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**CONNECTED TRANSACTIONS IN RELATION TO  
ACQUISITION OF TARGET ASSETS  
AND  
ENTERING INTO NEW LEASE AGREEMENT**

The Board announces that on 21 September 2020, CSITC, a wholly-owned subsidiary of the Company, entered into the Asset Acquisition Agreement with Shenzhen Haisheng, pursuant to which Shenzhen Haisheng agreed to sell and CSITC agreed to acquire the Target Assets at a consideration of RMB16,277,000 (equivalent to approximately HK\$18,393,000) (value-added tax inclusive).

As the Structures of the Target Assets are constructed on the Leased Land, Hainan Guosheng (as lessor) and CSITC (as lessee) will, on or before Completion, also execute the New Lease Agreement in relation to the Leased Land for a term commencing from the date of Completion to 31 December 2032.

Shenzhen Haisheng and Hainan Guosheng are both subsidiaries of COSCO SHIPPING, the ultimate holding company of the Company. Therefore, each of Shenzhen Haisheng and Hainan Guosheng is an associate of the Company and a connected person of the Company.

As one or more of the applicable percentage ratios in respect of the Acquisition Transaction and the transactions contemplated under the New Lease Agreement based on the value of the right-of-use assets to be recognised by the Group, when aggregated, exceed 0.1% but are less than 5%, such transactions do not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules but constitute connected transactions of the Company subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## INTRODUCTION

The Board announces that on 21 September 2020, CSITC, a wholly-owned subsidiary of the Company, entered into the Asset Acquisition Agreement with Shenzhen Haisheng, pursuant to which Shenzhen Haisheng agreed to sell and CSITC agreed to acquire the Target Assets at a consideration of RMB16,277,000 (equivalent to approximately HK\$18,393,000) (value-added tax inclusive).

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## ACQUISITION OF TARGET ASSETS

The principal terms of the Asset Acquisition Agreement are as follows:

- Date: 21 September 2020
- Parties: (i) Shenzhen Haisheng, as seller  
(ii) CSITC, as buyer
- Subject matter: The Target Assets owned by Shenzhen Haisheng.
- Consideration: The consideration for acquisition of the Target Assets is RMB16,277,000 (equivalent to approximately HK\$18,393,000) (value-added tax inclusive).
- Conditions Precedent: Completion is subject to fulfillment of all of the following conditions:
- (i) the Acquisition Transaction having been formally approved by the superior entities of Shenzhen Haisheng and CSITC;
  - (ii) the asset valuation report for the Target Assets having been filed with COSCO SHIPPING, the ultimate holding company of the Company;
  - (iii) the approvals of the Acquisition Transaction and other transactions and arrangements mentioned in the Asset Acquisition Agreement and all other approvals, consents, exemptions and authorisations having been obtained and all relevant documents having been signed in accordance with the PRC laws and regulations;
  - (iv) each of Shenzhen Haisheng and Hainan Guosheng having given an undertaking to CSITC that CSITC shall have the right to continue leasing the Leased Land on the same terms of the Existing Lease Agreement;

- (v) all manuals, pipeline plans, tank construction design drawings and other technical materials of equipment within the asphalt depot having been delivered by Shenzhen Haisheng;
- (vi) an undertaking letter in respect of the ownership rights in the Structures related to 海南富運達物流有限公司 (Hainan Fuyunda Logistics Co., Ltd.\*) having been issued to CSITC by each of Haisheng Shipping and Shenzhen Haisheng; and
- (vii) Shenzhen Haisheng having obtained the planning permit, construction permit and filing of construction inspection and acceptance, pressure pipeline use registration certificate, and the filings for fire safety and environmental protection relating to the asphalt depot.

Payment terms:

The consideration for the Acquisition Transaction shall be paid by CSITC in three (3) installments as follows:

- (i) RMB1,627,700, being 10% of the consideration shall be paid within ten (10) business days after the signing of the Asset Acquisition Agreement;
- (ii) RMB13,021,600, being 80% of the consideration shall be paid within ten (10) business days after Completion; and
- (iii) RMB1,627,700, being 10% of the consideration shall be paid within ten (10) business days after the expiry of Quality Guarantee Period.

Completion:

Within ten (10) business days after the fulfillment of all conditions precedent, Shenzhen Haisheng and CSITC shall conduct a joint inspection of the Target Assets and agree on the date of Completion.

Quality Guarantee Period of the Target Assets and Quality Guarantee Fund:

The Quality Guarantee Period for the Target Assets shall be three (3) months from the date of Completion and the Quality Guarantee Fund shall be 10% of the consideration payable.

During the Quality Guarantee Period, the losses caused by any major accidents such as tank cracking and leakage and serious pipeline leakage (asphalt and heat transfer oil) as a result of quality problem before the delivery of the equipment shall be borne by Shenzhen Haisheng. CSITC shall have the right to deduct the compensation from the Quality Guarantee Fund and any shortfall shall be paid by Shenzhen Haisheng separately.

**Termination:** If any of the conditions precedent is not fulfilled within three (3) months after the date of the Asset Acquisition Agreement, either party shall have the right to terminate the Asset Acquisition Agreement within one (1) year after the Asset Acquisition Agreement has become effective.

The consideration was determined based on arm's length negotiations between Shenzhen Haisheng and CSITC with reference to the assessed asset value of the Target Assets of RMB16,277,000 (equivalent to approximately HK\$18,393,000) (value-added tax inclusive) as at 30 September 2019 as appraised by an independent asset appraisal company in the PRC using the cost approach. As advised by Shenzhen Haisheng, the original acquisition cost of the Target Assets to Shenzhen Haisheng was approximately RMB23,790,000 (equivalent to approximately HK\$26,883,000).

The consideration is expected to be financed by the internal resources of the Group.

A total sum of approximately RMB1,184,000 (equivalent to approximately HK\$1,338,000) payable by Shenzhen Haisheng under the building, construction and consultation contracts for some of the Structures remain outstanding as at the date of the Asset Acquisition Agreement. In light of this, Shenzhen Haisheng has undertaken to reasonably arrange for settlement of such outstanding sum and compensate for any negative impacts or losses caused to CSITC.

Shenzhen Haisheng has entered into asphalt storage contracts with two independent third parties providing them a total asphalt storage capacity of not more than 14,000m<sup>3</sup> at a fee calculated by reference to the actual volume of asphalt stored. It is intended that these contracts will be renewed after their expiry on 30 September 2020. Shenzhen Haisheng has also entered into a modified asphalt strategic cooperation agreement with an independent third party pursuant to which Shenzhen Haisheng has agreed to provide an area of approximately 6,856.76 square metres (equivalent to approximately 10.29 mu\* (畝)) of the Leased Land to that party for the construction and operation of a modified asphalt factory at an annual fee of RMB480,000 (equivalent to approximately HK\$542,000) for a term of 20 years expiring on 31 December 2032 and the parties have agreed on certain other strategic cooperation. As Shenzhen Haisheng will not be able to perform the obligations under these existing contracts after the disposal of the Target Assets at Completion, it is a term of the Asset Acquisition Agreement that CSITC shall take over the subsisting contractual obligations of Shenzhen Haisheng under these contracts after Completion.

## **INFORMATION ON THE TARGET ASSETS**

The Target Assets are divided into two categories, namely the structures and the equipment.

### **(i) Structures**

The structures are located at an oil depot in Macun of Chengmai County in the Hainan Province (海南省澄邁縣馬村油庫) and there are a total of 58 items. Most of them are located at the oil tank area which include six asphalt tanks, four rapid heating tanks, one oil unloading tank and an asphalt tank base, which consists of two 4,500m<sup>3</sup> storage tanks, two 5,000m<sup>3</sup> storage tanks and two 3,000m<sup>3</sup> storage tanks, three 70m<sup>3</sup> and one

140m<sup>3</sup> rapid heating tanks, and one 15m<sup>3</sup> oil unloading tank. Other structures mainly include road hardening works, wall works, fire embankment works in the oil depot area and emergency pools, adjustment pool works, boiler rooms, etc. in the depot area. The structures were mainly constructed during 2014 to 2017. At present, the structure, foundation, and maintenance of the structures are in good condition, with no major damage, and could be used normally.

**(ii) Equipment**

The equipment includes machinery equipment and electronic equipment, among which there are a total of 27 items of machinery equipment, which are mainly asphalt monitoring and high-definition equipment, and asphalt tank level observation system, etc.. There are 21 items of electronic equipment, which are mainly office equipment, such as computers, printers, air conditioners, etc..

The items of machinery equipment are stored in the oil depot in Macun for use. They were mainly purchased from 2016 to 2018.

The items of electronic equipment are stored in the office area of the oil depot in Macun. They were mainly purchased from 2013 to 2019.

The unaudited book value of the Target Assets as at 30 September 2019 based on the management accounts of Shenzhen Haisheng was RMB15,680,000 (equivalent to approximately HK\$17,718,000).

Based on the information provided by Shenzhen Haisheng, the net profit before and after tax and extraordinary items attributable to the Target Assets for the two financial years ended 31 December 2018 and 31 December 2019 are as follows:

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
Net profit before tax and extraordinary items	RMB1,800,000 (equivalent to approximately HK\$2,034,000)	RMB130,000 (equivalent to approximately HK\$147,000)
Net profit after tax and extraordinary items	RMB1,350,000 (equivalent to approximately HK\$1,526,000)	RMB100,000 (equivalent to approximately HK\$113,000)

**ENTERING INTO NEW LEASE AGREEMENT**

As at the date of this announcement, the Leased Land at which the Target Assets are located is leased from Hainan Guosheng by Shenzhen Haisheng pursuant to the Existing Lease Agreement. Shenzhen Haisheng has undertaken to procure Hainan Guosheng to execute, and

Hainan Guosheng has undertaken to execute, the New Lease Agreement with CSITC, which will take effect upon Completion. It is expected that the New Lease Agreement will be executed on or before Completion.

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

Parties:	(1) Hainan Guosheng, as the lessor (2) CSITC, as the lessee
Leased Land:	A parcel of land with an area of 42.57 mu* (畝) (equivalent to approximately 28,380 square metres) within Macun of Chengmai County in the Hainan Province of the PRC.
Term:	From the date of Completion to 31 December 2032
Purpose:	CSITC shall use the Leased Land for the purpose of operating storage, modified asphalt processing and auxiliary facilities projects.
Rent:	The annual rent is RMB10,000 (equivalent to approximately HK\$11,000) per mu* (畝), amounting to RMB425,700 (equivalent to approximately HK\$481,000) for a total area of 42.57 mu* (畝). The rent shall be payable half-yearly in advance.
Land use tax:	The land use tax on the Leased Land shall be borne by CSITC.
Utility expenses:	The charges for power supply and water supply shall be borne by CSITC.
Right of first refusal:	CSITC shall give one (1) month prior written notice to Hainan Guosheng for renewing the New Lease Agreement upon its expiry and CSITC shall have the right of first refusal to lease the Leased Land on the same terms offered.

The annual rent payable under the New Lease Agreement is the same as the current annual rent payable by Shenzhen Haisheng to Hainan Guosheng under the Existing Lease Agreement.

The total amount of rent payable by CSITC under the New Lease Agreement is estimated to be approximately RMB6,698,000 (equivalent to approximately HK\$7,569,000) and is expected to be financed by the internal resources of the Group.

The value of the right-of-use assets to be recognised by the Company under the New Lease Agreement amounts to approximately RMB5,127,000 (equivalent to approximately HK\$5,794,000) which is the present value of aggregated lease payments (i.e. the rent) throughout the lease term to be made under the New Lease Agreement in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) 16.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE ASSET ACQUISITION AGREEMENT AND NEW LEASE AGREEMENT**

Asphalt business is one of the important businesses of CSITC. Asphalt business includes import, storage, modification, trading and delivery of asphalt to be used in the construction and maintenance of roads. CSITC has a strong presence in Guangxi, Hunan and certain other provinces in the PRC currently. The Company believes that the Acquisition Transaction will facilitate CSITC's entry into the asphalt market in the Hainan Province. Such strategic move will help to realise the production of modified asphalt and local delivery of various kinds of asphalt in the Hainan Province.

As part of the National Highway Network Planning (2013–2030), Hainan Province is continuously accelerating the construction of expressways, optimising the national and provincial trunk road network and promoting the construction of tourist roads around the island. Management of the Company believes that the demand for asphalt for local road construction and maintenance is considerable. The geographical location of the subject asphalt depot has certain competitiveness in dock loading and unloading and distribution of asphalt throughout the Hainan Province.

Based on the proposed terms of the Asset Acquisition Agreement and New Lease Agreement set out above, the Directors (including the independent non-executive Directors) are of the view that each of the Asset Acquisition Agreement and the New Lease Agreement, although not entered into in the ordinary and usual course of business of the Group, will be entered into on normal commercial terms and that the terms of each of the Asset Acquisition Agreement and the New Lease Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **CERTAIN RISKS OF THE ACQUISITION TRANSACTION AND PRECAUTIONARY MEASURES**

During the negotiation of the Acquisition Transaction, the Board identified the following risks and CSITC has taken the corresponding precautionary measures as follows:

*Risks:*

*Precautionary Measures taken by CSITC:*

### **1. Risk of compliance operations**

Most of the licences and permits in relation to the construction, environmental protection, fire safety and safety of the asphalt depot had expired and some of them had not been obtained.

As stated above, it has been agreed by CSITC and Shenzhen Haisheng that the obtaining of those licences and permits shall be one of the conditions precedent to Completion.

If any of such licences and permits remains outstanding after Completion, CSITC may not be able to carry on the operation of the asphalt depot in compliance with the relevant requirement under the PRC laws.

## 2. Land risk

The Structures are attached to the Leased Land but Shenzhen Haisheng is only a lessee and not the land use right holder of the Leased Land. Thus the Acquisition Transaction does not include the acquisition of the corresponding land use right. If the land use right holder does not continue the lease of the Leased Land to CSITC after Completion, CSITC will not be able to continue the operation of the asphalt depot.

## 3. Title risk

Part of the Structures (being a 5,000-ton (movable) asphalt tank, a 3,000-ton fixed asphalt tank and two 70m<sup>3</sup> high-temperature tanks), was leased by a third party (Hainan Fuyunda Logistics Co., Ltd.\* (海南富運達物流有限公司)) to Shenzhen Haisheng pursuant to an equipment leasing agreement. The lease term has expired and all amount payable by Shenzhen Haisheng under the equipment leasing agreement has been paid. However, there is no express provision in the equipment leasing agreement on the ownership of those structures after the expiry of the lease term, which results in uncertainty on Shenzhen Haisheng's title to those structures.

After coordination, Hainan Guosheng, the land use right holder, had issued an undertaking letter to confirm that Hainan Guosheng will continue to lease the Leased Land to CSITC on the same terms and conditions as the Existing Lease Agreement after Completion.

The PRC legal adviser of CSITC has advised that:

- (a) after the expiry of the lease term, Shenzhen Haisheng shall have the right to use the relevant structures without any obligations to pay further rent or costs for an indefinite period;
- (b) the fact that (i) the lessor of those structures had been dissolved in 2019; (ii) the lessor and its shareholders had confirmed to the administration of industry and commerce authority that it had no outstanding creditor's right or liabilities; and (iii) the auditors of Shenzhen Haisheng considered that those structures should be accounted for as finance lease fixed assets of Shenzhen Haisheng is in favour of the deduction that the title of those structures shall belong to Shenzhen Haisheng.

In order to reduce the risk caused by the unclear title of those structures, after negotiations between the parties, each of Shenzhen Haisheng and its holding company, Haisheng Shipping, issued an undertaking letter to confirm that the ownership of those structures belongs to Shenzhen Haisheng since August 2017 and if there is any dispute on title of those structures during the lease term of the Leased Land which result in losses suffered by CSITC, Shenzhen Haisheng and Haisheng Shipping shall be liable to resolve the dispute and compensate CSITC.

The PRC legal advisor of CSITC has acknowledged that the undertaking letters can protect the legal interests of CSITC.

## **INFORMATION OF THE PARTIES**

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

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

CSITC is principally engaged in trading, storage, processing, supply of asphalt and other comprehensive trading.

Shenzhen Haisheng is principally engaged in purchase and sale of asphalt and asphalt warehousing, etc..

Hainan Guosheng is principally engaged in supply of bunker fuels and petroleum products onshore and offshore in Hainan and the Beibu Gulf Rim Region.

## **IMPLICATIONS UNDER THE LISTING RULES**

Shenzhen Haisheng and Hainan Guosheng are both subsidiaries of COSCO SHIPPING, the ultimate holding company of the Company. Therefore, each of Shenzhen Haisheng and Hainan Guosheng is an associate of the Company and a connected person of the Company.

As the lease payments (i.e. the rent) under the New Lease Agreement would be accounted as right-of-use assets in the Company's financial statements in accordance with HKFRS 16, the transaction under the New Lease Agreement would be regarded as an acquisition of assets and constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the Acquisition Transaction and the transactions contemplated under the New Lease Agreement based on the value of the right-of-use assets to be recognised by the Group, when aggregated, exceed 0.1% but are less than 5%, such transactions do not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules but constitute connected transactions of the Company subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. None of the Directors has a material interest in the Asset Acquisition Agreement or New Lease Agreement. Accordingly, none of them is required to abstain from voting on the relevant board resolutions to approve the Asset Acquisition Agreement and New Lease Agreement and the transactions contemplated thereunder under the bye-laws of the Company or the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set below:

“Acquisition Transaction”	the acquisition of the Target Assets contemplated under the Asset Acquisition Agreement;
“Asset Acquisition Agreement”	the asset acquisition agreement dated 21 September 2020 executed between Shenzhen Haisheng and CSITC, the principal terms of which have been set out in this announcement;
“associates”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	COSCO SHIPPING International (Hong Kong) Co., Ltd., a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange (stock code: 00517);
“Completion”	the completion of the Acquisition Transaction;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“COSCO SHIPPING”	中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), a company established in the PRC and the ultimate holding company of the Company;
“CSITC”	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*), a wholly-owned subsidiary of the Company;
“Directors”	the directors of the Company;
“Existing Lease Agreement”	the lease agreement (土地租賃及業務合作協議書) dated 1 January 2013 (as amended and supplemented) executed by Hainan Guosheng as lessor and Shenzhen Haisheng as lessee in respect of the Leased Land for the term of twenty (20) years commencing from 1 January 2013 and expiring on 31 December 2032;
“Group”	the Company and its subsidiaries;
“Hainan Guosheng”	海南國盛石油有限公司 (Hainan Guosheng Petroleum Co., Ltd.*), a company incorporated in the PRC;
“Haisheng Shipping”	海南海盛航運有限公司 (Hainan Haisheng Shipping Co., Ltd.*), a company incorporated in the PRC and the holding company of Shenzhen Haisheng;

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Leased Land”	a parcel of land with an area of 42.57 mu* (畝) (equivalent to approximately 28,380 square metres) within Macun in Chengmai County in the Hainan Province of the PRC and the subject matter of the Existing Lease Agreement and New Lease Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Lease Agreement”	the lease agreement to be entered into between Hainan Guosheng as lessor and CSITC as lessee in respect of the Leased Land;
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“Quality Guarantee Fund”	the amount of funds, being 10% of the consideration of the Acquisition Transaction, set aside to guarantee the quality of the Target Assets during the Quality Guarantee Period;
“Quality Guarantee Period”	the period during which the quality of Target Assets is guaranteed by Shenzhen Haisheng in favour of CSITC;
“Share(s)”	the share(s) of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Haisheng”	深圳市中海海盛瀝青有限公司 (Shenzhen China Shipping Haisheng Asphalt Co., Ltd.*), a company incorporated in the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Structures”	The structures of the Target Assets to be acquired under the Acquisition Transaction, the details of which are described in the section of “ <b>INFORMATION ON THE TARGET ASSETS</b> ” in this announcement;
“Target Assets”	All assets, including the Structures and equipment within the asphalt depot of Hainan Guosheng, the details of which are described in the section of “ <b>INFORMATION ON THE TARGET ASSETS</b> ” in this announcement;

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong;  
“RMB” Renminbi, the lawful currency of the PRC; and  
“%” per cent.

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

21 September 2020

*Unless otherwise specified in this announcement, amounts denominated in RMB have been converted to HK\$ at a rate of RMB1.00 to HK\$1.13.*

*As at the date of this announcement, the Board comprises seven directors with Mr. Zhu Jianhui<sup>1</sup> (Chairman and Managing Director), Mr. Ma Jianhua<sup>1</sup>, Mr. Feng Boming<sup>2</sup>, Mr. Chen Dong<sup>2</sup>, Mr. Tsui Yiu Wa, Alec<sup>3</sup>, Mr. Jiang, Simon X.<sup>3</sup> and Mr. Kwong Che Keung, Gordon<sup>3</sup>.*

<sup>1</sup> *Executive Director*

<sup>2</sup> *Non-executive Director*

<sup>3</sup> *Independent Non-executive Director*

\* *for identification purposes only*