THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中遠海運控股股份有限公司
COSCO SHIPPING Holdings Co., Ltd.*

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

(Stock Code: 1919)

MAJOR AND CONNECTED TRANSACTION
VESSEL LEASING SERVICE MASTER AGREEMENT

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

第一上海
FIRST SHANGHAI GROUP

A letter from the Board is set out on pages 6 to 16 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 30 of this circular.

The Company is scheduled to convene the EGM on Monday, 30 November 2020 at 10 a.m. at Conference Room, 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong (the "**Hong Kong Venue**") and Ocean Hall, 5th Floor, Shanghai Ocean Hotel, No. 1171, Dong Da Ming Road, Shanghai, the PRC. A revised notice of the EGM together with the revised form of proxy are enclosed with this circular.

The reply slip despatched to the Shareholders in respect of the EGM on 16 October 2020 remains to be a valid reply slip for the EGM.

Whether or not you intend to attend the EGM, you are requested to complete and return the revised form of proxy in accordance with the instructions printed thereon. The revised form of proxy should be returned to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the revised form of proxy will not preclude you from attending and voting in person at the EGM or at any adjournment thereof should you so wish.

As part of our control measures to try to prevent and control the spread of the Novel Coronavirus (COVID-19) and to safeguard the health and safety of the Shareholders, the Company encourages the Shareholders to consider appointing the chairman of the EGM as their proxy to vote as instructed by the Shareholders on the relevant resolutions at the EGM, instead of attending the EGM in person.

* *For identification purpose only*

16 November 2020

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The health of the Shareholders, staff and other stakeholders of the Company is of paramount importance to us. In view of the ongoing COVID-19 pandemic, the Company will implement the following precautionary measures at the EGM in the Hong Kong Venue to protect our attending Shareholders, staff and other stakeholders from the risk of infection:

(i) compulsory body temperature checks will be conducted on every attending Shareholder, proxy or other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.5 degrees Celsius will be denied entry into the EGM venue or be required to leave the EGM venue;

(ii) each attendee will be required to wear a surgical face mask throughout the EGM and inside the EGM venue;

(iii) the Company will maintain safe social distancing regarding the seating arrangement;

(iv) no refreshments and beverages will be served or provided at the EGM, and no corporate gifts will be provided; and

(v) each attendee will be required to complete a health declaration form; and be asked whether (a) he/she have travelled to areas outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to quarantine prescribed by the Hong Kong Government. Any person who responds positively to any one of the above questions may be denied entry into the EGM venue or be required to leave the EGM venue.

In the interest of all stakeholders' health and safety and to comply with the recent guidelines on prevention and control of the spread of COVID-19, the Shareholders are reminded that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Shareholders can complete the revised form of proxy enclosed in this circular to appoint the chairman of the EGM as their proxy to vote as instructed by the Shareholders on the relevant resolutions instead of attending the EGM in person.

If any Shareholder not attending the EGM in person has any question about the resolutions proposed to be passed at the EGM or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to the Company's place of business in Hong Kong at 48/F, COSCO Tower, 183 Queen's Road Central, Hong Kong or to the Company's email at investor@coscoshipping.com.

If any Shareholder has any question relating to the EGM, please contact the H share registrar of the Company as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Email: hkinfo@computershare.com.hk
Tel: 2862 8555
Fax: 2865 0990

In this circular, unless the context otherwise requires, the following expressions 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
"Articles of Association"	the articles of association of the Company as amended, revised or supplemented from time to time
"Assets Lease Framework Agreement"	the assets lease framework agreement dated 11 December 2015 entered into between the Company and COSCO SHIPPING Development in respect of the charter and lease of vessels and containers by COSCO SHIPPING Development to the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"Company"	COSCO SHIPPING Holdings Co., Ltd.* (中遠海運控股有限公司), 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 Stock Exchange (Stock Code: 1919) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601919)
"COSCO"	China Ocean Shipping Company Limited* (中國遠洋運輸有限公司), a PRC state-owned enterprise, the direct controlling shareholder of the Company and a wholly-owned subsidiary of COSCO SHIPPING
"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 the indirect controlling shareholder of the Company
"COSCO SHIPPING Development"	COSCO SHIPPING Development Co., Ltd.* (中遠海運發份有限公司), 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 Stock Exchange (Stock Code: 2866) and the A shares of which are listed on the Shanghai Stock Exchange in the PRC (Stock Code: 601866)

"COSCO SHIPPING Lines"	COSCO SHIPPING Lines Co, Ltd.* (中遠海運集裝箱運輸有限公司), a company established under the laws of the PRC and a wholly owned subsidiary of the Company
"COSCO SHIPPING Ports"	COSCO SHIPPING Ports Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1199) and a non-wholly owned subsidiary of the Company
"COSCO SHIPPING Development Group"	COSCO SHIPPING Development and/or its subsidiaries and/or its associates
"COSCO SHIPPING Lines Group"	COSCO SHIPPING Lines and/or its subsidiaries and/or its associates
"Director(s)"	director(s) of the Company
"Drewry"	Drewry Shipping Consultant Ltd., an independent consultant specialized in shipping industry jointly engaged by COSCO SHIPPING Lines and COSCO SHIPPING Development
"Drewry Report"	the rental assessment report dated 19 October 2020 issued by Drewry in respect of the 74 Vessels
"EGM"	the extraordinary general meeting of the Company to be held on Monday, 30 November 2020 to, among other things, consider and if thought fit, approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries and/or its associates
"H Share(s)"	the overseas listed foreign shares 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
"HKFRS"	Hong Kong Financial Reporting Standard
"Hong Kong"	Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee comprising all the independent non-executive Directors, namely Mr. YANG, Liang Yee Philip, Mr. WU Dawei, Mr. ZHOU Zhonghui and Mr. TEO Siong Seng
"Independent Financial Adviser" or "First Shanghai"	First Shanghai Capital Limited (第一上海融資有限公司), licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution(s) approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	10 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"OCEAN Alliance"	an alliance of shipping companies comprising COSCO SHIPPING Lines, CMA CGM, Evergreen Line and Orient Overseas Container Line
"percentage ratios"	has the meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China which, for the purpose of this circular and for geographical reference only, excludes Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Right-of-Use Asset"	an asset representing the value of the Group's right (as lessee) under the Vessel Leasing Service Master Agreement in its consolidated financial statements pursuant to HKFRS 16 Leases
"RMB"	Renminbi yuan, the lawful currency of the PRC

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	A Share(s) and H Share(s)
"Shareholder(s)"	holder(s) of the share(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	supervisor(s) of the Company
"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 dollars, the lawful currency of the United States of America
"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 COSCO SHIPPING Development Group under the Vessel Leasing Service Master Agreement
"Vessel Leasing Service Master Agreement"	the vessel leasing service master agreement dated 30 October 2020 entered into between COSCO SHIPPING Lines and COSCO SHIPPING Development
"%"	per cent

* *For identification purposes only*

中遠海運控股股份有限公司
COSCO SHIPPING Holdings Co., Ltd.*
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1919)

Directors:
Mr. XU Lirong[1] *(Chairman)*
Mr. YANG Zhijian[1]
Mr. FENG Boming[1]
Mr. YANG, Liang Yee Philip[2]
Mr. WU Dawei[2]
Mr. ZHOU Zhonghui[2]
Mr. TEO Siong Seng[2]

Registered Office:
2nd Floor, 12 Yuanhang Business Centre
Central Boulevard and
East Seven Road Junction
Tianjin Port Free Trade Zone
Tianjin, the PRC

Principal Place of Business:
48/F, COSCO Tower
183 Queen's Road Central
Hong Kong

16 November 2020

1 *Executive Director*

2 *Independent non-executive Director*

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
VESSEL LEASING SERVICE MASTER AGREEMENT

A. INTRODUCTION

Reference is made to the announcement of the Company dated 30 October 2020 in relation to the Vessel Leasing Service Master Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the

* *For identification purpose only*

Vessel Leasing Service Master Agreement and the transactions contemplated thereunder; (iv) a letter of advice from the Independent Financial Adviser advising the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder; and (v) other information as required under the Listing Rules.

References are made to the announcement and the circular of the Company dated 11 December 2015 and 30 December 2015 respectively in relation to, among other things, the charter and lease of vessels by COSCO SHIPPING Development to the Company 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, COSCO SHIPPING Development (as the lessor) and COSCO SHIPPING Lines (as the lessee) entered into the Vessel Leasing Service Master Agreement, pursuant to which, the COSCO SHIPPING Lines Group has agreed to charter from the COSCO SHIPPING Development Group the 74 Vessels under bareboat charter.

Vessel Leasing Service Master Agreement

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

Date:	30 October 2020
Parties:	(1) COSCO SHIPPING Lines (as the lessee); and (2) COSCO SHIPPING Development (as the lessor).
Subject matter:	Pursuant to the Vessel Leasing Service Master Agreement, the COSCO SHIPPING 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 of the COSCO SHIPPING Development Group 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 vessel is 25 years; and

(ii) leased-in vessels of the COSCO SHIPPING Development Group 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 vessel is 25 years, and which shall comply with the requirements under the original bareboat charters between the COSCO SHIPPING Development Group and the original shipowners. The COSCO SHIPPING 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 COSCO SHIPPING 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 terms of the relevant charters, the vessels shall be returned by the COSCO SHIPPING Lines Group to the COSCO SHIPPING 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 of the COSCO SHIPPING Development Group, 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 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 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 COSCO SHIPPING 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 vessel leasing contracts 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.

Pursuant to the proposed terms of the specific lease contract to be entered into between the parties relating to the leased-in Vessels, if the original bareboat charter of the leased-in Vessels were early terminated by the COSCO SHIPPING Development Group and/or the original shipowners, the lease payment obligations of the COSCO SHIPPING Lines Group under the specific lease contracts relating to such lease-in Vessel will be early terminated. The lease payable by the COSCO SHIPPING Lines Group of such Vessels will be adjusted to reflect the reduction of lease payment based on the actual days of usage.

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 COSCO SHIPPING 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 of the COSCO SHIPPING Development Group) 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 COSCO SHIPPING Development (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).

In light of the foregoing reasons and taking into account, among other things, the following components adopted by Drewry for preparation of the Drewry Report and the fair market price for relevant Vessels charter: (i) considerations selected in determining the charter fee, (ii) key assumptions, and (iii) assessment methods and rate calculation, in particular, (a) the market charter rate approach for vessels with a capacity of below 9,000 TEU with reference to lease payments of representative lease transactions in the market and (b) the book value method for vessels with a capacity of over 9,000 TEU, the Board considers that the lease payments under the Vessel Leasing Service Master Agreement is on normal commercial term, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

For a summary of the Drewry Report, see "Appendix II – Summary of Drewry Report" of this circular.

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 COSCO SHIPPING Lines and COSCO SHIPPING Development; 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 COSCO SHIPPING Lines and COSCO SHIPPING Development.

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 under (i) above has already been fulfilled.

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.

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

The COSCO SHIPPING Lines Group, is primarily engaged in international and domestic container shipping and related businesses. Adhering to "globalization, dual brands, digitization and end-to-end" as its core strategies, COSCO SHIPPING Lines is committed to improving quality and efficiency, deepening coordination, continuously strengthening the ability to create value for customers and continuing to build a world-class container liner company.

Under the Assets Lease Framework Agreement, the 74 Vessels owned or operated by the COSCO SHIPPING Development Group were chartered and leased on a time-charter basis to the Group, and the COSCO SHIPPING Development Group was then responsible for the management, recruitment of crew members, wage payment, repair and maintenance of the Vessels, and the payment for such associated costs and expenses.

In contrast, under the bareboat charter arrangement of the Vessel Leasing Service Master Agreement, the 74 Vessels will be chartered to the COSCO SHIPPING Lines Group under bareboat charters and the COSCO SHIPPING Development Group will be responsible for providing the vessels only. The overall operations and management of the 74 Vessels (including the management, recruitment of crew members, wage payment, repair and maintenance of the Vessels) will be arranged by the COSCO SHIPPING Lines Group. As such, the lease payments to be made by the COSCO SHIPPING Lines Group is expected to be lower under the bareboat charter arrangement than that of a time-charter arrangement.

Accordingly, given the COSCO SHIPPING Lines Group will have greater control over management and operation of the 74 Vessels under bareboat charters, and it will be able to manage the 74 Vessels in a similar manner as its self-owned fleets, and therefore, the self-owned vessel capacity of the Group in the fleet will be greatly increased. The Group can take advantage of the expanded size of its self-owned fleet and the resulting advantage of bulk purchase bargaining to further reduce the fleet's operating costs and realize economies of scale and synergy, thus further reducing route network costs while enhancing route market competitiveness, laying a favorable cost foundation for the Group's future operating efficiency. It can optimize the Group's fleet structure, enhance the stability and overall competitiveness of the fleet capacity while improving the stability of route services to provide better quality of services for customers. In light of the above, the operations and management fees of the 74 Vessels to be borne by the Group, together with the lease payments to be paid to the COSCO SHIPPING Development Group under the bareboat charter arrangement is expected to be no more than that of a time-charter arrangement.

The Board (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser) considers that the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group and is in the interests 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 are fair and reasonable.

B. INFORMATION ON THE GROUP AND THE COSCO SHIPPING DEVELOPMENT

Information on the Group

The Company 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 Group provides a wide range of container shipping and terminal services covering the whole shipping value chain for both international and domestic customers.

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 is a wholly-owned subsidiary of the Company.

The COSCO SHIPPING Lines Group is principally engaged in international and domestic container shipping and related businesses.

Information on COSCO SHIPPING Development

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

C. IMPLICATIONS OF THE LISTING RULES

Pursuant to HKFRS 16 Leases, the entering into of the Vessel Leasing Service Master Agreement by COSCO SHIPPING Lines as a lessee will require the Group to recognise the present value of aggregate lease payments under the Vessel Leasing Service Master Agreement in its consolidated financial statements as the Right-of-Use Asset. Thus, the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are regarded as a deemed acquisition of asset under Rule 14.04(1)(a) for the purposes of Chapter 14 of the Listing Rules.

As one of the applicable percentage ratios in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder exceeds 25% but is less than 100%, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder constitute a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 5,579,222,079 A Shares and 87,635,000 H Shares, representing approximately 46.22% 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 Development, COSCO SHIPPING Development 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 under Chapter 14A of the Listing Rules.

As more than one of the applicable percentage ratios exceed 5%, the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder constitute a non-exempt connected transaction of the Company and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Mr. YANG, Liang Yee Philip, Mr. WU Dawei, Mr. ZHOU Zhonghui and Mr. TEO Siong Seng, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder and on how to vote at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

D. DIRECTORS' CONFIRMATION

Mr. Xu Lirong, Mr. Yang Zhijian and Mr. Feng Boming, who are Directors nominated by COSCO, have abstained from voting on the resolutions of the Board approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder pursuant to the Articles of Association. Other than the abovementioned Directors, the remaining Directors are the independent non-executive Directors.

Save as disclosed above, none of the Directors has a material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder and is required to abstain from voting on the relevant resolutions.

E. EGM

The EGM will be held at Conference Room, 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong and Ocean Hall, 5th Floor, Shanghai Ocean Hotel, No.1171, Dong Da Ming Road, Shanghai, the PRC on Monday, 30 November 2020 at 10:00 a.m. A revised notice convening the EGM together with the revised form of proxy are enclosed with this circular. The reply slip despatched to the Shareholders in respect of the EGM on 16 October 2020 remains to be a valid reply slip for the EGM.

Whether or not you intend to attend the EGM, you are requested to complete and return the revised form of proxy in accordance with the instructions printed on it. The revised proxy form should be returned to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the EGM or any adjournment of it. Completion and return of the revised proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of it should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders to be taken at the EGM shall be taken by poll. An announcement of the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

COSCO SHIPPING and its associates, being connected persons of the Company and having material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder, controlled or were entitled to exercise control over the voting rights in respect of 5,579,222,079 A Shares and 87,635,000 H Shares, representing approximately 46.22% of the total issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, they will abstain from voting in respect of the resolution(s) approving the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, no other Shareholder has any material interest in the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder to be approved at the EGM and accordingly, no other Shareholder is required to abstain from voting on the relevant resolution(s) to be proposed at the EGM.

F. RECOMMENDATION

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 30 of this circular in connection with the Vessel Leasing Service Master Agreement and the transactions contemplated and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having taken into account (i) the terms of the Vessel Leasing Service Master Agreement; and (ii) the advice of the Independent Financial Adviser, is of the opinion that (i) the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution(s) to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder at the EGM.

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

G. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
COSCO SHIPPING Holdings Co., Ltd.
Guo Huawei
Company Secretary

中遠海運控股股份有限公司
COSCO SHIPPING Holdings Co., Ltd.*
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1919)

16 November 2020

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
VESSEL LEASING SERVICE MASTER AGREEMENT

We refer to the circular of the Company dated 16 November 2020 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to advise the Independent Shareholders as to whether (i) the transactions contemplated under the Vessel Leasing Service Master Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; 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.

First Shanghai Capital Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. The text of the letter of advice from the Independent Financial Adviser containing their recommendations and the principal factors they have taken into account in arriving at their recommendations are set out from pages 19 to 30 of the Circular.

Having taken into account (i) the terms of the Vessel Leasing Service Master Agreement; and (ii) the advice of the Independent Financial Adviser, we are of the opinion that (i) the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) and the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. YANG, Liang Yee Philip	**Mr. WU Dawei**	**Mr. ZHOU Zhonghui**	**Mr. TEO Siong Seng**

Independent non-executive Directors

* *For identification purposes only*

The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder for inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

16 November 2020

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS
VESSEL LEASING SERVICE MASTER AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser 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 circular of the Company to the Shareholders dated 16 November 2020 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular. The exchange rate of US$1.0 to RMB6.7 has been adopted in this letter solely for illustration purpose.

On 30 October 2020, COSCO SHIPPING Lines (a wholly-owned subsidiary of the Company) (as the lessee) and COSCO SHIPPING Development (as the lessor) entered into the Vessel Leasing Service Master Agreement, pursuant to which the COSCO SHIPPING Lines Group agreed to charter the Vessels (being 74 container vessels owned or controlled by the COSCO SHIPPING Development Group) from the COSCO SHIPPING Development Group.

COSCO SHIPPING Development is a subsidiary of COSCO SHIPPING, which is a key state-owned enterprise in the PRC and a controlling shareholder of the Company. Therefore, COSCO SHIPPING Development is a connected person of the Company and the transactions contemplated under the Vessel Leasing Service Master Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As stated in the letter from the Board in the Circular, under the Listing Rules, the entering into of the Vessel Leasing

Service Master Agreement and the transactions contemplated thereunder is regarded as a deemed acquisition of asset and constitutes (i) a major transaction for the Company that is subject to the reporting, announcement, circular and Shareholders' approval requirements; and (ii) a connected transaction that is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements.

The Independent Board Committee, comprising all the independent non-executive directors of the Company, namely Mr. YANG, Liang Yee Philip, Mr. WU Dawei, Mr. ZHOU Zhonghui and Mr. TEO Siong Seng, has been established to advise the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

The Independent Shareholders should note that, within the past two years prior to the Latest Practicable Date:

– we were engaged as the independent financial adviser by the Company for two occasions including (i) the discloseable and connected transaction regarding the construction of five vessels as detailed in the circular of the Company dated 27 April 2020; and (ii) the discloseable and connected transaction regarding the construction of seven vessels as detailed in the announcement of the Company dated 30 October 2020; and

– we were engaged as the independent financial adviser by Orient Overseas (International) Limited (316 HK) ("**OOIL**"), which is a non-wholly owned subsidiary of the Company, for three occasions including (i) the continuing connected transactions conducted with the Group as detailed in the circular of OOIL dated 28 November 2019; (ii) the major and connected transaction regarding the construction of five vessels as detailed in the circular of OOIL dated 9 April 2020; and (iii) the major and connected transaction regarding the construction of seven vessels as detailed in the announcement of OOIL dated 30 October 2020.

Apart from normal professional fees paid or payable to us in connection with the aforesaid engagements (the "**Previous Engagements**"), we did not have any other relationships or interests with the Group and the COSCO Shipping Group. Given (i) our independent roles in the Previous Engagements; (ii) none of the members of our parent group is a direct party to the Vessel Leasing Service Master Agreement; and (iii) our fee for this present engagement with the Company, in addition to those for the Previous Engagements, represented an insignificant percentage of revenue of our parent group, we consider that the Previous Engagements would not affect our independence, and we consider ourselves independent, to provide our advice and form our opinion in respect of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group (the "**Management**"), and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Management were true at the time they were made and continued to be true up to the Latest Practicable Date. We have reviewed, among other documents, the Vessel Leasing Service Master Agreement, the financial reports of the Company, the Drewry Report and relevant industry information as further elaborated in our letter. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Management nor have we conducted any form of investigation into the business, affairs or future prospects of the Group. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:–

1. Background information on the Group

The Company, through its various subsidiaries, provides a wide range of container shipping, dry bulk shipping, terminals and container leasing services covering the whole shipping value chain for both international and domestic customers. According to the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") and the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**"), approximately 96% and 97% of the revenue from continuing operation of the Group was derived from the container shipping business segment for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively, while the remaining revenue was primarily from the container terminal business segment.

COSCO SHIPPING Lines is a wholly-owned subsidiary of the Company, where the COSCO SHIPPING Lines Group is principally engaged in international and domestic container shipping and related businesses.

1.1. Historical financial performance of the Group

The following table summarises the statement of profit or loss of the Group for each of the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020 with reference to the annual reports of the Company and the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**"):–

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB million (Audited)	*RMB million (Audited)*	*RMB million (Audited)*	*RMB million (Unaudited)*	*RMB million (Unaudited)*
Revenue from continuing operation	90,399	120,342	150,541	71,762	74,053
Gross profit	7,637	9,616	15,329	7,362	6,843
Operating profit	5,664	4,999	7,223	3,796	3,411
Profit for the period from continuing operation	4,831	2,830	3,081	1,864	1,938
Profit for the period from discontinued operation	–	196	7,113	151	–
Profit for the period	4,831	3,026	10,194	2,015	1,938
Profit attributable to owners of the Company	2,662	1,230	6,690	1,164	1,137

(a) Year ended 31 December 2018 compared with year ended 31 December 2017

Revenue from continuing operation increased from approximately RMB90,399 million for the year ended 31 December 2017 to approximately RMB120,342 million for the year ended 31 December 2018, representing an increase of approximately 33%, primarily due to the acquisition of OOIL (316 HK) in July 2018. Excluding the effect of acquisition of OOIL, the revenue for the year ended 31 December 2018 increased by approximately 7% as compared with the preceding year. Gross profit margin maintained at approximately 8% for each of the years ended 31 December 2017 and 2018, but operating profit decreased from approximately RMB5,664 million for the year ended 31 December 2017 to approximately RMB4,999 million for the year ended 31 December 2018 mainly because (i) the Group recorded an one-off gain on disposal of a joint venture of approximately RMB1,886 million for the year ended 31 December 2017, which did not recur for the year ended 31 December 2018; and (ii) the annual increase in selling, administrative and general expenses by approximately RMB1,585 million for the year ended 31 December 2018. Furthermore, net finance costs increased from approximately RMB1,663 million for the year ended 31 December 2017 to approximately RMB3,427 million for the year ended 31 December 2018. Overall, net profit margin from continuing operation decreased from approximately 5% for the year ended 31 December 2017 to approximately 2% for the year ended 31 December 2018 and net profit for the year lowered from approximately RMB4,831 million for the year ended 31 December 2017 to approximately RMB3,026 million for the year ended 31 December 2018.

(b) Year ended 31 December 2019 compared with year ended 31 December 2018

Revenue from continuing operation further increased from approximately RMB120,342 million for the year ended 31 December 2018 to approximately RMB150,541 million for the year ended 31 December 2019, representing an increase of approximately 25%, primarily due to the acquisition of OOIL (316 HK) in July 2018. On a comparable basis by consolidating the revenue of OOIL since the beginning of year 2018, the revenue for the year ended 31 December 2019 increased by approximately 7% as compared with the preceding year. Gross profit margin slightly increased from approximately 8% for the year ended 31 December 2018 to approximately 10% for the year ended 31 December 2019 and operating profit also improved from approximately RMB4,999 million for the year ended 31 December 2018 to approximately RMB7,223 million for the year ended 31 December 2019. Net finance costs continued to increase from approximately RMB3,427 million for the year ended 31 December 2018 to approximately RMB5,224 million for the year ended 31 December 2019. Overall, net profit margin from continuing operation maintained at approximately 2% for each of the years ended 31 December 2018 and 2019. Nonetheless, net profit from discontinued operation rose from approximately RMB196 million for the year ended 31 December 2018 to approximately RMB7,113 million for the year ended 31 December 2019 following the divestment of the United States terminal business in 2019. Therefore, net profit for the year increased from approximately RMB3,026 million for the year ended 31 December 2018 to approximately RMB10,194 million for the year ended 31 December 2019.

(c) Six months ended 30 June 2020 compared with six months ended 30 June 2019

Revenue from continuing operation continued to increase from approximately RMB71,762 million for the six months ended 30 June 2019 to approximately RMB74,053 million for the six months ended 30 June 2020, representing an increase of approximately 3%. Gross profit margin slightly lowered from approximately 10% for the six months ended 30 June 2019 to approximately 9% for the six months ended 30 June 2020 and operating profit also slightly decreased from approximately RMB3,796 million for the six months ended 30 June 2019 to approximately RMB3,411 million for the six months ended 30 June 2020. Nonetheless, net finance costs reduced from approximately RMB2,662 million for the six months ended 30 June 2019 to approximately RMB2,145 million for the six months ended 30 June 2020 and the net profit margin from continuing operation maintained at approximately 3% for each of the six months ended 30 June 2019 and 2020. Net profit for the period also remained stable at approximately RMB2,015 million for the six months ended 30 June 2019 and approximately RMB1,938 million for the six months ended 30 June 2020.

1.2. Historical financial position of the Group

The following table summarises the balance sheet of the Group as at 31 December 2019 and 30 June 2020 with reference to the 2020 Interim Report:

	As at 31 December 2019 *RMB million* *(Audited)*	**As at 30 June 2020** *RMB million* *(Unaudited)*
Non-current assets	190,125	188,606
Current assets	72,099	65,776
Total assets	262,224	254,382
Current liabilities	70,471	69,228
Non-current liabilities	122,628	114,252
Total liabilities	193,099	183,480
Net assets attributable to owners of the Company	35,360	36,911
Non-controlling interests	33,765	33,991
Net assets	69,125	70,902

As at 30 June 2020, (i) the principal assets of the Group were property, plant and equipment, which amounted to approximately RMB106,737 million, and cash and cash equivalents, which amounted to approximately RMB45,403 million; and (ii) the principal liabilities of the Group were borrowings, which amounted to approximately RMB115,011 million (including both current and non-current). Net assets attributable to owners of the Company amounted to approximately RMB36,911 million as at 30 June 2020.

Further details of the financial information of the Group are set out in the annual and interim reports of the Company.

1.3. Prospects of the Group

The Group was able to deliver an annual improvement in financial performance for the year ended 31 December 2019. Moreover, under the harsh macro-economic environment in the first half of 2020 due to the outbreak of the coronavirus since the beginning of the year, the Group was still able to overall maintain its financial performance for the six months ended 30 June 2020 as compared with that for the six months ended 30 June 2019. With reference to the 2020 Interim Report, during the six months ended 30 June 2020, the Group fully leveraged its leading advantage of scale as the third largest container liner company in the world and continued to optimize the layout of the global routes network and focused on building a more stable supply chain system, converting the leading advantage in fleet size into advantage in customer service.

We have further discussed with and are advised by the Management that the prospects of the Group is driven by, among other factors, the performance of the global macroeconomic environment which affects trade volume and the demand for container shipping. As such, we have reviewed, among other things, the economic information in the report titled *World Economic Outlook Update* dated October 2020 (the "**IMF Report**") published by the International Monetary Fund (國際貨幣基金組織), which is an organisation of 190 countries. The following table illustrates the expected performance of the macro-economic environment in terms of annual percentage change of gross domestic product ("**GDP**") and trade volume.

	For the year ended 31 December			For the year ending 31 December			
	2017	**2018**	**2019**	**2020F**	**2021F**	**2022F**	**2023F**
World real GDP	+3.8%	+3.5%	+2.8%	-4.4%	+5.2%	+4.2%	+3.8%
of which							
– PRC	+6.9%	+6.8%	+6.1%	+1.9%	+8.2%	+5.8%	+5.7%
– United States	+2.3%	+3.0%	+2.2%	-4.3%	+3.1%	+2.9%	+2.3%
World trade volume	+5.6%	+3.9%	+1.0%	-10.4%	+8.3%	+5.4%	+4.3%

Source: the IMF Report (October 2020) and relevant publications

With reference to the above table, we note that the global macro-economy, including trade volume, was adversely impacted in year 2020, but is expected to recover afterwards. According to the IMF Report, (i) during May and June 2020, many economies tentatively reopened from the lockdown and the global economy started to climb from the depths to which it had plunged in April 2020; and (ii) following the contraction in year 2020 and recovery in year 2021, the level of global GDP in year 2021 is expected to be approximately 0.6% above that of year 2019.

We understand that the macro-economic environment is expected to be recovering and the Group has made and will continue to make efforts in the continuous development of its businesses.

2. Background information on the COSCO SHIPPING Development Group

COSCO SHIPPING Development is a subsidiary of COSCO SHIPPING, where COSCO SHIPPING is a key state-owned enterprise in the PRC and a controlling shareholder of the Company. The H shares of COSCO SHIPPING Development are listed on the Hong Kong Stock Exchange with stock code 2866 and the A shares of COSCO SHIPPING Development are listed on the Shanghai Stock Exchange with stock code 601866.

COSCO SHIPPING Development is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services. With reference to the annual report of COSCO SHIPPING Development for the year ended 31 December 2019 and the interim report of COSCO SHIPPING Development for the six months ended 30 June 2020, the shipping and industry-related leasing business segment contributed approximately 78% and 74% of the consolidated revenue of COSCO SHIPPING Development for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively, while the container manufacturing business segment contributed the majority of the remaining portion. According to the annual report of COSCO SHIPPING Development for the year ended 31 December 2019, COSCO SHIPPING Development was among the top global players in the industry with the shipping capacity of its container fleet and the scale of its container leasing business, where COSCO SHIPPING Development had 87 container vessels with a total capacity of 609,400 TEU, 4 bulk cargo vessels of 64,000 deadweight tonnage each, over 80 liquefied natural gas vessels, heavy crane vessels and oil tankers and an inventory of containers of approximately 3.66 million TEU as at 31 December 2019.

3. Background to and reason for the Vessel Leasing Service Master Agreement

With reference to the 2019 Annual Report and the 2020 Interim Report, we understand the capacity scale of the container fleet of the Group ranked third in the world as at 31 December 2019 and 30 June 2020. We are advised by the Management that the composition of the container fleet of the Group as at 31 August 2020 was as follows:

	Number of vessels	TEU
Self-owned	103	969,635
Leased from COSCO SHIPPING Development	74	581,603
Leased from other parties	253	819,892
Total	430	2,371,130

The existing leases of the 74 vessels from COSCO SHIPPING Development are pursuant to the Assets Lease Framework Agreement which has an initial period of 10 years, where the period varies depending on the type of vessels as detailed in the circular of the Company dated 31 December 2015. For instance, for self-owned vessels with a capacity of more than 8,000 TEU, the charter period shall be a fixed term of five years and an option term of five years, whereas those with a capacity of less than 8,000 TEU, the charter period shall be a fixed term of five years.

We are advised by the Management that (i) the charter period of the Vessels under the Assets Lease Framework Agreement will expire shortly and the Group continues to require the Vessels for its ongoing principal business operations in the long term, therefore the Group has entered into the Vessel Leasing Service Master Agreement with a term of 20 years; (ii) the leases pursuant to the Assets Lease Framework Agreement were on a time-charter basis (i.e. inclusive of shipping crews and other operating and management services), while those pursuant to the Vessel Leasing Service Master Agreement will be on a bareboat-charter basis (i.e. exclusive of shipping crews and other operating and management services), such that the

Group can have better direct management of the vessels and save costs, given the operations and management fees of the 74 Vessels to be borne by the Group together with the lease payments to be paid to the COSCO SHIPPING Development Group under the bareboat charter arrangement is expected to be no more than that of a time-charter arrangement; and (iii) the Group considered that the continuation of leasing, rather than purchasing the vessels at a substantial one-off cash amount, allows the Group to preserve its existing cash resources for ongoing business development, therefore the Group entered into Vessel Leasing Service Master Agreement to replace the Assets Lease Framework Agreement.

Taking into account, in particular, (i) the Group continues to require the vessels from COSCO SHIPPING Development for its ongoing principal business operations in the long term; (ii) the Group can save costs and have better management of the vessels on a bareboat-charter basis; (iii) the Group can preserve cash for its ongoing business development through a leasing arrangement; (iv) the macro-economic environment is expected to be recovering and the Group has made and will continue to make efforts in the continuous development of its businesses; and (v) the terms of the Vessel Leasing Service Master Agreement are fair and reasonable as discussed below, we are of the view that the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Vessel Leasing Service Master Agreement

As detailed in the letter from the Board in the Circular, pursuant to the Vessel Leasing Service Master Agreement, which has a term of 20 years from the effective date, (i) the COSCO SHIPPING Development Group shall charter and lease the Vessels, which include 70 self-owned and four leased-in vessels of the COSCO SHIPPING Development Group, to the COSCO SHIPPING Lines Group on a bareboat-charter basis which shall commence from 1 January 2021 and ending on the date on which the age of the vessels is 25 years; and (ii) the COSCO SHIPPING Lines Group shall return the vessels to the COSCO SHIPPING Development Group upon the expiry of the charter periods of each vessel. The COSCO SHIPPING Development Group undertakes that the written consent of the original shipowners or financing banks in respect of the subcharter to the COSCO SHIPPING Lines Group (if necessary) has been obtained before signing of the Vessel Leasing Service Master Agreement, and the COSCO SHIPPING Development Group will continue to be liable for the responsibilities and obligations under the relevant original bareboat charters or financing agreements. Pursuant to the proposed terms of the specific lease contract to be entered into between the parties relating to the leased-in Vessels, if the original bareboat charter of the leased-in Vessels were early terminated by the COSCO SHIPPING Development Group and/or the original shipowners, the lease payment obligations of the COSCO SHIPPING Lines Group under the specific lease contracts relating to such lease-in Vessel will be early terminated and the lease payable by the COSCO SHIPPING Lines Group of such Vessels will be adjusted to reflect the reduction of payment based on the actual days of usage. In respect of the ending date of the leases (i.e. the date on which the age of the vessels is 25 years), we have reviewed the 2019 Annual Report and noted that the anticipated useful life of container vessels of 25 years was adopted by the Group. Moreover, we have discussed with and are advised by the Management that the individual charter periods of the 74 vessels under the Vessel Leasing Service Master Agreement range from approximately 7.2 years to 19.8 years (depending on the remaining economic life of the vessels), with an average of approximately 12.8 years and a median of approximately 11.8 years. Regarding such long lease period, (i) we have discussed with the Management and we understand that there are cases in the industry with similar long lease periods given that the lessee can secure vessels for its long term business operations and minimise its expenses to identify, set up and switch vessels; and (ii) we have, on a best effort basis, reviewed publications made by Hong Kong listed companies mainly in the past five years and noted long term charters of vessels in the market with periods ranging from around 10 to 20 years. Based on the aforesaid, we concur with the Management that the Vessel Leasing Service Master Agreement requires a longer period than three years and it is normal business practice for agreements of this type to be of such duration.

The lease payments of the Vessels, which shall be settled in advance by instalments with interval of every 15 days during the term of the relevant charter, were determined with reference to the Drewry Report as set out in Appendix II to the Circular, which was prepared by Drewry, being the independent consultant specialised in the shipping industry. 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 COSCO SHIPPING Development Group shall be entitled to withdraw the relevant vessel and terminate the relevant lease contract. We have reviewed the Drewry Report and we have discussed with Drewry regarding the methodology of and the principal bases and assumptions adopted for the assessment of the lease payments of the Vessels, in particular, we are advised by and understand from Drewry that (i) the market comparison approach was adopted for the smaller vessels with less than 9,000 TEU because the market has sufficient transaction samples to provide a meaningful pricing comparison; (ii) the book value approach of using a reasonable rate of return was adopted for the larger vessels with more than 9,000 TEU because the market does not have sufficient transaction samples to provide a meaningful pricing comparison; and (iii) the calculation approaches and underlying assumptions were in line with general practice for similar cases. We have also interviewed Drewry as to its expertise and we have obtained knowledge about the qualification and experience of Drewry, where we note that, (i) according to the website of Drewry, Drewry is a leading independent provider of research and consulting services to the maritime and shipping industry, employing over 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai; and (ii) the industry research of Drewry group was quoted in, among other publications, prospectus, annual report and circular of Hong Kong listed companies. Based on our discussion with Drewry and also with the Management, (i) we understand that, apart from independent engagements on the preparation of independent reports, Drewry has no other current or prior relationships with the Company, other parties to the Vessel Leasing Service Master Agreement or any of their core connected persons; and (ii) 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 which is not in accordance with our knowledge. During the course of our discussion with

Drewry, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the preparation of the Drewry Report. We have discussed with and are advised by the Management that the vessel leasing terms of the Group with independent lessors are not meaningful direct comparison references for the terms of the Vessel Leasing Service Master Agreement, given these other leases of the Group are different in terms of, including but not limited to, (i) the technical specifications, such as the design and size, of the vessels; (ii) the then industry circumstances, such as demand, of the vessels when the other leases were entered into; (iii) the lease nature, such as time charter rather than bareboat charter; and (iv) the duration of the lease, therefore the principal terms the Vessel Leasing Service Master Agreement primary make reference to the aforementioned Drewry Report prepared by the independent consultant which is specialised in the shipping industry.

Taking into account, in particular, (i) the Vessel Leasing Service Master Agreement allows the Group to secure the container vessels for its long term business operations; (ii) the lease payments of the Vessels were determined with reference to the Drewry Report, which we have reviewed; and (iii) the reasons and benefits of the Vessel Leasing Service Master Agreement as aforementioned, we consider the terms of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

5. Possible financial implications of the Vessel Leasing Service Master Agreement

The Group (i) recorded revenue from continuing operation, net profit attributable to owners of the Company and net cash generated from operating activities of approximately RMB150,541 million, RMB6,690 million and RMB21,202 million, respectively, for the year ended 31 December 2019; and (ii) recorded total assets, net assets and cash and cash equivalents of approximately RMB254,382 million, RMB70,902 million and RMB45,403 million, respectively, as at 30 June 2020.

With reference to the Drewry Report set out in Appendix II to the Circular, the annual lease payment for all the Vessels is approximately US$324 million (equivalent to approximately RMB2,171 million). The aggregate lease payment over the term of the Vessel Leasing Service Master Agreement is approximately US$4,618 million (equivalent to approximately RMB30,941 million), where the actual settlement amount will be made in accordance with the specific vessel lease agreements. Pursuant to HKFRS 16 Leases, the Group will initially recognise the Right-of-Use Asset at cost, comprising the initial amount of any lease liability plus any initial direct costs incurred. The value of the Right-of-Use Asset under the Vessel Leasing Service Master Agreement to be recognised by the Group in its consolidated financial statements is approximately RMB23,531 million, which is calculated based on the aggregated present values of lease payments discounted using the Group's incremental borrowing rate and current exchange rate of RMB against the U.S. dollar. The Right-of-Use Asset is a preliminary assessment and is subject to finalisation of discount rate and exchange rate of RMB against the U.S. dollar to be used at the effective date of the Vessel Leasing Service Master Agreement. We have discussed with and are advised by the Management that the derivation of the Right-of-Use Asset is in line with its accounting standards adopted for the preparation of the 2019 Annual Report and the 2020 Interim Report. Further details of the accounting treatments are set out in Appendix I to the Circular.

Taking in account, in particular, (i) the Vessel Leasing Service Master Agreement is a replacement of the Assets Lease Framework Agreement for the continuation of leasing of 74 vessels from the COSCO SHIPPING Development Group; (ii) the Vessels are for the principal business operations of the Group; (iii) the positive financial performance of the Group achieved in the recent financial periods and the scale of the annual lease payments for the Vessels; (iv) the lease payments for the Vessels were determined with reference to the Drewry Report prepared by the independent shipping consultant; and (v) the accounting treatment for the Vessel Leasing Service Master Agreement is in line with the accounting standards adopted for the preparation of the 2019 Annual Report and the 2020 Interim Report, we consider the financial implications of the Vessel Leasing Service Master Agreement to be acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the entering into of the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Company and is in the interests 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 are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Vessel Leasing Service Master Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Nicholas Cheng
Director

Note: Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and has extensive experience in corporate finance industry. He has been participating in the provision of independent financial advisory services for, and completed, numerous connected transactions involving listed companies in Hong Kong.

1. CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 (the "**2020 Interim Financial Information**") are set out from pages 42 to 88 in the Interim Report 2020 of the Company, which was published on 18 September 2020. The Interim Report 2020 is also posted on the Company's website http://hold.coscoshipping.com. Please also see below a quick link to the Interim Report 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0918/2020091800336.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**2019 Financial Statements**") are set out from pages 142 to 284 in the Annual Report 2019 of the Company, which was published on 24 April 2020. The Annual Report 2019 is also posted on the Company's website http://hold.coscoshipping.com. Please also see below a quick link to the Annual Report 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042400675.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "**2018 Financial Statements**") are set out from pages 137 to 276 in the Annual Report 2018 of the Company, which was published on 24 April 2019. The Annual Report 2018 is also posted on the Company's website http://hold.coscoshipping.com. Please also see below a quick link to the Annual Report 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0424/ltn20190424870.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2017 (the "**2017 Financial Statements**") are set out from pages 131 to 264 in the Annual Report 2017 of the Company, which was published on 26 April 2018. The Annual Report 2017 is also posted on the Company's website http://hold.coscoshipping.com. Please also see below a quick link to the Annual Report 2017:

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn201804262207.pdf

The 2020 Interim Financial Information, the 2019 Financial Statements, the 2018 Financial Statements and the 2017 Financial Statements (but not any other part of the annual reports and interim report of the Company in which they appear) are incorporated by reference into this circular and form part of this circular.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the first three quarters of 2020, the sudden outbreak of COVID-19 caused extensive negative effects on the global economy and trade, and also had a great impact on container shipping market. The International Monetary Fund (IMF) predicts the growth of the global economy in 2020 to be at – 4.9%. China's economic growth in 2020 is projected at 1.0%, while other major economies in the world are expected to experience negative growth.

During the first three quarters of 2020, facing the severe challenges brought by the spread of the COVID-19 pandemic and the global economy recession, the Company had actively overcome external adverse factors while striving to secure the lives and health of all its staff in ships and shores. The Company strived to secure a balanced operation of global logistics container supply chain, and had achieved hard-won. Based on the third quarterly report for 2020 of the Company published on 31 October 2020 in accordance with the regulations of the China Securities Regulatory Commission of the PRC, in the first three quarters of 2020, the Company generated revenue of RMB117.709 billion, representing an increase of 5.46% as compared to the same period of last year, and recorded a net profit attributable to equity holders of the Company of RMB3.86 billion, representing an increase of 82.4% as compared to the same period of last year.

The Company continued to optimize the layout of its global routes network and upgraded the OCEAN Alliance route products. The Company also adapted to the changes in the industrial chain pattern and strengthened the resource allocation and marketing deployment of emerging markets such as Southeast Asia, South Asia, Latin America and Africa, regional markets and non-China markets. While connecting the "Belt and Road" logistics channels, the Company focused on developing end-to-end service models to provide quality and diversified logistics solutions to customers. The Company secured demands of its customers by introducing various service products to consolidate different types of logistics resources and connect customers from both the demand and supply sides. To enhance customer experience and operational efficiency, the Company continued to advance the application of customer-centered technologies such as blockchain and e-commerce, speed up the building of digitalization of its business processes and strengthen its end-to-end services.

Looking forward, the Company will continue to follow its strategies, further accelerate its transformation into an international carrier with global service capability, enhance the depth and breadth of cooperation between its port and shipping businesses and implement the "dual brand" strategy to improve the overall quality of its shipping services. In addition, the Company will actively support and respond to the International Convention's initiative on environmental protection, fully fulfill its social responsibility and implement operational practices to ensure compliance with the regulations implemented by the International Maritime Organization globally in 2020, thus promoting the sound and sustainable development of its core business.

3. FINANCIAL EFFECTS OF THE VESSEL LEASING SERVICE MASTER AGREEMENT

Pursuant to HKFRS 16 Leases, the Group will initially recognise the Right-of-Use Asset at cost, comprising the initial amount of any lease liability plus any initial direct costs incurred. The value of the Right-of-Use Asset under the Vessel Leasing Service Master Agreement to be recognised by the Group in its consolidated financial statements is approximately RMB23,531 million, which is calculated based on the aggregated present values of lease payments discounted using the Group's incremental borrowing rate and current exchange rate of RMB against the U.S. dollar. The Right-of-Use Asset is a preliminary assessment and is subject to finalisation of discount rate and exchange rate of RMB against the U.S. dollar to be used at the effective date of the Vessel Leasing Service Master Agreement.

The Vessels have no identifiable income stream.

Accounting treatment of the Right-of-Use Asset

The Right-of-Use Asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar. Subsequently, the Group shall measure the Right-of-Use Asset using a cost model, unless:

(i) the right-of-use asset is an investment property and the lessee fair values its investment property under HKAS 40; or

(ii) the right-of-use asset relates to a class of plant, property and equipment ("PPE") to which the lessee applies HKAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

Under the cost model, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

The value of the Right-of-Use Asset recognised by the Group under the Vessel Leasing Service Master Agreement amounted to approximately RMB23,531 million. Upon entering into of the Vessel Leasing Service Master Agreement, along with the recognition of the Right-of-Use Asset, a lease liability amounting to approximately RMB23,531 million will be recognised.

After the initial recognition of Right-of-Use Asset and lease liability, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the Right-of-Use Asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. The Right-of-Use Asset is subsequently stated at cost less accumulated depreciation and impairment losses. In addition, any variable lease amount will be recognised in future profit or loss.

The lease liability is subsequently remeasured to reflect changes in:

The lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate). The remeasurements are treated as adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases.

4. INDEBTEDNESS OF THE GROUP

As at 30 September 2020, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group had total borrowings of approximately RMB104,718 million. Details of the total indebtedness are summarised below:

	The Group
	RMB million
Bank loans – secured	27,978
Bank loans – unsecured	50,743
Loans from COSCO SHIPPING Finance – secured	48
Loans from COSCO SHIPPING Finance – unsecured	2,413
Notes/bonds – unsecured	15,815
Loans from non-controlling shareholders of subsidiaries – unsecured	521
Loan from COSCO Shipping (HK) Co., Ltd. – unsecured	6,810
Other loans – unsecured	390
Total	104,718

Lease liabilities

As at 30 September 2020, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group had total lease liabilities of approximately RMB25,015 million.

Pledge of assets

As at the close of business on 30 September 2020, the Group pledged the following assets for obtaining financing arrangements from banks:

(i) first legal mortgages over certain assets of the Group with aggregate net book value of approximately RMB44,252 million;

(ii) assignment of the charter, rental income and earnings, requisition compensation, insurance relating to certain container vessels;

(iii) shares of certain subsidiaries; and

(iv) restricted bank deposits with total carrying amounts of approximately RMB205 million.

Contingent liabilities and financial guarantee

The Group was involved in a number of claims and lawsuits, including but not limited to claims and lawsuits arising from damage to vessels during transportation, loss of goods, delay in delivery, collision of vessels, early termination of vessel chartering contracts, and disputes in pledge supervision business (where the Group was responsible for supervising certain assets pledged by its customers in favour of third party banks). As at 30 September 2020, the Group was unable to ascertain the likelihood and amounts of the above-mentioned claims. However, based on the information available to the Group, the Directors are of the opinion that the amounts of relevant claims should have no material effect on the Group as a whole.

Disclaimer

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, as at 30 September 2020, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges or other material contingent liabilities or guarantees.

5. WORKING CAPITAL

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

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 vessel types with 4,000-5,000 TEUs, 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 charter fees market to a certain extent.

2. From 2016 to 2019, charter fees for vessel types with 5,000-8,999 TEUs 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 in 2020. 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 charter fees market to a certain extent.

3. There were few time charter transactions for vessels with over 9,000 TEUs, particularly for vessels with over 12,000 TEUs, 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 fees 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 type liquidity, the level of historical charter fees is a more meaningful reference. For determining the charter fees for vessel types with low transaction volume and low liquidity (which are mostly vessel types 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 depend 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 COSCO SHIPPING Development and COSCO SHIPPING Lines, market fairness is the core principle for this project assessment. The purposes for the assessment are: enabling COSCO SHIPPING Development 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

- 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 COSCO SHIPPING Development 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 vessel types with 14,074 TEUs and traditional main engine, and the fact that the vessel types with 4,738 TEUs are vessels with wide beam.

Vessel Types (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: COSCO SHIPPING Development

Notes:

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

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

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

Calculated by the carrying amounts of the Vessels of COSCO SHIPPING Development.

5. Cost of capital

Drewry has adopted the proportion of corporate equity and liability 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 vessel types 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.

Vessel Types (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: COSCO SHIPPING Development, Drewry

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

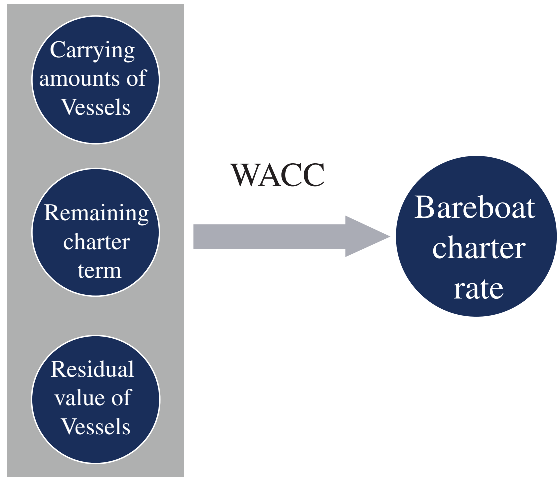
7. Rental assessment

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

ASSESSMENT METHODS AND CALCULATION OF CHARTER RATE:

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

The feature of the lease market for vessel types with 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 amounts of the Vessels of COSCO SHIPPING Development on the precondition that the vessel owner obtains a fair investment return and the lessee pays reasonable market rates.



Charter rate for vessel types with over 9,000 TEUs per day

Vessel Types (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 (USD per day)	22,113	26,854	26,379	15,265	12,054

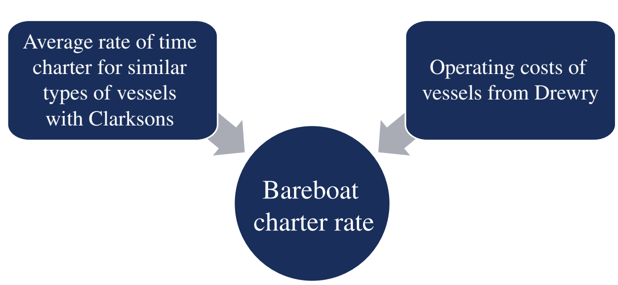
Source: COSCO SHIPPING Development, Drewry

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

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

There are relatively more leasing transactions involving vessel types with 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 types with below 9,000 TEUs based on the charter rate calculated by the historical time charter rate level from Clarksons for similar types of vessels for the last 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

Vessel Types (TEU)	**8,468**	**8,533**	**5,668/5,688**	**4,738 wide beam**	**4,250**	**4,051**
Similar type of vessels 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 previous three years	21,324	21,324	17,796	16,007	11,033	11,033

Source: Clarksons

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

Operational costs of Vessels per day (applicable to vessel types 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%:

Vessel Types (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 type is under flag of convenience and the 8,533 TEU vessel types are under PRC Flag. Therefore, they are listed separately.

Bareboat charter rate for the vessel types under 9,000 TEUs per day

Vessel Types (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 per day	13,280	13,280	10,592	9,999	4,329	4,264

Source: COSCO SHIPPING Development, Drewry, Clarksons

Note: The 8,468 TEU vessel type is under flag of convenience and the 8,533 TEU vessel types 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 COSCO SHIPPING Development. The bareboat charter rates per year for each vessel type are shown in the below table. The bareboat charter rate per year for the 74 Vessels of COSCO SHIPPING Development is approximately US$324 million (before tax).

Overview of the bareboat charter rates for the fleet

Methodology	**Book Value & WACC**					**Market Charter Rate**						
Vessel Types (TEU)	**18,982**	**14,074**	**14,074#**	**10,036**	**9,572**	**8,468**	**8,533**	**5,668/ 5,688**	**4,738WB**	**4,250**	**4,051**	**Total**
No. of vessels	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$)	22,113	26,854	26,379	15,265	12,054	13,280	13,280	10,592	9,999	4,329	4,264	
Bareboat charter rate per year (US$ 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 vessel types with 14,074 TEUs has slightly different main engine. 14,074 TEU# vessel types, two in total, namely CSCL STAR and CSCL VENUS, are equipped with traditional main engines;

2. The 8,468 TEU vessel type is under flags of convenience and the 8,533 TEU vessel types 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 COSCO SHIPPING Development 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 circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

(a) As at the Latest Practicable Date, the interests of the Directors, Supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

(i) Long position in the shares, underlying Shares and debentures of the Company

Name of Director	Capacity	Number of Shares held as at the Latest Practicable Date	Percentage of total number of the relevant class of Shares	Percentage of total number of issued Shares
Mr. YANG Zhijian[1]	Beneficial owner	100,000 H Shares	0.00388%	0.00082%
		936,000 A Shares	0.00967%	0.00763%
Mr. FENG Boming[2], [3]	Beneficial owner	936,000 A Shares	0.00967%	0.00763%
	Interest of spouse	530,000 A Shares	0.00548%	0.00432%

Name of Director	Capacity	Number of Shares held as at the Latest Practicable Date	Percentage of total number of the relevant class of Shares	Percentage of total number of issued Shares
Mr. TEO Siong Seng	Beneficial owner	150,000 H Shares	0.00581%	0.00122%

Notes:

1. As at the Latest Practicable Date, Mr. Yang Zhijian held 936,000 A share options under the A share option incentive scheme of the Company.

2. As at the Latest Practicable Date, Mr. Feng Boming held 936,000 A share options under the A share option incentive scheme of the Company.

3. As at the Latest Practicable Date, the spouse of Mr. FENG Boming held 530,000 A share options under the A share option incentive scheme of the Company. Mr. Feng Boming is therefore deemed to be interested in such share options of the Company.

(ii) Long positions in the shares, underlying shares and debentures of associated corporations of the Company

Name of associated corporation	Name of Director/ Supervisor	Capacity	Number of shares held	Percentage of total number of issued shares of the relevant class of the relevant associated corporation
COSCO SHIPPING Development	Mr. YANG Zhijian	Beneficial owner	400,000 H shares	0.01088%
	Mr. FENG Boming	Beneficial owner	29,100 A shares	0.00037%
	Mr. DENG Huangjun	Interest of spouse	38,000 A shares	0.00048%
COSCO SHIPPING Ports	Mr. FENG Boming	Beneficial owner	32,379 ordinary shares	0.00098%
	Mr. DENG Huangjun[1]	Beneficial owner	1,253,154 ordinary shares	0.03780%

Note:

1. As at the Latest Practicable Date, Mr. DENG Huangjun was interested in 53,154 shares, including 2,095 scrip shares receivable pursuant to the scrip dividend scheme under the 2019 final dividend of COSCO SHIPPING Ports which were allotted on 17 July 2020, and 1,200,000 share options of COSCO SHIPPING Ports.

(b) As at the Latest Practicable Date, save as disclosed below, so far as was known to the Directors, no Director was a director or employee of a company which has an interest or short position in the shares and 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:

Name of Director	Position held in COSCO SHIPPING
XU Lirong	Chairman of the board of directors and party secretary
YANG Zhijian	Employee representative director

(c) Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, (i) none of the Directors, Supervisors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and (ii) none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any 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 of the Company under Rule 8.10 of the Listing Rules.

4. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements 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.

5. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

6. DIRECTORS' AND SUPERVISORS' INTERESTS IN SERVICE CONTRACTS

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

7. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular and whose opinion or advice is contained in this circular:

Name	Qualification
First Shanghai	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Drewry	An independent consultant specialized in shipping industry

As at the Latest Practicable Date, each of First Shanghai and Drewry were not beneficially interested in the share capital of any member of the Group, and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of First Shanghai and Drewry did not have 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 Group were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

Each of First Shanghai and Drewry has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name in the form and context in which they respectively appear.

8. LITIGATION

There was no litigation or claim of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

9. MATERIAL CONTRACTS

The Group has not entered into any material contract (not being contracts entered into in the ordinary course of business of the Group) within the two years immediately preceding the date of this circular.

10. MATERIAL ADVERSE CHANGE

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

11. MISCELLANEOUS

(a) The company secretary of the Company is Dr. GUO Huawei, who is a senior economist.

(b) The registered office of the Company is located at 2nd Floor, 12 Yuanhang Business Centre, Central Boulevard and East Seven Road Junction, Tianjin Airport Economic Zone, Tianjin, the PRC. The head office and principal place of business of the Company in Hong Kong is located at 48/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited located at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) This circular in both English and Chinese is available in printed form and published on the respective websites of the Company at "http://hold.coscoshipping.com" and Hong Kong Exchanges and Clearing Limited at "http://www.hkexnews.hk". To the extent that there are any inconsistencies between the English version and the Chinese version of this circular, the English version shall prevail.

12. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be made available for inspection during normal business hours at the Company's principal place of business at 48/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 Articles of Association;

(b) the Assets Lease Framework Agreement;

(c) the Vessel Leasing Service Master Agreement;

(d) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement;

(e) the letter from the Independent Board Committee to the Independent Shareholders in respect of the Vessel Leasing Service Master Agreement;

(f) the annual reports of the Company for each of the two financial years ended 31 December 2018 and 2019 and the interim report of the Company for the six months ended 30 June 2020;

(g) the Drewry Report, the summary of which is set out in Appendix II to this circular;

(h) the written consent from First Shanghai and Drewry referred to in the section headed "7. Expert and Consent" in this Appendix;

(i) the circular of the Company dated 27 April 2020 in relation to a disclosable transaction and connected transaction; and

(j) this circular.