THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in COSCO SHIPPING Development Co., Ltd.*, you should at once hand this circular, the form of proxy and the reply slip to the purchaser or transferee or to licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION VESSEL LEASING SERVICE MASTER AGREEMENT AND (2) NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

MESSIS 大有融資

Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 16 of this circular and the letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. A letter from Messis Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 38 of this circular.

A notice convening the EGM to be held at 1:30 p.m. on Wednesday, 9 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC is set out on pages EGM-1 to EGM-3 of this circular.

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

20 November 2020

CONTENTS

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

"A Share(s)"	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"Announcement"	the announcement of the Company dated 30 October 2020 in relation to the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Assets Lease Framework Agreement"	the assets lease framework agreement dated 11 December 2015 entered into between the Company and COSCO SHIPPING Holdings in respect of the charter and lease of vessels and containers by the Company to COSCO SHIPPING Holdings
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"China Shipping"	China Shipping Group Company Limited# (中國海運集團有限公司), a PRC state-owned enterprise, the controlling shareholder of the Company and a wholly-owned subsidiary of COSCO SHIPPING
"Company"	COSCO SHIPPING Development Co., Ltd.* (中遠海運發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 02866) and the Shanghai Stock Exchange (Stock Code: 601866), respectively
"Computershare"	Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company
"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"COSCO SHIPPING"	China COSCO Shipping Corporation Limited# (中國遠洋海運集團有限公司), a PRC state-owned enterprise and an indirect controlling shareholder of the Company

"COSCO SHIPPING Holdings"	COSCO SHIPPING Holdings Co., Ltd.# (中遠海運控股股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares and A shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1919) and the Shanghai Stock Exchange (Stock Code: 601919), respectively
"COSCO SHIPPING Holdings Group"	COSCO SHIPPING Holdings and its subsidiaries
"COSCO SHIPPING Lines"	COSCO SHIPPING Lines Co., Ltd., a joint stock limited company established under the laws of the PRC with limited liability, which is principally engaged in domestic and international maritime container transport services and related business
"COSCO SHIPPING Lines Group"	COSCO SHIPPING Lines, its subsidiaries and/or its associates
"CS Development Group"	the Company, its subsidiaries and/or its associates
"Director(s)"	director(s) of the Company
"Drewry"	Drewry Shipping Consultants Ltd., an independent consultant specialized in shipping industry jointly engaged by the Company and COSCO SHIPPING Lines
"Drewry Report"	the charter rate assessment report dated 19 October 2020 issued by Drewry in respect of the 74 Vessels, the summary of which is set out in Appendix V to this circular
"EGM"	the extraordinary general meeting of the Company to be convened at 1:30 p.m. on Wednesday, 9 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC (or any adjournment thereof) to consider and, if thought fit, approve, among other things, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"FPG Bareboat Charters"	collectively, the four bareboat charters dated 10 January 2019 entered into between the FPG Group and the Group, further details of which are set out in the announcement of the Company dated 10 January 2019

"FPG Group"	Financial Products Group Co., Ltd., a corporation formed under the laws of Japan with limited liability and the shares of which are listed on the Tokyo Stock Exchange (Stock Code: 7148), and its subsidiaries
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
"H Shareholder(s)"	the holder(s) of H Share(s)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong, and Ms. Zhang Weihua, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Messis Capital"	Messis Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders other than (i) COSCO SHIPPING and its associates and (ii) any other Shareholders who have a material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	17 November 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"LIBOR"	the London Interbank Offered Rate for the offering of deposits in US$ for a period of three months

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"percentage ratios"	has the meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China, and for the purpose of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Share(s)"	A Share(s) and H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"TEU(s)"	twenty-foot equivalent unit(s), a standard unit of measurement of the volume of a container with a length of 20 feet, a height of eight feet and six inches and a width of eight feet
"US$"	United States Dollar, the lawful currency of the United States
"Vessel Leasing Service Master Agreement"	the vessel leasing service master agreement dated 30 October 2020 entered into between the Company and COSCO SHIPPING Lines
"Vessels"	the 74 container vessels with a total capacity of 581,603 TEUs, which are proposed to be chartered to the COSCO SHIPPING Lines Group by the CS Development Group under the Vessel Leasing Service Master Agreement
"%"	per cent

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

\# *For identification purpose only.*

中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

Executive Directors	*Legal address in the PRC*
Mr. Wang Daxiong	Room A-538
Mr. Liu Chong	International Trade Center
Mr. Xu Hui	China (Shanghai) Pilot Free Trade Zone
	Shanghai
Non-executive Directors	The PRC
Mr. Huang Jian	
Mr. Liang Yanfeng	*Principal place of business in the PRC*
Mr. Ip Sing Chi	5299 Binjiang Dadao
	Pudong New District
Independent non-executive Directors	Shanghai
Mr. Cai Hongping	The PRC
Ms. Hai Chi Yuet	
Mr. Graeme Jack	*Principal place of business in Hong Kong*
Mr. Lu Jianzhong	50/F, COSCO Tower
Ms. Zhang Weihua	183 Queen's Road Central
	Hong Kong

20 November 2020

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION VESSEL LEASING SERVICE MASTER AGREEMENT AND (2) NOTICE OF EGM

I. INTRODUCTION

Reference is made to the Announcement, in relation to, among other things, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, further details of the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder and other information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution to be proposed at the EGM.

At the EGM, an ordinary resolution will be proposed to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

II. THE VESSEL LEASING SERVICE MASTER AGREEMENT

Reference is made to the Announcement. As the terms of the existing leases entered into pursuant to the Assets Lease Framework Agreement in respect of the 74 Vessels are due to expire, on 30 October 2020, the Company (as the lessor) and COSCO SHIPPING Lines (as the lessee) entered into the Vessel Leasing Service Master Agreement, pursuant to which, the CS Development Group has agreed to provide vessel leasing services to the COSCO SHIPPING Lines Group, whereby the 74 Vessels will be chartered to the COSCO SHIPPING Lines Group under bareboat charter.

The principal terms of the Vessel Leasing Service Master Agreement are as follows:

Date: 30 October 2020

Parties:

(1) the Company as lessor; and

(2) COSCO SHIPPING Lines as lessee.

Subject matter: Pursuant to the Vessel Leasing Service Master Agreement, the CS Development Group has agreed to provide vessel leasing services to the COSCO SHIPPING Lines Group in accordance with the following principles:

(i) self-owned vessels will be chartered to the COSCO SHIPPING Lines Group under bareboat charter for a term commencing from 1 January 2021 and ending on the date on which the age of the vessels is 25 years; and

(ii) leased-in vessels will be chartered to the COSCO SHIPPING Lines Group under bareboat charter for a term commencing from 1 January 2021 and ending on the date on which the age of the vessels is 25 years, and which shall comply with the requirements under the original bareboat charters between the CS Development Group and the original shipowners. The CS Development Group undertakes that written consent of the original shipowners or financing banks in respect of the sub-charter to the COSCO SHIPPING Lines Group (if necessary) has been obtained before signing of the Vessel Leasing Service Master Agreement and the CS Development Group will continue to be liable for the responsibilities and obligations under the relevant original bareboat charters or financing agreements.

Upon expiration of the term of the relevant charter, the vessels shall be returned by the COSCO SHIPPING Lines Group to the CS Development Group.

Term: The Vessel Leasing Service Master Agreement will become effective on 1 January 2021 upon satisfaction of all the conditions set out below and the term of the Vessel Leasing Service Master Agreement is 20 years from the effective date.

The term of the Vessel Leasing Service Master Agreement of 20 years was determined with reference to the longest term of the bareboat charters proposed to be entered into pursuant to the Vessel Leasing Service Master Agreement, which will be approximately 20 years taking into account of the age of the 74 Vessels (being in the range from approximately 5.7 years to approximately 17.8 years as at 1 January 2021).

Vessels to be chartered: The vessels to be chartered under the Vessel Leasing Service Master Agreement are the 74 Vessels, comprising 70 self-owned Vessels and four leased-in Vessels, with a total capacity of 581,603 TEUs and an average age of approximately 12.2 years.

The four leased-in Vessels, having an average age of approximately 6.7 years, are the subject of the sale and leaseback arrangement between the Group and the FPG Group, further details of which are set out in the announcement of the Company dated 10 January 2019. Pursuant to the FPG Bareboat Charters between the Group and the FPG Group, the four leased-in Vessels were chartered by the FPG Group to the Group for the charter period of eight years and seven months, subject to early buy-out option exercisable by the Group at the fourth anniversary and the date falling three months after the seventh anniversary of the charter commencement date (being in January 2019). It is currently expected that the aforementioned early buy-out option in respect of the four leased-in Vessels will be exercised by the Group. As at the Latest Practicable Date, the outstanding aggregate charter hire payable by the Group for the four leased-in Vessels is approximately US$184 million based on LIBOR of approximately 0.22038% as at 16 November 2020. The proposed sub-charter of the four leased-in Vessels pursuant to the Vessel Leasing Service Master Agreement is permissible under the FPG Bareboat Charters, and the Group has duly notified the FPG Group of the proposed sub-charter in accordance with the requirements thereunder. In the absence of a continuing event of default by the relevant parties, there will not generally be termination of the FPG Bareboat Charters which may then lead to the termination of the sub-charter of the four leased-in Vessels and, the term of the bareboat charters of the four leased-in Vessels shall be subject to compliance with the requirements under the FPG Bareboat Charters.

Specific lease contracts will be entered into by the parties in respect of the Vessels before 1 January 2021 in accordance with the Vessel Leasing Service Master Agreement.

Lease payments: Pursuant to the Vessel Leasing Service Master Agreement, the price for the vessel leasing thereunder shall be determined based on the fair market price. For the purpose of determining the fair market price, the parties have jointly appointed Drewry, an independent shipping consultant, to conduct an assessment and provide its recommendation on the charter fee of the bareboat charters of the 74 Vessels (including 70 self-owned Vessels and four leased-in Vessels) under the Vessel Leasing Service Master Agreement.

Based on the abovementioned fair market price, the parties agreed that the aggregate lease payments payable by the COSCO SHIPPING Lines Group to the CS Development Group under the Vessel Leasing Service Master Agreement shall be US$4,618,343,445, which shall be payable by instalments in accordance with the specific terms of the relevant charterparty of the Vessels during the period of 20 years. Each of the lease payment instalments for each Vessel shall be settled in advance every 15 days during the term of the relevant charter.

In the event of a failure by the COSCO SHIPPING Lines Group to settle the lease payment instalment within the stipulated time, pursuant to the proposed terms of the specific lease contract to be entered into between the parties, the COSCO SHIPPING Lines Group will have a grace period of seven days to rectify the failure, failing which, the CS Development Group shall be entitled to withdraw the relevant vessel and terminate the relevant lease contract.

The price for the vessel leasing under the Vessel Leasing Service Master Agreement was determined after arm's length negotiation between the parties on normal commercial terms with reference to the fair market price as determined by Drewry as set out in the Drewry Report.

Drewry is a leading independent provider of research and consulting services for the maritime and shipping industry, and employs about 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai. In determining the fair market price for the proposed bareboat charters of the 74 Vessels (including 70 self-owned Vessels and four leased-in Vessels) under the Vessel Leasing Service Master Agreement, (i) with respect to Vessels with a capacity of over 9,000 TEUs, Drewry advised to apply the book value method to determine the charter rate, as there is no active leasing market for vessels with a capacity of over 9,000 TEUs and therefore, no reference can be made; and (ii) with respect to Vessels with a capacity of below 9,000 TEUs, Drewry advised to apply the market charter rate approach to determine the charter rate based on the historical time charter rate for similar types of vessels from Clarksons Research for the previous three years, less daily operating costs. The assumptions applied by Drewry include, among other things, (i) the type of lease being bareboat charter; (ii) the term of the charter being from 1 January 2021 until the age of the Vessels reaches 25 years; (iii) the carrying amount of the Vessels being based on the book value of the Vessels of the Company (with respect to Vessels with a capacity of over 9,000 TEUs only); and (iv) the residual value of the Vessels when reaching 25 years being calculated in accordance with scraping prices, being US$366 per light displacement tonnage per Vessel (with respect to Vessels with a capacity of over 9,000 TEUs only).

A summary of the Drewry Report is set out in Appendix V to this circular.

In light of the foregoing and taking also into account the proposed term of the bareboat charters, where the Group will be able to secure a stable income stream over the remaining life of the 74 Vessels, the Board considers that the price for the vessel leasing under the Vessel Leasing Service Master Agreement is fair and reasonable and in the interests of the Company and the Shareholders. With respect to the four leased-in Vessels, it is expected that the aggregate lease payments payable by the COSCO SHIPPING Lines Group to the CS Development Group under the bareboat charters to be entered into pursuant to the Vessel Leasing Service Master Agreement (on the basis that the term of the bareboat charters will be approximately 18.3 years) will be higher than the sum of the early buy-out price and the aggregate charter hire payable (based on LIBOR of approximately 0.22038% as at 16 November 2020) by the Group to the FPG Group under the FPG Bareboat Charters.

Effectiveness of the Vessel Leasing Service Master Agreement:

The effectiveness of the Vessel Leasing Service Master Agreement is subject to the following conditions:

(i) the Vessel Leasing Service Master Agreement having been duly executed by the Company and COSCO SHIPPING Lines; and

(ii) the approval procedures in respect of the execution and performance of the Vessel Leasing Service Master Agreement in accordance with the articles of association, applicable laws and regulations and the Listing Rules having been completed by the Company and COSCO SHIPPING Lines.

If any of the above conditions is not satisfied before 31 December 2020, the Vessel Leasing Service Master Agreement shall be terminated and the parties shall not be liable for each other (save for intentional or gross negligence).

As at the Latest Practicable Date, the condition set out in sub-paragraph (i) above has been satisfied.

III. INFORMATION ON THE PARTIES TO THE VESSEL LEASING SERVICE MASTER AGREEMENT

Information on the Group

The Company is a joint stock limited company established under the laws of the PRC with limited liability, the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange.

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

Information on COSCO SHIPPING Lines

COSCO SHIPPING Lines is a joint stock limited company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Holdings. It is principally engaged in container shipping.

COSCO SHIPPING Holdings is a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange. The COSCO SHIPPING Holdings Group provides a wide range of container shipping and terminal services covering the whole shipping value chain for both international and domestic customers.

IV. INFORMATION ON THE VESSELS

The 74 Vessels are container vessels with a total capacity of 581,603 TEUs and an average age of approximately 12.2 years. 49 Vessels have a capacity of below 9,000 TEUs and 25 Vessels have a capacity of more than 9,000 TEUs.

The net profits attributable to the 74 Vessels for the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 were approximately as follows:

	For the year ended 31 December		**For the six months ended 30 June**
	2018	**2019**	**2020**
	(audited)	*(audited)*	*(unaudited)*
	(RMB)	*(RMB)*	*(RMB)*
Net profit before tax	1,494,305,000	1,076,880,000	631,735,000
Net profit after tax	1,494,305,000	1,076,880,000	631,735,000

The unaudited book value of the 74 Vessels as at 30 June 2020 was approximately RMB27,972,742,000.

V. FINANCIAL EFFECTS OF THE VESSEL LEASING

Pursuant to the Vessel Leasing Service Master Agreement, the lease term is for the major part of the economic life of the 74 Vessels. The Group does not have control of the 74 Vessels as the Group is limited in its ability to direct the use of, and to obtain substantially all of the remaining benefits, from the 74 Vessels. Accordingly, the vessel leasing services shall be accounted for as a finance lease arrangement of the Group. At the lease commencement, the Group will derecognize the carrying amount of the 74 Vessels, recognize the net investment in the leases and recognize a gain on disposal.

Earnings

Assuming that the lease commencement had taken place on 30 June 2020, it is estimated that the Group will recognize an unaudited gain before income tax of approximately RMB370,498,000 from the disposal, which is calculated based on the difference between (a) the estimated net investment in the leases of approximately RMB28,356,627,000, less the estimated PRC stamp duty (which is payable on contracts for leasing of the domestic Vessels for which the signing place will be mainland China) of approximately RMB11,029,000 and direct expenses in relation to the transactions of approximately RMB2,358,000; and (b) the carrying amount of the 74 Vessels as at 30 June 2020, being approximately RMB27,972,742,000. The estimated net investment in the leases of approximately RMB28,356,627,000 will be accounted for as the assets in the consolidated financial statements of the Group and represents the sum of (i) the estimated present value of the lease receivables that are not received at the lease commencement date discounted at the interest rate implicit in the lease, being approximately RMB25,401,749,000; and (ii) the unguaranteed residual value discounted at the interest rate implicit in the lease, being approximately RMB2,954,878,000.

Assets and liabilities

Assuming that the lease commencement had taken place on 30 June 2020, it is estimated that the Group will recognize an unaudited gain before income tax of approximately RMB370,498,000. As a result, the consolidated total assets of the Group is expected to increase by RMB370,498,000 and the consolidated net asset value attributable to equity holders of the Group is expected to increase by RMB370,498,000 upon lease commencement.

For further details of the financial effects of the vessel leasing pursuant to the Vessel Leasing Service Master Agreement, please refer to the unaudited pro forma financial information of the remaining Group as set out in Appendix III to this circular.

VI. REASONS FOR AND BENEFITS OF ENTERING INTO THE VESSEL LEASING SERVICE MASTER AGREEMENT

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services. As a shipping financing platform, the Group will integrate premium resources and give full play to its advantages in the shipping industry. Synergic development will be pursued for various financial businesses in an attempt to become China's leading and the world's first-class integrated supply chain financial service provider with distinct shipping logistics features.

The 74 Vessels are currently being leased to the COSCO SHIPPING Holdings Group under time charters pursuant to the Asset Lease Framework Agreement, where the Group as the shipowner receives lease payments for the leasing of the Vessels and is responsible for the operating expenditures of the Vessels including, crew hire, maintenance costs, insurance costs, equipment and supplies and other administrative expenses. The aforementioned time charters are recognized as operating leases of the Group, where the lease payments are accounted for as revenue of the Group, and the aforementioned operating expenditures incurred in earning the lease income are recognized as cost of sales of the Group.

Whereas under the bareboat charters to be entered into pursuant to the Vessel Leasing Service Master Agreement, the Group as the shipowner will receive lease payments for the leasing of the Vessels and will not be responsible for the operating expenditures of the Vessels. The aforementioned bareboat charters will be accounted for as finance leases of the Group, where the annual lease payments of the bareboat charters received by the Group will be split into receipt of repayment for finance lease receivables (being the net investment in the leases in the estimated amount of approximately RMB28,356,627,000 at lease commencement) and finance income, the Group will recognize the finance income over the term of the bareboat charters so as to reflect a constant periodic rate of return (being the interest rate implicit in the lease) on the net investment in the leases, and such finance income will be accounted for as revenue of the Group for the corresponding financial year. For illustration, for the first year of the term of the bareboat charters of the 74 Vessels, it is estimated that the Group will receive annual lease payments of approximately RMB2,292,356,000, approximately RMB1,192,106,000 of which will be recognized as repayment for finance lease receivables and approximately RMB1,100,250,000 of which will be recognized as finance income and therefore revenue of the Group.

As further detailed in the pro forma consolidated statement of profit or loss and other comprehensive income of the remaining Group for the year ended 31 December 2019 as set out in Appendix III to this circular, for illustration purpose only, if the vessel leasing under the Vessel Leasing Service Master Agreement had taken place on 1 January 2019, there would have been an increase in gross profit of approximately RMB23,370,000 for the year ended 31 December 2019 as a result of (i) the exclusion of the results of the 74 Vessels under time charters pursuant to the Asset Lease Framework Agreement for the year ended 31 December 2019, leading to the decrease in revenue and cost of sales of approximately RMB4,490,177,000 and RMB3,413,297,000, respectively; and (ii) the recognition of the finance income of the bareboat charters of the 74 Vessels pursuant to the Vessel Leasing Service Master Agreement, leading to the increase in revenue of approximately RMB1,100,250,000.

The entering into of the Vessel Leasing Service Master Agreement will enable to Group to continue to lease the 74 Vessels to the COSCO SHIPPING Holdings Group, thereby securing a stable income stream for the Group over the remaining life of the Vessels. The vessel leasing under the Vessel Leasing Service Master Agreement is also in line with the strategic development of the shipping and industry-related leasing businesses of the Group.

The Directors therefore consider that the Vessel Leasing Service Master Agreement was entered into in the ordinary and usual course of business of the Group and are on normal commercial terms, and that the terms of the Vessel Leasing Service Master Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VII. IMPLICATIONS UNDER THE LISTING RULES

As one of more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder exceed 75%, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder constitute a very substantial disposal of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, were held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, were held by China Shipping, a wholly-owned subsidiary of COSCO SHIPPING, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, were held by Ocean Fortune Investment Limited, an indirect wholly-owned subsidiary of COSCO SHIPPING. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company.

As COSCO SHIPPING is the indirect controlling shareholder of COSCO SHIPPING Holdings and COSCO SHIPPING Lines is a wholly-owned subsidiary of COSCO SHIPPING Holdings, COSCO SHIPPING Lines is an associate of COSCO SHIPPING and therefore a connected person of the Company. Accordingly, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, all being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by COSCO SHIPPING to the Board. Accordingly, Mr. Wang Daxiong, Mr. Liu Chong, Mr. Xu Hui, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi have therefore abstained from voting on the relevant Board resolution approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Therefore, no other Director has abstained from voting on such Board resolution.

VIII. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

Messis Capital has been appointed by the Company as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

IX. EGM

The EGM will be convened at 1:30 p.m. on Wednesday, 9 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC, for the Shareholders to consider and, if thought fit, approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. The Notice of EGM is set out on pages EGM-1 to EGM-3 of this circular.

COSCO SHIPPING and its associates and those who are interested in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder will be required to abstain from voting on the resolution in relation to the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder had a material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting at the EGM for the relevant resolution.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The form of proxy must be delivered to Computershare not less than 24 hours before the time for holding the EGM or any adjourned meeting thereof in order for such document to be valid.

For the H Shareholders, the form of proxy should be returned to Computershare, the H Share registrar of the Company, by hand or by post not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof.

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

X. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 19 to 38 of this circular in connection with the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder, and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having considered the terms of the Vessel Leasing Service Master Agreement and the advice of the Independent Financial Adviser, are of the opinion that: (i) the Vessel Leasing Service Master Agreement was entered into in the ordinary and usual course of business of the Company on normal commercial terms; and (ii) the terms of the Vessel Leasing Service Master Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

The Board recommends the Independent Shareholders to vote in favour of the resolution to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder at the EGM.

XI. ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 17 to 18 of this circular, containing its recommendation in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 19 to 38 of this circular, containing its recommendation in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolution approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

By order of the Board
COSCO SHIPPING Development Co., Ltd.*
Cai Lei
Joint Company Secretary

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

20 November 2020

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
VESSEL LEASING SERVICE MASTER AGREEMENT

We refer to the circular of the Company dated 20 November 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" in the Circular. Messis Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the "Letter from the Board" set out on pages 5 to 16 of the Circular, the "Letter from the Independent Financial Adviser" set out on pages 19 to 38 of the Circular and the additional information set out in the appendices thereto.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from the Independent Financial Adviser" in the Circular, we concur with the view of the Independent Financial Adviser and consider that the Vessel Leasing Service Master Agreement was entered into in the ordinary and usual course of business of the Group and are on normal commercial terms. The terms of the Vessel Leasing Service Master Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
Independent Board Committee

Mr. Cai Hongping	**Ms. Hai Chi Yuet**	**Mr. Graeme Jack**
Mr. Lu Jianzhong	**Ms. Zhang Weihua**	

Independent non-executive Directors

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

The following is the full text of the letter from Messis Capital to the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement for the purpose of inclusion in this Circular.

MESSIS 大有融資

20 November 2020

To: *The Independent Board Committee and the Independent Shareholders of COSCO SHIPPING Development Co., Ltd.**

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION VESSEL LEASING SERVICE MASTER AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to advise the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 20 November 2020 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 13 December 2015 and the circular of the Company dated 31 December 2015 in relation to, among other things, the charter and lease of vessels by the Company to COSCO SHIPPING Holdings under the Asset Lease Framework Agreement. As the terms of the existing leases entered into pursuant to the Asset Lease Framework Agreement in respect of the 74 Vessels are due to expire, on 30 October 2020, the Company (as the lessor) and COSCO SHIPPING Lines (as the lessee) entered into the Vessel Leasing Service Master Agreement, pursuant to which, the Company has agreed to provide vessel leasing services to COSCO SHIPPING Lines, whereby the 74 Vessels will be chartered to COSCO SHIPPING Lines under bareboat charter.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder exceeds 75%, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder constitute a very substantial disposal of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, were held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, were held by China Shipping, a wholly-owned subsidiary of COSCO SHIPPING, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, were held by Ocean Fortune Investment Limited, an indirect wholly-owned subsidiary of COSCO SHIPPING. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company.

As COSCO SHIPPING is the indirect controlling shareholder of COSCO SHIPPING Holdings and COSCO SHIPPING Lines is a wholly-owned subsidiary of COSCO SHIPPING Holdings, COSCO SHIPPING Lines is an associate of COSCO SHIPPING and therefore a connected person of the Company. Accordingly, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, all being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by COSCO SHIPPING to the Board. Accordingly, Mr. Wang Daxiong, Mr. Liu Chong, Mr. Xu Hui, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi have therefore abstained from voting on the relevant Board resolution approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Therefore, no other Director has abstained from voting on such Board resolution.

The Independent Board Committee (comprising all independent non-executive Directors namely, Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in this regard and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we were appointed as an independent financial adviser for the Company on four occasions, details of which are set out in the circulars of the Company dated (i) 10 May 2019 in relation to the further extension of validity period of resolutions regarding the revised proposed non-public issuance of A Shares by the Company; (ii) 5 August 2019 in relation to the proposed revision of annual caps in respect of continuing connected transactions contemplated under the master containers services agreement; (iii) 6 December 2019 in relation to certain continuing connected transactions; and (iv) 30 October 2020 in relation to a discloseable and connected transaction. During the past two years, we were appointed as an independent financial adviser by COSCO SHIPPING Energy Transportation Co., Ltd.* (中遠海運能源運輸股份有限公司) (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1138) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600026), a connected person of the Company, on four occasions, details of which are set out in its circulars dated (i) 30 November 2018 in relation to the extension resolutions in relation to the non-public issuance of A shares; (ii) 30 November 2018 in relation to major and continuing connected transactions; (iii) 5 July 2019 in relation to the amendment to the terms of the proposed non-public issuance of A shares; and (iv) 25 November 2019 in relation to extension resolutions in relation to the non-public issuance of A shares. During the past two years, we were also appointed to act as the independent financial adviser of COSCO SHIPPING Holdings Co., Ltd. (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1919) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601919), another connected person of the Company, on one occasion as detailed in its circular dated 5 December 2019 in relation to major transaction and continuing connected transactions. Notwithstanding the above, the previous engagements with the Company and its connected persons would not affect our independence from the Company and we are independent from the Company pursuant to Rule 13.84 of the Listing Rules, in particular that we did not serve as a financial adviser to (i) the Company, (ii) COSCO SHIPPING Group, and (iii) any core connected person of the Company within 2 years prior to 6 November 2020, being the date of making our independence declaration to the Hong Kong Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendations, we have reviewed, amongst others, (i) the Vessel Leasing Service Master Agreement; (ii) the Drewry Report and conducted an interview with Drewry; (iii) the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**"); (iv) the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**"); (v) the Company's interim report for the six months ended 30 June 2020 (the "**2020 Interim Report**"); and (vi) other information as set out in this letter. We have also relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

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

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

1. Background and Reasons for the Vessel Leasing Service Master Agreement

1.1 Background information on the Company

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange.

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

1.2 Financial performance on the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, which are extracted from the Company's 2020 Interim Report, the 2019 Annual Report and the 2018 Annual Report.

	Six months ended 30 June		Year ended 31 December		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
					(restated)
Continuing operations					
Revenue (from external customers)	7,806,600	6,833,526	14,155,859	16,242,002	15,901,155
Costs of sales	(5,851,233)	(5,438,497)	(10,615,484)	(12,342,761)	(12,745,552)
Gross profit	1,955,367	1,395,029	3,540,375	3,899,241	3,155,603
Profit for the period/year from continuing operations	855,018	904,362	1,744,733	1,359,397	1,361,350

For the year ended 31 December 2018

Revenue of the Group increased from approximately RMB15.9 billion for the year ended 31 December 2017 to approximately RMB16.2 billion for the year ended 31 December 2018, representing an increase of approximately RMB0.3 billion or 2.1%. According to the 2018 Annual Report, the increase in the revenue was mainly attributable to the combined effect of (i) the increase in the revenue from the container manufacturing business by approximately 32% to RMB7.8 billion, mainly due to the improvement in both price and volume of containers manufactured through introducing scientific production scheduling and container painting technology which improved productivity and competitiveness; and (ii) the slight decrease in revenue from the investment and service business and other businesses by approximately RMB1.9 million and RMB12.4 million, respectively, as a result of market conditions.

For the year ended 31 December 2018, the Group maintained a stable profit level from continuing operations at approximately RMB1.4 billion as compare with that for the year ended 31 December 2017.

For the year ended 31 December 2019

Revenue of the Group decreased from approximately RMB16.2 billion for the year ended 31 December 2018 to approximately RMB14.2 billion for the year ended 31 December 2019, representing a decrease of approximately RMB2.0 billion, or 13%. According to the 2019 Annual Report, the decrease in revenue was mainly attributable to the decrease in revenue in container manufacturing business of approximately RMB3.2 billion to approximately RMB4.6 billion, which was mainly due to the continued economic slowdown trend worldwide, weak performance on global trade, low demand for containers arising from changes in macro supply and demand relations and repercussions of global trade friction during the year, which resulted in significant decrease in volume and price of the container manufacturing segment as compared with last year. The Group's accumulated container sales amounted to 402,943 TEU during the year, representing a decrease of 35% as compared with 615,600 TEU of last year.

Despite the decrease in revenue and gross profit, the Group recorded an increase in profit for the year from continuing operations from approximately RMB1.4 billion for the year ending 31 December 2018 to approximately RMB1.7 billion for the year ending 31 December 2019, which was mainly due to other gain of approximately RMB835.3 million for the year ending 31 December 2019 as compared to net other losses of RMB272.7 million, which was mainly attributable to appreciation of fair value of the securities held by the Group.

For the six months ended 30 June 2020

Revenue of the Group increased from approximately RMB6.8 billion for the six months ended 30 June 2019 to approximately RMB7.8 billion for the six months ended 30 June 2020, representing an increase of approximately RMB1.0 billion or 14.2%. According to the 2020 Interim Report, the increase in revenue was mainly due to (i) the increase in shipping and industry-related leasing business of approximately 9.6% to approximately RMB5.7 billion for the six months ended 30 June 2020, due to expansion of the vessel finance leasing business and the appreciation of the exchange rate of US$ against RMB during the period; and (ii) increase in revenue from investment and service business of approximately 16.9% to approximately RMB28.7 million, due to better operating results of the insurance broker business for the period.

Despite the increase in revenue and hence gross profit, the Group recorded a profit of approximately RMB855.0 million for the six months ended 30 June 2020, representing a decrease of approximately RMB49.4 million or approximately 5.5% from approximately RMB904.4 million. Such decrease in profit was mainly attributable to (i) net other losses of approximately RMB104.7 million recorded for the six months ended 30 June 2020 as compared to net other gain of approximately RMB553.3 million for the six months ended 30 June 2019, which was mainly due to fair value (loss)/gain on financial assets at fair value through profit or loss as a result of the decrease in share prices of listed equity investments held by the Group; and (ii) the increase in expected credit losses of approximately RMB84.8 million to approximately RMB326.6 million for the six months ended 30 June 2020.

1.3 *Financial position on the Group*

	As at 30 June	**As at 31 December**		
	2020	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*	*(audited)*
Non-Current Assets	117,894,068	114,693,373	107,595,913	99,004,264
Current Assets	33,674,448	29,800,746	30,241,509	40,033,396
Total Assets	151,568,516	144,494,119	137,837,422	139,037,660
Current Liabilities	57,415,955	54,271,559	54,892,564	52,657,566
Non-Current Liabilities	70,143,638	66,014,842	64,904,723	69,506,307
Net current liabilities	(23,741,507)	(24,470,813)	(24,651,055)	(12,624,170)
Equity attributable to owners of the parent	24,008,923	24,207,718	18,040,135	16,276,162

As at 31 December 2017, 2018, 2019 and as at 30 June 2020, property, plant and equipment, cash and cash equivalents, finance lease receivables as well as investments in associates were the major assets of the Group, which accounted for approximately 84.4%, 93.8%, 92.9% and 92.6% of the total assets of the Group as at 31 December 2017, 2018, 2019 and as at 30 June 2020, respectively. The property, plant and equipment of approximately RMB57.1 billion as at 30 June 2019 mainly comprised of containers and vessels.

As at 31 December 2017, 2018, 2019 and as at 30 June 2020, interest-bearing bank and other borrowings and corporate bonds were the major liabilities of the Group, which accounted for approximately 81.7%, 92.5%. 91.8% and 91.1% of the total liabilities of the Group as at 31 December 2017, 2018 and 2019 and as at 30 June 2020, respectively.

As a result of the foregoing, the total equity attributable to owners of the parent as at 31 December 2017, 2018, 2019 and as at 30 June 2020 amounted to RMB16.3 billion, RMB18.0 billion, RMB24.2 billion and RMB24.0 billion respectively.

1.4 Background information on the parties to the Vessel Leasing Service Master Agreement

Information on COSCO SHIPPING Lines and COSCO SHIPPING Holdings

COSCO SHIPPING Lines is a joint stock limited company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Holdings. It is principally engaged in container shipping.

COSCO SHIPPING Holdings is a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange. The COSCO SHIPPING Holdings Group provides a wide range of container shipping and terminal services covering the whole shipping value chain for both international and domestic customers.

1.5 Background information on the Vessels

The 74 Vessels are container vessels with a total capacity of 581,603 TEUs and an average age of approximately 12.2 years. 49 Vessels have a capacity of below 9,000 TEUs and 25 Vessels have a capacity of more than 9,000 TEUs.

The net profits attributable to the 74 Vessels for the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 were approximately as follows. For further details, please refer to Appendix II – Financial information of the Vessels to this Circular:

	For the year ended 31 December		**For the six months ended 30 June**
	2018	**2019**	**2020**
	(unaudited)	*(unaudited)*	*(unaudited)*
	RMB	*RMB*	*RMB*
Revenue	4,221,789,000	4,490,177,000	2,223,498,000
Cost of sales	(2,727,484,000)	(3,413,297,000)	(1,591,763,000)
Net profit before taxation	1,494,305,000	1,076,880,000	631,735,000
Identifiable net income stream	1,494,305,000	1,076,880,000	631,735,000

The unaudited book value of the 74 Vessels as at 30 June 2020 was approximately RMB27,972.7 million.

1.6 Reasons for and benefits of the entering into of the Vessel Leasing Service Master Agreement

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services. As a shipping financing platform, the Group will integrate premium resources and give full play to its advantages in the shipping industry. Synergic development will be pursued for various financial business in an attempt to become China's leading and the world's first-class integrated supply chain financial service provider with distinct shipping logistics features.

According to the 2020 Interim Report, the Company will, based on its existing business, gradually set up a high-level professional investment and financing team so as to become a first-class domestic ship owner leasing enterprise. In a short-term view, the Group will mobilize its current fleet resources to revive its internal business while in the long run, it will gradually increase the proportion of external business and work out a "one-stop" business model leveraging China COSCO SHIPPING Corporation Limited's advantages of full industrial chain deployment, in an attempt to establish a unique competitive edge in the industry. Further, through our discussion with the management of the Group, it is the Group's intention to develop its vessel leasing business in the long run in an attempt to become China's leading and the world's first-class integrated supply chain financial service provider with distinct shipping logistics features. Due to the recent business expansions, revenue from shipping and industry-related leasing business increased by approximately 9.6% to approximately RMB5.7 billion for the six months ended 30 June 2020 as a result of the expansion of the vessel finance leasing business.

Through our discussion with the management of the Group, we are given to understand that in order to achieving the strategy of the Group by developing its vessel leasing business in the long run, the entering into of the of the Vessel Leasing Service Master Agreement is crucial as it is in line with the strategic development of the shipping and industry-related leasing businesses of the Group. Moreover, the entering into of the Vessel Leasing Service Master Agreement, which is a long term agreement, would be able to avoid any short-term cyclical risks in freight market, especially there are uncertainties on the global economy recovery which may hinder the demand on global freight market. In addition, the entering into of the Vessel Leasing Service Master Agreement will enable the Group to continue to lease the 74 Vessels to the COSCO SHIPPING Holdings Group, thereby securing a stable income stream for the Group over the remaining life of the Vessels.

The 74 Vessels are currently being leased to the COSCO SHIPPING Holdings Group under time charters pursuant to the Asset Lease Framework Agreement, where the Group as the shipowner receives lease payments for the leasing of the Vessels and is responsible for the operating expenditures of the Vessels including, crew hire, maintenance costs, insurance costs, equipment and supplies and other administrative expenses. The aforementioned time charters are recognized as operating leases of the Group, where the lease payments are accounted for as revenue of the Group, and the aforementioned operating expenditures incurred are recognized as cost of sales of the Group.

Whereas under the bareboat charters to be entered into pursuant to the Vessel Leasing Service Master Agreement, the Group as the shipowner will receive lease payments for the leasing of the Vessels and will not be responsible for the operating expenditures of the Vessels. The aforementioned bareboat charters will be accounted for as finance leases of the Group, where the annual lease payments of the bareboat charters received by the Group will be split into receipt of repayment for finance lease receivables (being the net investment in the leases in the estimated amount of approximately RMB28,356,627,000 at lease commencement) and finance income, the Group will recognize the finance income over the term of the bareboat charters so as to reflect a constant periodic rate of return (being the interest rate implicit in the lease) on the net investment in the leases, and such finance income will be accounted for as revenue of the Group for the corresponding financial year. For illustration, for the first year of the term of the bareboat charters of the 74 Vessels, it is estimated that the Group will receive annual lease payments of approximately RMB2,292,356,000, approximately RMB1,192,106,000 of which will be recognized as repayment for finance lease receivables and approximately RMB1,100,250,000 of which will be recognized as finance income and therefore revenue of the Group.

As further detailed in the pro forma consolidated statement of profit or loss and other comprehensive income of the remaining Group for the year ended 31 December 2019 as set out in Appendix III to this circular, for illustration purpose only, if the vessel leasing under the Vessel Leasing Service Master Agreement had taken place on 1 January 2019, there would have been an increase in gross profit of approximately RMB23,370,000 for the year ended 31 December 2019 as a result of (i) the exclusion of the results of the 74 Vessels under time charters pursuant to the Asset Lease Framework Agreement for the year ended 31 December

2019, leading to the decrease in revenue and cost of sales of approximately RMB4,490,177,000 and RMB3,413,297,000, respectively; and (ii) the recognition of the finance income of the bareboat charters of the 74 Vessels pursuant to the Vessel Leasing Service Master Agreement, leading to the increase in revenue of approximately RMB1,100,250,000.

As such, as further discussed in paragraph "3. Financial effects of the Vessel Leasing Service Master Agreement" below, the entering into the Vessel Leasing Service Master Agreement may bring positive impact on the Group's net profits for the year ended 31 December 2019 should the transactions contemplated thereunder had been completed on 1 January 2020. Further, it will also enhance the Group's net assets as it is expected that a gain of disposal of approximately RMB370.5 million would be recorded as if the transactions contemplated thereunder had been completed on 30 June 2020.

Having considered that (i) the vessel leasing business is one of the Group's principal business; (ii) it is the Group's intention to develop its vessel leasing business in the long run; (iii) the entering into of the Vessel Leasing Service Master Agreement would be able to avoid any short-term cyclical risks in freight market; (iv) the Group is able to secure a stable income stream by continuing to lease the 74 Vessels to the COSCO SHIPPING Holdings Group over the remaining life of the Vessels; and (v) the transactions contemplated under the Vessel Leasing Service Master Agreement may bring positive impact on the Group's earnings and net assets, we concur with the Directors' view that the Vessel Leasing Service Master Agreement was entered into in the ordinary and usual course of business of the Group and the entering into of the Vessel Leasing Service Master Agreement is in the interests of the Company and the Shareholders as a whole.

2. The Vessel Leasing Service Master Agreement

2.1 The terms of the Vessel Leasing Service Master Agreement

Set out below is the summarised key terms of the Vessel Leasing Service Master Agreement. Please refer to the Letter from the Board for details:

Date:	30 October 2020
Parties:	(1) the Company as lessor; and
	(2) COSCO SHIPPING Lines, as lessee.

Subject matter:	Pursuant to the Vessel Leasing Service Master Agreement, the Company has agreed to provide vessel leasing services to COSCO SHIPPING Lines in accordance with the following principles: (i) self-owned vessels will be chartered to COSCO SHIPPING Lines under bareboat charter for a term commencing from 1 January 2021 and ending on the date on which the age of the vessels is 25 years; and (ii) leased-in vessels will be chartered to COSCO SHIPPING Lines under bareboat charter for a term commencing from 1 January 2021 and ending on the date on which the age of the vessels is 25 years. The Company undertakes that written consent of the original shipowner(s) or financing bank(s) in respect of the sub-charter to COSCO SHIPPING Lines (if necessary) has been obtained before signing of the Vessel Leasing Service Master Agreement and the Company will continue to be liable for the responsibilities and obligations under the relevant original bareboat charter(s) or financing agreement(s). Upon expiration of the term of the relevant charter, the vessels shall be returned by COSCO SHIPPING Lines to the Company.
Term:	The Vessel Leasing Service Master Agreement will become effective on 1 January 2021 upon satisfaction of all the conditions set out below and the term of the Vessel Leasing Service Master Agreement is 20 years from the effective date.
Vessels to be chartered:	The vessels to be chartered under the Vessel Leasing Service Master Agreement are the 74 Vessels, with a total capacity of 581,603 TEUs and an average age of approximately 12.2 years. Specific lease contracts will be entered into by the parties in respect of the Vessels before 1 January 2021 in accordance with the Vessel Leasing Service Master Agreement.

Lease payments:	Pursuant to the Vessel Leasing Service Master Agreement, the price for the vessel leasing thereunder shall be determined based on the fair market price. For the purpose of determining the fair market price, the parties have jointly appointed Drewry, an independent shipping consultant, to conduct an assessment and provide its recommendation on the charter fee of the bareboat charters of the Vessels under the Vessel Leasing Service Master Agreement. Based on the abovementioned fair market price, the parties agreed that the aggregate lease payments payable by COSCO SHIPPING Lines to the Company under the Vessel Leasing Service Master Agreement shall be US$4,618,343,445, which shall be payable in accordance with the specific terms of the relevant charterparty of the Vessels during the period of 20 years. The lease payment instalment for each Vessel shall be settled in advance every 15 days during the term of the relevant charter. The price for the vessel leasing under the Vessel Leasing Service Master Agreement was determined after arm's length negotiation between the parties on normal commercial terms with reference to the fair market price as determined by Drewry.
Effectiveness:	The effectiveness of the Vessel Leasing Service Master Agreement is subject to the following conditions: (i) the Vessel Leasing Service Master Agreement having been duly executed by the Company and COSCO SHIPPING Lines; and; (ii) the approval procedures in respect of the execution and performance of the Vessel Leasing Service Master Agreement in accordance with the articles of association, applicable laws and regulations and the Listing Rules having been completed by the Company and COSCO SHIPPING Lines.

2.2 Fairness and reasonableness on the lease payments under the Vessel Leasing Service Master Agreement

As stated in the Letter from the Board, the price for the vessel leasing under the Vessel Leasing Service Master Agreement was determined after arm's length negotiation between the parties on normal commercial terms with reference to the fair market price as determined by Drewry. The management of the Company are of the view that it is reasonable to determine the lease payments payable by COSCO SHIPPING Lines under the Vessel Leasing Service Master Agreement based on the Drewry Report prepared by Drewry, which is an independent shipping consultant. A summary of the Drewry Report is set out in Appendix V to this Circular.

In assessing the fairness and reasonableness of the price for the vessel leasing under the Vessel Leasing Service Master Agreement, we have obtained and reviewed (i) the Drewry Report; and (ii) the relevant calculations prepared by the Company in arriving the aggregate lease payments payable by COSCO SHIPPING Lines Group, being US$4,618,343,445.

(i) The Drewry Report

The Drewry Report is prepared by Drewry, an independent shipping consultant. We have performed desktop research on its background and understand that Drewry is a leading independent provider of research and consulting services to the maritime and shipping industry for 50 years, employing about 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai. Drewry provide services through four business units including maritime research, maritime advisors, supply chain advisors and maritime financial research. In addition, we have also performed an interview with Drewry regarding its expertise and its relationship with the Group. During our interview, Drewry confirms its independence with the Company, other parties to the Vessel Leasing Service Master Agreement or any of their core connected persons. We have also obtained and reviewed the engagement letter entered into between the Company and Drewry and noted that the scope of work is appropriate for arriving at the opinion required to be given and we were not aware of any irregularities during our interview with the Drewry or in our review of the Drewry Report. Further, during our interview with Drewry, Drewry confirms that they are not aware of any limitations on the relevant scope of work. Furthermore, nothing has come to Drewry's attention that parties to the Vessel Leasing Service Master Agreement had made formal or informal representation to Drewry. Based on the above independent workdone, we are not aware the Company or other parties to the Vessel Leasing Service Master Agreement has made any formal or informal representation to Drewry that contravenes with its understanding of the information, to a material extent, as set out in this Circular.

According to the Drewry Report, Drewry categorised the 74 Vessels by loading capacity and their ages. In order to facilitate the calculation of charter fees, the 74 Vessels with similar loading capacity (which are sister ships in general) are put under the same category. In addition to the loading capacity and ages of the Vessels, Drewry also took the particularities into consideration, such as the differences between the smart main engine in the Vessels with 14,074 TEUs and traditional main engine, and the fact that the Vessels with 4,738 TEUs are vessels with wide beam. After grouping all the 74 Vessels in accordance to their respective loading capacities and particularities, Drewry took the average age of each vessels group as the age to be used for vessel assessment of the 74 Vessels. The term of charter is also determined in accordance with that age.

According to the Drewry Report, the assessment of the lease payments of the 74 Vessels is divided into two groups, which are (a) Vessels with a capacity above 9,000 TEUs and (b) Vessels with a capacity below 9,000 TEUs.

(a) Vessels with capacity of above 9,000 TEUs

We noted from the Drewry Report that the assessment of daily lease rate of vessels with a capacity of above 9,000 TEUs is based on book value method. We have reviewed the Drewry Report and noted that based on available public information the leasing markets for vessels with capacity of over 9,000 TEUs are not liquid, in particular for vessels with capacity of over 12,000 TEUs as there are only 7 leasing transactions from 2010-2020. As such, Drewry considers that the daily lease rates from those historical leasing transactions are not representative given such illiquid leasing markets for vessels with capacity of over 9,000 TEUs and hence Drewry consider using book value method in assessing the lease payment on the Vessels with capacity of above 9,000 TEUs. We have obtained and reviewed the calculations prepared by Drewry and understand that the daily bareboat lease rate of vessels with a capacity of above 9,000 TEUs are calculated with reference to (i) the carrying amount of the Vessels; (ii) the remaining charter term; (iii) the residual value of Vessels and (iv) weighted average cost of capital.

According to the Drewry Report, the residual value of the Vessels which reach 25 years will be calculated according to scraping prices. Different types of vessels have different scraping prices which are determined in accordance to (i) their respective light displacement tonnage and (ii) the price of US$366 per light displacement tonnage per Vessel.

As stated in the Drewry Report, the weighted costs of capital is adopted in calculating the daily lease rates. We have obtained and reviewed the calculations prepared by Drewry in arriving the weighted average cost of capital and understand that the weighted average cost of capital is determined based on adopting the proportion of corporate equity and debt in the capital structure as commonly used in the industry which we consider is reasonable.

As a result of the above, the charter daily rate for vessels types over 9,000 TEUs are summarised below:

Type (TEU)	**18,982**	**14,074**	**14,074#**	**10,036**	**9,572**
No. of vessels	5	6	2	8	4
Average term of charter (years)	19.1	15.9	15.2	18.5	11.0
Lease rate (US$ per day)	22,113	26,854	26,379	15,265	12,054
Lease rate per year (US$ million)	40.4	58.8	19.3	44.6	17.6

Note: Each of the Vessels with 14,074 TEUs has slight different main engine and has been categorized into different groups accordingly

After taking into account that (i) the leasing markets for vessels above 9,000 TEUs are illiquid and hence the historical transactions are not representative; and (ii) the basis and assumptions adopted in the book value method (including the calculation the residual values of vessels and the weighted average cost of capital) are fair and reasonable, we consider that basis and assumptions adopted in arriving the daily lease rate for vessels over 9,000 TEUs are fair and reasonable as far as the Independent Shareholders are concerned.

(b) Vessels with capacity of below 9,000 TEUs

We noted from the Drewry Report that the assessment of daily lease rate of vessels with a capacity of below 9,000 TEUs is based on market charter rate. We have reviewed the Drewry Report and noted that there are relatively more leasing transactions involving vessels types of below 9,000 TEUs, forming an active market of vessels leasing and hence such historical transactions are representative and can provide a meaningful reference for the charter rate assessment. Based on the above, Drewry considers to use market charter rate approach which we consider is reasonable.

As stated in the Drewry Report, the bareboat charter rates for vessels with capacity of below 9,000 TEUs are determined with reference to (i) the historical time charter rate level derived from Clarksons Plc ("**Clarksons**") for similar types of vessels for the most recent three years and (ii) daily operating costs.

The historical time charter level for similar types of vessels are derived from the data from Clarksons, an independent shipping services provider. We have performed desktop research on Clarksons and understand that Clarksons operates throughout the worldwide and is engaged in providing shipbroking, ship management, financial services, fund management, and property services. Clarksons also provides research services and is a market leader in providing timely and authoritative information in all aspects of shipping by providing data on over 135,000 vessels either in service or on order, 40,000 companies and 600 shipyards as well as extensive trade and commercial data, and over 100,000 time series. Based on the above, we consider that it is fair and reasonable to use the historical time charter rate level derived from Clarksons, an independent third party, to determine the bareboat charter rate of vessels under 9,000 TEUs.

As discussed in the Drewry Report, in determining the bareboat charter rate of vessels under 9,000 TEUs under market charter rate approach, the daily operating costs should be deducted. We noted from the Drewry Report that the daily operating costs are made reference to (i) operating costs of Vessels (including the costs of vessel management) which are calculated in accordance to the Ship Operating Costs Annual Review and Forecast 2019/20 report compiled by Drewry; and (ii) the annual growth rate of 1%, which we consider are fair and reasonable.

As a result of the above, the bareboat charter rate for vessels under 9,000 TEUs are summarised below:

Type (TEU)	**8,468**	**8,533**	**5,668/5,688**	**4,738 wide beam**	**4,250**	**4,051**
No. of vessels	1	5	13	8	18	4
Average charter term (years)	8.6	12.5	8.1	17.0	10.5	8.0
Bareboat charter rate (US$ per day)	13,280	13,280	10,592	9,999	4,329	4,264
Bareboat earnings per year (US$ million)	4.8	24.2	50.3	29.2	28.4	6.2

Note: The 8,468 TEUs vessel is under flag of convenience and the 8,533 TEUs vessels are under PRC Flag. Therefore, they are listed separately

After taking into account that (i) the leasing markets for vessels under 9,000 TEUs are liquid and hence the historical transactions are representative and the market charter rate approach is adopted; (ii) Clarksons is an independent leading shipping services provider providing timely and authoritative information in all aspects of shipping and hence it is fair and reasonable to use the historical time charter rate level derived from Clarksons; and (iii) the daily operating costs of vessels are determined from a report compiled by Drewry with an annual growth rate, we consider that basis and assumptions adopted in arriving the daily lease rate for vessels under 9,000 TEUs are fair and reasonable as far as the Independent Shareholders are concerned.

(ii) Calculations in arriving the aggregate lease payments payable

Based on the book value approach for vessels above 9,000 TEUs and the market charter rate approach for vessels under 9,000 TEUs, the total annual bareboat earning per year amounted to approximately US$323.8 million. In arriving aggregate lease payments payable by COSCO SHIPPING Lines Group, being US$4,618,343,445, we have obtained and reviewed the calculations prepared by the Company and noted that the aggregate lease payments payable are the payments from 2021 to 2040. We further noted from the calculations that the annual lease payment payable for 74 Vessels are US$323.8 million which is with reference to the annual bareboat earning per year as appraised pursuant to the Drewry Report. We also noted that in certain years the aggregate lease payment payables are lower than US$323.8 million which is attributable to the lease terms of certain Vessels are expired as such Vessels will reach their respective age of 25 years. Based on the aforesaid, we consider that the basis in arriving the aggregate lease payment payable is fair and reasonable as far as the Independent Shareholders are concerned.

Having considered that (i) the bases and methodologies adopted for the assessment of daily lease rate of vessels above 9,000 TEUs are fair and reasonable; (ii) the bases and methodologies adopted for the assessment of daily lease rate of vessels under 9,000 TEUs are fair and reasonable; and (iii) the calculations prepared by the Company in arriving the aggregate lease payments payable are fair and reasonable, we concur with the view of the Directors that the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are on normal commercial terms and the terms are fair and reasonable so far as the Independent Shareholders are concerned.

3. Financial effects of the Vessel Leasing Service Master Agreement

Pursuant to the Vessel Leasing Service Master Agreement, the lease term is for the major part of the economic life of the 74 Vessels. The Group does not have control of the 74 Vessels as the Group is limited in its ability to direct the use of, and to obtain substantially all of the remaining benefits, from the 74 Vessels. Accordingly, the vessel leasing services shall be accounted for as a finance lease arrangement of the Group. At the lease commencement, the Group will derecognize the carrying amount of the 74 Vessels, recognize the net investment in the leases and recognise a gain on disposal.

Effects on earnings

According to the unaudited pro forma financial information as set out in Appendix III of the Circular, assuming that the transactions contemplated under the Vessel Leasing Service Master Agreement had been completed on 1 January 2020, it is estimated that the Group will recognise an unaudited gain before income tax of approximately RMB370.5 million from the disposal, which is calculated based on the difference between (a) the estimated net investment in the leases of approximately RMB28,356.6 million less the estimated PRC stamp duty (which is payable on contracts for leasing of the domestic Vessels for which the signing place will be mainland China) of approximately RMB11.0 million and direct expenses in relation to the transactions of approximately RMB2.4 million; and (b) the carrying amount of the 74 Vessels as at 30 June 2020, being approximately RMB27,972.7 million. The estimated net investment in the leases of approximately RMB28,356.6 million will be accounted for as the assets in the consolidated financial statements of the Group and represents the sum of (i) the estimated present value of the lease receivables that are not received at the lease commencement date discounted at the interest rate implicit in the lease, being approximately RMB25,401.7 million; and (ii) the unguaranteed residual value discounted at the interest rate implicit in the lease, being approximately RMB2,954.8 million.

Based on the above, the net profit of the Group attributable to the Shareholders should have been enhanced to approximately RMB2,138.6 million.

Effects on assets and liabilities

According to the unaudited pro forma financial information as set out in Appendix III of the Circular and assuming that the transactions contemplated under the Vessel Leasing Service Master Agreement had been completed on 30 June 2020, it is estimated that the Group will recognize an unaudited gain before income tax of approximately RMB370.5 million. As a result, the consolidated total assets of the Group is expected to increase by RMB370.5 million and the consolidated net asset value attributable to equity holders of the Group is expected to increase by RMB370.5 million upon lease commencement.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and financial position of the Group will be upon the commencement of the transactions contemplated under the Vessel Leasing Service Master Agreement. For further details of the financial effects of the vessel leasing pursuant to the Vessel Leasing Service Master Agreement, please refer to the unaudited pro forma financial information of the Group as set out in Appendix III to the Circular.

Taking into consideration that (i) the vessel leasing business is one of the Group's principal business; (ii) it is the Group's intention to develop its vessel leasing business in the long run; (iii) the entering into of the Vessel Leasing Service Master Agreement, which is long term in nature, would be able to avoid any short-term cyclical risks in freight market; (iv) the leasing of the 74 Vessels to the COSCO SHIPPING Holdings Group can secure a stable income stream for the Group over the remaining life of the Vessels; (v) the terms under the Vessel Leasing Service Master Agreement are fair and reasonable as discussed above; and (vi) the transactions contemplated under the Vessel Leasing Service Master Agreement can enhance the earnings and net assets of the Group, we concur with the view of the Directors' that the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the opinion that the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole, and the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

* *For identification purpose only*

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Company for the financial years ended 31 December 2017, 2018 and 2019, and the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2020, together with the relevant notes thereof are disclosed in the following documents:

(i) the annual report of the Company for the year ended 31 December 2017 (pages 93 to 212) (https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427562.pdf);

(ii) the annual report of the Company for the year ended 31 December 2018 (pages 86 to 212) (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426653.pdf);

(iii) the annual report of the Company for the year ended 31 December 2019 (pages 91 to 220) (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700731.pdf); and

(iv) the interim report of the Company for the six months ended 30 June 2020 (pages 22 to 48) (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0924/2020092400594.pdf).

2. STATEMENT OF INDEBTEDNESS

Debt securities and term loans

As at 30 September 2020, save as disclosed in respect of the borrowings and indebtedness of the Group below, the Group has no debt securities issued or outstanding, or authorized or otherwise created but unissued, and no term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the Company or by independent third parties) or unsecured.

Borrowings and indebtedness

As at 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has outstanding borrowings and indebtedness of approximately RMB110,482 million, comprising secured bank and other loans of approximately RMB64,081 million, unsecured bank and other loans of approximately RMB19,918 million, RMB bonds of approximately RMB26,268 million and lease liabilities of approximately RMB215 million.

Contingent liabilities

As at 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has no material contingent liabilities or guarantees.

Mortgages and charges

As at 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group's general banking facilities and the above outstanding secured borrowings were secured by the Group's property, plant and equipment, certain equity investments and certain bank deposits.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at 30 September 2020.

The Directors confirm that there was no material change in the indebtedness status of the Group since 30 September 2020 up to the Latest Practicable Date.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the first half of 2020, the economic growth of major economies across the world dropped significantly as the COVID-19 pandemic upended global economy and financial system. In the World Economic Outlook Update, June 2020, the International Monetary Fund forecasted a -4.9% growth for the global economy, substantially more pessimistic than its April forecast. The sluggish market, resulting in the disruptions to shipping industrial chain and supply chain amid the decline in global trade and investment, has imposed pressure on the business operations of the Company. In the second half of 2020, as the international environment becomes increasingly complicated, and the impact of the global COVID-19 pandemic remains severe, instability and uncertainty intensify.

The Company will strengthen macro analysis and market research, promote reform and transformation, develop new competitive strengths focusing on industry-finance integration, continuously improve high-quality development, and seek breakthroughs in distinctive shipping financial services. The disposal is in line with the strategic development needs of the Group and is expected to optimize the asset structure of the Group, thereby facilitating the development of its shipping and industry-related leasing business, container manufacturing business and investment and related service business.

In terms of shipping and industry-related leasing segments, the Company will continue to strengthen the combination of industry and finance, reinforce the collaboration among internal industry chains, and steadily expand external business. In terms of business model, the

Company will step up efforts to develop leasing business for special containers and reefer containers, and study and explore smart container leasing, in a bid to build a shipping leasing company with unique competitive strengths. Meanwhile, the Company will uphold the strategy of organic, sustainable, high-quality development to promote the development of other industry-related leasing business, expand financing channels, and develop value-added leasing services, in an effort to become a leader in the leasing industry.

In terms of container manufacturing segment, the Company will steadily advance the multi-dimensional integration of its entrusted container manufacturing assets into the Company's existing business, and enhance its overall competitiveness through technological upgrading, management improvement, process promotion and cultural integration; strengthen communication with industry peers to maintain a healthy business environment of the industry; enhance customer service awareness and seize opportunities to develop the market, so as to enable the industrial chain to grow stronger and better; reinforce the concept of green environmental protection, deepen fine management, continuously improve research and innovation capabilities, in an effort to build a world-class container manufacturing company.

In terms of investment and services segment, the Company will focus on upstream and downstream customers in the industrial chain, constantly optimize its investment portfolio, and seek a balance between strategic value and financial returns; gather external capital, talents and technology through industry funds and other models to boost the development of shipping business and new business lines; improve professional service capabilities and vigorously explore the market to build up a shipping insurance expert platform; combine industry with finance and provide one-stop supply chain financial services covering logistics, financing and risk management, in a great effort to build a supply chain financial ecosystem featuring shipping logistics.

4. WORKING CAPITAL

After due and careful enquiry, taking into account the financial resources available to the Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

PROFIT AND LOSS STATEMENT OF THE VESSELS

In accordance with paragraphs 14.68(2)(b)(i) of the Listing Rules, the unaudited profit and loss statement on the identifiable net income stream of the underlying 74 vessels for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020 (the "Unaudited Profit and Loss Statement of the Vessels") are set out below. In the opinion of the Directors, such information has been properly compiled and derived from the underlying books and records of the Group. The Company has engaged Ernst & Young (the "auditor") to conduct certain factual finding procedures on the compilation of such information in accordance with the Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has agreed the Unaudited Profit and Loss Statement of the Vessels to the underlying books and records of the Group in accordance with the agreed-upon procedures set out in the relevant engagement letter between the Company and the auditor and reported its factual findings based on the agreed-upon procedures to the Directors. The reported factual findings should not be used or relied upon by any other parties for any purposes.

	For the year ended 31 December			**For the six months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4,509,689	4,221,789	4,490,177	2,163,566	2,223,498
Cost of sales	3,007,561	2,727,484	3,413,297	1,541,228	1,591,763
Net profit before taxation	1,502,128	1,494,305	1,076,880	622,338	631,735
Income tax expense	–	–	–	–	–
Identifiable net income stream	1,502,128	1,494,305	1,076,880	622,338	631,735

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of COSCO SHIPPING Development Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of COSCO SHIPPING Development Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2020, the pro forma consolidated statement of profit or loss, the pro forma consolidated statement of other comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2019 and related notes as set out in Appendix III of the Circular dated 20 November 2020 (the "Circular") issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix III of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Group's proposed Vessel Leasing Service Master Agreement (hereinafter referred to as the "Transaction") on the Group's financial position as at 30 June 2020 as if the Transaction had taken place at 30 June 2020, and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Transaction had taken place at 1 January 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated statement of financial position as at 30 June 2020, on which interim report has been published, and information about the Group's financial performance and cash flows has been extracted by the Directors from the Group's consolidated statement of profit or loss and consolidated statement of cash flows for the year ended 31 December 2019, on which annual report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants
Hong Kong
20 November 2020

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The pro forma consolidated statement of financial position as at 30 June 2020, the pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2019 of COSCO SHIPPING Development Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") excluding the underlying vessels upon the completion of the Transaction (the "Remaining Group") (collectively referred to as the "Pro Forma Financial Information") have been prepared by the directors of the Company (the "Directors) in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purpose only.

The Pro Forma Financial Information presented below is prepared to illustrate the effect of the Transaction might has on the results of operations, financial position and cash flows of the Group as if the Transaction had been completed on (i) June 30, 2020 in respect of the pro forma consolidated statement of financial position of the Remaining Group; and (ii) January 1, 2020 in respect of the pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows of the Remaining Group.

The Pro Forma Financial Information has been prepared based on the Directors' judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position, the financial performance and cash flows of the Remaining Group had the Disposal had been completed as at 30 June 2020 or 1 January 2019, where applicable, or any future dates.

The pro forma consolidated statement of financial position of the Remaining Group has been prepared based on the consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the published interim report of the Company for the six months ended 30 June 2020, after making certain pro forma adjustments in relation to the Transaction that are directly attributable to the Transaction and factually supportable, as set out below.

The pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows of the Remaining Group had been prepared based on the consolidated statement of profit or loss, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year ended 31 December 2019 extracted from the published 2019 annual report of the Company, after making pro forma adjustments that are directly attributable to the Transaction and factually supportable, as set out below.

The Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2019 and the published interim report of the Company for the six months ended 30 June 2020 and other financial information included elsewhere in this Circular. The Pro Forma Financial Information does not take into account the financial effect arising from any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Remaining Group.

B. PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Pro Forma Consolidated Statement of Financial Position of the Remaining Group as at 30 June 2020

	Consolidated statement of financial position of the Group as at 30 June 2020	Pro forma adjustments	The Remaining Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)		*(Unaudited)*
	Note 1	*Note 3*	
NON-CURRENT ASSETS			
Property, plant and equipment	57,121,638	(27,972,742)	29,148,896
Investment properties	106,798	–	106,798
Right-of-use assets	252,441	–	252,441
Intangible assets	31,294	–	31,294
Investments in joint ventures	185,773	–	185,773
Investments in associates	27,026,585	–	27,026,585
Financial assets at fair value through profit or loss	4,492,315	–	4,492,315
Finance lease receivables	28,032,637	27,029,730	55,062,367
Factoring receivables	290,304	–	290,304
Deferred tax assets	277,250	–	277,250
Other long term prepayments	77,033	–	77,033
TOTAL NON-CURRENT ASSETS	117,894,068	(943,012)	116,951,056
CURRENT ASSETS			
Inventories	1,365,830	–	1,365,830
Trade and notes receivables	1,667,259	–	1,667,259
Prepayments and other receivables	462,959	–	462,959
Financial assets at fair value through profit or loss	28,103	–	28,103
Finance lease receivables	16,588,876	1,326,897	17,915,773
Factoring receivables	1,023,279	–	1,023,279
Pledged and time deposits	879,701	–	879,701
Cash and cash equivalents	11,658,441	(13,387)	11,645,054
TOTAL CURRENT ASSETS	33,674,448	1,313,510	34,987,958
TOTAL ASSETS	151,568,516	370,498	151,939,014

	Consolidated statement of financial position of the Group as at 30 June 2020	Pro forma adjustments	The Remaining Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)		*(Unaudited)*
	Note 1	*Note 3*	
CURRENT LIABILITIES			
Trade payables	3,230,446	–	3,230,446
Other payables and accruals	4,516,190	–	4,516,190
Contract liabilities	147,955	–	147,955
Derivative financial instruments	8,361	–	8,361
Bank and other borrowings	38,479,008	–	38,479,008
Corporate bonds	10,638,293	–	10,638,293
Lease liabilities	225,191	–	225,191
Tax payable	170,511	–	170,511
TOTAL CURRENT LIABILITIES	57,415,955	–	57,415,955
NET CURRENT LIABILITIES	(23,741,507)	1,313,510	(22,427,997)
TOTAL ASSETS LESS CURRENT LIABILITIES	94,152,561	370,498	94,523,059
TOTAL ASSETS LESS CURRENT LIABILITIES	94,152,561	370,498	94,523,059
NON-CURRENT LIABILITIES			
Bank and other borrowings	57,936,958	–	57,936,958
Corporate bonds	9,122,956	–	9,122,956
Lease liabilities	79,401	–	79,401
Derivative financial instruments	21,040	–	21,040
Deferred tax liabilities	334,139	–	334,139
Government grants	10,794	–	10,794
Other long term payables	2,638,350	–	2,638,350
TOTAL NON-CURRENT LIABILITIES	70,143,638	–	70,143,638
NET ASSETS	24,008,923	370,498	24,379,421
EQUITY			
Equity attributable to owners of the Target			
Share capital	11,608,125	–	11,608,125
Treasury shares	(233,428)	–	(233,428)
Special reserves	3,308	–	3,308
Other reserves	(2,312,339)	–	(2,312,339)
Other equity instruments	7,000,000	–	7,000,000
Retained profits	10,970,076	370,498	11,340,574
Other comprehensive loss	(3,026,819)	–	(3,026,819)
TOTAL EQUITY	24,008,923	370,498	24,379,421

Pro Forma Consolidated Profit or Loss and Other Comprehensive Income of the Remaining Group for the Year Ended 31 December 2019

	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 3*	*Note 4*	*Note 5*	
	(Audited)				*(Unaudited)*
Revenue	14,155,859	–	(4,490,177)	1,100,250	10,765,932
Cost of sales	(10,615,484)	–	3,413,297	–	(7,202,187)
Gross profit	3,540,375	–	(1,076,880)	1,100,250	3,563,745
Other income	414,051	–	–	–	414,051
Other gains, net	835,317	370,498	–	–	1,205,815
Selling, administrative and general expenses	(1,178,677)	–	–	–	(1,178,677)
Expected credit losses	(417,563)	–	–	–	(417,563)
Finance costs	(3,540,784)	–	–	–	(3,540,784)
Share of profits of associates	2,292,840	–	–	–	2,292,840
Share of losses of joint ventures	(1,077)	–	–	–	(1,077)
PROFIT BEFORE TAX	1,944,482	370,498	(1,076,880)	1,100,250	2,338,350
Income tax expense	(199,749)	–	–	–	(199,749)
PROFIT FOR THE YEAR	1,744,733	370,498	(1,076,880)	1,100,250	2,138,601
Profit attributable to:					
Owners of the parent	1,744,733	370,498	(1,076,880)	1,100,250	2,138,601

	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)				*(Unaudited)*
	Note 2	*Note 3*	*Note 4*	*Note 5*	
PROFIT FOR THE YEAR	1,744,733	370,498	(1,076,880)	1,100,250	2,138,601
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of associates	302,336	–	–	–	302,336
Share of other comprehensive loss of joint ventures	(59)	–	–	–	(59)
Effective portion of cash flow hedges	(30,084)	–	–	–	(30,084)
Exchange differences on translation of foreign operations	(187,211)	–	–	–	(187,211)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	84,982	–	–	–	84,982
Other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income/(loss) of associates	51,295	–	–	–	51,295
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods	51,295	–	–	–	51,295
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	136,277	–	–	–	136,277
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,881,010	370,498	(1,076,880)	1,100,250	2,274,878
Total comprehensive income attributable to:					
Owners of the parent	1,881,010	370,498	(1,076,880)	1,100,250	2,138,601

Pro Forma Consolidated Statement of Cash Flows of the Remaining Group for the Year Ended 31 December 2019

	Consolidated statement of cash flows of the Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)				*(Unaudited)*
	Note 2	*Note 3*	*Note 4*	*Note 5*	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	8,740,674	–	(2,629,495)	1,100,250	7,211,429
Income tax paid	(316,609)	–	–	–	(316,609)
Net cash flows generated from operating activities	8,424,065	–	(2,629,495)	1,100,250	6,894,820
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	187,544	–	–	–	187,544
Dividends received from financial assets at fair value through profit or loss	79,053	–	–	–	79,053
Dividends received from associates	921,424	–	–	–	921,424
Dividends received from joint ventures	3,345	–	–	–	3,345
Purchases of items of property, plant and equipment	(2,828,747)	–	–	–	(2,828,747)
Proceeds from disposal of items of property, plant and equipment	202,994	(13,387)	–	–	189,607
Purchases of intangible assets	(14,259)	–	–	–	(14,259)
Purchases of investments in associates	(5,041)	–	–	–	(5,041)
Proceeds from disposal of investments in associates	6,618	–	–	–	6,618
Purchases of financial assets at fair value through profit or loss	(826,931)	–	–	–	(826,931)
Proceeds from disposal of financial assets at fair value through profit or loss	158,072	–	–	–	158,072
Increase in finance lease receivables	(7,781,238)	–	–	1,192,107	(6,589,131)
Increase in factoring receivables	(718,126)	–	–	–	(718,126)
Decrease in pledged and time deposits	9,560	–	–	–	9,560
Increase in other long term payables	221,763	–	–	–	221,763
Net cash flows used in investing activities	(10,383,969)	(13,387)	–	1,192,107	(9,205,249)

	Consolidated statement of cash flows of the Group for the year ended 31 December 2019	Pro forma adjustments			The Remaining Group for the year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)				*(Unaudited)*
	Note 2	*Note 3*	*Note 4*	*Note 5*	
CASH FLOWS FROM FINANCING ACTIVITIES					
Repurchase of shares	(300,205)	–	–	–	(300,205)
Proceeds from issue of other equity instruments	5,000,000	–	–	–	5,000,000
New bank and other borrowings	52,918,431	–	–	–	52,918,431
Repayment of bank and other borrowings	(62,361,298)	–	–	–	(62,361,298)
New corporate bonds	15,280,000	–	–	–	15,280,000
Repayment of corporate bonds	(8,748,833)	–	–	–	(8,748,833)
Payment of principal portion of lease liabilities	(531,649)	–	–	–	(531,649)
Interest paid	(4,844,875)	–	–	–	(4,844,875)
Dividends paid to owners of the parent	(381,727)	–	–	–	(381,727)
Dividends paid to holders of the other equity instruments	(105,606)	–	–	–	(105,606)
Decrease in pledged and time deposits	360,511	–	–	–	360,511
Net cash flows used in financing activities	(3,715,251)	–	–	–	(3,715,251)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,675,155)	(13,387)	(2,629,495)	2,292,357	(6,025,680)
Cash and cash equivalents at beginning of year	15,249,194	–	–	–	15,249,194
Effect of foreign exchange rate changes, net	61,057	–	–	–	61,057
CASH AND CASH EQUIVALENTS AT END OF YEAR	9,635,096	(13,387)	(2,629,495)	2,292,357	9,284,571

C. NOTES TO PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Company for the six months ended 30 June 2020.

2. The amounts are extracted from the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

3. Reference is made to the announcement of the Company dated 13 December 2015 and the circular of the Company dated 31 December 2015 in relation to, among other things, the charter and lease of vessels by the Company to COSCO SHIPPING Holdings under the Assets Lease Framework Agreement. As the terms of the existing leases entered into pursuant to the Assets Lease Framework Agreement in respect of the 74 Vessels are due to expire, on 30 October 2020, the Company (as the lessor) and COSCO SHIPPING Lines (as the lessee) entered into the Vessel Leasing Service Master Agreement, pursuant to which, the Company has agreed to provide vessel leasing services to COSCO SHIPPING Lines, whereby the 74 Vessels will be chartered to COSCO SHIPPING Lines under bareboat charter.

   According to the Agreement, the lease term is for the major part of the economic life of the 74 Vessels. The Group do not obtain control of the Vessel because the Group are limited in their ability to direct the use of and obtain substantially all of the remaining benefits from the 74 Vessels. Accordingly, the vessel leasing services shall be accounted for as a finance lease arrangement.

   Under existing leases, the vessel leasing services were accounted for as an operating lease arrangement and the vessels were accounted for as property, plant and equipment.

   With the proposed Vessel Leasing Service Master Agreement commencing from 1 January 2020, the Group will derecognize the carrying amount of the underlying 74 Vessels; recognize the net investment in the lease; and recognize the expected transaction gain in profit or loss.

The adjustment reflects estimated net gain on the Transaction as if the Transaction had taken place as at 30 June 2020 is as follows:

	RMB'000
The estimated net investment in the lease (i)	28,356,627
Less: The estimated PRC stamp duty, assumed to be settled by cash	(11,029)
The estimated direct expenses in relation to the Transaction, assumed to be settled by cash	(2,358)
The carrying amounts of the underlying 74 Vessels as at 30 June 2020 (ii)	(27,972,742)
Estimated gain on the Transaction as if the Transaction had taken place on 30 June 2020	370,498

Since the price for the vessel leasing was determined based on arm's length negotiations, the Directors are of the opinion that the pro forma gain on the Transaction as if the Transaction had been completed on 1 January 2019 should not be significantly different from the pro forma gain on the Transaction as if the Transaction had been completed on 30 June 2020. Therefore the pro forma gain on the Transaction as if the Transaction had been completed on 30 June 2020 had been used directly in the pro forma adjustment regarding the estimated net gain on the Transaction for the pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2019 of the Remaining Group prepared by the Directors.

Notes:

(i) The net investment in the lease comprises the following payments for the right to use the underlying vessels during the lease term that are not received at the commencement date: (1) the fixed payments as expected in the agreement discounted at the interest rate implicit in the lease of RMB25,401,749,000, and (2) the unguaranteed residual asset discounted at the interest rate implicit in the lease of RMB2,954,878,000. Note that the net investment in the lease is subject to the same considerations as other assets in classification as current or non-current assets in a classified balance sheet.

(ii) The amount represents the carrying amount of the underlying 74 Vessels of approximately RMB27,972,742,000, which has been accounted for as property, plant and equipment in the Group's published 2020 interim report.

4. The adjustment reflects the exclusion of the results and cash flows of the 74 Vessels for the year ended 31 December 2019 as if the Transaction had taken place on 1 January 2019. The financial information of the Vessels for the year ended 31 December 2019 was extracted from the Appendix II to the Circular.

5. The adjustment reflects the recognition of the finance lease income that produces a constant periodic discount rate on the remaining balance of the net investment in the lease and related cash flows for the year ended 31 December 2019 under the Transaction as if the Transaction had taken place on 1 January 2019. The interest under the Transaction is derived based on a fixed rate margin of 4% per annum, the interest rate implicit in the lease.

6. Except for the recognition of the finance lease income under the Transaction, the above adjustments are not expected to have a continuing effect on the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Following the entering into of the Vessel Leasing Service Master Agreement, the Group will continue to be principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

Set out below is the management discussion and analysis of the business review and operation results of the Group for the six months ended 30 June 2020 and each of the three financial years ended 31 December 2017, 2018 and 2019, as extracted from interim report of the Company for the six months ended 30 June 2020 and the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019.

For the six months ended 30 June 2020

Business and financial review

The Group recorded a revenue of RMB7,806,600,000 for the six months ended 30 June 2020, representing an increase of 14.2% as compared with the revenue of RMB6,833,526,000 for the same period of last year; profit before tax from continuing operations amounted to RMB954,014,000, representing a decrease of 3.4% as compared with the profit of RMB987,167,000 for the same period of last year; profit attributable to owners of the parent for the six months ended 30 June 2020 amounted to RMB855,018,000, representing a decrease of 5.5% as compared with the profit of RMB904,362,000 for the same period of last year.

Segment results

The Group had three operating business segments, namely (i) shipping and industry-related leasing business; (ii) container manufacturing business; and (iii) investment and service business.

Shipping and industry-related leasing business

The Group recorded a revenue from the leasing business of RMB5,748,995,000 for the six months ended 30 June 2020, representing an increase of 9.6% as compared with RMB5,243,507,000 for the same period of last year, which accounted for 73.6% of the total revenue of the Group. The increase was mainly due to the expansion of the vessel finance leasing business and the appreciation of the exchange rate of US$ against RMB during the six months ended 30 June 2020. Revenue from the vessel leasing business amounted to RMB2,567,694,000, representing an increase of 5.0% as compared with RMB2,446,168,000 for the same period of last year. Revenue from vessel operating leasing amounted to RMB2,273,813,000 while revenue from vessel finance leasing and other shipping finance leasing amounted to approximately RMB293,881,000. As at 30 June 2020, the Group leased out 86 vessels (as at 31 December 2019: 91 vessels). Revenue from leasing, management and sale of containers amounted to RMB1,807,453,000, representing an increase of 10.1% as compared with RMB1,641,074,000 for the same period of last year. The increase was mainly due to the increase in the revenue from the container leasing segment as a result of the year-on-year increase of 31.0% in the sales of second-hand containers during the period as the Company leveraged the synergy between leasing and manufacturing to proactively explore the market, and seized the market opportunities of shortage in repositioned containers in shipping routes across Europe and the USA to proactively ramp up sales efforts during the year. Revenue from other industry-related finance leasing amounted to RMB1,373,848,000, representing an increase of 18.8% as compared with RMB1,156,265,000 for the same period of last year. The increase in revenue from other industry-related finance leasing was mainly due to the increase in revenue from finance leasing attributable to the growth of the finance leasing business during the period.

Operating costs of the leasing business for the six months ended 30 June 2020 amounted to RMB4,032,019,000, representing an increase of 2.7% as compared with the costs of RMB3,925,951,000 for the same period of last year. Costs of vessel leasing decreased by 2.6% year-on-year, mainly due to the decrease in costs as a result of the expiration of leases on certain sub-chartered vessels during the six months ended 30 June 2020; costs of container leasing increased by 5.3% year-on-year, mainly due to the increase in depreciation costs as a result of the increase in the number of new containers purchased; costs of other industry-related leasing business increased by 16.7% year-on-year, mainly due to further expansion of other industry-related leasing business, leading to a year-on-year increase of approximately 18.0% in the average balance of interest-bearing liabilities during the six months ended 30 June 2020.

Container manufacturing business

For the six months ended 30 June 2020, the Group recorded an operating revenue from the container manufacturing business of RMB2,426,411,000, representing a decrease of 0.5% as compared with RMB2,437,749,000 for the same period of last year. The Group's container sales amounted to 187,636 TEU for the period, representing a decrease of 15.5% as compared with 222,000 TEU for the same period of last year. Affected by the COVID-19 pandemic, the sales volume of containers decreased as the container manufacturing segment was hard-hit, while the average unit price of containers increased year-on-year as the Company proactively promoted industry self-discipline to maintain a sound development momentum of the container manufacturing market. As a result, the revenue remained essentially the same.

Operating costs of the container manufacturing business mainly consist of raw material costs, employee compensation and depreciation expenses. The operating costs of the container manufacturing business for the six months ended 30 June 2020 amounted to RMB2,192,318,000, representing a decrease of 7.2% as compared with RMB2,362,104,000 for the same period of last year. Such decrease was mainly due to the decrease in the production costs such as raw material costs as a result of the decrease in the sales volume of containers as the container manufacturing market was affected by the pandemic.

Investment and service business

For the six months ended 30 June 2020, the Group recorded revenue from the investment and service business of RMB28,699,000, representing an increase of 16.9% as compared with the revenue of RMB24,540,000 for the same period of last year. The increase was mainly attributable to better operating results of the insurance broker business for the six months ended 30 June 2020 as compared with the same period of last year. For the six months ended 30 June 2020, the Group recorded net income from the investment business of RMB855,892,000, representing a decrease of 53.5% as compared with the income of RMB1,841,480,000 for the same period of last year. The decrease in income was mainly attributable to the decrease in the performance of associates held by the Group and the decrease in fair value of financial assets resulted from the fluctuation of share prices in the market.

Operating costs of the investment and service business for the six months ended 30 June 2020 amounted to RMB220,000, representing an increase of RMB118,000 as compared with the costs of RMB102,000 for the same period of last year.

Gross profit

Due to the above reasons, the Group recorded a gross profit of RMB1,955,367,000 for the six months ended 30 June 2020 (the gross profit for the same period of last year was RMB1,395,029,000).

Significant securities investment

During the six months ended 30 June 2020, the Company's equity investments in associates and joint ventures generated a profit of RMB1,023,503,000, which was mainly attributable to the profits from China Everbright Bank Co., Ltd., China Bohai Bank Co., Ltd. and COSCO SHIPPING Finance Company Limited for the period.

1. Shareholdings in other listed companies

Stock code	Company name	Initial investment cost *(RMB)*	Shareholding at the beginning of the period *(%)*	Shareholding at the end of the period *(%)*	Book value at the end of the period *(RMB)*	Gain during the period *(RMB)*	Changes in other reserve during the period *(RMB)*	Gain from disposal *(RMB)*	Dividends received during the period *(RMB)*	Accounting ledger	Sources of the shareholding
000039/02039	China International Marine Containers (Group) Co., Ltd.	6,338,818,000	22.70	22.69	8,308,875,000	(87,009,000)	(43,852,000)	–	–	Investment in associates	Purchase
601818	China Everbright Bank Co., Ltd.	3,398,255,000	1.38	1.38	4,470,276,000	231,691,000	400,000	–	154,936,000	Investment in associates	Purchase
600643	Shanghai AJ Group Co., Ltd.	25,452,000	0.22	0.22	28,103,000	(5,833,000)	–	–	–	Financial assets at fair value through profit or loss	Purchase
000617	CNPC Capital Company Limited	895,929,037	0.97	0.91	858,278,000	(96,476,000)	–	–	–	Financial assets at fair value through profit or loss	Purchase
688009	China Railway Signal & Communication Corporation Limited	11,839,000	0.11	0.11	71,315,000	(3,238,000)	–	–	–	Financial assets at fair value through profit or loss	Purchase
600390	Minmetals Capital Co., Ltd.	1,483,427,579	3.94	3.90	1,237,376,000	(123,471,000)	–	–	–	Financial assets at fair value through profit or loss	Purchase
Total		**12,153,720,616**	**/**	**/**	**14,974,223,000**	**(84,336,000)**	**(43,452,000)**	**–**	**154,936,000**		

2. Shareholdings in financial enterprises

Name of investee	Initial investment cost *(RMB)*	Shareholding at the beginning of the period *(%)*	Shareholding at the end of the period *(%)*	Book value at the end of the period *(RMB)*	Gain during the period *(RMB)*	Changes in other reserve during the period *(RMB)*	Gain from disposal *(RMB)*	Dividends received during the period *(RMB)*	Accounting ledger	Sources of the shareholding
China Bohai Bank Co., Ltd.	5,749,379,000	13.67	13.67	9,235,577,000	673,102,000	(24,988,000)	–	–	Investment in associates	Purchase
Bank of Kunlun Co., Ltd.	838,959,000	3.74	3.74	1,354,352,000	68,450,000	(6,903,000)	–	26,922,000	Investment in associates	Purchase
Shanghai Life Insurance Co., Ltd	320,000,000	16	16	1,021,420,000	1,276,000	32,072,000	–	–	Investment in associates	Purchase
CIB Fund Management Co., Ltd	50,000,000	10	10	329,638,000	23,132,000	–	–	10,000,000	Investment in associates	Purchase
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	125,000,000	25	25	132,882,000	(1,156,000)	–	–	–	Investment in joint ventures	Purchase
Chinese Enterprise Elephant Financial Information Services Company Limited	20,000,000	12.5	12.5	23,065,000	4,167,000	–	–	–	Investment in associates	Purchase
Shanghai COSCO SHIPPING Microfinance Company Limited	90,000,000	45	45	92,078,000	542,000	–	–	–	Investment in associates	Purchase
COSCO SHIPPING Finance Company Limited	1,186,390,000	23.38	23.38	2,115,386,000	106,693,000	2,959,000	–	78,635,000	Investment in associates	Purchase
Total	**8,379,728,000**	**/**	**/**	**14,304,398,000**	**876,206,000**	**3,140,000**	**–**	**115,557,000**		

3. Summary of principal business of the investees in the investments

Name of investee	Exchange	Principal business
China International Marine Containers (Group) Co., Ltd.	Shenzhen Stock Exchange/Hong Kong Stock Exchange	Manufacturing and sales of containers
Shanghai AJ Group Co., Ltd.	Shanghai Stock Exchange	Investment in industries and other financial business
China Everbright Bank Co., Ltd.	Shanghai Stock Exchange	Bank business
Minmetals Capital Co., Ltd.	Shanghai Stock Exchange	Integrated financial business
China Railway Signal & Communication Corporation Limited	Shanghai Stock Exchange	Rail transportation control system
CIB Fund Management Co., Ltd.	/	Fund management business
Bank of Kunlun Co., Ltd.	/	Bank business
Shanghai Life Insurance Co., Ltd.	/	Insurance business
China Bohai Bank Co., Ltd.	/	Bank business
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	/	Leasing business
CNPC Capital Company Limited	Shenzhen Stock Exchange	Integrated financial business
Chinese Enterprise Elephant Financial Information Services Company Limited	/	Financial information service
Shanghai COSCO SHIPPING Microfinance Company Limited	/	Loan extending and other business
COSCO SHIPPING Finance Company Limited	/	Deposit absorbing, loan extending and other business

The stock market was volatile during the six months ended 30 June 2020. The Company expects the investment portfolio of the Group (including the above significant investments) will be subject to the fluctuations of interest rates, market factors and macroeconomic factors, etc. Moreover, the market value of individual shares will be affected by the financial results, development plans as well as prospects of the industries of the relevant companies. To mitigate the relevant risks, the Group will take appropriate measures in due course and adjust its investment strategies in response to market circumstances.

Selling, administrative and general expenses

For the six months ended 30 June 2020, the Group's selling, administrative and general expenses amounted to RMB457,626,000, representing an increase of 2.1% as compared with the same period of last year.

Other (losses)/gains

For the six months ended 30 June 2020, other losses of the Group amounted to RMB104,685,000, representing a turnaround to losses of approximately RMB658,002,000 as compared with other gains of RMB553,317,000 for the same period of last year, mainly attributable to the decrease in share prices of listed equity investments held by the Group.

Profit attributable to owners of the parent

The profit attributable to owners of the parent of the Company for the six months ended 30 June 2020 was RMB855,018,000, representing a decrease of 5.5% as compared with the profit of RMB904,362,000 for the same period of last year.

Liquidity and financial resources

Liquidity and borrowings

The Group's principal sources of liquidity are operating cash inflow and short-term bank borrowings. The Group's cash is mainly used for operating expenses, repayment of loans, procurement of containers, and the Group's financial leasing business. During the six months ended 30 June 2020, the Group's net operating cash inflow was RMB3,581,547,000. As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB11,658,441,000.

As at 30 June 2020, the Group's total bank and other borrowings amounted to RMB96,415,966,000, with RMB38,479,008,000 repayable within one year. The Group's long-term bank and other borrowings are mainly used for the procurement of containers, equity acquisitions and replenishment of liquidity.

As at 30 June 2020, the Group's RMB-denominated corporate bonds payable amounted to RMB19,761,249,000, which were used for the purchase of financial lease assets, repayment of loans and replenishment of liquidity.

The Group's RMB-denominated borrowings at fixed interest rates amounted to RMB26,769,922,000. US$-denominated borrowings at fixed interest rates amounted to US$500,035,000 (equivalent to approximately RMB3,539,999,000), RMB-denominated borrowings at floating interest rates amounted to RMB4,830,839,000, and US$-denominated borrowings at floating interest rates amounted to US$8,655,301,000 (equivalent to approximately RMB61,275,206,000). The Group's borrowings are settled in RMB or US$ while its cash and cash equivalents are primarily denominated in RMB and US$.

The Group expected that capital needs for regular working capital and capital expenditure, etc. can be funded by the internal cash flow of the Group or external financing. The Board will review the operating cash flow of the Group from time to time. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure.

Net current liabilities

As at 30 June 2020, the Group's net current liabilities amounted to RMB23,741,507,000. Current assets mainly included inventories of RMB1,365,830,000, trade and notes receivables of RMB1,667,259,000, prepayments and other receivables of RMB462,959,000, the current portion of finance lease receivables of RMB16,588,876,000, and cash and cash equivalents and restricted deposits of RMB11,658,441,000. Current liabilities mainly included trade payables of RMB3,230,446,000, other payables and accruals of RMB4,516,190,000, contract liabilities of RMB147,955,000, taxes payable of RMB170,511,000, short-term bank borrowings of RMB14,732,247,000, current portion of long-term borrowings of RMB23,746,761,000, corporate bonds of RMB10,638,293,000, and current portion of lease liabilities of RMB225,191,000.

Gearing ratio

As at 30 June 2020, the Company's net gearing ratio (i.e. net debts over shareholders' equity) was 433%, which was higher than 416% as at 31 December 2019. The increase in net gearing ratio was mainly due to the increase in borrowings during the six months ended 30 June 2020.

Foreign exchange risk

Revenues and costs of the Group's shipping-related leasing business and container manufacturing operations are settled or denominated in US$. As a result, the impact on the net operating revenue due to RMB exchange rate fluctuations can be offset by each other to a certain extent. For the six months ended 30 June 2020, the Group recorded an exchange gain of RMB34,133,000 which was mainly due to fluctuations of the US$ exchange rate during the period; the decrease in exchange difference which was charged to equity attributable to shareholders of the parent amounted to RMB163,980,000.

Capital expenditures

For the six months ended 30 June 2020, the Group's expenditures on the acquisition of containers, machinery and equipment and other expenditures amounted to RMB1,549,260,000, expenditures on the acquisition of finance lease assets amounted to RMB11,532,075,000.

Capital commitments

As at 30 June 2020, the Group had RMB400,395,000 in capital commitments to fixed assets which had been contracted but not provided for, and RMB648,241,000 in equity investment commitments.

Pledge on assets

As at 30 June 2020, certain container vessels and containers with net carrying value of approximately RMB27,272,275,000 (31 December 2019: RMB25,765,286,000), finance lease receivables of RMB26,230,951,000 (31 December 2019: RMB24,015,141,000) and restricted deposits of RMB571,827,000 (31 December 2019: RMB237,539,000) of the Group were pledged for the grant of bank borrowings and issuance of corporate bonds.

Contingent liabilities

As at 30 June 2020, there were no significant contingent liabilities for the Group.

Material acquisitions or disposals of subsidiaries or affiliated companies and future plans for material investments

On 24 April 2020, the Company, China COSCO SHIPPING Corporation Limited, COSCO SHIPPING Energy Transportation Co., Ltd., COSCO Shipping Tanker (Dalian) Co., Ltd., COSCO SHIPPING Lines Co., Ltd., COSCO International Freight Co., Ltd., COSCO SHIPPING Specialized Carriers Co., Ltd., Guangzhou Ocean Shipping Co., Ltd., COSCO (Tianjin) Co., Ltd., China Ocean Shipping Agency Co., Ltd., COSCO (Qingdao) Co., Ltd., COSCO Shipbuilding Industry Company Limited, COSCO Shipyard Group Co., Ltd., China Marine Bunker (Petro China) Co., Ltd., COSCO (Xiamen) Co., Ltd. and China Ocean Shipping Tally Co., Ltd. entered into the capital increase agreement, pursuant to which, the parties (as existing shareholders of COSCO SHIPPING Finance Company Limited) have agreed to increase the registered capital of COSCO SHIPPING Finance Company Limited by RMB3,200,000,000 in proportion to their respective shareholding. For further information, please refer to the announcement of the Company dated 24 April 2020.

Save as disclosed above, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2020 and there were no future plans for material investments or addition of capital assets approved by the Board as at the date of the 2020 interim report.

Employees and emoluments

As at 30 June 2020, the Group had 7,701 employees, and the total staff costs for the period (including staff remuneration, welfare and social insurance expenses) amounted to approximately RMB809,760,000 (including outsourced labor costs).

Remuneration management, as one of the most effective incentives and a form of enterprise value distribution, was carried out on the principles of total budget control, value creation, internal fairness, market competition and sustainable development. Based on the principle of "contractualized management, differential compensation", the senior management of the Company has introduced and implemented the professional manager system and strengthened the incentive and restraint mechanism based on performance management. The Company's comprehensive remuneration system applicable to the employees of the Company mainly consists of: (1) salaries, including position/title salary, performance salary, special incentives and allowances, etc.; (2) benefits, including mandatory social insurance, provident housing fund and corporate welfares; and (3) approved schemes, and other items in support of corporate strategies and corporate culture. Further, the Company adopted the A share option incentive scheme in 2020 to facilitate the establishment and improvement of the incentive systems of the Company and incentivize the senior management and core management and business personnel of the Group.

To support the Company's human resources management reform, talent development and training, the Company has reconstructed its employee training system to make it based on identification of demand, with the support of clearly defined responsibilities and list-based management. The Company has enhanced the training content and implementation system, and improved the effectiveness of training resource allocation, staff training participation and satisfaction. Based on the training system, various training programs were designed and implemented to address different types of business and positions, covering topics such as transformation and innovation, industry development, management capability, financial business, risk management, safety and personal attributes.

For the year ended 31 December 2019

Business and financial review

The Group recorded operating revenue of RMB14,155,859,000 for 2019, representing a decrease of 13% as compared with RMB16,242,002,000 of last year; total profit before income tax from continuing operations amounted to RMB1,944,482,000, representing an increase of 13% as compared with RMB1,715,605,000 of last year; profit attributable to owners of the parent of the Company for the year amounted to RMB1,744,733,000, representing an increase of 26% as compared with RMB1,384,257,000 of last year, mainly attributable to active stock markets. For the year ended 31 December 2019, the gains derived from fair value changes of financial assets amounted to RMB663,115,000.

Segment results

The Group had three operating business segments, namely (i) shipping and industry-related leasing business; (ii) container manufacturing business; and (iii) investment and service business.

Shipping and industry-related leasing business

The Group recorded a revenue from its leasing business of RMB11,039,639,000 for 2019, maintaining almost the same level as compared with RMB10,374,657,000 of last year, which accounted for 70.5% of the total revenue of the Group. Revenue from vessel leasing business amounted to RMB5,085,227,000, representing a decrease of 1% as compared with RMB5,122,696,000 of last year. Of which, revenue from vessel operating leasing amounted to RMB4,579,715,000, revenue from vessel finance leasing amounted to approximately RMB505,512,000. The decrease in revenue from vessel leasing was mainly due to the decrease in rental income arising from vessel leasing cancellations and the increase in the number of days of suspension and maintenance as compared with last year. In 2019, the Group leased out 91 vessels (2018: 94 vessels). Revenue from container leasing business amounted to RMB3,405,190,000, representing an increase of 6% as compared with RMB3,201,872,000 of last year, which was mainly due to the effect that the number of leased containers maintained a steady growth this year. Revenue from other industry-related finance leasing amounted to RMB2,549,222,000, representing an increase of 24% as compared with RMB2,050,089,000 of last year, which was mainly due to further expansion of the Group's finance leasing business scale this year.

Operating costs for the leasing business in 2019 were RMB7,471,383,000, representing a year-on-year increase of 8% as compared with RMB6,903,133,000 of last year, which was mainly due to the further expansion of finance leasing business and exchange rate movements.

Container manufacturing business

In 2019, the Group's container manufacturing business realized operating revenue of RMB4,582,700,000, representing a decrease of 41% as compared with RMB7,831,850,000 of last year, which accounted for 29.2% of the total revenue of the Group. Such substantial decrease in revenue was mainly due to the continued economic slowdown trend worldwide, weak performance on global trade, low demand for containers arising from changes in macro supply and demand relations and repercussions of global trade friction during the year ended 31 December 2019. The Group's accumulated container sales amounted to 402,943 TEU during the year, representing a decrease of 35% as compared with 615,600 TEU of last year.

Operating costs of the container manufacturing business amounted to RMB4,582,348,000 in 2019, representing a decrease of 37% as compared with RMB7,295,222,000 of last year. Such decrease in costs was mainly due to the decline in the sales volume of containers this year, leading to a corresponding decrease in production costs, including the material and labor costs.

Investment and service business

In 2019, the Group's financial services business realized revenue of RMB47,993,000, representing an increase of 3% as compared with RMB46,804,000 of last year and accounting for 0.3% of the Group's total revenue. In 2019, the income from investment business was RMB3,038,796,000, representing an increase of 66% as compared with RMB1,830,751,000 of last year. Such increase in income was mainly attributable to the increase in fair value of investments at fair value through profit or loss for the period held by the Group as a result of market conditions.

Operating costs of the investment and service business in 2019 were RMB591,000, representing an increase of 19% as compared with RMB497,000 of last year.

Gross profit

Due to the above reasons, the Group recorded gross profit of RMB3,540,375,000 for 2019 (2018: RMB3,899,241,000).

Significant securities investment

During the year ended 31 December 2019, the Company's equity investments in associates and joint ventures generated a profit of RMB2,291,763,000, which was mainly attributable to the profits from China Everbright Bank Co., Ltd., China International Marine Containers (Group) Co., Ltd. and China Bohai Bank Co., Ltd. for the period.

1. Shareholdings in other listed companies

Stock code	Company name	Initial investment cost (RMB)	Number of shares held at the end of the period (%)	Shareholding at the beginning of the period (%)	Shareholding at the end of the period (%)	Fair value at the end of the period (RMB)	Gain during the period (RMB)	Changes in other reserve during the period (RMB)	Gain from disposal (RMB)	Dividends received during the period (%)	Proportion of fair value at the end of the period relative to the total assets of the Company	Accounting ledger	Sources of the shareholding
000039/02039	China International Marine Containers (Group) Ltd.	6,338,818,000	813,616,829	22.71	22.70	7,889,213,000	262,604,000	463,192,000	–	372,908,000	5.5%	Investment in associates	Purchase
601818/06818	China Everbright Bank Co., Ltd.	3,398,255,000	723,999,875	1.379	1.379	3,192,839,000	484,414,000	14,921,000	–	116,564,000	2.2%	Investment in associates	Purchase
600643	Shanghai AJ Group Co., Ltd.	25,452,000	3,534,965	0.22	0.22	33,936,000	3,924,000	–	–	424,000	0.0%	Financial assets at fair value through profit or loss	Purchase
000617	CNPC Capital Company Limited	950,000,000	87,881,591	0.97	0.97	1,010,695,000	198,230,000	–	–	21,179,000	0.7%	Financial assets at fair value through profit or loss	Purchase
688009	China Railway Signal & Communication Corporation Limited	69,258,000	11,839,000	–	0.11	74,553,000	5,294,000	–	–	–	0.1%	Financial assets at fair value through profit or loss	Purchase
600390	Minmetals Capital Co., Ltd.	1,500,000,000	177,339,901	3.94	3.94	1,376,938,000	482,081,000	–	–	26,749,000	1.0%	Financial assets at fair value through profit or loss	Purchase
Total		**12,281,783,000**	**/**	**/**	**/**	**13,578,174,000**	**1,436,547,000**	**478,113,000**	**–**	**537,824,000**	**9.4%**		

2. Shareholdings in financial enterprises

Name of investee	Initial investment cost *(RMB)*	Shareholding at the beginning of the period *(%)*	Shareholding at the end of the period *(%)*	Carrying amount at the end of the period *(RMB)*	Gain during the period *(RMB)*	Changes in other reserve during the period *(RMB)*	Gain from disposal *(RMB)*	Dividends received during the period *(RMB)*	Proportion of carrying amount at the end of period relative to the total assets of the Company *(%)*	Accounting ledger	Sources of the shareholding
China Bohai Bank Co., Ltd.	5,749,379,000	13.67	13.67	8,587,463,000	1,170,658,000	93,787,000	–	313,038,000	5.9%	Investment in associates	Purchase
Bank of Kunlun Co., Ltd.	838,959,000	3.74	3.74	1,319,727,000	132,137,000	2,335,000	–	48,845,000	0.9%	Investment in associates	Purchase
Shanghai Life Insurance Co., Ltd	320,000,000	16	16	988,072,000	38,475,000	66,464,000	–	–	0.7%	Investment in associates	Purchase
CIB Fund Management Co., Ltd	50,000,000	10	10	316,506,000	41,567,000	231,000	–	–	0.2%	Investment in associates	Purchase
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	125,000,000	25	25	134,038,000	390,000	–	–	–	0.1%	Investment in joint ventures	Purchase
Chinese Enterprise Elephant Financial Information Services Company Limited	20,000,000	12.5	12.5	18,898,000	-494,000	1,244,000	–	–	0.0%	Investment in associates	Purchase
Shanghai COSCO SHIPPING Microfinance Company Limited	90,000,000	45	45	91,536,000	1,509,000	–	–	–	0.1%	Investment in associates	Purchase
COSCO SHIPPING Finance Company Limited	1,186,390,000	23.38	23.38	1,336,082,000	153,183,000	5,672,000	–	70,070,000	0.9%	Investment in associates	Purchase
Total	**8,379,728,000**	**/**	**/**	**12,792,322,000**	**1,537,425,000**	**169,733,000**	**–**	**431,953,000**	**8.9%**		

3. Summary of principal business of the investees in the investments

Name of Investee	Exchange	Principal businesses
China Bohai Bank Co., Ltd.	/	Banking business
Bank of Kunlun Co., Ltd.	/	Banking business
Shanghai Life Insurance Co., Ltd.	/	Insurance business
CIB Fund Management Co., Ltd.	/	Fund management business
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	/	Leasing business
Chinese Enterprise Elephant Financial Information Services Company Limited	/	Financial information service
Shanghai COSCO SHIPPING Microfinance Company Limited	/	Loan extending and other businesses
COSCO SHIPPING Finance Company Limited	/	Banking business
China International Marine Containers (Group) Co., Ltd.	Shenzhen Stock Exchange/Hong Kong Stock Exchange	Manufacturing and sales of containers
Shanghai AJ Group Co., Ltd.	Shanghai Stock Exchange	Investment in industries and other financial businesses
China Everbright Bank Co., Ltd.	Shanghai Stock Exchange/Hong Kong Stock Exchange	Banking business
China Railway Signal & Communication Corporation Limited	Shanghai Stock Exchange/Hong Kong Stock Exchange	Provision of railway traffic control system services
Minmetals Capital Co., Ltd.	Shanghai Stock Exchange	Integrated finance business
CNPC Capital Company Limited	Shenzhen Stock Exchange	Integrated finance business

The stock market was volatile in 2019. The Company expects that the investment portfolio of the Group (including the above major investments) will be subject to, among other things, the movement of interest rates, market factors and macroeconomic factors. Moreover, the market value of individual shares will be affected by relevant companies' financial results, development plan as well as the prospects of the industry where they operate. To mitigate relevant risks, the Group will take appropriate measures in due course and adjust its investment strategies in response to the changes in market conditions.

Selling, administrative and general expenses

For the year ended 31 December 2019, the Group's selling, administrative and general expenses were RMB1,178,677,000, representing an increase of 27% as compared with 2018.

Other gains/(losses), net

For the year ended 31 December 2019, other gains of the Group were RMB835,317,000, representing an increase in gains of approximately RMB1,108,012,000 as compared with other losses of RMB272,695,000 for 2018, which was mainly attributable to the appreciation of fair value of the securities held by the Company.

Profit attributable to owners of the parent

In 2019, the profit attributable to owners of the parent of the Company for the year was RMB1,744,733,000, representing an increase of 26% as compared with RMB1,384,257,000 for 2018.

Liquidity and financial resources

Liquidity and borrowings

The Group's principal sources of liquidity are cash flow from operating business and short-term bank borrowings. The Group's cash is mainly used for expenses of operating cost, repayment of loans, construction of new vessels, procurement of containers, and support of the Group's financial leasing business. During the year ended 31 December 2019, the Group's net operating cash inflow was RMB8,424,065,000. As at 31 December 2019, the Group's cash and bank balances were RMB9,635,096,000.

As at 31 December 2019, the Group's total bank loans and other borrowings were RMB97,919,728,000, of which RMB43,066,519,000 is repayable within one year.

As at 31 December 2019, the Group's RMB-denominated bonds payable amounted to RMB12,544,867,000, and all proceeds raised from the bonds were used for the replenishment of liquidity and the repayment of loans.

The Group's RMB borrowings at fixed interest rates amounted to RMB34,882,196,000. US$ borrowings at fixed interest rates amounted to US$496,970,000 (equivalent to approximately RMB3,466,961,000), RMB borrowings at floating interest rates amounted to RMB746,334,000, and US$ borrowings at floating interest rates amounted to US$8,432,132,000 (equivalent to approximately RMB58,824,237,000). The Group's borrowings are settled in RMB or US$ while its cash and cash equivalents are also primarily denominated in RMB and US$.

It is expected that capital needs for regular liquidity and capital expenditure can be funded by the internal cash flow of the Group or external financing. The Board will review the operating cash flow of the Group from time to time. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure.

Net current liabilities

As at 31 December 2019, the Group's net current liabilities amounted to RMB24,470,813,000. Current assets mainly included: the current portion of the finance lease receivables of RMB15,532,797,000, inventories of RMB881,129,000, trade and notes receivables of RMB1,111,000,000, prepayments and other receivables of RMB458,969,000, the current portion of factoring receivables of RMB1,123,489,000, the current portion of financial assets at fair value through profit or loss of RMB490,967,000, cash and cash equivalents of RMB9,635,096,000, and pledged deposits of RMB566,339,000. Current liabilities mainly included: trade payables of RMB2,553,700,000, other payables and accruals of RMB3,658,271,000, taxes payable of RMB174,881,000, the current portion of bank and other borrowings of RMB43,066,519,000, the current portion of corporate bonds of RMB4,273,467,000, contract liabilities of RMB150,194,000, and current portion of lease liabilities of RMB391,082,000.

Gearing ratio

As at 31 December 2019, the Company's net gearing ratio (i.e. net debts over shareholders' equity) was 416%, which was lower than 533% of last year. The net gearing ratio decreased slightly as compared with last year.

Foreign exchange risk

During the year ended 31 December 2019, the Group recorded a net exchange gain of RMB57,448,000 which was mainly due to fluctuations in the exchange rates of the US$ and Euro in 2019; the decrease in exchange difference which was charged to equity attributable to shareholders of the parent amounted to RMB187,211,000.

Capital expenditures

For the year ended 31 December 2019, the Group's expenditures on the acquisition of containers and other expenditures amounted to RMB2,828,747,000, and expenditures on the acquisition of finance lease assets amounted to RMB21,542,542,000.

Capital commitments

As at 31 December 2019, the Group had RMB67,665,000 in capital commitments which had been contracted but not provided for in relation to property, plant and equipment. Equity investment commitment was RMB757,005,000.

Pledge on assets

As at 31 December 2019, certain container vessels and containers with net carrying value of approximately RMB25,765,286,000 (2018: RMB22,735,030,000), finance lease receivables of RMB24,015,141,000 (2018: RMB18,018,213,000) and pledged deposits of RMB237,539,000 (2018: RMB597,465,000) of the Group were pledged to banks for the grant of credit facilities and issuance of bonds.

Contingent liabilities

As at 31 December 2019, there were no significant contingent liabilities for the Group.

Material acquisitions or disposals of subsidiaries or affiliated companies and future plans for material investments

During the year ended 31 December 2019, the Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies and there were no future plans for material investments or addition of capital assets approved by the Board as at the date of the 2019 annual report.

Employees and emoluments

As at 31 December 2019, the Group had a total of 7,325 employees, and the total staff costs for the period (including staff remuneration, welfare expenses and social insurance fees) amounted to approximately RMB1,812,679,000 (including outsourced labor costs).

Remuneration management, as one of the most effective incentives means and a form of enterprise value distribution, was carried out on the principles of total budget control, value creation, internal fairness, market competition and sustainable development. Based on the principle of "contractualized management and differential compensation", the management of the Company has introduced and implemented the professional manager system and strengthened the incentive and restraint mechanism based on performance management. The Company's overall remuneration system mainly consists of: (1) salaries, including remuneration, title salary, performance salary, special incentives, bonus and allowances; and (2) benefits, including social insurance required by the state, provident housing fund and corporate welfares.

To support human resources management reform, talent development and cultivation, the Company has developed its employee training system to make it based on identification of demand, with the support of clear defined responsibilities and list-based management. We have optimized the training content and implementation system, and improved the effectiveness of training resource allocation, staff training participation and satisfaction. Based on training system, various training programs were designed and implemented to address different types of business and positions, covering topics such as transformation and innovation, industry development, management capability, financial business, risk management, safety and individual caliber.

For the year ended 31 December 2018

Business and financial review

The Group recorded a revenue of RMB16,242,002,000 for 2018, representing an increase of 2% as compared with RMB15,901,155,000 of last year; total profit before income tax from continuing operations amounted to RMB1,715,605,000, almost unchanged as compared with RMB1,721,492,000 of last year; profit attributable to owners of the parent of the Company amounted to RMB1,384,257,000, representing a decrease of 5% as compared with RMB1,463,803,000 of last year, mainly attributable to a weak stock market. During the year ended 31 December 2018, fair value change loss of financial assets amounted to RMB565,703,000.

Segment results

The Group had three operating business segments, namely (i) shipping and industry-related leasing business; (ii) container manufacturing business; and (iii) investment and service business.

Shipping and industry-related leasing business

The Group recorded a revenue from its leasing business of RMB10,374,657,000 for 2018, maintaining almost the same level as compared with RMB10,380,425,000 of last year, which accounted for 57% of the total revenue of the Group. Revenue from vessel leasing business amounted to RMB5,122,696,000, representing a decrease of 11% as compared with RMB5,733,995,000 of last year. Of which, revenue from vessel operating leasing amounted to RMB4,848,890,000, revenue from vessel finance leasing amounted to approximately RMB273,806,000. The revenue from vessel leasing decreased was mainly due to the term expiry of chartered vessels during the year. The number of subchartering vessels decreased by 3 as compared with last year. In 2018, the Group leased out 94 vessels (2017: 97 vessels). Revenue from container leasing business amounted to RMB3,201,872,000, almost unchanged as compared with RMB3,200,852,000 of last year. The container leasing business maintained steady growth this year. Revenue from other industry-related finance leasing amounted to RMB2,050,089,000, representing an increase of 42% as compared with RMB1,445,578,000 of last year. The increase was mainly due to further expansion of the Group's finance leasing business.

Operating costs of the leasing business amounted to RMB6,903,133,000 in 2018, representing a decrease of 11% as compared with the costs of RMB7,715,229,000 of last year.

Container manufacturing business

In 2018, the Group's container manufacturing business realized operating revenue of RMB7,831,850,000, representing an increase of 32% as compared with RMB5,939,685,000 of last year, which accounted for 43% of the total revenue of the Group. Such substantial increase was mainly due to an improvement in the container manufacturing market. The Company had the foresight to improve container painting technology, which significantly enhanced market competitiveness. The Company also stepped up marketing efforts and increased productivity through scientific production scheduling, resulting in a rise in both volume and price in the container manufacturing sector. The Group's container sales amounted to 613,700 TEU during the year, representing an increase of 28% as compared with 480,000 TEU of last year.

Operating costs of the container manufacturing business amounted to RMB7,295,222,000 in 2018, representing an increase of 34% as compared with RMB5,436,275,000 of last year. Such increase was mainly due to the surge in the sales volume of containers as the container manufacturing market improved and the Company stepped up its marketing efforts.

Investment and service business

In 2018, the Group's financial services realized operating revenue of RMB46,804,000, representing a decrease of 4% as compared with RMB48,745,000 of last year and 0.3% of the Group's total revenue. In 2018, the income from investment business was RMB1,830,751,000, representing a decrease of 17% as compared with RMB2,192,957,000 of last year. Such decrease was mainly attributable to the decrease in fair value of investments at fair value through profit or loss for the period held by the Group as a result of market conditions.

Operating costs of the investment and service business in 2018 were RMB497,000, representing a decrease of 85% as compared with RMB3,335,000 of last year.

Gross profits

Due to the above reasons, the Group recorded gross profit of RMB3,899,241,000 for 2018 (2017: gross profit of RMB3,155,603,000).

Significant securities investment

During the year ended 31 December 2018, the Company's equity investments in associates and joint ventures generated profit of RMB2,320,917,000, mainly attributable to the profits from China Everbright Bank Co., Ltd., China International Marine Containers (Group) Co., Ltd. and China Bohai Bank Co., Ltd. for the period.

1. Shareholdings in other listed companies

Stock code	Company name	Initial investment cost (RMB)	Shareholding at the beginning of the period (%)	Shareholding at the end of the period (%)	Book value at the end of the period (RMB)	Gain during the period (RMB)	Changes in other reserve during the period (RMB)	Gain from disposal (RMB)	Dividends received during the period (RMB)	Accounting ledger	Sources of the shareholding
000039/02039	China International Marine Containers (Group) Ltd.	6,338,818,000	22.73	22.71	8,184,482,000	667,941,000	23,373,000	–	183,064,000	Investment in associates	Purchase
601818	China Everbright Bank Co., Ltd.	3,398,255,000	1.379	1.379	4,010,350,000	444,187,000	38,267,000	–	131,044,000	Investment in associates	Purchase
600643	Shanghai AJ Group Co., Ltd.	25,452,000	0.33	0.22	30,012,000	(4,756,000)	–	8,921,000	–	Financial assets fair value through profit or loss	Purchase
000617	CNPC Capital Company Limited	950,000,000	0.97	0.97	812,465,000	(202,567,000)	–	–	–	Financial assets fair value through profit or loss	Purchase
600390	Minmetals Capital Co., Ltd.	1,500,000,000	3.94	3.94	894,857,000	(482,778,000)	–	–	–	Financial assets fair value through profit or loss	Purchase
		12,212,525,000	**/**	**/**	**13,932,166,000**	**422,027,000**	**61,640,000**	**8,921,000**	**314,108,000**		

2. Shareholdings in financial enterprises

Name of investee	Initial investment cost (RMB)	Shareholding at the beginning of the period (%)	Shareholding at the end of the period (%)	Book value at the end of the period (RMB)	Gain during the period (RMB)	Changes in other reserve during the period (RMB)	Gain from disposal (RMB)	Dividends received during the period (RMB)	Accounting ledger	Sources of the shareholding
China Bohai Bank Co., Ltd.	5,749,379,000	13.67	13.67	7,636,055,000	968,994,000	102,253,000	–	10,225,000	Investment in associates	Purchase
Bank of Kunlun Co., Ltd.	838,959,000	3.74	3.74	1,234,099,000	122,432,000	17,896,000	–	45,768,000	Investment in associates	Purchase
Shanghai Life Insurance Co., Ltd.	320,000,000	16	16	883,132,000	3,793,000	(39,790,000)	–	–	Investment in associates	Purchase
CIB Fund Management Co., Ltd.	50,000,000	10	10	274,707,000	42,551,000	(721,000)	–	–	Investment in associates	Purchase
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	125,000,000	25	25	133,648,000	2,772,000	–	–	–	Investment in joint ventures	Purchase
Chinese Enterprise Elephant Financial Information Services Company Limited	20,000,000	–	12.5	18,148,000	(608,000)	–	–	–	Investment in associates	Purchase
Shanghai COSCO SHIPPING Microfinance Company Limited	90,000,000	–	45	90,027,000	27,000	–	–	–	Investment in associates	Purchase
COSCO SHIPPING Finance Company Limited	1,186,389,000	65	23.38	1,247,297,000	63,552,000	(2,715,000)	–	–	Investment in associates	Purchase
Total	**8,379,727,000**	**/**	**/**	**11,517,113,000**	**1,203,513,000**	**76,923,000**	**–**	**55,993,000**		

3. Summary of principal businesses of the investees in the investment

Name of Investee	Exchange	Principal businesses
China Bohai Bank Co., Ltd.	/	Bank business
Bank of Kunlun Co., Ltd.	/	Bank business
Shanghai Life Insurance Co., Ltd.	/	Insurance
CIB Fund Management Co., Ltd.	/	Fund management
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	/	Leasing
Chinese Enterprise Elephant Financial Information Services	/	Financial information service
Shanghai COSCO SHIPPING Microfinance Company Limited	/	Loan extending and other businesses
COSCO SHIPPING Finance Company Limited	/	Bank business
China International Marine Containers (Group) Co., Ltd.	Shenzhen Stock Exchange/Hong Kong Stock Exchange	Manufacturing and sales of containers
Shanghai AJ Group Co., Ltd.	Shanghai Stock Exchange	Investment in industries and other financial businesses
China Everbright Bank Co., Ltd.	Shanghai Stock Exchange	Bank business
Minmetals Capital Co., Ltd.	Shanghai Stock Exchange	Financial services
CNPC Capital Company Limited	Shenzhen Stock Exchange	Integrated financial services

The stock market was volatile in 2018. The Company expects the investment portfolio of the Group (including the above major investments) will be subject to, among other things, the movement of interest rates, market factors and macroeconomic factors. Moreover, the market value of individual shares will be affected by the financial results, development plans as well as prospects of the industry of the relevant companies. To mitigate relevant risks, the Group will take appropriate measures in due course and adjust its investment strategies in response to the market conditions.

Selling, administrative and general expenses

For the year ended 31 December 2018, the Group's selling, administrative and general expenses were RMB1,219,278,000, representing an increase of 27% as compared with 2017.

Other net losses

For the year ended 31 December 2018, other losses of the Group were RMB272,695,000, representing an increase in losses of approximately RMB246,809,000 as compared with other losses of RMB25,886,000 for 2017, mainly attributable to the depreciation of fair value of the securities held by the parent.

Profit attributable to owners of the parent

The profit attributable to owners of the parent of the Company for 2018 was RMB1,384,257,000, representing a decrease of 5% as compared with RMB1,463,803,000 for 2017.

Liquidity and financial resources

Liquidity and borrowings

The Group's principal sources of liquidity are operating cash inflow and short-term bank borrowings. The Group's cash is mainly used for operating expenses, repayment of loans, construction of new vessels, procurement of containers, and the Group's financial leasing business. During the year ended 31 December 2018 the Group's net operating cash inflow was RMB6,417,977,000. As at 31 December 2018, the Group's cash and bank balances were RMB15,249,194,000.

As at 31 December 2018, the Group's total bank and other borrowings were RMB104,816,238,000, of which RMB47,469,440,000 is repayable within one year.

As at 31 December 2018, the Group's RMB denominated bonds payable amounted to RMB6,013,700,000, and all proceeds raised from the bonds were used for the purchase of financial lease assets.

The Group's RMB borrowings at fixed interest rates amounted to RMB44,451,367,000. US$ borrowings at fixed interest rates amounted to US$136,734,000 (equivalent to approximately RMB938,436,000), RMB borrowings at floating interest rates amounted to RMB1,300,686,000, and US$ borrowings at floating interest rates amounted to US$8,469,191,000 (equivalent to approximately RMB58,125,749,000). The Group's borrowings are settled in RMB or US$ while its cash and cash equivalents are also primarily denominated in RMB and US$.

It is expected that capital needs for regular cash flow and capital expenditure can be funded by the internal cash flow of the Group or external financing. The Board will review the operating cash flow of the Group from time to time. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure.

Net current liabilities

As at 31 December 2018, the Group's net current liabilities amounted to RMB24,664,091,000. Current assets mainly included: the current portion of the finance lease receivables of RMB10,711,620,000, inventories of RMB1,017,748,000, trade and notes receivables of RMB1,034,872,000, prepayments and other receivables of RMB591,777,000, factoring receivables of RMB673,737,000, cash and cash equivalents of RMB15,249,194,000, and restricted cash of RMB951,665,000. Current liabilities mainly included: trade payables of RMB1,686,104,000, other payables and accruals of RMB2,697,590,000, finance lease obligations of RMB187,197,000, taxes payable of RMB225,114,000, the current portion of bank and other borrowings of RMB47,469,440,000, the current portion of corporate bonds of RMB2,631,916,000 and current portion of finance lease obligations of RMB187,197,000.

Gearing ratio

As at 31 December 2018, the Company's net gearing ratio (i.e. net debts over shareholders' equity) was 533%, which was lower than 535% for last year. The net gearing ratio remained flat as compared to the previous year.

Foreign exchange risk

Revenues and costs of the Group's shipping-related leasing business and container manufacturing operations are settled or denominated in US$. As a result, the impact on the net operating revenue due to RMB exchange rate fluctuation can be offset by each other to a certain extent. During the year ended 31 December 2018, the Group recorded a net exchange profit of RMB100,623,000 which was mainly due to fluctuations of the US$ and Euro exchange rates in 2018; the decrease in exchange difference which was charged to equity attributable to shareholders of the parent amounted to RMB581,687,000.

Capital expenditures

For the year ended 31 December 2018, the Group's expenditures on the acquisition of container vessels, vessels under construction, containers and other expenditures amounted to RMB4,363,290,000, expenditures on the acquisition of finance lease assets amounted to RMB15,386,943,000.

As at 31 December 2018, the Group had RMB1,313,775,000 in equity investment commitments which had been contracted but not provided for.

Pledge on assets

As at 31 December 2018, certain container vessels and containers with net carrying value of approximately RMB22,735,030,000 (2017: RMB25,031,111,000), finance lease receivables of RMB18,018,213,000 (2017: RMB10,928,186,000) and pledged deposits of RMB597,465,000 (2017: RMB178,326,000) of the Group were pledged to banks for the grant of credit facilities and issuance of bonds.

Contingent liabilities

As at 31 December 2018, there were no significant contingent liabilities for the Group.

Material acquisitions or disposals of subsidiaries or affiliated companies and future plans for material investments

Completion of the merger by absorption of COSCO Finance Co., Ltd. by China Shipping Finance Company Limited took place on 23 October 2018. Upon the completion of the merger, (i) China Shipping Finance Company Limited continued as the surviving company and was renamed COSCO SHIPPING Finance Company Limited; (ii) COSCO Finance Co., Ltd. ceased to exist as a legal entity and became a branch of COSCO SHIPPING Finance Company Limited, and the assets, liabilities, businesses and employees of which were succeeded by COSCO SHIPPING Finance Company Limited; and (iii) the Company, which was originally interested in 65% of the equity interest in China Shipping Finance Company Limited, became interested in approximately 23.38% of COSCO SHIPPING Finance Company Limited. For further information, please refer to (i) the announcements of the Company dated 13 November 2017 and 4 December 2017; (ii) the circular of the Company dated 12 December 2017; and (iii) the overseas regulatory announcements of the Company dated 13 November 2017, 19 June 2018 and 24 October 2018, respectively.

Save as disclosed above, during the year ended 31 December 2018, the Group did not engage in any material acquisition or disposal of subsidiaries and affiliated companies and there were no future plans for material investments or addition of capital assets approved by the Board as at the date of the 2018 annual report.

Employees and emoluments

As at 31 December 2018, the Group had 8,082 employees, and the total staff costs for the year ended 31 December 2018 (including staff remuneration, welfare and social insurance) amounted to approximately RMB1,908,084,000 (including outsourced labor costs).

Remuneration management, as one of the most effective incentives and a form of enterprise value distribution, was carried out on the basis of total budget control, value creation, internal fairness, market competition and sustainable development. Based on the principle of "contractualized management, differential compensation", the management has introduced and implemented the professional manager system and strengthened the incentive and restraint mechanism based on performance management. The Company's overall remuneration system mainly consists of: (1) salaries, including remuneration, title salary, performance salary, special incentives, bonus and allowances; and (2) benefits, including mandatory social insurance, provident housing fund and corporate welfares.

To support human resources management reform, talent development and training, the Company has developed its employee training system to make it based on identification of demand, with the support of clear defined responsibilities and list-based management. We have optimized the training content and implementation system, and improved the effectiveness of training resource allocation, staff training participation and satisfaction. Various training programs were designed and implemented to address different types of business and positions, covering topics such as transformation and innovation, industry development, management capability, financial business, risk management, safety and individual caliber.

For the year ended 31 December 2017

Business and financial review

The Group recorded a revenue of RMB16,260,600,000 for 2017, representing an increase of 4.72% as compared with RMB15,527,887,000 of last year; total profit before income tax from continuing operations amounted to RMB1,960,028,000, representing an increase of 279% as compared with RMB517,000,000 of last year; profit attributable to owners of the parent of the Company amounted to RMB1,463,803,000, representing an increase of 321% as compared with RMB347,503,000 of 2016. The increase was mainly attributable to: (1) the Company's leasing business scale achieved positive development and profitability continuously increased; (2) investment business continued to grow steadily and achieved satisfactory return; and (3) the sales volumes and prices of the Company's container manufacturing segment have increased substantially.

Segment results

The Group had three operating business segments, namely (i) shipping and industry-related leasing business; (ii) container manufacturing business; and (iii) investment and service business.

Shipping and industry-related leasing-business

The Group recorded a revenue from its leasing business of RMB10,380,425,000 for 2017, representing an increase of 3% as compared with RMB10,040,568,000 of last year, which accounted for 64% of the total revenue of the Group. The increase was mainly due to the further expansion of other industry-related finance leasing business of the Company. Revenue from vessel leasing business amounted to RMB5,733,995,000, representing a decrease of 5% as compared with RMB6,005,853,000 of last year. Of which, revenue from vessel operating leasing amounted to RMB5,591,430,000, revenue from vessel finance leasing amounted to approximately RMB142,565,000. The revenue from vessel leasing decreased was mainly due to the term expiry of chartered vessels during the year, the number of sub-chartering vessels decreased by nine as compared with last year. In 2017, the Group leased out 97 vessels (2016: 106 vessels). Revenue from container leasing business amounted to RMB3,200,852,000, representing a decrease of 1% as compared with RMB3,219,520,000 of last year. The reason for the decrease was mainly due to a slight decrease in container operating lease and sales of containers. In particular, revenue from other industry related finance leasing amounted to RMB1,445,578,000, representing an increase of 77% as compared with RMB815,195,000 of last year. The increase was mainly due to further expansion of the Group's finance leasing business.

Operating costs for leasing business for 2017 was RMB7,715,229,000, representing an increase of 0.01% as compared with the costs of RMB7,714,111,000 of last year.

Container manufacturing business

In 2017, the Group's container manufacturing business realized operating revenue of RMB5,939,685,000, representing an increase of 94% as compared with RMB3,064,626,000 of last year. The reason for the substantial increase was mainly due to recovery of the container manufacturing market alongside the global economic and shipping market recovery. Besides, the industry-wide application of waterproof coats in April 2017 has resulted in rising prices for containers. As a result, there was a rise in both volumes and prices in the container manufacturing market. The Group's container sales amounted to 480,000 TEU during the year, representing an increase of 34% as compared with 358,000 TEU of last year.

The operating costs of the container manufacturing business amounted to RMB5,436,275,000 in 2017, representing an increase of 82% as compared with RMB2,981,116,000 of last year. Such increase was mainly due to the surge in sales volume of container as the container manufacturing market improved. Besides, the industry-wide application of water-proof coats in April 2017 has resulted in the rise of raw material prices.

Investment and service business

In 2017, the Group's financial services realized operating revenue of RMB475,538,000, representing 3% of the Group's total operating revenue and an increase of 20% as compared with RMB396,480,000 of last year. The increase was mainly due to an increase in interest income from loans in line with an increase in loans of China Shipping Finance Company Limited, a subsidiary of the Company. In 2017, the income from investment business was RMB2,232,270,000, representing an increase of 34% as compared with RMB1,665,667,000 of last year. Such increase was mainly attributable to an improvement in the performances of China International Marine Containers (Group) Co., Ltd., China Bohai Bank Co., Ltd. and China Everbright Bank Co., Ltd., which are associates of the Company, for the year as compared with that of last year.

Operating costs of the investment and service business in 2017 were RMB155,994,000, representing a decrease of 4% as compared with RMB162,298,000 of last year.

Gross profit

Due to the above reasons, the Group recorded gross profit of RMB3,408,446,000 for 2017 (2016: gross profit RMB1,678,524,000).

Significant securities investment

As at 31 December 2017, the Company's equity investments in associates and joint ventures generated profit of RMB2,064,324,000, mainly attributable to the profits from China Everbright Bank Co., China International Marine Containers (Group) Co., Ltd. and China Bohai Bank Co., Ltd. for the year ended 31 December 2017.

1. Shareholdings in other listed companies

Stock code	Company name	Initial investment cost *(RMB)*	Shareholding at the beginning of the period *(%)*	Shareholding at the end of the period *(%)*	Book value at the end of the period *(RMB)*	Gain during the period *(RMB)*	Changes in other reserve during the period *(RMB)*	Gain from disposal *(RMB)*	Dividends received during the period *(RMB)*	Accounting ledger	Sources of the shareholding
000039/02039	China International Marine Containers (Group) Ltd.	6,338,818,000	22.76	22.73	7,560,476,000	485,844,000	(120,252,000)	–	40,384,000	Investment in associates	Purchase
601818	China Everbright Bank Co., Ltd.	3,398,255,000	1.551	1.379	3,779,671,000	466,706,000	(36,510,000)	–	70,952,000	Investment in associates	Purchase
600643	Shanghai AJ Group Co., Ltd.	33,814,000	0.56	0.33	52,079,000	–	(23,600,000)	24,343,000	–	Available-for-sale investments	Purchase
000617	CNPC Capital Company Limited	950,000,000	0.97	0.97	1,015,033,000	–	(56,024,000)	–	–	Available-for-sale investments	Purchase
600390	Minmetals Capital Co., Ltd.	1,500,000,000	/	3.94	1,377,635,000	–	(122,365,000)	–	–	Available-for-sale investments	Purchase
Total		**12,220,887,000**	**/**	**/**	**13,784,894,000**	**952,550,000**	**(358,751,000)**	**24,343,000**	**111,336,000**		

2. Shareholdings in financial enterprises

Name of investee	Initial investment cost (RMB)	Shareholding at the beginning of the period (%)	Shareholding at the end of the period (%)	Book value at the end of the period (RMB)	Gain during the period (RMB)	Changes in other reserve during the period (RMB)	Gain from disposal (RMB)	Dividends received during the period (RMB)	Accounting ledger	Sources of the shareholding
China Bohai Bank Co., Ltd.	5,749,379,000	13.67	13.67	6,625,207,000	923,247,000	(47,419,000)	–	–	Investment in associates	Purchase
Bank of Kunlun Co., Ltd.	838,959,000	3.74	3.74	1,139,574,000	110,701,000	(6,751,000)	–	36,010,000	Investment in associates	Purchase
Shanghai Life Insurance Co., Ltd.	320,000,000	16	16	919,242,000	18,519,000	(5,262,000)	–	–	Investment in associates	Purchase
CIB Fund Management Co., Ltd.	50,000,000	10	10	182,996,000	53,836,000	(344,000)	–	–	Investment in associates	Purchase
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	125,000,000	25	25	130,876,000	3,304,000	–	–	–	Investment in joint ventures	Purchase
Total	**7,083,338,000**	**/**	**/**	**8,997,895,000**	**1,109,607,000**	**(59,776,000)**	**–**	**36,010,000**		

3. Summary of principal businesses of the investees in the investment

Name of investee	Exchange	Principal business
China International Marine Containers (Group) Co., Ltd.	Shenzhen Stock Exchange/Hong Kong Stock Exchange	Manufacturing and sales of containers
Shanghai AJ Group Co., Ltd.	Shanghai Stock Exchange	Investment in industries and other financial businesses
China Everbright Bank Co., Ltd.	Shanghai Stock Exchange	Bank business
Minmetals Capital Co., Ltd.	Shanghai Stock Exchange	Ore mining, processing and sales
CIB Fund Management Co., Ltd.	/	Fund management
Bank of Kunlun Co., Ltd.	/	Bank business
Shanghai Life Insurance Co., Ltd.	/	Insurance
Shanghai Haisheng Shangshou Financial Leasing Co., Ltd.	/	Leasing
China Bohai Bank Co., Ltd.	/	Bank business
CNPC Capital Company Limited	Shenzhen Stock Exchange	Finance company, banking, financial leasing and other financial business

The stock market was volatile in 2017. The Company expects the investment portfolio of the Group (including the above major investments) will be subject to the movement of interest rates, market factors and macroeconomic factors etc. Moreover, the market value of individual shares will be affected by the financial results, development plans as well as prospects of the industry of the listed companies. To mitigate relevant risks, the Group will take appropriate measures in due course and adjust its investment strategies in response to market situation.

Selling, administrative and general expenses

For the year ended 31 December 2017, the Group's selling, administrative and general expenses were RMB1,158,540,000, representing a decrease of 27% as compared with 2016.

Other (losses)/gains, net

For the year ended 31 December 2017, other losses of the Group were RMB10,305,000, representing a decrease of approximately RMB127,533,000 as compared with other gains of RMB117,228,000 for 2016, mainly attributable to exchange loss.

Profit attributable to owners of the parent

The profit attributable to owners of the parent of the Company for 2017 was RMB1,463,803,000, representing an increase of 321% as compared with RMB347,503,000 for 2016.

Liquidity and financial resources

Liquidity and borrowings

The Group's principal sources of liquidity are operating cash inflow and short-term bank borrowings. The Group's cash is mainly used for operating expenses, repayment of loans, construction of new vessels, procurement of containers, and the Group's financial leasing business. During the year ended 31 December 2017, the Group's net operating cash inflow was RMB11,852,141,000. As at 31 December 2017, the Group's cash at banks was RMB23,193,300,000.

As at 31 December 2017, the Group's total bank and other borrowings were RMB95,421,295,000, of which RMB31,571,856,000 is repayable within one year.

As at 31 December 2017, the Group's RMB-denominated bonds payable amounted to RMB3,086,327,000, and all proceeds raised from the bonds were used for the purchase of financial lease assets.

In addition, the Group's US$-denominated bonds payable at fixed interest rates amounted to US$203,388,000 (equivalent to approximately RMB1,328,979,000), and all proceeds raised from the bonds were used for procurement of containers.

The Group's RMB borrowings at fixed interest rates amounted to RMB37,621,636,000. US$ borrowings at fixed interest rates amounted to US$158,142,000 (equivalent to approximately RMB1,033,334,000), RMB borrowings at floating interest rates amounted to RMB2,680,637,000, and US$ borrowings at floating interest rates amounted to US$8,277,324,000 (equivalent to approximately RMB54,085,688,000). The Group's borrowings are settled in RMB or US$ while its cash and cash equivalents are also primarily denominated in RMB and US$.

It is expected that capital needs for regular cash flow and capital expenditure can be funded by the internal cash flow of the Group or external financing. The Board will review the operating cash flow of the Group from time to time. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure.

Net current liabilities

As at 31 December 2017, the Group's net current liabilities amounted to RMB12,624,170,000. Current assets mainly included: the current portion of the finance lease receivables of RMB7,333,145,000 and the current portion of the loans and receivables of RMB3,763,801,000, inventories of RMB1,155,668,000, trade and notes receivables of RMB1,388,976,000, prepayments and other receivables of RMB896,243,000, cash and cash equivalents of RMB23,193,300,000, and restricted cash of RMB1,748,512,000. Current liabilities mainly included: trade and notes payable of RMB2,328,672,000, other payables and accruals of RMB2,081,501,000, taxes payable of RMB237,297,000, the current portion of bank and other borrowings of RMB31,571,856,000 and current portion of finance lease obligations RMB68,446,000.

Gearing ratio

As at 31 December 2017, the Company's net gearing ratio (i.e. net debts over shareholders' equity) was 535%, which was lower than 662% as at 31 December 2016. The decrease was primarily due to the increase in equity interest.

Foreign exchange risk

Revenues and costs of the Group's shipping-related leasing business and container manufacturing operations are settled or denominated in US$. As a result, the impact on the net operating revenue due to RMB exchange rate fluctuation can be offset by each other to a certain extent. During the year ended 31 December 2017, the Group recorded a net exchange loss of RMB179,543,000 which was mainly due to fluctuations of the US$ and Euro exchange rates in 2017; the exchange difference which was charged to equity attributable to shareholders of the parent amounted to RMB660,456,000.

Capital expenditures

For the year ended 31 December 2017, the Group's expenditures on the acquisition of container vessels, vessels under construction and other expenditures amounted to RMB2,105,721,000, expenditures on the acquisition of finance lease assets amounted to RMB13,442,693,000.

Capital commitments

As at 31 December 2017, the Group had RMB1,475,393,000 in capital commitments which had been contracted but not provided for in relation to fixed assets. Equity investment commitment was RMB1,910,500,000.

Pledge on assets

As at 31 December 2017, certain container vessels and containers with net carrying value of approximately RMB25,031,111,000 (2016: RMB24,792,246,000), finance lease receivables of RMB7,219,076,000 (2016: RMB1,379,841,000) and pledged deposits of RMB178,325,000 (2016: RMB107,848,000) were pledged to banks for the grant of credit facilities and issuance of bonds.

Contingent liabilities

As at 31 December 2017, there were no significant contingent liabilities for the Group.

Material acquisitions or disposals of subsidiaries or affiliated companies and future plans for material investments

During the year ended 31 December 2017, the Group did not have any material acquisitions or disposals of subsidiaries or affiliated companies and there were no future plan for material investments or addition of capital assets approved by the Board as at the date of the 2017 annual report.

Employees and emoluments

As at 31 December 2017, the Group had 8,278 employees, and the total staff costs for the year ended 31 December 2017 (including staff remuneration, welfare and social insurance, etc.) amounted to approximately RMB1,790,420,000 (including outsourced labor costs).

Remuneration management, as one of the most effective incentives and a form of enterprise value distribution, was carried out on the basis of total budget control, value creation, internal fairness, market competition and sustainable development. Based on the principle of "contractualized management, differential compensation", the management has introduced and implemented the professional manager system and strengthened the incentive and restraint mechanism based on performance management. The Company's overall remuneration system mainly consists of: (1) salaries: including remuneration, title salary, performance salary, special incentives, bonus and allowances; (2) benefits: including mandatory social insurance, provident housing fund and corporate welfares; and (3) recognized schemes and other items in support of corporate strategies and corporate culture.

To support human resources management reform, talent development and training, the Company has reconstructed its employee training system to make it based on identification of demand, with the support of clear defined responsibilities and list-based management. The Company has optimized the training content and implementation system, improved the effectiveness of training resource allocation, staff training participation and satisfaction. Various training programs were designed and implemented to address different types of business and positions, covering topics such as transformation and innovation, industry development, management capability, financial business, risk management, safety and individual caliber.

Set forth below is a summary of the Drewry Report which sets out, among other things, the methodologies, considerations and assumptions adopted by Drewry in determining the fair market price for charter fee of the bareboat charters of the Vessels under the Vessel Leasing Service Master Agreement.

CONTAINER VESSEL LEASING MARKET

1. From 2016 to the first quarter of 2020, with the improvement of market supply and demand, despite periodic fluctuations in the charter fees for vessels with 4,000-5,000 TEU, it still represented an overall increasing trend. With the recovery of the pandemic across different countries around the world and the gradual release from lock-downs, the rising demands will stimulate the market charter fees to a certain extent.

2. From 2016 to 2019, charter fees for vessels with 5,000-8,999 TEU were subject to the effects of regional trade disputes. The fees saw fluctuations in each quarter but still represented an overall increasing trend. The global outbreak of COVID-19 has brought certain fluctuations to the charter fees market. With the recovery of the pandemic across different countries around the world and the gradual release from lock-downs, the rising demands will stimulate the market charter fees to a certain extent.

3. There were few time charter transactions for vessels with over 9,000 TEU, particularly for vessels with over 12,000 TEU, the transaction fees of which thus could not represent the overall market situation.

METHODOLOGY AND ASSUMPTIONS

Drewry has taken into account the following considerations and assumptions in determining the fair market price for charter fee of the bareboat charters of the Vessels under the Vessel Leasing Service Master Agreement.

Considerations in determining the assessment methods

1. Vessel liquidity – in a market with higher vessel liquidity, the level of historical charter fees is a more meaningful reference. For determining the charter fees for vessels with low transaction volume and low liquidity (which are mostly vessels with higher construction fees and larger loading capacity), factors including vessel construction fees and reasonable earnings rates should be taken into consideration.

2. Method of chartering – under the bareboat charter, the lessee shall bear operational costs.

3. Term of charter – if it is a short-term charter, the charter market would generally reflect the current market sentiment. Under a positive market sentiment, recent vessel charter transactions are bound to raise the charter fees of similar vessels (which are similar in terms of age, vessel specifications and shipyards). Under a pessimistic market sentiment, recent vessel charter transactions instead suppress the charter fees of similar vessels. However, such principles are not absolute. Charter fees of vessels depends more on the urgency of the transaction to each party under the charter. Seeking charter with high price or urgent charter with low price could both lead to severe deviations from market price.

4. Fairness of transactions – pursuant to the requirements of the Company and COSCO SHIPPING Lines, market fairness is the core principle for this assessment project. The purposes for the assessment are: enabling the Company to obtain a fair return rate, while ensuring the reasonableness of charter fee expenses for COSCO SHIPPING Lines.

Key assumptions

1. Method of chartering

- Bareboat charter

2. Term of charter term

- Under the usual circumstances, the term of charter is determined between both parties in accordance with the container shipping capacity of the vessels, the market liquidity of the vessels and customer requirements;

- Under this transaction, the new lease contract will commence from 1 January 2021 and end on the date on which the age of the Vessels reaches 25 years.

3. Categories and ages of the Vessels

- Drewry categorized the fleet under the Company mainly by the loading capacity of the Vessels and their ages. In order to facilitate the calculation of charter fees, Vessels with similar loading capacity (which are sister ships in general) are put under the same category.

- After grouping all the Vessels by means described above, Drewry took the average age of each Vessel group as the age to be used for vessel assessment of the group of Vessels. The term of charter is also determined in accordance with that age.

- In addition to the loading capacity and ages of the Vessels, Drewry also took the particularities into consideration, such as the differences between the smart main engine in the Vessels with 14,074 TEUs and traditional main engine, and the fact that the Vessels with 4,738 TEUs are vessels with wide beam.

Type (TEU)	Number of Vessels	Average Vessel Age (years)	Average Charter Term (years)
18,982	5	5.9	19.1
14,074	6	9.1	15.9
14,074#*	2	9.8	15.2
10,036	8	6.5	18.5
9,572	4	14.0	11.0
8,468*	1	16.4	8.6
8,533	5	12.5	12.5
5,668/5,688	13	16.9	8.1
4,738 wide beam	8	8.0	17.0
4,250	18	14.5	10.5
4,051	4	17.0	8.0
Total	74	12.2	

Source: the Company

Notes:

1. Each of the Vessels with 14,074 TEUs has slightly different main engine. 14,074 TEU # Vessels, two in total, namely CSCL STAR and CSCL VENUS, are equipped with traditional main engines;

2. The 8,468 TEU Vessel is under flag of convenience and the 8,533 TEU Vessels are under PRC Flag. Therefore, they are listed separately.

4. The carrying amounts of the Vessels (applicable to Vessels with over 9,000 TEUs)

Calculated by the book value of the Vessels of the Company.

5. Cost of capital

Drewry has adopted the proportion of corporate equity and debt in the capital structure as commonly used in the industry and has comprehensively considered the related costs in determining the weighted average cost of capital ("**WACC**") for this project.

6. Residual value of the Vessels (applicable to Vessels with over 9,000 TEUs)

- The residual value of the Vessels which reach 25 years will be calculated according to the scraping prices.

- Scraping prices are calculated in accordance with the price of US$366 per light displacement tonnage ("**LDT**") per Vessel.

Type *(TEU)*	**Average LDT of Vessels**	**Average residual value of Vessels** *(US$ million)*
18,982	56,285	20.6
14,074	44,445	16.3
14,074#	44,497	16.3
10,036	39,071	14.3
9,572	35,077	12.8

Source: the Company, Drewry

Note: Each of the Vessels with 14,074 TEUs has slightly different main engine. 14,074 TEU # Vessels, two in total, namely CSCL STAR and CSCL VENUS, are equipped with traditional main engines.

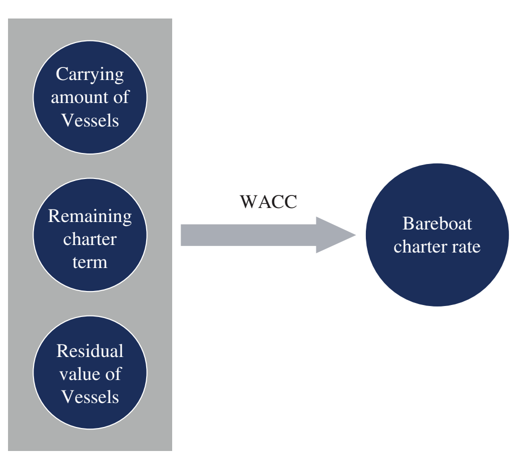
7. *Rental assessment*

The rental under this assessment is rent before tax, excluding any taxes.

ASSESSMENT METHODS AND CALCULATION OF CHARTER RATE:

1. Bareboat charter rates for types over 9,000 TEUs

The feature of the lease market for vessel types over 9,000 TEUs is fewer vessel leasing transactions, without an active market of vessel leasing being formed; such that charter rate of sporadic transactions are not representative of the market, which cannot be considered as the reference for rate assessment. Having considered the nature of long-term bareboat charter rates, Drewry advises to calculate the corresponding bareboat charter rate based on the carrying amount of the Vessels of the Company on the precondition that the vessel owner obtains a fair investment return and the lessee pays reasonable market rates.



Charter rate for types over 9,000 TEUs per day

Type (TEU)	18,982	14,074	14,074 #	10,036	9,572
No. of vessels	5	6	2	8	4
Average term of charter (years)	19.1	15.9	15.2	18.5	11.0
Lease rate (US$ per day)	22,113	26,854	26,379	15,265	12,054

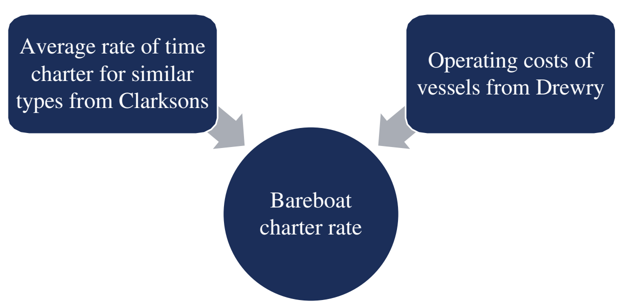
Source: the Company, Drewry

Note: Each of the Vessels with 14,074 TEUs has slightly different main engine. 14,074 TEU # Vessels, two in total, namely CSCL STAR and CSCL VENUS, are equipped with traditional main engines.

2. Charter rate assessment methods for types below 9,000 TEUs

There are relatively more leasing transactions involving vessel types of below 9,000 TEUs, forming an active market of vessel leasing; the historical data on charter rate is sufficient and is representative of the market, which can be considered as the reference for rate assessment.

Drewry advises to determine the bareboat charter rate for vessel type below 9,000 TEUs based on the bareboat charter rate calculated by the historical time charter rate level from Clarksons for similar types of vessels for the most recent three years, less daily operating costs.



Average historical rate of time charter per day from Clarksons for similar types of vessels for the most recent three years

Type (TEU)	8,468	8,533	5,668/ 5,688	4,738 wide beam	4,250	4,051
Similar type from Clarksons (TEU)	8,500	8,500	6,800	4,738 wide beam	4,400 narrow beam	4,400 narrow beam
Average charter rate for the most recent three years	21,324	21,324	17,796	16,007	11,033	11,033

Source: Clarksons

Note: The 8,468 TEU Vessel is under flag of convenience and the 8,533 TEU Vessels are under PRC Flag. Therefore, they are listed separately.

Operational costs of Vessels per day (applicable to Vessels under 9,000 TEUs)

Calculated in accordance with the Drewry 2021 operational costs of vessels (including the costs of vessel management) with the annual growth rate of 1%:

Type (TEU)	8,468	8,533	5,668/ 5,688	4,738 wide beam	4,250	4,051
Average age of Vessels	16.4	12.7	16.9	8.0	15.1	17.0
Drewry 2019 operational costs of vessels per day	8,491	8,491	7,546	6,346	6,770	6,830
Growth rate	1%	1%	1%	1%	1%	1%
Drewry 2021 operational costs of vessels per day	8,662	8,662	7,697	6,474	6,906	6,967

Source: Drewry

Note: The 8,468 TEU Vessel is under flag of convenience and the 8,533 TEU Vessels are under PRC Flag. Therefore, they are listed separately.

Bareboat charter rate for the vessels under 9,000 TEUs

Type (TEU)	8,468	8,533	5,668/ 5,688	4,738 WB	4,250	4,051
No. of Vessels	1	5	13	8	18	4
Average charter term (years)	8.6	12.5	8.1	17.0	10.5	8.0
Bareboat charter rate	13,280	13,280	10,592	9,999	4,329	4,264

Source: the Company, Drewry, Clarksons

Note: The 8,468 TEU Vessel is under flag of convenience and the 8,533 TEU Vessels are under PRC Flag. Therefore, they are listed separately.

OVERVIEW OF THE CHARTER RATES FOR THE FLEET

By applying book value method and market charter rate approach respectively, Drewry assessed the future bareboat charter rates for the 74 Vessels of the Company. The bareboat charter rates per year for each type of Vessels are shown in the below table. The bareboat charter rate per year for the 74 Vessels of the Company is approximately US$324 million (before tax).

Overview of the bareboat rates for the fleet

Methodology	Book Value & WACC					Market Charter Rate						
Type (TEU)	**18,982**	**14,074**	**14,074#**	**10,036**	**9,572**	**8,468**	**8,533**	**5,668/ 5,688**	**4,738 WB**	**4,250**	**4,051**	**Total**
No. of ships	5	6	2	8	4	1	5	13	8	18	4	74
Average charter term (years)	19.1	15.9	15.2	18.5	11.0	8.6	12.5	8.1	17.0	10.5	8.0	–
Bareboat charter rate per day (US$)	22,113	26,854	26,379	15,265	12,054	13,280	13,280	10,592	9,999	4,329	4,264	–
Bareboat earnings per year (US$ million)	**40.4**	**58.8**	**19.3**	**44.6**	**17.6**	**4.8**	**24.2**	**50.3**	**29.2**	**28.4**	**6.2**	**323.8**

Source: Drewry

Notes:

1. Each of the Vessels with 14,074 TEUs has slightly different main engine. 14,074 TEU # vessels, two in total, namely CSCL STAR and CSCL VENUS, are equipped with traditional main engines;

2. The 8,468 TEU Vessel is under flags of convenience and the 8,533 TEU Vessels are under PRC Flag. Therefore, they are listed separately.

As shown in the table above, the annual bareboat charter rate for the 74 Vessels of the Company is approximately US$324 million (before tax).

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 document misleading.

2. DISCLOSURE OF INTERESTS

Interests and short positions of Directors, Supervisors and chief executives

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive(s) of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company.

Name	Position	Class of Shares	Capacity	Number of Shares interested *(Note 1)*	Approximate percentage of the total number of the relevant class of Shares of the Company *(%)*	Approximate percentage of the issued share capital of the Company *(%)*
Wang Daxiong	Director	A Shares	Beneficial owner	1,500,000(L) *(Note 2)*	0.02	0.01
		H Shares	Other	834,677 (L) *(Notes 3 and 4)*	0.02	0.01
Liu Chong	Director	A Shares	Beneficial owner	1,490,100 (L) *(Note 2)*	0.02	0.01
		H Shares	Other	1,112,903 (L) *(Notes 3 and 5)*	0.03	0.01
Xu Hui	Director	A Shares	Beneficial owner	1,490,100(L) *(Note 2)*	0.02	0.01
		H Shares	Other	945,968 (L) *(Notes 3 and 6)*	0.03	0.01

Notes:

1. "L" means long position in the shares.

2. Such interests relate to share options granted to the Directors on 30 March 2020 pursuant to the A Share option incentive scheme of the Company approved by the Shareholders on 5 March 2020.

3. As disclosed in the announcement of the Company dated 24 November 2016, certain executive Directors, Supervisor, senior management and employees of the Company have voluntarily invested, with their own fund, in an asset management plan (the "**Asset Management Plan**"), pursuant to which the executive Directors, Supervisor, senior management and employees of the Company had subscribed to the units of the Asset Management Plan and entrusted the manager of the Asset Management Plan to manage the Asset Management Plan, which would invest in the H Shares. The manager of the Asset Management Plan shall be responsible for, among other things, the investment and re-investment of the assets under the Asset Management Plan and shall be entitled to exercise the voting rights and other relevant rights in respect of the H Shares held under the Asset Management Plan. The Company did not participate in the Asset Management Plan, and the Asset Management Plan does not constitute a share option scheme or any type of employee benefit scheme of the Company. As at the Latest Practicable Date, the Asset Management Plan has been fully funded and has acquired 6,900,000 H Shares on the market at an average price of HK$1.749 per H Share.

4. Mr. Wang Daxiong was one of the participants of the Asset Management Plan through which he held approximately 12.10% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 834,677 H Shares represent the interests derived from the units subscribed by Mr. Wang Daxiong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Wang Daxiong did not hold any Shares.

5. Mr. Liu Chong was one of the participants of the Asset Management Plan through which he held approximately 16.13% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 1,112,903 H Shares represent the interests derived from the units subscribed by Mr. Liu Chong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Liu Chong did not hold any Shares.

6. Mr. Xu Hui was one of the participants of the Asset Management Plan through which he held approximately 13.71% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 945,968 H Shares represent the interests derived from the units subscribed by Mr. Xu Hui in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Xu Hui did not hold any Shares.

Positions held by Directors and Supervisors in substantial Shareholder(s)

As at the Latest Practicable Date:

(a) Mr. Huang Jian, a non-executive Director, was also a department general manager of COSCO SHIPPING; and

(b) Mr. Ye Hongjun, a Supervisor, was also the chief legal adviser of COSCO SHIPPING.

Save as disclosed above, none of the Directors or Supervisors was, as at the Latest Practicable Date, a director or employee of a company which had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, Supervisors or chief executive(s) of the Company, the interests or short positions of the Shareholders who are entitled to exercise or control 5% or more of the voting power at any general meeting or other persons (other than a Director, Supervisor or chief executive(s) of the Company) in the Shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO or which have been notified to the Company and the Hong Kong Stock Exchange were as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares interested *(Note 1)*	Approximate percentage of the total number of the relevant class of Shares of the Company *(%)*	Approximate percentage of the issued share capital of the Company *(%)*
China Shipping	A Shares	Beneficial owner	4,410,624,386 (L) *(Note 2)*	55.60	38.00
	H Shares	Interest of controlled corporation	100,944,000 (L) *(Note 3)*	2.75	0.87
COSCO SHIPPING	A Shares	Beneficial owner	47,570,789 (L)	0.60	0.41
		Interest of controlled corporation	4,410,624,386 (L) *(Note 2)*	55.60	38.00
	H Shares	Interest of controlled corporation	100,944,000 (L) *(Note 3)*	2.75	0.87

Notes:

1. "L" means long position in the shares.

2. Such 4,410,624,386 A Shares represent the same block of Shares.

3. Such 100,944,000 H Shares represent the same block of Shares and is held by Ocean Fortune Investment Limited, an indirectly wholly-owned subsidiary of China Shipping.

Save as disclosed above, as at the Latest Practicable Date, no other person (other than Directors, Supervisors or chief executive(s) of the Company) had any interests or short positions in any Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interests or short positions recorded in the register kept by the Company pursuant to Section 336 of the SFO or any interests or short positions which have been notified to the Company and the Hong Kong Stock Exchange.

3. NO MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had entered into or proposed to enter into any service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) none of the Directors or the Supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, nor any of their respective close associates had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

8. EXPERTS' QUALIFICATIONS AND CONSENT

The following are the qualifications of the experts who have given their opinions or advice which are contained in this circular:

Name	Qualification
Drewry	Independent industry consultant
Messis Capital	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

As at the Latest Practicable Date, each of the abovementioned experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and/or the reference to its name and opinions in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the abovementioned experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the abovementioned experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited statements of the Group were made up).

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

(a) the share transfer agreement dated 12 October 2020 entered into between COSCO Container Industries Limited, Long Honour Investments Limited, Shenzhen Capital (Hong Kong) Container Investments Co., Ltd., Shenzhen Capital Operation Group Co. Ltd. and the Company in relation to the disposal of shares in China International Marine Containers (Group) Co., Ltd. (please refer to the announcement of the Company dated 12 October 2020 and the circular of the Company dated 13 October 2020 for further details);

(b) the capital increase agreement dated 24 April 2020 entered into among the Company, COSCO SHIPPING, COSCO SHIPPING Energy Transportation Co., Ltd., COSCO Shipping Tanker (Dalian) Co., Ltd., COSCO SHIPPING Lines Co., Ltd., COSCO International Freight Co., Ltd., COSCO SHIPPING Specialized Carriers Co., Ltd., Guangzhou Ocean Shipping Co., Ltd., COSCO (Tianjin) Co., Ltd., China Ocean Shipping Agency Co., Ltd., COSCO (Qingdao) Co., Ltd., COSCO Shipbuilding Industry Company Limited, COSCO Shipyard Group Co., Ltd., China Marine Bunker (Petro China) Co., Ltd., COSCO (Xiamen) Co., Ltd. and China Ocean Shipping Tally Co., Ltd., pursuant to which the parties (as existing shareholders of COSCO SHIPPING Finance Company Limited) have agreed to increase the registered capital of COSCO SHIPPING Finance Company Limited by RMB3,200,000,000 in proportion to their respective shareholding (please refer to the announcement of the Company dated 24 April 2020 for further details);

(c) the equity transfer agreement dated 25 March 2019 entered into between the Company and COSCO SHIPPING Logistics Co., Ltd., pursuant to which the Company has agreed to dispose of, and COSCO SHIPPING Logistics Co. Ltd. has agreed to acquire, 25% of the equity interests in E-Shipping Global Supply Chain Management (Shenzhen) Co., Ltd. (please refer to the announcement of the Company dated 25 March 2019 for further details);

(d) the four memoranda of agreement dated 10 January 2019 entered into between (i) CSCL Spring Shipping Co., Ltd., CSCL Summer Shipping Co., Ltd., CSCL Winter Shipping Co., Ltd. and CSCL Bohai Sea Shipping Co., Ltd. (collectively, the "**Vessel Sellers**") and (ii) FPG Shipholding Panama 48 S.A., FPG Shipholding Panama 49 S.A., FPG Shipholding Panama 50 S.A. and FPG Shipholding Panama 51 S.A. (collectively, the "**Vessel Purchasers**"), pursuant to which the Vessel Sellers have agreed to sell, and the Vessel Purchasers have agreed to purchase, the Vessels, for the aggregate consideration of US$267 million (please refer to the announcement of the Company dated 10 January 2019 for further details);

(e) the four instalment sale agreements dated 10 January 2019 entered into between (i) the Vessel Purchasers as sellers and (ii) Ship No. 140 Co., Ltd., Ship No. 141 Co., Ltd., Ship No. 142 Co., Ltd. and Ship No. 143 Co., Ltd., as buyers in respect of the instalment sale of the Vessels (please refer to the announcement of the Company dated 10 January 2019 for further details); and

(f) the four bareboat charters dated 10 January 2019 entered into between the Vessel Owners and COSCO SHIPPING Development (Hong Kong) Co., Ltd., pursuant to which the Vessel Owners have agreed to charter, and COSCO SHIPPING Development (Hong Kong) Co., Ltd. agreed to take on charter, the Vessels, with the maximum aggregate amount of the instalments of charter hire payable by COSCO SHIPPING Development (Hong Kong) Co., Ltd. to the Vessel Owners estimated to be approximately US$248 million (please refer to the announcement of the Company dated 10 January 2019 for further details).

Save as disclosed above, there is no material contract (not being entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the issue of this circular.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 50/F, COSCO Tower, 183 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the Vessel Leasing Service Master Agreement;

(b) the Asset Lease Framework Agreement;

(c) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(e) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(f) the contract of the connected transaction referred to in the section headed "Letter from the Board" in this circular;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(h) the articles of association of the Company;

(i) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019;

(j) the interim report of the Company for the six months ended 30 June 2020;

(k) the report on the unaudited pro forma financial information of the remaining Group, the text of which is set out in Appendix III to this circular;

(l) the written consent referred to in the paragraph headed "Experts' Qualifications and Consent" in this Appendix;

(m) a copy of the circular of the Company dated 30 October 2020; and

(n) this circular.

11. MISCELLANEOUS

(a) The joint company secretaries of the Company are Mr. Cai Lei ("**Mr. Cai**") and Ms. Ng Sau Mei ("**Ms. Ng**"). Mr. Cai is qualified as a national judicial professional and an insurance assessor, and holds the title of intermediate economist. Ms. Ng is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(b) The legal address of the Company in the PRC is Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.

(c) The principal place of business of the Company in the PRC is 5299 Binjiang Dadao, Pudong New Area, Shanghai, the PRC.

(d) The principal place of business of the Company in Hong Kong is 50/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

(e) The Hong Kong H Share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of COSCO SHIPPING Development Co., Ltd. (the "**Company**") will be held at 1:30 p.m. on Wednesday, 9 December 2020 (or at any adjournment thereof) at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the People's Republic of China to consider and, if thought fit, pass the following resolution.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 20 November 2020 (the "**Circular**").

ORDINARY RESOLUTION

1. To consider and approve the resolution in relation to the Vessel Leasing Service Master Agreement, further details of which are set out in the Circular:

   "**THAT:**

   (a) the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one Director be and is hereby authorized to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder."

By order of the Board
COSCO SHIPPING Development Co., Ltd.
Cai Lei
Joint Company Secretary

Shanghai, the People's Republic of China

20 November 2020

Notes:

1. For the purpose of holding the EGM, the register of H Shares members of the Company (the "**Register of Members**") will be closed from 4 December 2020 to 9 December 2020 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Holders of the Company's H Shares (the "**H Shareholders**") whose names appear on the Register of Members at the close of business on 3 December 2020 are entitled to attend and vote at the EGM.

2. In order to attend and vote at the EGM, the H Shareholders shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited ("**Computershare**"), the Company's H Share registrar, not later than 4:30 p.m. on 3 December 2020.

   The address of Computershare is as follows:
   Shops 1712-1716, 17th Floor
   Hopewell Centre
   183 Queen's Road East
   Wanchai, Hong Kong

3. Each H Shareholder who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a Shareholder or not, to attend and vote on his/her behalf at the EGM.

4. The form of proxy must be signed by the Shareholder or his/her attorney duly authorised in writing or, in the case of a legal person, must either be executed under its common seal or under the hand of a legal representative or other attorney duly authorised to sign the same. If the Form of Proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.

5. To be valid, for H Shareholders, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to Computershare at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.

6. If a proxy attends the EGM on behalf of a Shareholder, he/she should produce his/her identity card and the form of proxy signed by the Shareholder or his/her legal representative or his/her duly authorised attorney, and specify the date of its issuance. If a legal person Shareholder appoints its corporate representative to attend the EGM, such representative should produce his/her identity card and the notarised copy of the resolution passed by the board of directors or other authorities, or other notarised copy of the licence issued by such legal person Shareholder. The form of proxy duly signed and submitted by HKSCC Nominees Limited are deemed to be valid, and it is not necessary for the proxy(ies) appointed by HKSCC Nominees Limited to produce the signed form of proxy when the proxy(ies) attend(s) the EGM. Completion and return of the form of proxy will not preclude a Shareholder from attending in person and voting at the EGM or any adjournment thereof should he/she so wish.

7. Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by way of poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolutions set out in the notice of the EGM will be voted on by poll. Results of the poll voting will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk after the EGM.

8. Where there are joint registered holders of any share of the Company, only the person whose name stands first on the Register of Members in respect of such share may vote at the EGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto.

9. The EGM is estimated to last for half a day. Shareholders who attend the EGM in person or by proxy shall bear their own transportation and accommodation expenses.

The Board as at the date of this notice comprises Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, being executive Directors, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, being non-executive Directors, and Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, being independent non-executive Directors.

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*