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中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

**CONTINUING CONNECTED TRANSACTIONS
REVISION OF ANNUAL CAPS FOR
MASTER FACTORING SERVICES AGREEMENT**

REVISION OF ANNUAL CAPS

The Board anticipates that the Existing Annual Cap would not be sufficient to meet the expected transaction amounts for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022. Accordingly, the Board proposes to revise the Existing Annual Caps in order to support the expansion of factoring business and satisfy the daily operational needs.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping Group Company Limited* (中國海運集團有限公司), a wholly-owned subsidiary of COSCO SHIPPING, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune Investment Limited, an indirect wholly-owned subsidiary of COSCO SHIPPING. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the applicable requirements under Chapter 14A of the Listing Rules due to the revision of the annual caps.

As one or more applicable percentage ratios in respect of the Proposed Revised Annual Caps exceed 0.1% but are less than 5%, the revision of the Existing Annual Caps is subject to the reporting, announcement and annual review requirements, but is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 31 October 2019 and the circular of the Company dated 6 December 2019, in relation to, among other things, the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement.

On 20 November 2020, the Board proposes to revise the Existing Annual Caps to the Proposed Revised Annual Caps for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022.

MASTER FACTORING SERVICES AGREEMENT

The principal terms of the Master Factoring Services Agreement are set out below:

Parties:	(i) The Company; and (ii) COSCO SHIPPING.
Nature of transactions:	Pursuant to the Master Factoring Services Agreement, the CS Development Group agreed to provide factoring services to the COSCO SHIPPING Group. The COSCO SHIPPING Group may, from time to time assign its account receivables to the CS Development Group in order to increase its cash flow. The CS Development Group shall handle the collection of the account receivables from the relevant entity which owes the particular sum of money to the relevant members of the COSCO SHIPPING Group. The assignments of account receivables under the Master Factoring Services Agreement are with recourse.
Pricing policies:	Prices for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement, being the sum after applying a certain percentage of discount to the underlying amounts of the account receivables concerned, are determined according to the General Pricing Principles and the General Pricing Determination Procedures. In doing so, market research will be conducted to gauge the percentage discount offered by at least two competing independent third party factoring service providers for accepting the assignment of account receivables with similar underlying amounts so as to ensure that the prices charged by the CS Development Group are no less favourable than those available from its competitors.

REVISION OF ANNUAL CAPS

In light of the rapid expansion of the COSCO SHIPPING Group and its increasing demand for factoring services, the CS Development Group endeavours to seize the opportunities to expand its factoring business and proposes to enter into additional factoring service agreements with the COSCO SHIPPING Group. Accordingly, the Board anticipates that the Existing Annual Cap would not be sufficient to meet the expected transaction amounts for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022. Accordingly, the Board proposes to revise the Existing Annual Caps in order to support the expansion of factoring business and satisfy the daily operational needs.

The following table sets out the historical transaction amounts and the relevant annual caps for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the two years ended 31 December 2019 and the nine months ended 30 September 2020.

For the year ended 31 December 2018		For the year ended 31 December 2019		For the nine months ended 30 September 2020	For the year ending 31 December 2020
Historical transaction amount (RMB'000)	Annual cap (RMB'000)	Historical transaction amount (RMB'000)	Annual cap (RMB'000)	Historical transaction amount (RMB'000)	Annual cap (RMB'000)
88,564	330,000	555,660	600,000	395,540	500,000

The Board therefore proposes to revise the Existing Annual Caps to the Proposed Revised Annual Caps as set out in the table below:

	For the year ending		
	31 December 2020 (RMB'000)	31 December 2021 (RMB'000)	31 December 2022 (RMB'000)
Existing Annual Caps:	500,000	500,000	500,000
Proposed Revised Annual Caps:	700,000	700,000	700,000

In arriving at the Proposed Revised Annual Caps for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement, the Directors have considered:

- (i) the abovementioned historical transactions for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the nine months ended 30 September 2020;
- (ii) the expected transaction amounts in respect of the additional factoring service agreements proposed to be entered into between the CS Development Group and the COSCO SHIPPING Group;
- (iii) the historical amount of revenue and account receivables of the members of the COSCO SHIPPING Group;
- (iv) the development plan of the factoring services business of the CS Development Group;
- (v) the expected amount of account receivables and the demand for factoring services of the COSCO SHIPPING Group; and
- (vi) the availability of capital funding for the factoring services of the CS Development Group.

The Board confirms that, as at the date of this announcement, the Existing Annual Cap for the year ending 31 December 2020 has not been exceeded.

REASONS FOR AND BENEFITS OF THE REVISION OF THE EXISTING ANNUAL CAPS

The Directors have been carefully monitoring the historical transaction amounts of and the estimated demand for the continuing connected transactions of the Group.

With the rapid expansion of the COSCO SHIPPING Group and its increasing demand for factoring services, the CS Development Group endeavours to seize the opportunities to vigorously develop its factoring business and proposes to enter into additional factoring service agreements with the COSCO SHIPPING Group, thereby leading to an increase in the expected transaction amounts for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement. As such, the Board anticipates that the Existing Annual Caps would not be sufficient to meet the expected transaction amounts for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022. Accordingly, the Board proposes to revise the Existing Annual Caps in order to support the factoring business and satisfy the daily operational needs.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Master Factoring Services Agreement have been conducted and will continue to be conducted in the ordinary and usual course of business of the Group and are on normal commercial terms, and that the terms of the Master Factoring Services Agreement and the Proposed Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON PARTIES TO THE MASTER FACTORING SERVICES AGREEMENT

Information on the Group

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

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

Information on COSCO SHIPPING

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise wholly-owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping Group Company Limited[#] (中國海運集團有限公司), a wholly-owned subsidiary of COSCO SHIPPING, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune Investment Limited, an indirect wholly-owned subsidiary of COSCO SHIPPING. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the applicable requirements under Chapter 14A of the Listing Rules due to the revision of the annual caps.

As one or more applicable percentage ratios in respect of the Proposed Revised Annual Caps exceed 0.1% but are less than 5%, the revision of the Existing Annual Caps is subject to the reporting, announcement and annual review requirements, but is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

INTERNAL CONTROL PROCEDURES FOR THE GROUP

Pursuant to the terms of the continuing connected transaction framework agreements of the Group, the Group may, from time to time and as necessary, enter into separate implementation agreements for each of the specific transactions contemplated under the continuing connected transaction framework agreements of the Group.

Each implementation agreement shall set out the specific terms and other relevant conditions for the particular transaction, including but not limited to rights and benefits of the parties, coordination of the parties, fees and expenses, payments, use of information, breach of agreement and exclusion of liabilities. Any execution and amendments of such implementation agreements shall not contravene the relevant continuing connected transaction framework agreements.

In addition to the annual review by the auditors and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, the Company has implemented the following internal control procedures to ensure that the terms offered by the relevant connected parties are no less favourable than those available to or from independent third parties (as the case may be) and the continuing connected transactions of the Group are conducted in accordance with the pricing policy under the respective continuing connected transaction framework agreements:

- (i) the Company has prepared and implemented the Methods for Management of Connected Transactions (關連交易管理辦法) which sets out, among other things, the relevant requirements for and identification of connected transactions, the responsibilities of relevant departments in the conduct and management of connected transactions, reporting procedures and ongoing monitoring, with a view to ensuring compliance of the Group with applicable laws and regulations (including the Listing Rules) in relation to connected transactions;
- (ii) before entering into any implementation agreements pursuant to the continuing connected transaction framework agreements, the relevant executives of the relevant departments of the Company will review contemporaneous prices and other relevant terms offered by at least two independent third parties operating at the same or nearby area before the commencement of the relevant transaction, and ensure that the terms offered by the relevant connected persons are fair and reasonable and comparable to those offered by independent third parties. In case where the offers made by independent third parties are more favourable to the Company, the Company would take up those offers of the independent third parties;

- (iii) following the entering into of the implementation agreements pursuant to the continuing connected transaction framework agreements, the Company will regularly examine the pricing of the transactions under the continuing connected transaction framework agreements to ensure that they are conducted in accordance with the pricing terms thereof, including reviewing the transaction records of the Company for the purchase or provision of similar goods or services to or from independent third parties, as the case may be;
- (iv) the Company will regularly convene meetings to discuss any issues in the transactions under the continuing connected transaction framework agreements and recommendations for improvement;
- (v) the Company will regularly summarise the transaction amounts incurred under the respective continuing connected transaction framework agreements and submit periodic reports which set out, among other things, the historical transaction amounts, the estimated future transaction amounts and the applicable annual caps, to the management of the Company. If the aforementioned transaction amount incurred reaches 80% of the respective applicable annual caps, immediate reporting will be made to the management of the Company. In doing so, the management and the relevant departments of the Company can be informed of the status of the continuing connected transactions in a timely manner such that the transactions can be conducted within the applicable annual caps;
- (vi) if it is anticipated that the existing annual caps may be exceeded in the event that the Company continues to conduct the continuing connected transactions, the relevant business departments shall report to the management of the Company at least two months in advance, the Company will then take all appropriate steps in advance to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules and if necessary, the Company will refrain from further conducting the relevant continuing connected transactions until the revised annual caps are approved; and
- (vii) the supervision department of the Company will periodically review and inspect the process of the relevant continuing connected transactions.

By implementing the above procedures, the Directors consider that the Company has established sufficient internal control measures to ensure that the pricing basis of each of the continuing connected transaction agreements of the Group will be on normal commercial terms (or better to the Group), fair and reasonable, in accordance with the pricing policy of the Company and in the interests of the Company and the Shareholders as a whole.

The relevant departments of the Company will also collect statistics of each of the continuing connected transaction agreements of the Group on a quarterly basis to ensure that the annual caps approved by the independent Shareholders or as announced are not exceeded.

DEFINITIONS

Unless the context requires otherwise, capitalised terms used in this announcement shall have the meanings as follows:

“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
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Company”	COSCO SHIPPING Development Co., Ltd.* (中遠海運發展股份有限公司), a joint stock limited company established in the PRC, the H Shares and A Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2866) and the Shanghai Stock Exchange (Stock Code: 601866), respectively
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“COSCO SHIPPING”	China COSCO Shipping Corporation Limited# (中國遠洋海運集團有限公司), a PRC state-owned enterprise and an indirect controlling shareholder of the Company
“COSCO SHIPPING Group”	COSCO SHIPPING, its subsidiaries and/or its associates (excluding the CS Development Group)
“CS Development Group”	the Company, its subsidiaries and/or its associates
“Director(s)”	director(s) of the Company
“Existing Annual Caps”	the existing annual caps in the amount of RMB500,000,000 for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022

“General Pricing
Determination
Procedures”

the general procedures and mechanism for determination of the state-prescribed price and the market price as follows:

- (i) when determining the state-prescribed price (subject to adjustment by the relevant authorities or regulators from time to time and is generally publicly available):
 - (a) the CS Development Group refers to the guidelines for the relevant prices from the relevant authorities or regulators in the PRC, such as price control authorities and industry regulators, if applicable;
 - (b) if a fixed state-prescribed price is available, the Company will apply such fixed price; and
 - (c) if a range of state-prescribed prices is available, the relevant parties will agree on the price within such range of state-prescribed prices;
- (ii) when determining the market price:
 - (a) the relevant department of the Company will collect applicable data and market information (including quotes from independent third parties and reference materials from independent third party entities) and prepare draft proposal;
 - (b) the relevant department will seek advice (such as conditions of facilities and quality of products or services) from the relevant department and the relevant agents and submit revised proposal for the review of its supervising department;
 - (c) the relevant department will then negotiate with transaction counterparties (including the relevant connected persons) based on such reviewed proposal;
 - (d) the Group will then enter into implementation agreement based on the results of negotiation; and
 - (e) the executed implementation agreement will be forwarded to the relevant department of the Company and the relevant agents for recording and implementation

“General Pricing Principles”	the general principles for determination of relevant prices as follows: <ul style="list-style-type: none"> (i) the state-prescribed price, being the price set by the relevant laws, regulations and other governmental regulatory documents issued by the relevant authorities of the PRC government; (ii) where there is no state-prescribed price, then according to the relevant market price, the price which independent third parties may obtain for the same or comparable type of transaction in the ordinary and usual course of business, or based on the principle of fairness and reasonableness; or (iii) where there is no market price, then according to the contracted price, being the relevant cost for that particular transaction plus a profit margin ranging from 0% to 12.25%
“Group”	the Company and its subsidiaries
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Factoring Services Agreement”	the master factoring services agreement dated 5 December 2016 entered into between the Company and COSCO SHIPPING in respect of the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group
“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 announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and the region of Taiwan
“Proposed Revised Annual Caps”	the proposed revised annual caps in the amount of RMB700,000,000 for the provision of factoring services by the CS Development Group to the COSCO SHIPPING Group under the Master Factoring Services Agreement for the three years ending 31 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Share(s) and H Share(s)

“Shareholder(s)” holder(s) of the Share(s)

“%” per cent

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

Shanghai, the People’s Republic of China
20 November 2020

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

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

For identification purposes only.