation thereto, each as defined and described in the Circular, a copy of the New Financial Services Master Agreement marked “D” being tabled before the meeting and initialed by the chairman of the meeting for identification purpose, and all transactions contemplated thereunder (except loan services contemplated thereunder) and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified

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and any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the New Financial Services Master Agreement.”

By Order of the Board
COSCO SHIPPING International (Hong Kong) Co., Ltd.
Chiu Shui Suet
Company Secretary

9 December 2019

Notes:

1. The ordinary resolutions to be considered at the special general meeting will be determined by poll. On voting by poll, each member shall have one vote for each fully paid or credited as fully paid share held in the Company.
2. A member of the Company who is entitled to attend and vote at the special general meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint more than one proxy. A proxy need not be a member of the Company.
3. A form of proxy for use at the special general meeting of the Company is enclosed herewith. Whether or not a member of the Company intends to attend the special general meeting in person, he or she is urged to complete and return the form of proxy in accordance with the instruction printed thereon.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
5. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be returned to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the special general meeting or any adjourned meeting thereof (as the case maybe) and in default thereof the form of proxy shall not be treated as valid.
6. Shareholders whose names appear in the share register of members of the Company as at the close of business on Friday, 27 December 2019 are entitled to attend and vote at the meeting. In order to be eligible to attend and vote at the meeting, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 December 2019.
7. Completion and return of form of proxy appointing a proxy shall not preclude a member of the Company from attending and voting in person at the special general meeting or on the poll concerned and in such event, the instrument appointing a proxy shall be deemed to be revoked.
8. Where there are joint holders of any share of the Company, any one of such joint holders may vote at the special general meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the special general meeting personally or by proxy, that one of the said joint holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

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9. The Chinese version of the resolutions set out in this notice is for reference only. If there is any inconsistency between the English and Chinese versions, the English version shall prevail.
10. As at the date of this notice, the Board of the Company comprises nine directors with Mr. Wang Yuhang¹ (*Chairman*), Mr. Zhu Jianhui¹ (*Vice Chairman and Managing Director*), Mr. Ma Jianhua², Mr. Feng Boming², Mr. Chen Dong², Mr. Liu Gang¹, Mr. Tsui Yiu Wa, Alec³, Mr. Jiang, Simon X.³, and Mr. Alexander Reid Hamilton³.

¹ *Executive Director*

² *Non-executive Director*

³ *Independent Non-executive Director*