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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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)**

**(1) MAJOR AND CONNECTED TRANSACTIONS  
ASSIGNMENT AND NOVATION AGREEMENTS  
(2) ADJUSTMENT OF CAPS FOR PROVISIONS OF GUARANTEES  
AND  
(3) NOTICE OF EGM**

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



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

A letter from the Board is set out on pages 17 to 31 of this circular and the letter from the Independent Board Committee is set out on pages 32 to 33 of this circular. A letter from MESSIS Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 51 of this circular.

A notice convening the EGM to be held at 1:30 p.m. on Friday, 18 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC is set out on pages EGM-1 to EGM-3 of this circular.

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

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## DEFINITIONS

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

“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Added/Subtracted Contract Price”	the amount which shall be added on or subtracted from the contract price under the Shipbuilding Contracts in accordance with the terms thereof
“Adjustment of Caps for Provisions of Guarantees”	the proposed adjustment of caps for the provisions of guarantees for the Guaranteed Wholly-owned Subsidiaries and the relevant authorization to the Board, further details of which are set out in the Overseas Regulatory Announcement
“Announcement”	the announcement of the Company dated 27 November 2020 in relation to, among other things, the Assignment and Novation Agreements and the transactions contemplated thereunder
“Articles of Association”	the articles of association of the Company
“Assessment Price”	the assessed value of the rights under each of the Shipbuilding Contracts as at 30 September 2020 as set out in the Assessment Reports
“Assessment Reports”	collectively, the four assessment reports issued by China Tong Cheng in respect of the Bulk Carriers under Construction, the full text of which is set out in Appendices II-A, II-B, II-C and II-D to this circular
“Assignment and Novation Agreements”	collectively, the Memoranda of Agreement and the Deeds of Novation
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company

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## DEFINITIONS

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“Bulk Carriers under Construction”	collectively, the 16 bulk carriers under construction and to be registered under the laws of Hong Kong, comprising (i) two 208,000 DWT bulk carriers (Hull No. DE081 and DE082) under construction by Dalian COSCO KHI; (ii) two 210,000 DWT bulk carriers (Hull No. NB009-5 and NB009-6) under construction by Tianjin Xingang; (iii) four 210,000 bulk carriers (Hull No. BC210K-1, BC210K-2, BC210K-3 and BC210K-10) under construction by Qingdao Beihai; and (iv) eight 210,000 DWT bulk carriers (Hull No. N946, N947, N948, N949, N950, N951, N952 and N953) under construction by COSCO SHIPPING Yangzhou
“China Shipping”	China Shipping (Group) Company Limited <sup>#</sup> (中國海運集團有限公司), a PRC state-owned enterprise and the controlling shareholder of the Company
“China Tong Cheng”	China Tong Cheng Assets Appraisal Co., Ltd. (中通誠資產評估有限公司), an independent valuer
“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 the A Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 02866) and the Shanghai Stock Exchange (Stock Code: 601866), respectively
“Computershare”	Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company
“COSCO SHIPPING”	China COSCO SHIPPING Corporation Limited <sup>#</sup> (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 Bulk”	COSCO SHIPPING Bulk Co., Ltd. <sup>#</sup> (中遠海運散貨運輸有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING
“COSCO SHIPPING Bulk Group”	COSCO SHIPPING Bulk and its subsidiaries

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## DEFINITIONS

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“COSCO SHIPPING Heavy Industry”	COSCO SHIPPING Heavy Industry Co., Ltd. <sup>#</sup> (中遠海運重工有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING
“COSCO SHIPPING Leasing”	COSCO SHIPPING Leasing Co., Ltd. <sup>#</sup> (中遠海運租賃有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“COSCO SHIPPING Yangzhou”	COSCO SHIPPING Heavy Industry (Yangzhou) Co., Ltd. <sup>#</sup> (揚州中遠海運重工有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“CS Investment”	China Shipping Investment Co., Ltd. <sup>#</sup> (中海集團投資有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“CSOC”	China Shipping & Offshore International Co., Ltd. (中國船舶重工國際貿易有限公司), a company established in the PRC with limited liability
“Dalian COSCO KHI”	Dalian COSCO KHI Ship Engineering Co., Ltd. <sup>#</sup> (大連中遠海運川崎船舶工程有限公司), a company established in the PRC with limited liability and an associate of COSCO SHIPPING
“Deeds of Novation”	collectively, the 16 deeds of novation dated 27 November 2020 with details as follows:  (1) the deed of novation entered into among Wai Tong (as original buyer), Oriental Fleet International (as new buyer), CSOC and Qingdao Beihai (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-1);

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## DEFINITIONS

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- (2) the deed of novation entered into among Wellship (as original buyer), Oriental Fleet International (as new buyer), CSOC and Qingdao Beihai (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-2);
- (3) the deed of novation entered into among Well Common (as original buyer), Oriental Fleet International (as new buyer), CSOC and Qingdao Beihai (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-3);
- (4) the deed of novation entered into among Wai Ji (as original buyer), Oriental Fleet International (as new buyer), CSOC and Qingdao Beihai (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-10);
- (5) the deed of novation entered into among Well Prosper (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N946);
- (6) the deed of novation entered into among Wai Hing (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N947);
- (7) the deed of novation entered into among Wai Chung (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N948);

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## DEFINITIONS

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- (8) the deed of novation entered into among Well Hua (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N949);
- (9) the deed of novation entered into among Well State (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N950);
- (10) the deed of novation entered into among Wai Hai (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N951);
- (11) the deed of novation entered into among Well Transport (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N952);
- (12) the deed of novation entered into among Well Force (as original buyer), Oriental Fleet International (as new buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N953);
- (13) the deed of novation entered into among Well Flourish (as original buyer), Oriental Fleet International (as new buyer) and CSOC and Tianjin Xingang (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. NB009-5);

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## DEFINITIONS

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	(14) the deed of novation entered into among Well Halo (as original buyer), Oriental Fleet International (as new buyer) and CSOC and Tianjin Xingang (collectively as sellers) in relation to the novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. NB009-6);
	(15) the deed of novation entered into among Wai Cheong (as original buyer), Oriental Fleet International (as new buyer) and Dalian COSCO KHI (as seller) in relation to the novation of the shipbuilding contract of the 208,000 DWT bulk carrier (Hull No. DE081); and
	(16) the deed of novation entered into among Wai Sheng (as original buyer), Oriental Fleet International (as new buyer) and Dalian COSCO KHI (as seller) in relation to the novation of the shipbuilding contract of the 208,000 DWT bulk carrier (Hull No. DE082)
“Director(s)”	director(s) of the Company
“DWT”	deadweight tonnage, a standard unit of measurement of the maximum weight a ship can carry
“EGM”	the extraordinary general meeting of the Company to be convened at 1:30 p.m. on Friday, 18 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC (or any adjournment thereof) to consider and, if thought fit, approve, among other things, the Assignment and Novation Agreements and the transactions contemplated thereunder
“Florens Container Investment”	Florens Container Investment (SPV) Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Florens Maritime”	Florens Maritime Limited, a company incorporated under the laws of Bermuda with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries



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## DEFINITIONS

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“Guaranteed Wholly-owned Subsidiaries”	collectively, COSCO SHIPPING Leasing, Florens Container Investment, Florens Maritime, Oriental Fleet International, Oriental Fleet Pulp 01 and Yuanhai Leasing Tianjin
“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
“H Shareholder(s)”	the holder(s) of H Share(s)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Assignment and Novation Agreements and the transactions contemplated thereunder in accordance with the Listing Rules
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than (i) COSCO SHIPPING and its associates and (ii) all other parties (if any) who are involved or interested in the Assignment and Novation Agreements and the transactions contemplated thereunder
“Latest Practicable Date”	1 December 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Vessel Charter Agreement”	the master vessel charter agreement dated 5 December 2016 entered into between the Company and COSCO SHIPPING in respect of the provision of vessel chartering services by the Company, its subsidiaries and/or its associates to COSCO SHIPPING, its subsidiaries and/or its associates (excluding the Company, its subsidiaries and/or its associates), further details of which are set out in the circular of the Company dated 6 December 2019
“Memoranda of Agreement”	<p>collectively, the 16 memoranda of agreement dated 27 November 2020 with details as follows:</p> <ol style="list-style-type: none"><li>(1) the memorandum of agreement entered into between Wai Tong (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-1);</li><li>(2) the memorandum of agreement entered into between Wellship (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-2);</li><li>(3) the memorandum of agreement entered into between Well Common (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-3);</li><li>(4) the memorandum of agreement entered into between Wai Ji (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. BC210K-10);</li></ol>

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## DEFINITIONS

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- (5) the memorandum of agreement entered into between Well Prosper (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N946);
- (6) the memorandum of agreement entered into between Wai Hing (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N947);
- (7) the memorandum of agreement entered into between Wai Chung (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N948);
- (8) the memorandum of agreement entered into between Well Hua (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N949);
- (9) the memorandum of agreement entered into between Well State (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N950);
- (10) the memorandum of agreement entered into between Wai Hai (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N951);

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## DEFINITIONS

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- (11) the memorandum of agreement entered into between Well Transport (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N952);
- (12) the memorandum of agreement entered into between Well Force (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. N953);
- (13) the memorandum of agreement entered into between Well Flourish (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. NB009-5);
- (14) the memorandum of agreement entered into between Well Halo (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 210,000 DWT bulk carrier (Hull No. NB009-6);
- (15) the memorandum of agreement entered into between Wai Cheong (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 208,000 DWT bulk carrier (Hull No. DE081); and
- (16) the memorandum of agreement entered into between Wai Sheng (as assignor) and Oriental Fleet International (as assignee) in relation to the assignment and novation of the shipbuilding contract of the 208,000 DWT bulk carrier (Hull No. DE082)

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## DEFINITIONS

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“Oriental Fleet International”	Oriental Fleet International Co., Ltd. (東方富利國際有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Oriental Fleet Pulp 01”	Oriental Fleet Pulp 01 Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Original Buyers”	collectively, Wai Cheong, Wai Chung, Wai Hai, Wai Hing, Wai Ji, Wai Sheng, Wai Tong, Wellship, Well Common, Well Flourish, Well Force, Well Halo, Well Hua, Well Prosper, Well State and Well Transport
“Overseas Regulatory Announcement”	the overseas regulatory announcement of the Company dated 27 November 2020 in relation to the Adjustment of Caps for Provisions of Guarantees
“percentage ratios”	has the meaning ascribed to such term under the Listing Rules
“PRC”	the People’s Republic of China, and for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Acquisitions”	the acquisitions of ten 62,000 DWT multi-purpose vessels by the Group through the assignment and novation of shipbuilding contracts and the entering into of shipbuilding contracts, the details of which are set out in the announcement of the Company dated 21 October 2020 and the circular of the Company dated 30 October 2020
“Qingdao Beihai”	Qingdao Beihai Shipbuilding Heavy Industry Co., Ltd. <sup>#</sup> (青島北海船舶重工有限責任公司), a company established in the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Sellers”	collectively, COSCO SHIPPING Yangzhou, CSOC, Dalian COSCO KHI, Qingdao Beihai and Tianjin Xingang

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	A Share(s) and H Shares(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shipbuilding Contracts”	<p>collectively, the 16 shipbuilding contracts with details as follows:</p> <ol style="list-style-type: none"><li>(1) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Wai Tong (as buyer) and CSOC and Qingdao Beihai (collectively as sellers) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. BC210K-1);</li><li>(2) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Wellship (as buyer) and CSOC and Qingdao Beihai (collectively as sellers) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. BC210K-2);</li><li>(3) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Well Common (as buyer) and CSOC and Qingdao Beihai (collectively as sellers) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. BC210K-3);</li><li>(4) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Wai Ji (as buyer) and CSOC and Qingdao Beihai (collectively as sellers) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. BC210K-10);</li><li>(5) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Well Prosper (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N946);</li></ol>

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## DEFINITIONS

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- (6) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Wai Hing (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N947);
- (7) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Wai Chung (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N948);
- (8) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Well Hua (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N949);
- (9) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Well State (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N950);
- (10) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Wai Hai (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N951);
- (11) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Well Transport (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N952);
- (12) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Well Force (as buyer) and COSCO SHIPPING Yangzhou (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. N953);

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## DEFINITIONS

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- (13) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Well Flourish (as buyer) and Tianjin Xingang (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. NB009-5);
- (14) the amended and restated shipbuilding contract dated 26 April 2019 entered into between Well Halo (as buyer) and Tianjin Xingang (as seller) in relation to the construction of the 210,000 DWT bulk carrier (Hull No. NB009-6);
- (15) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Wai Cheong (as buyer) and Dalian COSCO KHI (as seller) in relation to the construction of the 208,000 DWT bulk carrier (Hull No. DE081); and
- (16) the amended and restated shipbuilding contract dated 17 April 2019 entered into between Wai Sheng (as buyer) and Dalian COSCO KHI (as seller) in relation to the construction of the 208,000 DWT bulk carrier (Hull No. DE082)
- “Tianjin Xingang” Tianjin Xingang Shipbuilding Heavy Industry Co., Ltd.<sup>#</sup> (天津新港船舶重工有限公司), a company established in the PRC with limited liability
- “US\$” United States dollar, the lawful currency of the United States of America
- “Wai Cheong” Wai Cheong Shipping Limited (惠昌船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
- “Wai Chung” Wai Chung Shipping Limited (惠中船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
- “Wai Hai” Wai Hai Shipping Limited (惠海船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk



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## DEFINITIONS

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“Wai Hing”	Wai Hing Shipping Limited (惠興船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Wai Ji”	Wai Ji Shipping Limited (惠濟船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Wai Sheng”	Wai Sheng Shipping Limited (惠盛船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Wai Tong”	Wai Tong Shipping Limited (惠同船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Wellship”	Wellship Shipping Limited (惠舟船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Common”	Well Common Shipping Limited (惠共船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Flourish”	Well Flourish Shipping Limited (惠繁船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Force”	Well Force Shipping Limited (惠強船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Halo”	Well Halo Shipping Limited (惠榮船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk

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## DEFINITIONS

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“Well Hua”	Well Hua Shipping Limited (惠華船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Prosper”	Well Prosper Shipping Limited (惠振船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well State”	Well State Shipping Limited (惠國船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Well Transport”	Well Transport Shipping Limited (惠運船務有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk
“Yuanhai Leasing Tianjin”	Yuanhai Leasing (Tianjin) Co., Ltd. <sup>#</sup> (遠海租賃(天津)有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“%”	per cent

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

<sup>#</sup> *For identification purpose only.*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors*

Mr. Wang Daxiong  
Mr. Liu Chong  
Mr. Xu Hui

*Legal address in the PRC*

Room A-538  
International Trade Center  
China (Shanghai) Pilot Free Trade Zone  
Shanghai  
The PRC

*Non-executive Directors*

Mr. Huang Jian  
Mr. Liang Yanfeng  
Mr. Ip Sing Chi

*Principal place of business in the PRC*

5299 Binjiang Dadao  
Pudong New District  
Shanghai  
The PRC

*Independent non-executive Directors*

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

*Principal place of business in Hong Kong*

50/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

2 December 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION  
ASSIGNMENT AND NOVATION AGREEMENTS  
(2) ADJUSTMENT OF CAPS FOR PROVISIONS OF GUARANTEES  
AND  
(3) NOTICE OF EGM**

**I. INTRODUCTION**

Reference is made to the Announcement and the Overseas Regulatory Announcement.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, further details of the Assignment and Novation Agreements and the transactions contemplated thereunder, further details of the Adjustment of Caps for Provisions of Guarantees and other information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM.

At the EGM, an ordinary resolution will be proposed to approve the Assignment and Novation Agreements and the transactions contemplated thereunder and a special resolution will be proposed to approve the Adjustment of Caps for Provisions of Guarantees.

### **II. THE ASSIGNMENT AND NOVATION AGREEMENTS**

Reference is made to the Announcement, in relation to, among other things, the Assignment and Novation Agreements and the transactions contemplated thereunder.

The Group proposes to enter into operating lease arrangements with the COSCO SHIPPING Bulk Group in respect of the 16 Bulk Carriers under Construction, pursuant to the aforementioned operating lease arrangements, the Group will acquire the 16 Bulk Carriers under Construction through the Assignment and Novation Agreements and immediately after the delivery of which, the COSCO SHIPPING Bulk Group will charter-in the 16 Bulk Carriers under Construction from the Group.

On 27 November 2020:

- (i) the Original Buyers and Oriental Fleet International entered into the Memoranda of Agreement, pursuant to which and subject to the terms thereof, the Original Buyers agree to transfer and Oriental Fleet International agree to take over all rights, responsibilities and liabilities under the Shipbuilding Contracts in respect of the 16 Bulk Carriers under Construction at the aggregate consideration of US\$326,628,000 (which was determined based on the aggregate Assessment Prices of US\$845,760,000 and the unpaid instalments under the Shipbuilding Contracts in the aggregate amount of US\$519,132,000, subject to the Added/Subtracted Contract Price); and
- (ii) the Original Buyers, Oriental Fleet International and the Sellers, entered into the Deeds of Novation in relation to the novation of the Shipbuilding Contracts in accordance with the Memoranda of Agreement.

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## LETTER FROM THE BOARD

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### 1. Memoranda of Agreement

The principal terms of the Memoranda of Agreement are as follows:

**Date:** 27 November 2020

**Parties:** (1) the Original Buyers, as assignor; and  
(2) Oriental Fleet International, as assignee.

**Subject matter:** Pursuant to the Memoranda of Agreement and subject to the terms thereof, the Original Buyers agree to transfer and Oriental Fleet International agree to take over all the rights, responsibilities and liabilities under the Shipbuilding Contracts in respect of the 16 Bulk Carriers under Construction. It is expected that the 16 Bulk Carriers under Construction will be delivered during the period between December 2020 and August 2021.

**Purchase price:** The purchase price payable under each of the Memoranda of Agreement shall be the amount of (i) the relevant Assessment Price; less (ii) the amount of the unpaid fifth instalment under the respective Shipbuilding Contract (excluding Added/Subtracted Contract Price), which will be payable upon delivery of the Bulk Carriers under Construction under the Shipbuilding Contracts; less (iii) the relevant Added/Subtracted Contract Price (if any).

The Added/Subtracted Contract Price as a result of (i) upward adjustments to the contract price due to modifications of the Bulk Carriers under Construction; or (ii) downward adjustments due to the construction elements of the Bulk Carriers under Construction falling below certain agreed benchmarks and/or delay in delivery, under the Shipbuilding Contracts shall be confirmed by the Sellers and the Original Buyers at least 10 working days prior to the scheduled delivery date of the Bulk Carriers under Construction, consent to which shall not be unreasonably withheld by Oriental Fleet International.

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## LETTER FROM THE BOARD

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As the construction work of the Bulk Carriers under Construction has been substantially completed or is close to completion, it is expected that there will not be any material modifications of the technical specifications and requirements of the Bulk Carriers under Construction and the Bulk Carriers under Construction are expected to be delivered as scheduled, it is expected that the Added/Subtracted Contract Price (if any) will be minimal. Taking into account the abovementioned status of the construction of the Bulk Carriers under Construction, the Board considers that the terms of the Assignment and Novation Agreements are fair and reasonable.

Set out below is a summary of the Assessment Price, the unpaid fifth instalment and the purchase price payable under the Memoranda of Agreement in respect of each type of the Bulk Carriers under Construction:

Type	Number of vessels	Assessment Price per vessel	Unpaid fifth instalment per vessel	Purchase price payable per vessel <sup>(Note 1)</sup>
208,000 DWT bulk carriers (Hull No. DE081 and DE082)	2	US\$55,250,000	US\$33,120,000	US\$22,130,000
210,000 DWT bulk carriers (Hull No. NB009-5 and NB009-6)	2	US\$52,330,000	US\$33,722,000	US\$18,608,000
210,000 DWT bulk carriers (Hull No. BC210K-1, BC210K-2, BC210K-3 and BC210K-10)	4	US\$52,330,000	US\$33,722,000	US\$18,608,000
210,000 DWT bulk carriers (Hull No. N946, N947, N948, N949, N950, N951, N952 and N953)	8	US\$52,660,000	US\$31,320,000	US\$21,340,000

*Note 1:* On the assumption that there will not be any Added/Subtracted Contract Price.

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## LETTER FROM THE BOARD

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Accordingly, the aggregate purchase price payable under the Memoranda of Agreement is US\$326,628,000, which was determined after arm's length negotiation between the parties with reference to the Assessment Reports issued by China Tong Cheng, an independent valuer, and the unpaid instalments under the Shipbuilding Contracts. According to the Assessment Reports, the aggregate Assessment Prices as at the benchmark date of 30 September 2020 were US\$845,760,000, which was determined based on the cost approach. The full text of the Assessment Reports is set out in Appendices II-A, II-B, II-C and II-D to this circular. Notwithstanding that the Assessment Reports included a disclaimer that the explanations on the valuation are for the use of the state-owned assets supervision and administration authorities, China Tong Cheng has consented to the inclusion of the same in this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The purchase price payable by Oriental Fleet International under the Memoranda of Agreement will be funded, as to approximately 30%, by the internal resources of the Group and, as to approximately 70%, by external debt financing of the Group.

**Payment:**

Within seven banking days of the receipt of a written notice from the Original Buyers after the Memoranda of Agreement coming into effect, the purchase price shall be remitted free of bank charges, withholdings or any other deductions whatsoever by Oriental Fleet International to the Original Buyers.

**Transfer of rights  
and obligations:**

All the rights of the Original Buyers under or in relation to the Shipbuilding Contracts shall be assigned and transferred to, and enjoyed by Oriental Fleet International from the date on which the Deeds of Novation become effective, except that the rights, costs, obligations and liabilities of supervision and inspection under the Shipbuilding Contracts shall not be transferred to Oriental Fleet International but still be undertaken by the Original Buyers.

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## LETTER FROM THE BOARD

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As the Original Buyers have been undertaking the supervision and inspection of the construction of the Bulk Carriers under Construction, taking also into account (i) the construction work of the Bulk Carriers under Construction having been substantially completed or being close to completion; and (ii) the proposed timing of delivery of the Bulk Carriers under Construction, it was agreed that the rights, costs, obligations and liabilities of supervision and inspection under the Shipbuilding Contracts shall still be undertaken by the Original Buyers in view of continuity and efficiency. Further, as the COSCO SHIPPING Bulk Group will be the charterer of the Bulk Carriers under Construction upon delivery, the arrangement will also ensure that the Bulk Carriers under Construction will have the necessary specifications for the purpose of the time charter party.

**Right of nomination:** Oriental Fleet International may nominate a company as the assignee under the Memoranda of Agreement after the signing of the Memoranda of Agreement, provided that such company shall be a subsidiary of Oriental Fleet International.

**Effectiveness:** Unless otherwise agreed in writing between the parties, the Memoranda of Agreement shall come into effect provided all the conditions below are satisfied:

- (1) the authorized representative of the Original Buyers having signed the Memoranda of Agreement;
- (2) the authorized representative of Oriental Fleet International having signed the Memoranda of Agreement;
- (3) the approval of the Memoranda of Agreement and the transactions contemplated thereunder from the board of directors of the Original Buyers having been obtained;
- (4) the approval of the Memoranda of Agreement and the transactions contemplated thereunder at a general managers' working conference of COSCO SHIPPING Bulk having been obtained; and
- (5) the approval of the Memoranda of Agreement and the transactions contemplated thereunder from the Independent Shareholders at an extraordinary general meeting of the Company having been obtained.

As at the Latest Practicable Date, the conditions set out in sub-paragraphs (1), (2) and (4) above have been satisfied.



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## LETTER FROM THE BOARD

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### 2. Deeds of Novation

The principal terms of the Deeds of Novation are as follows:

**Date:** 27 November 2020

**Parties:**

- (1) the Original Buyers, as original buyer;
- (2) Oriental Fleet International, as new buyer; and
- (3) the Sellers, as seller.

**Subject matter:** Pursuant to the Deeds of Novation and subject to the terms thereof, the parties agree that with effect from the effective date of the Deeds of Novation, the Shipbuilding Contracts shall be novated by the Original Buyers to Oriental Fleet International, and Oriental Fleet International shall substitute the Original Buyers as party to the Shipbuilding Contracts and that the Shipbuilding Contracts shall henceforth be construed and treated in all respects as if Oriental Fleet International had been named therein as the buyer instead of the Original Buyers.

**Right of nomination:** Oriental Fleet International may nominate a company to be the buyer under the Shipbuilding Contracts to take up all the rights, benefits, obligations and liabilities of Oriental Fleet International under the Shipbuilding Contracts after the signing of the Deeds of Novation, provided that such company shall be a subsidiary of Oriental Fleet International.

**Effectiveness:** The Deeds of Novation shall become effective upon fulfillment of the following conditions:

- (1) the due execution of the Deeds of Novation by the authorized representatives of the parties thereto;
- (2) the obtaining of approval of the Deeds of Novation and the transactions contemplated thereunder from the board of directors of the Original Buyers;
- (3) the obtaining of approval of the Deeds of Novation and the transactions contemplated thereunder from the general managers' working conference of COSCO SHIPPING Bulk;

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## LETTER FROM THE BOARD

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- (4) the obtaining of approval of the Deeds of Novation and the transactions contemplated thereunder from the Independent Shareholders at an extraordinary general meeting of the Company;
- (5) only with respect to the Deeds of Novation in respect of the Shipbuilding Contracts where CSOC, Tianjin Xingang and/or Qingdao Beihai are the sellers, the notice of approval of the relevant Deeds of Novation from the head office of such sellers;
- (6) the Original Buyers giving a notice to notify Oriental Fleet International and the Sellers of the effectiveness of the Deeds of Novation at least seven working days prior to the scheduled delivery date of the Bulk Carriers under Construction;
- (7) the receipt by the Sellers of the first, second, third and fourth instalments of the contract price from the Original Buyers; and
- (8) the receipt by the Original Buyers from Oriental Fleet International of the purchase price under the corresponding Memoranda of Agreement.

As at the Latest Practicable Date, the conditions set out in sub-paragraphs (1) and (3) above have been fulfilled.

### **3. Information on the parties to the Assignment And Novation Agreements**

#### ***Information on the Group***

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

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

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## LETTER FROM THE BOARD

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### *Information on Oriental Fleet International*

Oriental Fleet International is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in ship chartering, ship financial leasing and related businesses.

### *Information on the Original Buyers*

Each of the Original Buyers is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk. Each of the Original Buyers is principally engaged in shipholding.

COSCO SHIPPING Bulk is a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in dry bulk shipping, semi-liner dry bulk shipping, whole-process logistics services, parcel cargo shipping services and coastal shipping services.

### *Information on CSOC, Tianjin Xingang and Qingdao Beihai*

CSOC is a company established in the PRC with limited liability. It is principally engaged in the brokerage of sales and purchases of vessels.

Tianjin Xingang is a company established in the PRC with limited liability. It is principally engaged in ship and marine equipment design, manufacturing and repair and auxiliary services.

Qingdao Beihai is a company established in the PRC with limited liability. It is principally engaged in the manufacturing and repair of ships and offshore platforms.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Qingdao Beihai is a non-wholly owned subsidiary of China Shipbuilding Industry Company Limited\* (中國船舶重工股份有限公司), the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601989) and whose controlling shareholder is China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司), and each of CSOC and Tianjin Xingang is a subsidiary of China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司). China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司) is a PRC state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Save as disclosed in this circular, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of CSOC, Tianjin Xingang and Qingdao Beihai and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### *Information on COSCO SHIPPING Yangzhou*

COSCO SHIPPING Yangzhou is a company established in the PRC with limited liability. It is a wholly-owned subsidiary of COSCO SHIPPING Heavy Industry.

COSCO SHIPPING Heavy Industry is a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in ship and marine equipment manufacturing, repair and modifications and auxiliary services.

### *Information on Dalian COSCO KHI*

Dalian COSCO KHI is a company established in the PRC with limited liability and an associate of COSCO SHIPPING. It is principally engaged in the design, manufacturing, sales and repairing of ships.

#### **4. Financial effects of the Assignment and Novation Agreements**

Following completion of the Assignment and Novation Agreements and upon delivery of the Bulk Carriers under Construction, the Bulk Carriers under Construction will be accounted for as the property, plant and equipment in the consolidated financial statements of the Group based on their respective acquisition costs. It is expected that there will not be any significant immediate effect on the net assets of the Group as the increase in property, plant and equipment will be offset by the decrease in cash and the increase in liabilities due to the obtaining of external debt financing for the payment of the purchase price.

The Bulk Carriers under Construction will be chartered to the COSCO SHIPPING Bulk Group upon delivery. The charter hire receivable by the Group for the leasing of the Bulk Carriers under Construction will be accounted for as revenue in the consolidated financial statements of the Group.

#### **5. Reasons for and benefits of entering into the Assignment and Novation Agreements**

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

The acquisition of the Bulk Carriers under Construction by the Group pursuant to the Assignment and Novation Agreements and the subsequent leasing of the Bulk Carriers under Construction by the Group to the COSCO SHIPPING Bulk Group, are part and parcel of the overall operating lease arrangements between the Group and the COSCO SHIPPING Bulk Group.

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## LETTER FROM THE BOARD

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As the Group strives to develop its vessel leasing business in the long run in an attempt to become China's leading and the world's first-class integrated supply chain financial service provider with distinct shipping logistics features, the entering into of the Assignment and Novation Agreements will expand the scale of the vessel leasing business and increase the proportion of the self-owned vessels of the Group. The proposed time charter party of the vessels between the Group and the COSCO SHIPPING Bulk Group following delivery of the vessels will also provide a stable income stream for the Group.

It is proposed that immediately after the delivery of Bulk Carriers under Construction, the COSCO SHIPPING Bulk Group will charter-in the Bulk Carriers under Construction from the Group pursuant to the Master Vessel Charter Agreement. The Bulk Carriers under Construction will be used by the COSCO SHIPPING Bulk Group for the transportation of bauxite in connection with Aluminum Corporation of China Limited's bauxite project in Guinea. The proposed term of the time charter party in respect of the Bulk Carriers under Construction is 10 years and the fees for the use and hire of the Bulk Carriers under Construction were determined with reference to the construction price and costs of the Bulk Carriers under Construction under the Assignment and Novation Agreements and in accordance with the general pricing principles and the general price determination procedures under the Master Vessel Charter Agreement approved by the Independent Shareholders at the extraordinary general meeting of the Company dated 23 December 2019. In determining the relevant charter hire rate (being in the range from US\$15,993 per day to US\$16,936 per day), the Group took into account the construction price and costs of the Bulk Carriers under Construction plus an appropriate margin (which is in line with the general pricing principles, being in the range from 0% to 12.25%) and sought to establish the market price by collecting applicable data and market information procedures.

The Group will ensure that the abovementioned time charter parties, being continuing connected transactions of Company, will be conducted within the applicable annual caps for the provision of vessel chartering services under the Master Vessel Charter Agreement as approved by the Independent Shareholders at the extraordinary general meeting of the Company dated 23 December 2019.

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) therefore consider that the Assignment and Novation Agreements were entered into in the ordinary and usual course of business of the Group and are on normal commercial terms, and that the terms of the Assignment and Novation Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **6. Implications under the Listing Rules**

The Assignment and Novation Agreements were entered into within 12 months after completion of the Previous Acquisitions and are of a similar nature. Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the Previous Acquisitions and the Assignment and Novation Agreements and the transactions contemplated thereunder should be aggregated.

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## LETTER FROM THE BOARD

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After aggregation, as one or more of the applicable percentages ratios calculated in accordance with the Listing Rules in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder exceed 25% but are less than 100%, the Assignment and Novation Agreements and the transactions contemplated thereunder constitute major transactions of the Company which are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, 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, 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.

As COSCO SHIPPING Bulk is a wholly-owned subsidiary of COSCO SHIPPING, and each of the Original Buyers is an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk, each of the Original Buyers is an associate of COSCO SHIPPING and therefore a connected person of the Company. Accordingly, the Assignment and Novation Agreements and the transactions contemplated thereunder also constitute connected transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

### **7. Independent Board Committee and Independent Financial Adviser**

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

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## LETTER FROM THE BOARD

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Messis Capital has been appointed by the Company as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Shareholders in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder.

### III. ADJUSTMENT OF CAPS FOR PROVISIONS OF GUARANTEE

At the annual general meeting of the Company held on 29 June 2020, the resolution in relation to the provision of guarantees for certain wholly-owned subsidiaries in the aggregate amounts of not exceeding RMB18.6 billion and US\$4.9 billion during the period from 1 July 2020 to 30 June 2021 was approved by the Shareholders. As disclosed in the Overseas Regulatory Announcement, on 27 November 2020, taking into account the financial market conditions, the financing budget of the Group and the actual utilization of the caps of the guarantees, the Board resolved to adjust the caps for the provisions of guarantees for the Guaranteed Wholly-owned Subsidiaries as follows:

- (i) the provision of guarantee for COSCO SHIPPING Leasing by the Company in the amount of not exceeding RMB7 billion (with the existing approved cap of RMB9 billion);
- (ii) the provision of guarantee for COSCO SHIPPING Leasing by CS Investment in the amount of not exceeding RMB0.5 billion (with the existing approved cap of RMB3.5 billion);
- (iii) the provision of guarantee for Yuanhai Leasing Tianjin by COSCO SHIPPING Leasing in the amount of not exceeding RMB5 billion;
- (iv) the provision of guarantee for Oriental Fleet International by the Company in the amount of not exceeding US\$900 million (with the existing approved cap of US\$600 million);
- (v) the provision of guarantee for Oriental Fleet Pulp 01 by the Company in the amount of not exceeding US\$165 million;
- (vi) the provision of guarantee for Florens Container Investment by the Company in the amount of not exceeding US\$100 million;
- (vii) the provision of guarantee for Florens Container Investment by Florens International in the amount of not exceeding US\$300 million; and
- (viii) the provision of guarantee for Florens Maritime by Florens International in the amount of not exceeding US\$400 million (with the existing approved cap of US\$300 million).

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## LETTER FROM THE BOARD

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Pursuant to the relevant requirements under relevant PRC laws and regulations and the Articles of Association, the Adjustment of Caps for Provisions of Guarantees shall be subject to the approval of the Shareholders.

The resolution in relation to the Adjustment of Caps for Provisions of Guarantees will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

### IV. EGM

The EGM will be convened at 1:30 p.m. on Friday, 18 December 2020 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC, for the Shareholders to consider and, if thought fit, approve the Assignment and Novation Agreements and the transactions contemplated thereunder. The Notice of EGM is set out on pages EGM-1 to EGM-3 of this circular.

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

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Adjustment of Caps for Provisions of Guarantees, and therefore no Shareholder is required to abstain from voting at the EGM for the relevant resolution.

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

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

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



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## LETTER FROM THE BOARD

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### V. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 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 34 to 51 of this circular in connection with the Assignment and Novation Agreements and the transactions contemplated thereunder, and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

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

The Board recommends the Independent Shareholders to vote in favour of the resolution to approve the Assignment and Novation Agreements and the transactions contemplated thereunder at the EGM. The Board also recommends the Shareholders to vote in favour of the resolution to approve the Adjustment of Caps for Provisions of Guarantees.

### VI. ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 32 to 33 of this circular, containing its recommendation in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 34 to 51 of this circular, containing its recommendation in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder; and (iii) the additional information set out in the appendices to this circular.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolution approving the Assignment and Novation Agreements and the transactions contemplated thereunder.

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

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



中遠海運發展股份有限公司  
**COSCO SHIPPING Development Co., Ltd.\***

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

**(Stock Code: 02866)**

2 December 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS  
ASSIGNMENT AND NOVATION AGREEMENTS**

We refer to the circular of the Company dated 2 December 2020 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the Circular. Messis Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 17 to 31 of the Circular, the “Letter from the Independent Financial Adviser” set out on pages 34 to 51 of the Circular and the additional information set out in the appendices thereto.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Assignment and Novation Agreements and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

**Independent Board Committee**

**Mr. Cai Hongping      Ms. Hai Chi Yuet      Mr. Graeme Jack**

**Mr. Lu Jianzhong      Ms. Zhang Weihua**

*Independent non-executive Directors*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter from Messis Capital to the Independent Board Committee and the Independent Shareholders in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder for the purpose of inclusion in this Circular.*



2 December 2020

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

Dear Sir or Madam,

### **MAJOR AND CONNECTED TRANSACTIONS ASSIGNMENT AND NOVATION AGREEMENTS**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to advise the Independent Board Committee and the Independent Shareholders in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 2 December 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Group proposes to enter into operating lease arrangements with the COSCO SHIPPING Bulk Group in respect of the 16 Bulk Carriers under Construction, pursuant to the aforementioned operating lease arrangements, the Group will acquire the 16 Bulk Carriers under Construction through the Assignment and Novation Agreements and immediately after the delivery of which, the COSCO SHIPPING Bulk Group will charter-in the 16 Bulk Carriers under Construction from the Group.

On 27 November 2020, the Original Buyers and Oriental Fleet International entered into the Memoranda of Agreement, pursuant to which and subject to the terms thereof, the Original Buyers agree to transfer and Oriental Fleet International agree to take over all rights, responsibilities and liabilities under the Shipbuilding Contracts in respect of the 16 Bulk

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Carriers under Construction at the aggregate consideration of US\$326,628,000; and the Original Buyers, Oriental Fleet International and the Sellers, entered into the Deeds of Novation in relation to the novation of the Shipbuilding Contracts in accordance with the Memoranda of Agreement.

The Assignment and Novation Agreements were entered into within 12 months after completion of the Previous Acquisitions and are of a similar nature. Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the Previous Acquisitions and the Assignment and Novation Agreements and the transactions contemplated thereunder should be aggregated. After aggregation, as one or more of the applicable percentages ratios calculated in accordance with the Listing Rules in respect of the Assignment and Novation Agreements and the transactions contemplated thereunder exceed 25% but are less than 100%, the Assignment and Novation Agreements and the transactions contemplated thereunder constitute major transactions of the Company which are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, 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, 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.

As COSCO SHIPPING Bulk is a wholly-owned subsidiary of COSCO SHIPPING, and each of the Original Buyers is an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk, each of the Original Buyers is an associate of COSCO SHIPPING and therefore a connected person of the Company. Accordingly, the Assignment and Novation Agreements and the transactions contemplated thereunder also constitute connected transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, all being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by COSCO SHIPPING to the Board. Accordingly, Mr. Wang Daxiong, Mr. Liu Chong, Mr. Xu Hui, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi have therefore abstained from voting on the relevant Board resolution approving the Assignment and Novation

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Agreements and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Assignment and Novation Agreements and the transactions contemplated thereunder. Therefore, no other Director has abstained from voting on such Board resolution.

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

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we were appointed as an independent financial adviser for the Company on five occasions, details of which are set out in the circulars of the Company dated (i) 10 May 2019 in relation to the further extension of validity period of resolutions regarding the revised proposed non-public issuance of A Shares by the Company; (ii) 5 August 2019 in relation to the proposed revision of annual caps in respect of continuing connected transactions contemplated under the master containers services agreement; (iii) 6 December 2019 in relation to certain continuing connected transactions; (iv) 30 October 2020 in relation to the Previous Acquisitions; and (v) 20 November 2020 in relation to a very substantial disposal and connected transaction. During the past two years, we were appointed as an independent financial adviser of COSCO SHIPPING Energy Transportation Co., Ltd.\* (中遠海運能源運輸股份有限公司) (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1138) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600026), a connected person of the Company, on two occasions, details of which are set out in its circulars dated (i) 5 July 2019 in relation to the amendment to the terms of the proposed non-public issuance of A shares; and (ii) 25 November 2019 in relation to extension resolutions in relation to the non-public issuance of A shares. During the past two years, we were also appointed to act as the independent financial adviser of COSCO SHIPPING Holdings Co., Ltd. (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1919) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601919), another connected person of the Company, for one occasion as detailed in its circular dated 5 December 2019 in relation to major transaction and continuing connected transactions. Notwithstanding the above, the previous engagements with the Company and its connected persons would not affect our independence from the Company and we are independent from the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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pursuant to Rule 13.84 of the Listing Rules, in particular that we did not serve as a financial adviser to (i) the Company, (ii) COSCO SHIPPING Group, and (iii) any core connected person of the Company within 2 years prior to 23 November 2020, being the date of making our independence declaration to the Hong Kong Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

### **BASIS OF OUR OPINION**

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

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

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background and Reasons for the Assignment and Novation Agreements

##### 1.1 Background information on the Company

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

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

##### 1.2 Financial performance on the Group

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

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*For the year ended 31 December 2018*

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

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

*For the year ended 31 December 2019*

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

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

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*For the six months ended 30 June 2020*

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

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

### *1.3 Financial position on the Group*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

### ***1.4 Background information on the parties to the Assignment and Novation Agreements***

#### *Information on Oriental Fleet International*

Oriental Fleet International is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in ship chartering, ship financial leasing and related businesses.

#### *Information on the Original Buyers*

Each of the Original Buyers is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING Bulk. Each of the Original Buyers is principally engaged in shipholding.

COSCO SHIPPING Bulk is a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in dry bulk shipping, semi-liner dry bulk shipping, whole-process logistics services, parcel cargo shipping services and coastal shipping services.

#### *Information on CSOC, Tianjin Xingang and Qingdao Beihai*

CSOC is a company established in the PRC with limited liability. It is principally engaged in the brokerage of sales and purchases of vessels.

Tianjin Xingang is a company established in the PRC with limited liability. It is principally engaged in ship and marine equipment design, manufacturing and repair and auxiliary services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Qingdao Beihai is a company established in the PRC with limited liability. It is principally engaged in the manufacturing and repair of ships and offshore platforms.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Qingdao Beihai is a non-wholly owned subsidiary of China Shipbuilding Industry Company Limited\* (中國船舶重工股份有限公司), the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601989) and whose controlling shareholder is China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司), and each of CSOC and Tianjin Xingang is a subsidiary of China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司). China Shipbuilding Industry Corporation\* (中國船舶重工集團有限公司) is a PRC state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Save as disclosed in this Circular, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of CSOC, Tianjin Xingang and Qingdao Beihai and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

### *Information on COSCO SHIPPING Yangzhou*

COSCO SHIPPING Yangzhou is a company established in the PRC with limited liability. It is a wholly-owned subsidiary of COSCO SHIPPING Heavy Industry.

COSCO SHIPPING Heavy Industry is a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in ship and marine equipment manufacturing, repair and modifications and auxiliary services.

### *Information on Dalian COSCO KHI*

Dalian COSCO KHI is a company established in the PRC with limited liability and an associate of COSCO SHIPPING. It is principally engaged in the design, manufacturing, sales and repairing of ships.

### **1.5 Reasons for and benefits of the Assignment and Novation Agreements**

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services. According to the 2020 Interim Report, the Company will, based on its existing business, gradually set up a high-level professional investment and financing team so as to become a first-class domestic ship owner leasing enterprise. In a short-term view, the Group will mobilize its current fleet resources to revive its internal business while in the long run, it will gradually increase the proportion of external business and work out a "one-stop" business model leveraging COSCO SHIPPING's advantages of full industrial chain deployment, in an attempt to establish a unique competitive edge in the industry. It is also the Group's intention to develop its vessel leasing business in the long run in an attempt to become China's leading and the world's first-class integrated supply chain financial service provider with distinct shipping logistics features. Due to the recent

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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business expansions, revenue from shipping and industry-related leasing business increased by approximately 9.6% to approximately RMB5.7 billion for the six months ended 30 June 2020 as a result of the expansion of the vessel finance leasing business.

As advised by the Company, in order to achieve the strategy of the Group by developing its vessel leasing business in the long run, the entering into of the Assignment and Novation Agreements would expand the scale of the vessel leasing business and increase the proportion of the self-owned vessels of the Group. Further, as advised by the management of the Group, it is the Group's intention that immediately after the delivery of the Bulk Carriers under Construction, the COSCO SHIPPING Bulk Group will charter-in the Bulk Carriers under Construction from the Group pursuant to the Master Vessel Charter Agreement. The fees for the use and hire of the Bulk Carriers under Construction were determined with reference to the construction price and costs of the Bulk Carriers under Construction under the Assignment and Novation Agreements and in accordance with the general pricing principles and the general price determination procedures under the Master Vessel Charter Agreement approved by the Independent Shareholders at the extraordinary general meeting of the Company dated 23 December 2019. It is expected that the charter hire receivable by the Group for the leasing of the Bulk Carriers under Construction will be accounted for as revenue in the consolidated financial statements of the Group, and will therefore provide a stable income stream for the Group.

Having considered that (i) the vessels leasing business is one of the Group's principal business; (ii) it is the Group's intention to develop its vessel leasing business in the long run; (iii) the entering into of the Assignment and Novation Agreements would expand the scale of the vessel leasing business and increase the proportion of the self-owned vessels of the Group; and (iv) the Group is expected to enjoy a stable income stream following the delivery of the Bulk Carriers under Construction and the COSCO SHIPPING Bulk Group will charter-in the Bulk Carriers under Construction from the Group pursuant to the Master Vessel Charter Agreement, we concur with the Directors' view that the Assignment and Novation Agreements were entered into 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.

## **2. The terms of the Assignment and Novation Agreements**

### ***2.1 The Assignment and Novation Agreements***

On 27 November 2020:

1. the Original Buyers and Oriental Fleet International entered into the Memoranda of Agreement, pursuant to which and subject to the terms thereof, the Original Buyers agree to transfer and Oriental Fleet International agree to take over all rights, responsibilities and liabilities under the Shipbuilding Contracts in respect of the 16 Bulk Carriers under Construction at the aggregate consideration of US\$326,628,000 (which was determined based on

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the aggregate Assessment Price of US\$845,760,000 and the unpaid instalments under the Shipbuilding Contracts in the aggregate amount of US\$519,132,000, subject to the Added/Subtracted Contract Price); and

2. the Original Buyers, Oriental Fleet International and the Sellers, entered into the Deeds of Novation in relation to the novation of the Shipbuilding Contracts in accordance with the Memoranda of Agreement.

Set out below is the summarised key terms of the Assignment and Novation Agreements. Please refer to the Letter from the Board for details:

### *Memoranda of Agreement*

Date: 27 November 2020

Parties: (1) the Original Buyers, as assignor; and  
(2) Oriental Fleet International, as assignee.

Subject matter: Pursuant to the Memoranda of Agreement and subject to the terms thereof, the Original Buyers agree to transfer and Oriental Fleet International agree to take over all the rights, responsibilities and liabilities under the Shipbuilding Contracts in respect of the 16 Bulk Carriers under Construction. It is expected that the 16 Bulk Carriers under Construction will be delivered during the period between December 2020 and August 2021.

Transfer of rights and obligations: All the rights of the Original Buyers under or in relation to the Shipbuilding Contracts shall be assigned and transferred to, and enjoyed by Oriental Fleet International from the date on which the Deeds of Novation become effective, except that the rights, costs, obligations and liabilities of supervision and inspection under the Shipbuilding Contracts shall not be transferred to Oriental Fleet International but still be undertaken by the Original Buyers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As the Original Buyers have been undertaking the supervision and inspection of the construction of the Bulk Carriers under Construction, taking also into account (i) the construction work of the Bulk Carriers under Construction having been substantially completed or close to completion; and (ii) the proposed timing of delivery of the Bulk Carriers under Construction, it was agreed that the rights, costs, obligations and liabilities of supervision and inspection under the Shipbuilding Contracts shall still be undertaken by the Original Buyers in view of continuity and efficiency. Further, as the COSCO SHIPPING Bulk Group will be the charterer of the Bulk Carriers under Construction upon delivery, the arrangement will also ensure that the Bulk Carriers under Construction will have the necessary specifications for the purpose of the time charter party.

Purchase price:

The purchase price payable under each of the Memoranda of Agreement shall be the amount of (i) the relevant Assessment Price; less (ii) the amount of the unpaid fifth instalment under the respective Shipbuilding Contracts (excluding Added/Subtracted Contract Price), which will be payable upon delivery of the Bulk Carriers under Construction under the Shipbuilding Contracts; less (iii) the relevant Added/Subtracted Contract Price (if any).



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Added/Subtracted Contract Price as a result of (i) upward adjustments to the contract price due to modifications of the Bulk Carriers under Construction; or (ii) downward adjustments due to the construction elements of the Bulk Carriers under Construction falling below certain agreed benchmarks and/or delay in delivery, under the Shipbuilding Contracts shall be confirmed by the Sellers and the Original Buyers at least 10 working days prior to the scheduled delivery date of the Bulk Carriers under Construction, consent to which shall not be unreasonably withheld by Oriental Fleet International. As the construction work of the Bulk Carriers under Construction has been substantially completed or is close to completion, it is expected that there will not be any material modifications of the technical specifications and requirements of the Bulk Carriers under Construction and the Bulk Carriers under Construction are expected to be delivered as scheduled, it is expected that the Added/Subtracted Contract Price will be minimal.

Accordingly, the aggregate purchase price payable under the Memoranda of Agreement is US\$326,628,000, which was determined after arm's length negotiation between the parties with reference to the Assessment Reports issued by China Tong Cheng, and the unpaid instalments under the Shipbuilding Contracts. According to the Assessment Reports, the aggregate Assessment Price as at the benchmark date of 30 September 2020 (the **"Benchmark Date"**) was US\$845,760,000, which was determined based on the cost approach. The full text of the Assessment Reports is set out in Appendices II-A, II-B, II-C and II-D to this Circular. Notwithstanding that the Assessment Reports included a disclaimer that the explanations on the valuation are for the use of the state-owned assets supervision and administration authorities, China Tong Cheng has consented to the inclusion of the same in this Circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The purchase price payable by Oriental Fleet International under the Memoranda of Agreement will be funded, as to approximately 30%, by the internal resources of the Group and, as to approximately 70%, by external debt financing of the Group.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Payment terms: Within seven banking days of the receipt of a written notice from the Original Buyers after the Memoranda of Agreement coming into effect, the purchase price shall be remitted free of bank charges, withholdings or any other deductions whatsoever by Oriental Fleet International to the Original Buyers.

Right of nomination: Oriental Fleet International may nominate a company as the assignee under the Memoranda of Agreement after the signing of the Memoranda of Agreement, provided that such company shall be a subsidiary of Oriental Fleet International.

### *The Deeds of Novation*

Date: 27 November 2020

Parties: (1) the Original Buyers, as original buyer;  
(2) Oriental Fleet International, as new buyer; and  
(3) the Sellers, as seller.

Subject matter: Pursuant to the Deeds of Novation and subject to the terms thereof, the parties agree that with effect from the effective date of the Deeds of Novation, the Shipbuilding Contracts shall be novated by the Original Buyers to Oriental Fleet International, and Oriental Fleet International shall substitute the Original Buyers as party to the Shipbuilding Contracts and that the Shipbuilding Contracts shall henceforth be construed and treated in all respects as if Oriental Fleet International had been named therein as the buyer instead of the Original Buyers.

Right of nomination: Oriental Fleet International may nominate a company to be the buyer under the Shipbuilding Contracts to take up all the rights, benefits, obligations and liabilities of Oriental Fleet International under the Shipbuilding Contracts after the signing of the Deeds of Novation, provided that such company shall be a subsidiary of Oriental Fleet International.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *2.2 Fairness and reasonableness on the consideration payable under the Assignment and Novation Agreements*

As stated in the Letter from the Board, in respect of the Memoranda of Agreement, the aggregate purchase price payable was determined after arm's length negotiation between the Original Buyers and Oriental Fleet International with reference to the aggregate Assessment Price of the 16 Bulk Carriers under Construction as at the Benchmark Date as set out in the Assessment Reports prepared by China Tong Cheng. According to the Assessment Reports, the Assessment Price of the 16 Bulk Carriers under Construction as at the Benchmark Date was, in aggregate, US\$845,760,000, which was determined based on the cost approach. According to the Memoranda of Agreement, the purchase price payable under each of the Memoranda of Agreement shall be the amount of (i) the relevant Assessment Price in respect of the each of the 16 Bulk Carriers under Construction, being US\$845,760,000; less (ii) the amount of the unpaid fifth instalment under the respective Shipbuilding Contracts (excluding Added/Subtracted Contract Price), being US\$519,132,000, which will be payable upon delivery of the Bulk Carriers under Construction under the Shipbuilding Contracts; less (iii) the relevant Added/Subtracted Contract Price (if any). Accordingly, the aggregate purchase price payable under the Memoranda of Agreement is US\$326,628,000, assuming there will be no Added/Subtracted Contract Price.

We have reviewed and enquired the qualification and experience of China Tong Cheng in charge of the valuation of the 16 Bulk Carriers under Construction under the Shipbuilding Contracts. We have also checked to the website of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (the "SASAC") and noted that China Tong Cheng is on the SASAC's recognized list of asset appraisal companies. Furthermore, we have reviewed the terms of engagement of China Tong Cheng and its scope of work and noted that the scope of work is appropriate for arriving at the opinion required to be given and we were not aware of any irregularities during our interview with China Tong Cheng or in our review of the Assessment Reports. Further, during our interview with China Tong Cheng, China Tong Cheng confirms that they are not aware of any limitations on the relevant scope of work. Furthermore, nothing has come to the attention of China Tong Cheng that parties to the Assignment and Novation Agreements had made formal or informal representation to them. China Tong Cheng has also confirmed that they are independent to the Company, the connected persons of the Company and other parties to the transaction.

We have discussed with China Tong Cheng and noted that they have considered three common valuation approaches, namely market approach, income approach and cost approach in preparing the Assessment Reports. As advised by China Tong Cheng, (i) the market approach is not appropriate for the valuation of the 16 Bulk Carriers under Construction given that market comparables could not accurately reflect the prices due to the variations in vessel builders and major equipment involved; and (ii) income approach is not appropriate for the valuation of the 16 Bulk Carriers under Construction given that the freight rates were affected by the widespread epidemic of COVID-19, in particular the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

changes in the international political and economic environment significantly influenced the shipping market, as thus, future market freight rates could not be reliably estimated. Therefore, cost approach is adopted for the valuation of 16 Bulk Carriers under Construction under the Shipbuilding Contracts because the 16 Bulk Carriers under Construction are at the stage of preparation and construction as at the Benchmark Date, so it would be more reasonable to be estimated with reference to the Shipbuilding Contracts and market price index analysis issued by Clarksons Research, a globally trusted and authoritative information provider on all aspects of shipping, on the 16 Bulk Carriers under Construction when determining the consideration.

We have reviewed the Assessment Reports and noted that the Assessment Prices as at the Benchmark Date was US\$845,760,000 which consisted of all relevant costs in completing the construction of the vessels, including (i) the construction prices of the 16 Bulk Carriers under Construction as at the Benchmark Date which is derived from (a) the original contracted construction prices of the 16 Bulk Carriers under Construction and (b) the market price index as at the Benchmark Date issued by Clarksons Research; (ii) the actual supervision fees of the 16 Bulk Carriers under Construction in accordance to their respective construction contracts; and (iii) the costs of capital with reference to the loan prime rate as issued by the People's Bank of China (PBOC). Based on the above, we consider that the adoption of cost approach and hence the bases and assumptions adopted in arriving the Assessment Prices are fair and reasonable.

Set out below is a summary of the Assessment Prices, the unpaid fifth instalment and the purchase price payable under the Memoranda of Agreement in respect of each type of the Bulk Carriers under Construction:

Type	Number of vessels	Assessment Price per vessel	Unpaid fifth instalment per vessel	Purchase price payable per vessel (Note 1)
208,000 DWT bulk carriers (Hull No. DE081 and DE082)	2	US\$55,250,000	US\$33,120,000	US\$22,130,000
210,000 DWT bulk carriers (Hull No. NB009-5 and NB009-6)	2	US\$52,330,000	US\$33,722,000	US\$18,608,000
210,000 DWT bulk carriers (Hull No. BC210K-1, BC210K-2, BC210K-3 and BC210K-10)	4	US\$52,330,000	US\$33,722,000	US\$18,608,000
210,000 DWT bulk carriers (Hull No. N946, N947, N948, N949, N950, N951, N952 and N953)	8	US\$52,660,000	US\$31,320,000	US\$21,340,000
<b>Total</b>	<b>16</b>	<b>US\$845,760,000</b>	<b>US\$519,132,000</b>	<b>US\$326,628,000</b>

*Note 1:* On the assumption that there will not be any Added/Subtracted Contract Price.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the table above and having considered that (i) the bases and assumptions adopted in arriving the Assessment Prices as at the Benchmark Date are fair and reasonable; and (ii) the purchase price payable under each of the Memoranda of Agreement is equivalent to the amount of (a) the Assessment Prices in respect of each of the 16 Bulk Carriers under Construction according to the Assessment Report, being US\$845,760,000; less (b) the amount of the unpaid fifth instalment under the respective Shipbuilding Contracts, being US\$519,132,000, which will be payable upon delivery of the Bulk Carriers under Construction under the Shipbuilding Contracts; less (c) the relevant Added/Subtracted Contract Price(if any), we concur with the view of the Directors that the terms of the Assignment and Novation Agreements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

### ***2.3 Financial Effects of the Assignment and Novation Agreements***

Following completion of the Assignment and Novation Agreements and upon delivery of the Bulk Carriers under Construction, the Bulk Carriers under Construction will be accounted for as the property, plant and equipment in the consolidated financial statements of the Group based on their respective acquisition costs. It is expected that there will not be any significant immediate effect on the net assets of the Group as the increase in property, plant and equipment will be offset by the decrease in cash and the increase in liabilities due to the obtaining of external debt financing for the payment of the purchase price.

The Bulk Carriers under Construction will be chartered to the COSCO SHIPPING Bulk Group upon delivery. The charter hire receivable by the Group for the leasing of the Bulk Carriers under Construction will be accounted for as revenue in the consolidated financial statements of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the opinion that the Assignment and Novation Agreements and the transactions contemplated thereunder were entered into 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 Assignment and Novation are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the the Assignment and Novation Agreements and the transactions contemplated thereunder.

\* *For identification purpose only*

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

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

**1. FINANCIAL INFORMATION OF THE GROUP**

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

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

- (i) the annual report of the Company for the year ended 31 December 2017 (pages 93 to 212) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427562.pdf>);
- (ii) the annual report of the Company for the year ended 31 December 2018 (pages 86 to 212) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426653.pdf>);
- (iii) the annual report of the Company for the year ended 31 December 2019 (pages 91 to 220) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700731.pdf>); and
- (iv) the interim report of the Company for the six months ended 30 June 2020 (pages 22 to 48) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0924/2020092400594.pdf>).

**2. STATEMENT OF INDEBTEDNESS****Debt securities and term loans**

As at 31 October 2020, save as disclosed in respect of the borrowings and indebtedness of the Group below, the Group has no debt securities issued or outstanding, or authorized or otherwise created but unissued, and no term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the Company or by independent third parties) or unsecured.

**Borrowings and indebtedness**

As at 31 October 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has outstanding borrowings and indebtedness of approximately RMB107,297 million, comprising secured bank and other loans of approximately RMB60,383 million, unsecured bank and other loans of approximately RMB22,429 million, RMB bonds of approximately RMB24,302 million and lease liabilities of approximately RMB183 million.

**Contingent liabilities**

As at 31 October 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has no material contingent liabilities or guarantees.

**Mortgages and charges**

As at 31 October 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group's general banking facilities and the above outstanding secured borrowings were secured by the Group's property, plant and equipment, certain equity investments and certain bank deposits.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at 31 October 2020.

The Directors confirm that there was no material change in the indebtedness status of the Group since 31 October 2020 up to the Latest Practicable Date.

**3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

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

The Company will strengthen macro analysis and market research, promote reform and transformation, develop new competitive strengths focusing on industry-finance integration, continuously improve high-quality development, and seek breakthroughs in distinctive shipping financial services. The entering into of the Assignment and Novation Agreements will expand the scale of the vessel leasing business and increase the proportion of the self-owned vessels of the Group, thereby facilitating the development of its shipping and industry-related leasing business,

In terms of shipping and industry-related leasing segments, the Company will continue to strengthen the combination of industry and finance, reinforce the collaboration among internal industry chains, and steadily expand external business. In terms of business model, the Company will step up efforts to develop leasing business for special containers and reefer containers, and study and explore smart container leasing, in a bid to build a shipping leasing company with unique competitive strengths. Meanwhile, the Company will uphold the strategy of organic, sustainable, high-quality development to promote the development of other industry-related leasing business, expand financing channels, and develop value-added leasing services, in an effort to become a leader in the leasing industry.

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

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

#### **4. WORKING CAPITAL**

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



*The following is the full text of the Assessment Report in respect of two 208,000 DWT bulk carriers (Hull No. DE081 and DE082) under construction for the purpose of inclusion in this circular.*

This Report is prepared in accordance with PRC Asset Valuation Standards.

**Asset Assessment Report of the Construction Contracts  
on Two Vessels under Construction  
Including “Huichanghai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020]

No. 11292

1 of 1

Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer**

- I. This Asset Assessment Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Appraisal and the Professional Code of Ethics for the Appraisal of Assets issued by the China Appraisal Society.
- II. The client or other users of the Asset Assessment Report shall use the Asset Assessment Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Assessment Report. The asset valuation agency and its professional asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Assessment Report by the client or other users of the Asset Assessment Report.

This Asset Assessment Report shall only be used by the client, other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Assessment Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

- III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Assessment Report in accordance with laws.
- IV. The list of assets and other relevant materials of the valuation target involved should be declared by the client and the owners of property rights and certified by signature, seal or other means permitted by laws. The client and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.
- V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Assessment Report or with the relevant parties, and have no prejudice against the relevant parties.
- VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Assessment Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified.

- VII. The analyses, judgments, and conclusions in the Asset Assessment Report issued are subject to the assumptions and restrictions in the Asset Assessment Report. The users of the Asset Assessment Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Assessment Report and their impact on the valuation conclusion.

### **Summary**

#### **I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION**

COSCO SHIPPING Bulk Co., Ltd. proposes to transfer the rights of the shipbuilding contracts on two vessels under construction including “Huichanghai”.

#### **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the rights of the shipbuilding contracts on two vessels under construction including “Huichanghai” proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd..

#### **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights of the shipbuilding contracts on two vessels under construction, namely “Huichanghai” (Hull No. DE081) and “Huishenghai” (Hull No. DE082).

The scope of valuation is the shipbuilding contracts on two vessels under construction, namely “Huichanghai” and “Huishenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$24,840,000.00.

#### **IV. TYPE OF VALUE**

Market value.

#### **V. VALUATION BENCHMARK DATE**

30 September 2020.

#### **VI. VALUATION METHODOLOGY**

The cost approach was adopted in this valuation.

**VII. VALUATION CONCLUSION AND ITS VALIDITY**

On the valuation benchmark date, being 30 September 2020, the appraised equity value of the shipbuilding contracts on the appraised assets, namely two vessels under construction including “Huichanghai”, was US\$110,500,000 (ONE HUNDRED TEN MILLION FIVE HUNDRED THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the equity of the shipbuilding contracts on two vessels under construction including “Huichanghai” proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd.. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the two vessels under construction, namely “Huichanghai” and “Huishenghai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$85,560,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the seller discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**The above contents are extracted from the text of the Assessment Report. Please read the text of the Assessment Report to understand details of the valuation and reasonably comprehend the valuation conclusion.**



**Asset Assessment Report on the Construction Contracts of Two Vessels under  
Construction Including “Huichanghai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11292

To: COSCO SHIPPING Bulk Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, as at 30 September 2020, by way of adopting the cost approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards. We hereby report the details of the asset valuation as follows:

**I. OVERVIEW OF THE CLIENT, THE OWNERS OF PROPERTY RIGHTS AND OTHER USERS OF THE ASSET ASSESSMENT REPORT**

**(I) The Client and the Owners of Property Rights**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Wai Cheong Shipping Limited and Wai Sheng Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huichanghai” and “Huishenghai”, the two vessels under construction, respectively.

## **(II) Overview of other Users of the Assessment Report as Agreed in the Asset Valuation Engagement Contract**

Except for the client, the owners of property rights and other users of the Assessment Report as provided by national laws and regulations, no other users of the Assessment Report were provided in the Asset Valuation Engagement Contract.

## **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the two vessels under construction including “Huichanghai” by COSCO SHIPPING Bulk Co., Ltd.

## **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” (Hull No. DE081) and “Huishenghai” (Hull No. DE082).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$24,840,000.00.

The vessels under construction are the two vessels, namely “Huichanghai” and “Huishenghai”, which are bulk vessels with a DWT of 210,000 tonnes constructed by Dalian COSCO KHI Ship Engineering Co., Ltd. with a total length of 299.99 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,250KW and the generator units are 3 sets of AC450 with a horsepower of 1,060KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huichanghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	1,656	24 February 2020	Late March 2021
Huishenghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	828	20 April 2020	Mid-May 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. TYPE AND DEFINITION OF VALUE

The types of the valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but are not limited to) the investment value, the value in use, the liquidation value and the residual value.

Based on the purpose of the valuation, the market conditions and the conditions of the valuation target, the market value is adopted in the valuation.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

**V. VALUATION BENCHMARK DATE**

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**VI. BASIS OF VALUATION****(I) Basis of Economic Activity**

1. The Reply of China COSCO SHIPPING Co., Ltd. on Combining Industry with Finance for 16 210,000 DWT Bulk Carriers under Construction of COSCO SHIPPING Bulk Co., Ltd. (Zhong Yuan Hai Qi 2020 No. 372).

**(II) Legal Basis Provided by Laws and Regulations**

1. The Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. The Law of the People's Republic of China on the State-owned Assets in Enterprises (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
3. The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council);
4. The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36);
5. The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);
6. The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

8. The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);
9. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
10. The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance of the People's Republic of China);
11. The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance on 24 June 2016);
12. The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
13. The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

### **(III) Basis of Valuation Standards**

1. Basic Asset Valuation Standards (Cai Zi [2017] No. 43);
2. Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
6. Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
7. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
8. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

9. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48);
10. Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
11. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
12. Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37).

#### **(IV) Ownership Basis**

The shipbuilding contracts.

#### **(V) Pricing Basis**

1. The records of inquiry, inspection and verification;
2. Vessel price information of Clarksons and other information on the shipping market.

### **VII. VALUATION METHODOLOGY**

#### **(I) Selection of Valuation Methodology and the Reasons**

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriately to adopt the cost approach in the valuation.

**(II) Introduction to the Cost Approach**

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

**1. *Shipbuilding price of the appraised vessels under construction on the valuation benchmark date***

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

**2. *Supervision fees***

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

**3. *Determination of capital costs***

They are determined based on the reasonable construction period of the appraised vessels under construction and the LPR interest rate issued by the People’s Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period/2

**VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES****(I) Acceptance of Engagement**

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after the discussions and communications with the client, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific conditions.

**(II) On-site inspection and collection of materials**

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for assets valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in assets valuation in accordance with laws.

**(III) Assessment and estimation**

Analyze, summarize and sort the materials on valuation based on the specific conditions of the asset valuation business and form the basis for the assessment and estimation and the preparation of the assessment report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

**(IV) Issuance of report**

The responsible persons of the project prepare the preliminary asset assessment report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset assessment report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issue the formal asset assessment report after conducting necessary communications on relevant contents of the assessment report with the client and other relevant parties.



**IX. VALUATION ASSUMPTIONS**

The following are the valuation assumptions on which the establishment of the Assessment Report and conclusions is premised:

**(I) Basic Assumptions**

1. Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.
2. Open market assumption. The open market assumption is that the assets to be appraised are traded in an open market to realize their market value. The market value of the assets is subject to the market mechanism and determined by the market conditions instead of individual transactions. An open market is a fully developed and comprehensive market condition, a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have opportunity and time to access adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-binding or unrestricted conditions.

**(II) General Assumptions**

1. This valuation assumes that there will be no unforeseen significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in the country after the valuation benchmark date, and that there will be no significant impact caused by other force majeure and unforeseen factors.
2. This valuation assumes that the owners of the vessels will pay the construction amount as provided in the shipbuilding contracts and the buyer and the seller can strictly implement all provisions of the contracts to facilitate the smooth execution of the contracts and the timely delivery.
3. This valuation assumes that the shipbuilding contracts will not be transferred by the client to conduct financing and result in the failure to deliver the appraised vessels under construction on time.

**X. VALUATION CONCLUSION**

On the valuation benchmark date, being 30 September 2020, the appraised equity value of the shipbuilding contracts on the appraised assets, namely the rights under the construction contracts of the two vessels under construction including “Huichanghai”, was US\$110,500,000 (ONE HUNDRED TEN MILLION FIVE HUNDRED THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the equity value of the shipbuilding contracts on two vessels under construction including “Huichanghai” proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd.. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**XI. EXPLANATIONS TO SPECIAL MATTERS****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the two vessels under construction, namely “Huichanghai” and “Huishenghai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$85,560,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the seller discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**XII. RESTRICTIONS ON THE USE OF THE ASSESSMENT REPORT**

- (I) For the scope of the use of the Assessment Report, it shall be used for the valuation purpose and use set out in the Assessment Report. For the excerpt, reference and disclosure of all or part of the contents of the Assessment Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;
- (II) The valuation agency and its asset appraisers take no responsibility if the client or other users of the Asset Assessment Report fail to use this Asset Assessment Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Assessment Report;
- (III) Except for the client, the other users of the Asset Assessment Report as agreed in the asset valuation engagement contract and the users of the Asset Assessment Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;
- (IV) Users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

**XIII. DATE OF THE ASSESSMENT REPORT**

The date of the Assessment Report is 27 November 2020.

Asset appraisers:

27 November 2020

**Annexes**

- I. The Corresponding Economic Activity Document on the Valuation Purpose
- II. Business Licenses of the Client and the Owners of Property Rights
- III. Major Ownership Proof Materials of the Valuation Target Involved
- IV. Letters of Undertaking of the Client and Relevant Parties
- V. Letters of Undertaking of the Signatory Asset Appraisers
- VI. The Announcement on the Registration and Filing of the Valuation Agency
- VII. Photocopy of the Business License of the Valuation Agency
- VIII. Qualification Certificates of the Signatory Asset Appraisers
- IX. The Asset Valuation Engagement Contract and the Letter of Authorization
- X. The Breakdown of Asset Valuation

**Explanations on the Asset Assessment on the Construction Contracts of  
Two Vessels under Construction  
Including “Huichanghai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11292  
No. 1 of 1

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer on the Scope of the Use of the Explanations on the Valuation**

The Explanations on the Valuation is for the use by the state-owned assets supervision and administration authorities (including the enterprises contributed by them), relevant supervision and administration authorities and departments. Unless it is otherwise provided by laws and regulations, all or part of the contents of the materials shall not be provided to any other units and individuals and shall not be published in the media.



**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

This part is issued and provided by the client and the owners of property rights with the original text attached.

**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

**I. OVERVIEW OF THE CLIENT AND THE OWNERS OF PROPERTY RIGHTS**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Wai Cheong Shipping Limited and Wai Sheng Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huichanghai” and “Huishenghai”, the two vessels under construction, respectively.

## II. EXPLANATIONS ON THE ECONOMIC ACTIVITY

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the value of the rights under the construction contracts of the two vessels under construction including “Huichanghai” by COSCO SHIPPING Bulk Co., Ltd.

## III. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” (Hull No. DE081) and “Huishenghai” (Hull No. DE082).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$24,840,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tones constructed by Dalian COSCO KHI Ship Engineering Co., Ltd. with a total length of 299.99 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,250KW and the generator units are 3 sets of AC450 with a horsepower of 1,060KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huichanghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	1,656	24 February 2020	Late March 2021
Huishenghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	828	20 April 2020	Mid-May 2021

*Note:* The above contractual price is tax-exclusive.

**IV. EXPLANATIONS ON THE VALUATION BENCHMARK DATE**

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**V. EXPLANATIONS ON MAJOR EVENTS WHICH MAY AFFECT THE VALUATION**

1. Based on the shipbuilding contracts on the two vessels under construction, namely “Huichanghai” and “Huishenghai”, the subsequent construction fees from the valuation benchmark date to the completion date of the construction of vessels were approximately US\$85,560,000. The construction of the two appraised vessels under construction has not been completed on the valuation benchmark date.

2. According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the seller discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**VI. EXPLANATIONS ON ASSETS STOCKTAKING**

The scope of assets stocktaking is consistent with the scope of valuation.

To cooperate in the assets valuation, the Company arranged relevant departments and employees and established a special working group on assets stocktaking. Appraisers provided centralized guidance on the working group on assets stocktaking, explained the standards on filling in the breakdown of stocktaking and notes in the process of stocktaking, issued the list of materials to be collected and prepared and emphasized the implementation of the ownership of property rights and specified the layout of physical items. After reaching consensus on the purpose, significance and contents of the assets stocktaking, the working group on assets stocktaking formulated specific implementation plans and implemented the division of work under centralized leadership.

During the process of stocktaking, the Company made detailed arrangement and conducted stocktaking on assets within the scope of valuation under the direct leadership of major responsible persons of all units with the finance department as the main force under the close cooperation of relevant departments. The stocktaking is directly filed with the valuation agency.

## **VII. LIST OF MATERIALS**

Major materials provided by the client and the owners of property rights are as follows:

1. Photocopies of business licenses;
2. The corresponding economic activity documents on the valuation purpose;
3. Letters of undertaking of the client and the owners of property rights etc.;
4. The application for assets valuation and stocktaking;
5. The shipbuilding contracts;
6. Relevant technical materials on vessels;
7. Other materials related to the asset valuation.

### Explanations on the Asset Valuation

#### I. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

##### (I) The Valuation Target and the Contents of the Scope of Valuation

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” (Hull No. DE081) and “Huishenghai” (Hull No. DE082).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$24,840,000.00.

##### (II) Layout and Characteristics of Physical Assets

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Dalian COSCO KHI Ship Engineering Co., Ltd. with a total length of 299.99 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,250KW and the generator units are 3 sets of AC450 with a horsepower of 1,060KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huichanghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	1,656	24 February 2020	Late March 2021
Huishenghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	828	20 April 2020	Mid-May 2021

*Note:* The above contractual price is tax-exclusive.

**II. OVERALL EXPLANATIONS ON ASSETS VERIFICATION****(I) Arrangement of Assets Verifiers, Execution Time and Procedures**

In accordance with relevant standards and regulations on assets appraisal and based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights, a professional group verified the assets within the scope of valuation.

Details of the verification procedures are as follows:

Guiding the owners of property rights in assets stocktaking and filling in the breakdown of assets and collecting and summarizing various valuation materials held by the owners of property rights.

Adopting appropriate methods to verify if the accounting statements are consistent with the actual accounts based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights under the cooperation of relevant employees of the owners of property rights. Requiring the owners of property rights to supplement, modify and improve the application for assets appraisal based on the verification results.

Verifying the valuation materials provided by the owners of property rights, conducting necessary inspections on the materials about the legal ownership of relevant assets and sources of materials and paying due attention to the legal ownership of relevant assets.

Conducting investigations to understand significant events which may affect the assets valuation.

The conclusions on verification of assets are formed based on the above work after the communications with relevant parties.

**(II) Matters Affecting the Verification of Assets and the Handling Methods**

Nil.

**(III) Verification Conclusion**

The ownership of the assets is complete and clear.

### III. EXPLANATIONS ON VALUATION TECHNOLOGY

#### (I) Overview of Assets

The valuation target under the asset valuation is the value of the rights under the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, on the basis of the completed status.

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$24,840,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Dalian COSCO KHI Ship Engineering Co., Ltd. with a total length of 299.99 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,250KW and the generator units are 3 sets of AC450 with a horsepower of 1,060KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huichanghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	1,656	24 February 2020	Late March 2021
Huishenghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	828	20 April 2020	Mid-May 2021

*Note:* The above contractual price is tax-exclusive.

#### (II) Valuation Procedures

1. Formulate the working plan on assets valuation based on the purpose of valuation;
2. Guide the owners of property rights to conduct assets stocktaking, fill in the registration form for the valuation and stocktaking of the construction-in-progress on the valuation benchmark date, collect and prepare relevant materials;



3. Inspect, authenticate and verify assets and validate relevant materials;
4. Fill in the draft for key equipment under the assets valuation;
5. Select the valuation method, determine relevant parameters and conduct evaluation and estimation;
6. Summarize and prepare the explanations on the valuation and cases.

### (III) Valuation Methodology

#### 1. *Selection of valuation methodology and the reasons*

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

#### 2. *Introduction to the cost approach*

Based on the purpose of valuation, the valuation target is the value of the rights under of the construction contracts of the two vessels under construction, namely “Huichanghai” and “Huishenghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

##### *(1) Shipbuilding price of the appraised vessels under construction on the valuation benchmark date*

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price  $\times$  Index on the valuation benchmark date  $\div$  Index at the execution time of contracts

(2) *Supervision fees*

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

(3) *Determination of capital costs*

They are determined based on the reasonable construction period for the appraised vessels under construction and the LPR interest rate issued by the People's Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees)  $\times$  Reasonable construction period  $\times$  Interest rate of bank loans for the same period/2

(IV) Valuation Cases

***Case I: “Huichanghai”, Item 1 in the Breakdown of Valuation on Construction-in-progress-Vessels***

1. *Overview of the asset*

The carrying value of “Huichanghai”, the construction-in-progress, is US\$16,560,000.00. It is a bulk vessel with a DWT of 210,000 tonnes constructed by Dalian COSCO KHI Ship Engineering Co., Ltd. with a total length of 299.99 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessel is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,250KW and the generator units are 3 sets of AC450 with a horsepower of 1,060KW. The contractual price, payment and scheduled delivery time of the appraised vessel under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huichanghai	Dalian COSCO KHI Ship Engineering Co., Ltd.	5,520	1,656	24 February 2020	Late March 2021

## 2. *Determination of the appraised value*

The calculation formula under the cost approach is as follows:

The value of the rights under of the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

- (1) Shipbuilding price of the appraised vessel under construction on the valuation benchmark date

The price indices at the execution time of contracts and on the valuation benchmark date based on the vessel price information of Clarksons are 131 and 127, respectively, then:

Shipbuilding price of the appraised vessel under construction on the valuation benchmark date =  $55,200,000 \times 127 \div 131 = \text{US\$}53,514,500$

- (2) Supervision fees

They are determined based on the amount of US\$210,000 in the supervision contract on the actual construction of the appraised vessel.

- (3) Determination of capital costs

Based on the reasonable construction period of 16 months for the appraised vessel under construction and the interest rate of 4.25% determined based on the average of the 1-year and 5-year LPR interest rates issued by the People's Bank of China and after taking into the even input of capital,

$$\text{Capital costs} = (53,514,500 + 210,000) \times 16/12 \times 4.25\%/2$$

$$= \text{US\$}1,522,200$$

- (4) Appraised value = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

$$= 53,514,500 + 210,000 + 1,522,200$$

$$= \text{US\$}55,250,000 \text{ (rounding)}$$

**IV. VALUATION CONCLUSION AND ANALYSIS**

On the valuation benchmark date, being 30 September 2020, the appraised equity value of the shipbuilding contracts on the appraised assets, namely the rights under the construction contracts of the two vessels under construction including “Huichanghai”, was US\$110,500,000 (ONE HUNDRED TEN MILLION FIVE HUNDRED THOUSAND US DOLLARS, rounding to the nearest ten thousand).

*The following is the full text of the Assessment Report in respect of two 210,000 DWT bulk carriers (Hull No. NB009-5 and NB009-6) under construction for the purpose of inclusion in this circular.*

This Report is prepared in accordance with PRC Asset Valuation Standards.

**Asset Assessment Report on the Construction Contracts of Two Vessels under  
Construction Including “Huijinhai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11293

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Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer**

- I. This Asset Assessment Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Appraisal and the Professional Code of Ethics for the Appraisal of Assets issued by the China Appraisal Society.
- II. The client or other users of the Asset Assessment Report shall use the Asset Assessment Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Assessment Report. The asset valuation agency and its professional asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Assessment Report by the client or other users of the Asset Assessment Report.

This Asset Assessment Report shall only be used by the client, other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Assessment Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

- III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Assessment Report in accordance with laws.
- IV. The list of assets and other relevant materials of the valuation target involved should be declared by the client and the owners of property rights and certified by signature, seal or other means permitted by laws. The client and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.
- V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Assessment Report or with the relevant parties, and have no prejudice against the relevant parties.
- VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Assessment Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal title of the relevant assets, and made proper disclosure in respect of the issues identified.

- VII. The analyses, judgments, and conclusions in the Asset Assessment Report issued are subject to the assumptions and restrictions in the Asset Assessment Report. The users of the Asset Assessment Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Assessment Report and their impact on the valuation conclusion.



### **Summary**

#### **I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION**

COSCO SHIPPING Bulk Co., Ltd. proposes to transfer the rights under the construction contracts of the two vessels under construction including “Huijinhai”.

#### **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the value of rights under the construction contracts of the two vessels under construction including “Huijinhai” by COSCO SHIPPING Bulk Co., Ltd.

#### **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” (Hull No. NB009-5) and “Huixiuhai” (NB009-6).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$25,940,000.00.

#### **IV. TYPE OF VALUE**

Market value.

#### **V. VALUATION BENCHMARK DATE**

30 September 2020.

#### **VI. VALUATION METHODOLOGY**

The cost approach was adopted in this valuation.

**VII. VALUATION CONCLUSION AND ITS VALIDITY**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the two vessels under construction including “Huijinhai”, was US\$104,660,000 (ONE HUNDRED FOUR MILLION SIX HUNDRED SIXTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the two vessels under construction including “Huijinhai”. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$77,820,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**The above contents are extracted from the text of the Assessment Report. Please read the text of the Assessment Report to understand details of the valuation and reasonably comprehend the valuation conclusion.**

**Asset Assessment Report on the Construction Contracts  
of Two Vessels under Construction  
Including “Huijinhai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11293

To: COSCO SHIPPING Bulk Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of the rights under of the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, as at 30 September 2020, by way of adopting the cost approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards. We hereby report the details of the asset valuation as follows:

**I. OVERVIEW OF THE CLIENT, THE OWNERS OF PROPERTY RIGHTS  
AND OTHER USERS OF THE ASSET ASSESSMENT REPORT**

**(I) The Client and the Owners of Property Rights**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Well Flourish Shipping Limited and Well Halo Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huijinhai” and “Huixiuhai”, the two vessels under construction, respectively.

## **(II) Overview of other Users of the Assessment Report as Agreed in the Asset Valuation Engagement Contract**

Except for the client, the owners of property rights and other users of the Assessment Report as provided by national laws and regulations, no other users of the Assessment Report were provided in the Asset Valuation Engagement Contract.

## **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the two vessels under construction including “Huijinhai” by COSCO SHIPPING Bulk Co., Ltd.

## **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” (Hull No. NB009-5) and “Huixiuhai” (Hull No. NB009-6).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$25,940,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Tianjin Xingang Shipyard. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huijinhai	Tianjin Xingang Shipyard	5,188	1,297	25 November 2019	18 March 2021
Huixiuhai	Tianjin Xingang Shipyard	5,188	1,297	20 December 2019	19 May 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. TYPE AND DEFINITION OF VALUE

The types of the valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but are not limited to) the investment value, the value in use, the liquidation value and the residual value.

Based on the purpose of the valuation, the market conditions and the conditions of the valuation target, the market value is adopted in the valuation.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

#### V. VALUATION BENCHMARK DATE

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**VI. BASIS OF VALUATION****(I) Basis of Economic Activity**

1. The Reply of China COSCO SHIPPING Co., Ltd. on Combining Industry with Finance for 16 210,000 DWT Bulk Carriers under Construction of COSCO SHIPPING Bulk Co., Ltd. (Zhong Yuan Hai Qi 2020 No. 372);

**(II) Legal Basis Provided by Laws and Regulations**

1. The Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. The Law of the People's Republic of China on the State-owned Assets in Enterprises (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
3. The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council);
4. The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36);
5. The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);
6. The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
8. The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);
9. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
10. The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance of the People's Republic of China);

11. The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance on 24 June 2016);
12. The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
13. The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

### **(III) Basis of Valuation Standards**

1. Basic Asset Valuation Standards (Cai Zi [2017] No. 43);
2. Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
6. Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
7. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
8. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
9. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48);
10. Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
11. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);



12. Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37).

#### **(IV) Ownership Basis**

The shipbuilding contracts.

#### **(V) Pricing Basis**

1. The records of inquiry, inspection and verification;
2. Vessel price information of Clarksons and other information on the shipping market.

### **VII. VALUATION METHODOLOGY**

#### **(I) Selection of Valuation Methodology and the Reasons**

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

#### **(II) Introduction to the Cost Approach**

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction  
= Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

**1. *Shipbuilding price of the appraised vessels under construction on the valuation benchmark date***

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

**2. *Supervision fees***

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

**3. *Determination of capital costs***

They are determined based on the reasonable construction period of the appraised vessels under construction and the LPR interest rate issued by the People's Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period / 2

## **VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES**

### **(I) Acceptance of Engagement**

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after the discussions and communications with the client, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific conditions.

**(II) On-site inspection and collection of materials**

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for assets valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in assets valuation in accordance with laws.

**(III) Assessment and estimation**

Analyze, summarize and sort the materials on valuation based on the specific conditions of the asset valuation business and form the basis for the assessment and estimation and the preparation of the assessment report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and other relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

**(IV) Issuance of report**

The responsible persons of the project prepare the preliminary asset assessment report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset assessment report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issue the formal asset assessment report after conducting necessary communications on relevant contents of the assessment report with the client and other relevant parties.

**IX. VALUATION ASSUMPTIONS**

The following are the valuation assumptions on which the establishment of the Assessment Report and conclusions is premised:

**(I) Basic Assumptions**

1. Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

2. Open market assumption. The open market assumption is that the assets to be appraised are traded in an open market to realize their market value. The market value of the assets is subject to the market mechanism and determined by the market conditions instead of individual transactions. An open market is a fully developed and comprehensive market condition, a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have opportunity and time to access adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-binding or unrestricted conditions.

**(II) General Assumptions**

1. This valuation assumes that there will be no unforeseen significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in the country after the valuation benchmark date, and that there will be no significant impact caused by other force majeure and unforeseen factors.
2. This valuation assumes that the owners of the vessels will pay the construction amount as provided in the shipbuilding contracts and the buyer and the seller can strictly implement all provisions of the contracts to facilitate the smooth execution of the contracts and the timely delivery.
3. This valuation assumes that the shipbuilding contracts will not be transferred by the client to conduct financing and result in the failure to deliver the appraised vessels under construction on time.

**X. VALUATION CONCLUSION**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the two vessels under construction including “Huijinhai”, was US\$104,660,000 (ONE HUNDRED FOUR MILLION SIX HUNDRED SIXTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the two vessels under construction including “Huijinhai” by COSCO SHIPPING Bulk Co., Ltd. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**XI. EXPLANATIONS TO SPECIAL MATTERS****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$77,820,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**XII. RESTRICTIONS ON THE USE OF THE ASSESSMENT REPORT**

- (I) For the scope of the use of the Assessment Report, it shall be used for the valuation purpose and use set out in the Assessment Report. For the excerpt, reference and disclosure of all or part of the contents of the Assessment Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;
- (II) The valuation agency and its asset appraisers take no responsibility if the client or other users of the Asset Assessment Report fail to use this Asset Assessment Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Assessment Report;
- (III) Except for the client, the other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and the users of the Asset Assessment Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;
- (IV) Users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

**XIII. DATE OF THE ASSESSMENT REPORT**

The date of the Assessment Report is 27 November 2020.

Asset appraisers:

27 November 2020

**Annexes**

- I. The Corresponding Economic Activity Document on the Valuation Purpose
- II. Business Licenses of the Client and the Owners of Property Rights
- III. Major Ownership Proof Materials of the Valuation Target Involved
- IV. Letters of Undertaking of the Client and Relevant Parties
- V. Letters of Undertaking of the Signatory Asset Appraisers
- VI. The Announcement on the Registration and Filing of the Valuation Agency
- VII. Photocopy of the Business License of the Valuation Agency
- VIII. Qualification Certificates of the Signatory Asset Appraisers
- IX. The Asset Valuation Engagement Contract and the Letter of Authorization
- X. The Breakdown of Asset Valuation



**Explanations on the Asset Assessment on the Construction Contracts of  
Two Vessels under Construction Including “Huijinhai” Proposed  
to Be Transferred by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020]  
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China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer on the Scope of the Use of the Explanations on the Valuation**

The Explanations on the Valuation is for the use by the state-owned assets supervision and administration authorities (including the enterprises contributed by them), relevant supervision and administration authorities and departments. Unless it is otherwise provided by laws and regulations, all or part of the contents of the materials shall not be provided to any other units and individuals and shall not be published in the media.

**Explanations of the Enterprise on Relevant Matters in Conducting the Asset Valuation**

This part is issued and provided by the client and the owners of property rights with the original text attached.

**Explanations of the Enterprise on Relevant Matters in Conducting the Asset Valuation****I. OVERVIEW OF THE CLIENT AND THE OWNERS OF PROPERTY RIGHTS**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Well Flourish Shipping Limited and Well Halo Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huijinhai” and “Huixiuhai”, the two vessels under construction, respectively.

## II. EXPLANATIONS ON THE ECONOMIC ACTIVITY

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the value of the rights under the construction contracts of the two vessels under construction including “Huijinhai” by COSCO SHIPPING Bulk Co., Ltd..

## III. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” (Hull No. NB009-5) and “Huixiuhai” (Hull No. NB009-6).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$25,940,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Tianjin Xingang Shipyard. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huijinhai	Tianjin Xingang Shipyard	5,188	1,297	25 November 2019	18 March 2021
Huixiuhai	Tianjin Xingang Shipyard	5,188	1,297	20 December 2019	19 May 2021

*Note:* The above contractual price is tax-exclusive.

**IV. EXPLANATIONS ON THE VALUATION BENCHMARK DATE**

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**V. EXPLANATIONS ON MAJOR EVENTS WHICH MAY AFFECT THE VALUATION**

1. Based on the shipbuilding contracts on the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, the subsequent construction fees from the valuation benchmark date to the completion date of the construction of vessels were approximately US\$77,820,000. The construction of the two appraised vessels under construction has not been completed on the valuation benchmark date.
2. According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**VI. EXPLANATIONS ON ASSETS STOCKTAKING**

The scope of assets stocktaking is consistent with the scope of valuation.

To cooperate in the assets valuation, the Company arranged relevant departments and employees and established a special working group on assets stocktaking. Appraisers provided centralized guidance on the working group on assets stocktaking, explained the standards on filling in the breakdown of stocktaking and notes in the process of stocktaking, issued the list of materials to be collected and prepared and emphasized the implementation of the ownership of property rights and specified the layout of physical items. After reaching consensus on the purpose, significance and contents of the assets stocktaking, the working group on assets stocktaking formulated specific implementation plans and implemented the division of work under centralized leadership.

During the process of stocktaking, the Company made detailed arrangement and conducted stocktaking on assets within the scope of valuation under the direct leadership of major responsible persons of all units with the finance department as the main force under the close cooperation of relevant departments. The stocktaking is directly filed with the valuation agency.

**VII. LIST OF MATERIALS**

Major materials provided by the client and the owners of property rights are as follows:

1. Photocopies of business licenses;
2. The corresponding economic activity documents on the valuation purpose;
3. Letters of undertaking of the client and the owners of property rights etc.;
4. The application for assets valuation and stocktaking;
5. The shipbuilding contracts;
6. Relevant technical materials on vessels;
7. Other materials related to the asset valuation.



### Explanations on the Asset Valuation

#### I. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

##### (I) The Valuation Target and the Contents of the Scope of Valuation

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” (Hull No. NB009-5) and “Huixiuhai” (Hull No. NB009-6).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$25,940,000.00.

##### (II) Layout and Characteristics of Physical Assets

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Tianjin Xingang Shipyard. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huijinhai	Tianjin Xingang Shipyard	5,188	1,297	25 November 2019	18 March 2021
Huixiuhai	Tianjin Xingang Shipyard	5,188	1,297	20 December 2019	19 May 2021

*Note:* The above contractual price is tax-exclusive.

**II. OVERALL EXPLANATIONS ON ASSETS VERIFICATION****(I) Arrangement of Assets Verifiers, Execution Time and Procedures**

In accordance with relevant standards and regulations on assets appraisal and based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights, a professional group verified the assets within the scope of valuation.

Details of the verification procedures are as follows:

Guiding the owners of property rights in assets stocktaking and filling in the breakdown of assets and collecting and summarizing various valuation materials held by the owners of property rights.

Adopting appropriate methods to verify if the accounting statements are consistent with the actual accounts based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights under the cooperation of relevant employees of the owners of property rights. Requiring the owners of property rights to supplement, modify and improve the application for assets appraisal based on the verification results.

Verifying the valuation materials provided by the owners of property rights, conducting necessary inspections on the materials about the legal ownership of relevant assets and sources of materials and paying due attention to the legal ownership of relevant assets.

Conducting investigations to understand significant events which may affect the assets valuation.

The conclusions on verification of assets are formed based on the above work after the communications with relevant parties.

**(II) Matters Affecting the Verification of Assets and the Handling Methods**

Nil.

**(III) Verification Conclusion**

The ownership of the assets is complete and clear.

### III. EXPLANATIONS ON VALUATION TECHNOLOGY

#### (I) Overview of Assets

The valuation target under the asset valuation is the value of the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” (Hull No. NB009-5) and “Huixiuhai” (Hull No. NB009-6).

The scope of valuation is the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$25,940,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Tianjin Xingang Shipyard. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huijinhai	Tianjin Xingang Shipyard	5,188	1,297	25 November 2019	18 March 2021
Huixiuhai	Tianjin Xingang Shipyard	5,188	1,297	20 December 2019	19 May 2021

*Note:* The above contractual price is tax-exclusive.

#### (II) Valuation Procedures

1. Formulate the working plan on assets valuation based on the purpose of valuation;
2. Guide the owners of property rights to conduct assets stocktaking, fill in the registration form for the valuation and stocktaking of the construction-in-progress on the valuation benchmark date, collect and prepare relevant materials;
3. Inspect, authenticate and verify assets and validate relevant materials;
4. Fill in the draft for key equipment under the assets valuation;

5. Select the valuation method, determine relevant parameters and conduct evaluation and estimation;
6. Summarize and prepare the explanations on the valuation and cases.

### (III) Valuation Methodology

#### 1. *Selection of valuation methodology and the reasons*

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

#### 2. *Introduction to the cost approach*

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the two vessels under construction, namely “Huijinhai” and “Huixiuhai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

##### *(1) Shipbuilding price of the appraised vessels under construction on the valuation benchmark date*

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

*(2) Supervision fees*

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

*(3) Determination of capital costs*

They are determined based on the reasonable construction period for the appraised vessels under construction and the LPR interest rate issued by the People's Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period / 2

**(IV) Valuation Cases*****Case I: “Huijinhai”, Item 1 in the Breakdown of Valuation on Construction-in-progress—Vessels****1. Overview of the asset*

The carrying value of “Huijinhai”, the construction-in-progress, is US\$12,970,000.00. It is a bulk vessel with a DWT of 210,000 tonnes constructed by Tianjin Xingang Shipyard. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessel is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessel under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huijinhai	Tianjin Xingang Shipyard	5,188	1,297	25 November 2019	18 March 2021

## 2. *Determination of the appraised value*

The calculation formula under the cost approach is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

- (1) Shipbuilding price of the appraised vessel under construction on the valuation benchmark date

The price indices at the execution time of contracts and on the valuation benchmark date based on the vessel price information of Clarksons are 130 and 127, respectively, then:

Shipbuilding price of the appraised vessel under construction on the valuation benchmark date =  $51,880,000 \times 127 \div 130 = \text{US\$}50,682,800$

- (2) Supervision fees

They are determined based on the amount of US\$210,000 in the supervision contract on the actual construction of the appraised vessel.

- (3) Determination of capital costs

Based on the reasonable construction period of 16 months for the appraised vessel under construction and the interest rate of 4.25% determined based on the average of the 1-year and 5-year LPR interest rates issued by the People's Bank of China and after taking into the even input of capital,

$$\text{Capital costs} = (50,682,800 + 210,000) \times 16/12 \times 4.25\% / 2$$

$$= \text{US\$}1,442,000$$

- (4) Appraised value = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

$$= 50,682,800 + 210,000 + 1,442,000$$

$$= \text{US\$}52,330,000 \text{ (rounding)}$$

**IV. VALUATION CONCLUSION AND ANALYSIS**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the two vessels under construction including “Huijinhai”, was US\$104,660,000 (ONE HUNDRED FOUR MILLION SIX HUNDRED SIXTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

*The following is the full text of the Assessment Report four 210,000 bulk carriers (Hull No. BC210K-1, BC210K-2, BC210K-3 and BC210K-10) under construction for the purpose of inclusion in this circular.*

This Report is prepared in accordance with PRC Asset Valuation Standards.

**Asset Assessment Report on the Construction Contracts of  
Four Vessels under Construction Including “Huijihai” Proposed  
to Be Transferred by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020]

No. 11295 1 of 1

Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020



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**Disclaimer**

- I. This Asset Assessment Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Appraisal and the Professional Code of Ethics for the Appraisal of Assets issued by the China Appraisal Society.
- II. The client or other users of the Asset Assessment Report shall use the Asset Assessment Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Assessment Report. The asset valuation agency and its professional asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Assessment Report by the client or other users of the Asset Assessment Report.

This Asset Assessment Report shall only be used by the client, other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Assessment Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

- III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Assessment Report in accordance with laws.
- IV. The list of assets and other relevant materials of the valuation target involved should be declared by the client and the owners of property rights and certified by signature, seal or other means permitted by laws. The client and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.
- V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Assessment Report, nor with the relevant parties, and have no prejudice against the relevant parties.
- VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Assessment Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified.
- VII. The analyses, judgments, and conclusions in the Asset Assessment Report issued are subject to the assumptions and restrictions in the Asset Assessment Report. The users of the Asset Assessment Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Assessment Report and their impact on the valuation conclusion.

### **Summary**

#### **I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION**

COSCO SHIPPING Bulk Co., Ltd. proposes to transfer the rights under the construction contracts of the four vessels under construction including “Huijihai”.

#### **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the four vessels under construction including “Huijihai” by COSCO SHIPPING Bulk Co., Ltd..

#### **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the four vessels under construction, namely “Huijihai” (Hull No. BC210K-1), “Huixianghai” (Hull No. BC210K-2), “Huihehai” (Hull No. BC210K-3) and “Huizhenghai” (Hull No. BC210K-10).

The scope of valuation is the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$36,316,000.00.

#### **IV. TYPE OF VALUE**

Market value.

#### **V. VALUATION BENCHMARK DATE**

30 September 2020.

#### **VI. VALUATION METHODOLOGY**

The cost approach was adopted in this valuation.

**VII. VALUATION CONCLUSION AND ITS VALIDITY**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the four vessels under construction including “Huijihai”, was US\$209,320,000 (TWO HUNDRED NINE MILLION THREE HUNDRED TWENTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the four vessels under construction including “Huijihai” by COSCO SHIPPING Bulk Co., Ltd.. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the four vessels under construction, including “Huijihai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$171,204,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**The above contents are extracted from the text of the Assessment Report. Please read the text of the Assessment Report to understand details of the valuation and reasonably comprehend the valuation conclusion.**

**Asset Assessment Report on the Construction Contracts of  
Four Vessels under Construction Including “Huijihai” Proposed  
to Be Transferred by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11295

To: COSCO SHIPPING Bulk Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of the rights under the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, as at 30 September 2020, by way of adopting the cost approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards. We hereby report the details of the asset valuation as follows:

**I. OVERVIEW OF THE CLIENT, THE OWNERS OF PROPERTY RIGHTS AND OTHER USERS OF THE ASSET ASSESSMENT REPORT**

**(I) The Client and the Owners of Property Rights**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Wai Tong Shipping Limited, Well Ship Shipping Limited, Well Common Shipping Limited and Wai Ji Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, the four vessels under construction, respectively.

## **(II) Overview of other Users of the Assessment Report as Agreed in the Asset Valuation Engagement Contract**

Except for the client, the unit holders of property rights and other users of the Assessment Report as provided by national laws and regulations, no other users of the Assessment Report were provided in the Asset Valuation Engagement Contract.

## **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the four vessels under construction including “Huijihai” by COSCO SHIPPING Bulk Co., Ltd..

## **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the four vessels under construction, namely “Huijihai” (Hull No. BC210K-1), “Huixianghai” (Hull No. BC210K-2), “Huihehai” (Hull No. BC210K-3) and “Huizhenghai” (Hull No. BC210K-10).

The scope of valuation is the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$36,316,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huijihai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	1,297	15 November 2019	31 January 2021
Huixianghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	15 November 2019	30 March 2021
Huihehai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	25 February 2020	20 August 2021
Huizhenghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	20 June 2020	30 June 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. TYPE AND DEFINITION OF VALUE

The types of the valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but are not limited to) the investment value, the value in use, the liquidation value and the residual value.

Based on the purpose of the valuation, the market conditions and the conditions of the valuation target, the market value is adopted in the valuation.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.



**V. VALUATION BENCHMARK DATE**

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**VI. BASIS OF VALUATION****(I) Basis of Economic Activity**

1. The Reply of China COSCO SHIPPING Co., Ltd. on Combining Industry with Finance for 16 210,000 DWT Bulk Carriers under Construction of COSCO SHIPPING Bulk Co., Ltd. (Zhong Yuan Hai Qi 2020 No. 372);

**(II) Legal Basis Provided by Laws and Regulations**

1. The Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. The Law of the People's Republic of China on the State-owned Assets in Enterprises (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
3. The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council);
4. The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36);
5. The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);
6. The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

8. The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);
9. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
10. The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance of the People's Republic of China);
11. The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance on 24 June 2016);
12. The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
13. The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

### **(III) Basis of Valuation Standards**

1. Basic Asset Valuation Standards (Cai Zi [2017] No. 43);
2. Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
6. Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
7. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
8. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

9. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48);
10. Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
11. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
12. Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37).

**(IV) Ownership Basis**

The shipbuilding contracts.

**(V) Pricing Basis**

1. The records of inquiry, inspection and verification;
2. Vessel price information of Clarksons and other information on the shipping market.

**VII. VALUATION METHODOLOGY****(I) Selection of Valuation Methodology and the Reasons**

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

**(II) Introduction to the Cost Approach**

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction  
= Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

**1. *Shipbuilding price of the appraised vessels under construction on the valuation benchmark date***

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

**2. *Supervision fees***

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

**3. *Determination of capital costs***

They are determined based on the reasonable construction period of the appraised vessels under construction and the LPR interest rate issued by the People’s Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period / 2

**VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES****(I) Acceptance of Engagement**

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after the discussions and communications with the client, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific conditions.

**(II) On-site inspection and collection of materials**

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for assets valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in assets valuation in accordance with laws.

**(III) Assessment and estimation**

Analyze, summarize and sort the materials on valuation based on the specific conditions of the asset valuation business and form the basis for the assessment and estimation and the preparation of the assessment report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and other relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

**(IV) Issuance of report**

The responsible persons of the project prepare the preliminary asset assessment report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset assessment report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issues the formal asset assessment report after conducting necessary communications on relevant contents of the assessment report with the client and other relevant parties.

**IX. VALUATION ASSUMPTIONS**

The following are the valuation assumptions on which the establishment of the Assessment Report and conclusions is premised:

**(I) Basic Assumptions**

1. Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.
2. Open market assumption. The open market assumption is that the assets to be appraised are traded in an open market to realize their market value. The market value of the assets is subject to the market mechanism and determined by the market conditions instead of individual transactions. An open market is a fully developed and comprehensive market condition, a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have opportunity and time to access adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-binding or unrestricted conditions.

**(II) General Assumptions**

1. This valuation assumes that there will be no unforeseen significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in the country after the valuation benchmark date, and that there will be no significant impact caused by other force majeure and unforeseen factors.
2. This valuation assumes that the owners of the vessels will pay the construction amount as provided in the shipbuilding contracts and the buyer and the seller can strictly implement all provisions of the contracts to facilitate the smooth execution of the contracts and the timely delivery.
3. This valuation assumes that the shipbuilding contracts will not be transferred by the client to conduct financing and result in the failure to deliver the appraised vessels under construction on time.

**X. VALUATION CONCLUSION**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the four vessels under construction including “Huijihai”, was US\$209,320,000 (TWO HUNDRED NINE MILLION THREE HUNDRED TWENTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the four vessels under construction including “Huijihai” by COSCO SHIPPING Bulk Co., Ltd. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**XI. EXPLANATIONS TO SPECIAL MATTERS****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the four vessels under construction including “Huijihai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$171,204,000. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**XII. RESTRICTIONS ON THE USE OF THE ASSESSMENT REPORT**

- (I) For the scope of the use of the Assessment Report, it shall be used for the valuation purpose and use set out in the Assessment Report. For the excerpt, reference and disclosure of all or part of the contents of the Assessment Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;



- (II) The valuation agency and its asset appraisers take no responsibility if the client or other users of the Asset Assessment Report fail to use this Asset Assessment Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Assessment Report;
- (III) Except for the client, the other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and the users of the Asset Assessment Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;
- (IV) Users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

### **XIII. DATE OF THE ASSESSMENT REPORT**

The date of the Assessment Report is 27 November 2020.

Asset appraisers:

27 November 2020

**Annexes**

- I. The Corresponding Economic Activity Document on the Valuation Purpose
- II. Business Licenses of the Client and the Owners of Property Rights
- III. Major Ownership Proof Materials of the Valuation Target Involved
- IV. Letters of Undertaking of the Client and Relevant Parties
- V. Letters of Undertaking of the Signatory Asset Appraisers
- VI. The Announcement on the Registration and Filing of the Valuation Agency
- VII. Photocopy of the Business License of the Valuation Agency
- VIII. Qualification Certificates of the Signatory Asset Appraisers
- IX. The Asset Valuation Engagement Contract and the Letter of Authorization
- X. The Breakdown of Asset Valuation

**Explanations on the Asset Assessment on the Construction Contracts of  
Four Vessels under Construction Including “Huijihai” Proposed  
to Be Transferred by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020]

No. 11295 1 of 1

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer on the Scope of the Use of the Explanations on the Valuation**

The Explanations on the Valuation is for the use by the state-owned assets supervision and administration authorities (including the enterprises contributed by them), relevant supervision and administration authorities and departments. Unless it is otherwise provided by laws and regulations, all or part of the contents of the materials shall not be provided to any other units and individuals and shall not be published in the media.

**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

This part is issued and provided by the client and the owners of property rights with the original text attached.

**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

**I. OVERVIEW OF THE CLIENT AND THE OWNERS OF PROPERTY RIGHTS**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Wai Tong Shipping Limited, Wellship Shipping Limited, Well Common Shipping Limited and Wai Ji Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, the four vessels under construction, respectively.

## II. EXPLANATIONS ON THE ECONOMIC ACTIVITY

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the value of the rights under the construction contracts of the four vessels under construction including “Huijihai” by COSCO SHIPPING Bulk Co., Ltd..

## III. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the four vessels under construction, namely “Huijihai” (Hull No. BC210K-1), “Huixianghai” (Hull No. BC210K-2), “Huihehai” (Hull No. BC210K-3) and “Huizhenghai” (Hull No. BC210K-10).

The scope of valuation is the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$36,316,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huijihai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	1,297	15 November 2019	31 January 2021



Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huixianghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	15 November 2019	30 March 2021
Huihehai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	25 February 2020	20 August 2021
Huizhenghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	20 June 2020	30 June 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. EXPLANATIONS ON THE VALUATION BENCHMARK DATE

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

#### V. EXPLANATIONS ON MAJOR EVENTS WHICH MAY AFFECT THE VALUATION

1. Based on the shipbuilding contracts on the four vessels under construction including “Huijijhai”, the subsequent construction fees from the valuation benchmark date to the completion date of the construction of vessels were approximately US\$171,204,000. The construction of the four appraised vessels under construction has not been completed on the valuation benchmark date.
2. According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**VI. EXPLANATIONS ON ASSETS STOCKTAKING**

The scope of assets stocktaking is consistent with the scope of valuation.

To cooperate in the assets valuation, the Company arranged relevant departments and employees and established a special working group on assets stocktaking. Appraisers provided centralized guidance on the working group on assets stocktaking, explained the standards on filling in the breakdown of stocktaking and notes in the process of stocktaking, issued the list of materials to be collected and prepared and emphasized the implementation of the ownership of property rights and specified the layout of physical items. After reaching consensus on the purpose, significance and contents of the assets stocktaking, the working group on assets stocktaking formulated specific implementation plans and implemented the division of work under centralized leadership.

During the process of stocktaking, the Company made detailed arrangements and conducted stocktaking on assets within the scope of valuation under the direct leadership of major responsible persons of all units with the finance department as the main force under the close cooperation of relevant departments. The stocktaking is directly filed with the valuation agency.

**VII. LIST OF MATERIALS**

Major materials provided by the client and the owners of property rights are as follows:

1. Photocopies of business licenses;
2. The corresponding economic activity documents on the valuation purpose;
3. Letters of undertaking of the client and the owners of property rights etc.;
4. The application for assets valuation and stocktaking;
5. The shipbuilding contracts;
6. Relevant technical materials on vessels;
7. Other materials related to the asset valuation.

### Explanations on the Asset Valuation

#### I. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

##### (I) The Valuation Target and the Contents of the Scope of Valuation

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the four vessels under construction, namely “Huijihai” (Hull No. BC210K-1), “Huixianghai” (Hull No. BC210K-2), “Huihehai” (Hull No. BC210K-3) and “Huizhenghai” (Hull No. BC210K-10).

The scope of valuation is the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$36,316,000.00.

##### (II) Layout and Characteristics of Physical Assets

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tones constructed by Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
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Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huizhenghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	20 June 2020	30 June 2021

*Note:* The above contractual price is tax-exclusive.

## II. OVERALL EXPLANATIONS ON ASSETS VERIFICATION

### (I) Arrangement of Assets Verifiers, Execution Time and Procedures

In accordance with relevant standards and regulations on assets appraisal and based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights, a professional group verified the assets within the scope of valuation.

Details of the verification procedures are as follows:

Guiding the owners of property rights in assets stocktaking and filling in the breakdown of assets and collecting and summarizing various valuation materials held by the owners of property rights.

Adopting appropriate methods to verify if the accounting statements are consistent with the actual accounts based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights under the cooperation of relevant employees of the owners of property rights. Requiring the owners of property rights to supplement, modify and improve the application for assets appraisal based on the verification results.

Verifying the valuation materials provided by the owners of property rights, conducting necessary inspections on the materials about the legal ownership of relevant assets and sources of materials and paying due attention to the legal ownership of relevant assets.

Conducting investigations to understand significant events which may affect the assets valuation.

The conclusions on verification of assets are formed based on the above work after communications with relevant parties.

**(II) Matters Affecting the Verification of Assets and the Handling Methods**

Nil.

**(III) Verification Conclusion**

The ownership of the assets is complete and clear.

**III. EXPLANATIONS ON VALUATION TECHNOLOGY****(I) Overview of Assets**

The valuation target under the asset valuation is the value of the rights under the construction contracts of the four vessels under construction, namely “Huijihai” (Hull No. BC210K-1), “Huixianghai” (Hull No. BC210K-2), “Huihehai” (Hull No. BC210K-3) and “Huizhenghai” (Hull No. BC210K-10).

The scope of valuation is the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$36,316,000.00.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessels is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huijihai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	1,297	15 November 2019	31 January 2021
Huixianghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	15 November 2019	30 March 2021
Huihehai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	25 February 2020	20 August 2021

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huizhenghai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	778.20	20 June 2020	30 June 2021

*Note:* The above contractual price is tax-exclusive.

## (II) Valuation Procedures

1. Formulate the working plan on assets valuation based on the purpose of valuation;
2. Guide the owners of property rights to conduct assets stocktaking, fill in the registration form for the valuation and stocktaking of the construction-in-progress on the valuation benchmark date, collect and prepare relevant materials;
3. Inspect, authenticate and verify assets and validate relevant materials;
4. Fill in the draft for key equipment under the assets valuation;
5. Select the valuation method, determine relevant parameters and conduct evaluation and estimation;
6. Summarize and prepare the explanations on the valuation and cases.

## (III) Valuation Methodology

### 1. Selection of valuation methodology and the reasons

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

## 2. *Introduction to the cost approach*

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the four vessels under construction, namely “Huijihai”, “Huixianghai”, “Huihehai” and “Huizhenghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

### (1) *Shipbuilding price of the appraised vessels under construction on the valuation benchmark date*

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

### (2) *Supervision fees*

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

### (3) *Determination of capital costs*

They are determined based on the reasonable construction period for the appraised vessels under construction and the LPR interest rate issued by the People’s Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period / 2.

**(IV) Valuation Cases*****Case I: “Huijihai”, Item 1 in the Breakdown of Valuation on Construction-in-progress-Vessels******1. Overview of the asset***

The carrying value of “Huijihai”, the construction-in-progress, is US\$12,970,000.00. It is a bulk vessel with a DWT of 210,000 tonnes constructed by Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd. With a total length of 300 meters, a breadth of 50 meters and a depth of 25.2 meters as the main dimensions, the type of the main engine of the vessel is WinGD 6X72-B, the horsepower of the main engine is 15,300KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessel under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of construction	Delivery time
Huijihai	Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd.	5,188	1,297	15 November 2019	31 January 2021

***2. Determination of the appraised value***

The calculation formula under the cost approach is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs



- (1) Shipbuilding price of the appraised vessel under construction on the valuation benchmark date

The price indices at the execution time of contracts and on the valuation benchmark date based on the vessel price information of Clarksons are 130 and 127, respectively, then:

Shipbuilding price of the appraised vessel under construction on the valuation benchmark date =  $51,880,000 \times 127 \div 130 = \text{US\$}50,682,800$

- (2) Supervision fees

They are determined based on the amount of US\$210,000 in the supervision contract on the actual construction of the appraised vessel.

- (3) Determination of capital costs

Based on the reasonable construction period of 16 months for the appraised vessel under construction and the interest rate of 4.25% determined based on the average of the 1-year and 5-year LPR interest rates issued by the People's Bank of China and after taking into the even input of capital:

$$\begin{aligned}\text{Capital costs} &= (50,682,800 + 210,000) \times 16/12 \times 4.25\% / 2 \\ &= \text{US\$}1,442,000\end{aligned}$$

- (4) Appraised value = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

$$\begin{aligned}&= 50,682,800 + 210,000 + 1,442,000 \\ &= \text{US\$}52,330,000 \text{ (rounding)}\end{aligned}$$

#### IV. VALUATION CONCLUSION AND ANALYSIS

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the four vessels under construction including “Huijihai”, was US\$209,320,000 (TWO HUNDRED NINE MILLION THREE HUNDRED TWENTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

*The following is the full text of the Assessment Report in respect of eight 210,000 DWT bulk carriers (Hull No. N946, N947, N948, N949, N950, N951, N952 and N953) under construction for the purpose of inclusion in this circular.*

This Report is prepared in accordance with PRC Asset Valuation Standards.

**Asset Assessment Report on the Construction Contracts of  
Eight Vessels under Construction  
Including “Huizhihai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020]  
No. 11296 1 of 1

Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020

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**Disclaimer**

- I. This Asset Assessment Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Appraisal and the Professional Code of Ethics for the Appraisal of Assets issued by the China Appraisal Society.
- II. The client or other users of the Asset Assessment Report shall use the Asset Assessment Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Assessment Report. The asset valuation agency and its professional asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Assessment Report by the client or other users of the Asset Assessment Report.

This Asset Assessment Report shall only be used by the client, other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Assessment Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

- III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Assessment Report in accordance with laws.
- IV. The list of assets and other relevant materials of the valuation target involved should be declared by the client and the owners of property rights and certified by signature, seal or other means permitted by laws. The client and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.
- V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Assessment Report or with the relevant parties, and have no prejudice against the relevant parties.
- VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Assessment Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issued identified.

- VII. The analyses, judgments, and conclusions in the Asset Assessment Report issued are subject to the assumptions and restrictions in the Asset Assessment Report. The users of the Asset Assessment Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Assessment Report and their impact on the valuation conclusion.

### **Summary**

#### **I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION**

COSCO SHIPPING Bulk Co., Ltd. proposes to transfer the rights under the construction contracts of the eight vessels under construction including “Huizhihai”.

#### **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the eight vessels under construction including “Huizhihai” by COSCO SHIPPING Bulk Co., Ltd.

#### **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation the rights under the construction contracts of the is eight vessels under construction, namely “Huizhihai” (Hull No. N946), “Huixinhai” (Hull No. N947), “Huizhonghai” (Hull No. N948), “Huihuahai” (Hull No. N949), “Huiguohai” (Hull No. N950), “Huitaihai” (Hull No. N951), “Huiminhai” (Hull No. N952) and “Huikanghai” (Hull No. N953).

The scope of valuation is the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$100,038,349.92.

#### **IV. TYPE OF VALUE**

Market value.

#### **V. VALUATION BENCHMARK DATE**

30 September 2020.

#### **VI. VALUATION METHODOLOGY**

The cost approach was adopted in this valuation.

**VII. VALUATION CONCLUSION AND ITS VALIDITY**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the eight vessels under construction including “Huizhihai”, was US\$421,280,000 (FOUR HUNDRED TWENTY-ONE MILLION TWO HUNDRED EIGHTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the eight vessels under construction including “Huizhihai” by COSCO SHIPPING Bulk Co., Ltd. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the eight vessels under construction including “Huizhihai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$317,561,500. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.



**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the seller discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**The above contents are extracted from the text of the Assessment Report. Please read the text of the Assessment Report to understand details of the valuation and reasonably comprehend the valuation conclusion.**

**Asset Assessment Report on the Construction Contracts of  
Eight Vessels under Construction  
Including “Huizhihai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11296

To: COSCO SHIPPING Bulk Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, as at 30 September 2020, by way of adopting the cost approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards. We hereby report the details of the asset valuation as follows:

**I. OVERVIEW OF THE CLIENT, THE OWNERS OF PROPERTY RIGHTS AND OTHER USERS OF THE ASSET ASSESSMENT REPORT**

**(I) The Client and the Owners of Property Rights**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Well Prosper Shipping Limited, Wai Hing Shipping Limited, Wai Chung Shipping Limited, Well Hua Shipping Limited, Well State Shipping Limited, Wai Hai Shipping Limited, Well Transport Shipping Limited and Well Force Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, the eight vessels under construction, respectively.

## **(II) Overview of other Users of the Assessment Report as Agreed in the Asset Valuation Engagement Contract**

Except for the client, the owners of property rights and other users of the Assessment Report as provided by national laws and regulations, no other users of the Assessment Report were provided in the asset valuation engagement contract.

## **II. PURPOSE OF VALUATION**

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the rights under the construction contracts of the eight vessels under construction including “Huizhihai” by COSCO SHIPPING Bulk Co., Ltd.

## **III. VALUATION TARGET AND SCOPE**

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai” (Hull No. N946), “Huixinhai” (Hull No. 947), “Huizhonghai” (Hull No. N948), “Huihuahai” (Hull No. N949), “Huiguohai” (Hull No. N950), “Huitaihai” (Hull No. N951), “Huiminhai” (Hull No. N952) and “Huikanghai” (Hull No. N953).

The scope of valuation is the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$100,038,349.92.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Yangzhou COSCO Shipping Heavy Industry Co., Ltd. With a total length of 299.95 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,790KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of	Delivery time
				construction	
Huizhihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	2,099	26 November 2019	1 December 2020
Huixinhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	22 January 2021
Huizhonghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	15 March 2021
Huihuahai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	16 March 2020	9 April 2021
Huiguohai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	16 March 2020	10 May 2021
Huitaihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 May 2021

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huiminhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 June 2021
Huikanghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 May 2020	25 June 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. TYPE AND DEFINITION OF VALUE

The types of the valuation value include the market value and other types of value except for the market value. Other types of value except the market value generally include (but are not limited to) the investment value, the value in use, the liquidation value and the residual value.

Based on the purpose of the valuation, the market conditions and the conditions of the valuation target, the market value is adopted in the valuation.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

#### V. VALUATION BENCHMARK DATE

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**VI. BASIS OF VALUATION****(I) Basis of Economic Activity**

1. The Reply of China COSCO SHIPPING Co., Ltd. on Combining Industry with Finance for 16 210,000 DWT Bulk Carriers under Construction of COSCO SHIPPING Bulk Co., Ltd. (Zhong Yuan Hai Qi 2020 No. 372).

**(II) Legal Basis Provided by Laws and Regulations**

1. The Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. The Law of the People's Republic of China on the State-owned Assets of Enterprises (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
3. The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council);
4. The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36);
5. The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);
6. The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
8. The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);
9. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

10. The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance of the People's Republic of China);
11. The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance on 24 June 2016);
12. The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
13. The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

**(III) Basis of Valuation Standards**

1. Basic Asset Valuation Standards (Cai Zi [2017] No. 43);
2. Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
6. Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
7. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
8. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
9. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48);
10. Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

11. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
12. Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37).

#### **(IV) Ownership Basis**

The shipbuilding contracts.

#### **(V) Pricing Basis**

1. The records of inquiry, inspection and verification;
2. Vessel price information of Clarksons and other information on the shipping market.

### **VII. VALUATION METHODOLOGY**

#### **(I) Selection of Valuation Methodology and the Reasons**

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

#### **(II) Introduction to the Cost Approach**

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction  
= Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs



**1. *Shipbuilding price of the appraised vessels under construction on the valuation benchmark date***

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

**2. *Supervision fees***

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

**3. *Determination of capital costs***

They are determined based on the reasonable construction period of the appraised vessels under construction and the LPR interest rate issued by the People's Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period/2

## **VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES**

### **(I) Acceptance of Engagement**

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after the discussions and communications with the client, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific conditions.

**(II) On-site inspection and collection of materials**

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for assets valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in assets valuation in accordance with laws.

**(III) Assessment and estimation**

Analyze, summarize and sort the materials on valuation based on the specific conditions of the asset valuation business and form the basis for the assessment and estimation and the preparation of the assessment report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and other relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

**(IV) Issuance of report**

The responsible persons of the project prepare the preliminary asset assessment report based on the valuation conclusion after assessment and estimation. The Company carries out internal review on the preliminary asset assessment report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issue the formal asset assessment report after conducting necessary communications on relevant contents of the assessment report with the client and other relevant parties.

**IX. VALUATION ASSUMPTIONS**

The following are the valuation assumptions on which the establishment of the Assessment Report and conclusions is premised:

**(I) Basic Assumptions**

1. Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.
2. Open market assumption. The open market assumption is that the assets to be appraised are traded in an open market to realize their market value. The market value of the assets is subject to the market mechanism and determined by the market conditions instead of individual transactions. An open market is a fully developed and comprehensive market condition, a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have opportunity and time to access adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-binding or unrestricted conditions.

**(II) General Assumptions**

1. This valuation assumes that there will be no unforeseen significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in the country after the valuation benchmark date, and that there will be no significant impact caused by other force majeure and unforeseen factors.
2. This valuation assumes that the owners of the vessels will pay the construction amount as provided in the shipbuilding contracts and the buyer and the seller can strictly implement all provisions of the contracts to facilitate the smooth execution of the contracts and the timely delivery.
3. This valuation assumes that the shipbuilding contracts will not be transferred by the client to conduct financing and result in the failure to deliver the appraised vessels under construction on time.

**X. VALUATION CONCLUSION**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the eight vessels under construction including “Huizhihai”, was US\$421,280,000 (FOUR HUNDRED TWENTY-ONE MILLION TWO HUNDRED EIGHTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).

The valuation conclusion is only valid for the particular valuation purpose of the proposed transfer of the rights under the construction contracts of the eight vessels under construction including “Huizhihai” by COSCO SHIPPING Bulk Co., Ltd. The valuation results in this Assessment Report shall be valid for the period from 30 September 2020 to 29 September 2021.

**XI. EXPLANATIONS TO SPECIAL MATTERS****(I) Significant use of expert work**

Nil.

**(II) Incomplete or defective ownership information**

Nil.

**(III) Restrictions on valuation procedures**

Nil.

**(IV) Incomplete valuation materials**

Nil.

**(V) Pending legal and economic matters on the valuation benchmark date**

Nil.

**(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target**

Based on the shipbuilding contracts on the eight vessels under construction including “Huizhihai”, the subsequent construction fees from the valuation benchmark date to the completion of the construction of the vessels were approximately US\$317,561,500. The construction of the appraised vessels under construction has not been completed on the valuation benchmark date.

**(VII) Significant subsequent matters**

According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the seller discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyer.

**(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion**

Nil.

**(IX) Other special matters on the valuation conclusion**

1. This valuation has not taken into consideration the impacts of relevant taxes involved in future transactions on the valuation results.
2. The exchange rate on the valuation benchmark date is with reference to the central parity rate of RMB against USD of 6.8101.
3. Vessels are specialized assets and have higher requirements on safety. According to relevant national regulations, regular or irregular inspections are required to be conducted by specific inspection departments. Due to the restrictions on the inspection means, inspection fees and the capability of appraisers, we did not conduct specific technical inspections on vessels within the scope of valuation. The valuation agency therefore does not assume responsibility for issuing opinions on all possible technical and safety issues of the appraised vessels arising after the valuation benchmark date.
4. The valuation results are tax-exclusive.

**XII. RESTRICTIONS ON THE USE OF THE ASSESSMENT REPORT**

- (I) For the scope of the use of the Assessment Report, it shall be used for the valuation purpose and use set out in the Assessment Report. For the excerpt, reference and disclosure of all or part of the contents of the Assessment Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;

- (II) The valuation agency and its asset appraisers take no responsibility if the client or other users of the Asset Assessment Report fail to use this Asset Assessment Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Assessment Report;
- (III) Except for the client, the other users of the Asset Assessment Report as agreed in the Asset Valuation Engagement Contract and the users of the Asset Assessment Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;
- (IV) Users of the Asset Assessment Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

### **XIII. DATE OF THE ASSESSMENT REPORT**

The date of the Assessment Report is 27 November 2020.

Asset appraisers:

27 November 2020

**Annexes**

- I. The Corresponding Economic Activity Document on the Valuation Purpose
- II. Business Licenses of the Client and the Owners of Property Rights
- III. Major Ownership Proof Materials of the Valuation Target Involved
- IV. Letters of Undertaking of the Client and Relevant Parties
- V. Letters of Undertaking of the Signatory Asset Appraisers
- VI. The Announcement on the Registration and Filing of the Valuation Agency
- VII. Photocopy of the Business License of the Valuation Agency
- VIII. Qualification Certificates of the Signatory Asset Appraisers
- IX. The Asset Valuation Engagement Contract and the Letter of Authorization
- X. The Breakdown of Asset Valuation

**Explanations on the Asset Assessment on the Construction Contracts of  
Eight Vessels under Construction  
Including “Huizhihai” Proposed to Be Transferred  
by COSCO SHIPPING Bulk Co., Ltd.**

Zhong Tong Ping Bao Zi [2020] No. 11296

1 of 1

China Tong Cheng Assets Appraisal Co., Ltd.

27 November 2020



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**Disclaimer on the Scope of the Use of the Explanations on the Valuation**

The Explanations on the Valuation is for the use by the state-owned assets supervision and administration authorities (including the enterprises contributed by them), relevant supervision and administration authorities and departments. Unless it is otherwise provided by laws and regulations, all or part of the contents of the materials shall not be provided to any other units and individuals and shall not be published in the media.

**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

This part is issued and provided by the client and the owners of property rights with the original text attached.

**Explanations of the Enterprise on Relevant Matters in  
Conducting the Asset Valuation**

**I. OVERVIEW OF THE CLIENT AND THE OWNERS OF PROPERTY RIGHTS**

1. The client of the valuation is COSCO SHIPPING Bulk Co., Ltd.

Unified social credit code: 91440115MA59D7TN7C

Domicile: Room 904, No. 162 Gangqian Avenue South, Nansha District, Guangzhou City  
(for office purpose only)

Legal representative: Gu Jinsong

Registered capital: RMB10,458,880,000

Term of operation: 2 June 2016 to no fixed term

Nature of company: Limited liability company (corporation as sole proprietor)

Scope of business: Water transportation (For specific items of business, please make inquiries via the publication platform for the information of business subjects of Guangzhou City and the website is <http://cri.gz.gov.cn/>. Projects that need to be approved according to laws can only be operated after being approved by relevant departments).

COSCO SHIPPING Bulk Co., Ltd. (COSCO SHIPPING Bulk or the Company) is a major direct subsidiary under China COSCO SHIPPING Group. Its predecessors are COSCO Bulk (Group) Co., Ltd. under the former COSCO Group and China Shipping Bulk Carrier Co., Ltd. under the former China Shipping Group. The two companies were reorganized and consolidated on 16 June 2016 and the Company was established in Guangzhou.

The history of the Company dates back to Huaxia Corporate Company established in Hong Kong in 1948 and Guangzhou Branch of China Merchants Steam Navigation Co., Ltd., the predecessor of China Shipping Bulk Carrier, established in 1949 in Guangzhou. With the efforts of several generations, the Company has become a leading enterprise in the industry.

The Company is the largest professional bulk transportation enterprise in the world. It owns over 400 bulk carriers with a DWT of 40 million tonnes. It transports iron ores, coals, grains, bulk cargos and other various kinds of bulk commodities and its routes cover domestic coastal ports and major ports in the world with the service network covering the whole world.

The Company owns a bulk transportation and operation management team with over 1,700 members and an outstanding crew team with over 12,500 members. Adhering to the service concepts of “safety, integrity, high quality and high efficiency”, the Company provides global customers with professional and high-quality dry bulk transportation services.

2. Well Prosper Shipping Limited, Wai Hing Shipping Limited, Wai Chung Shipping Limited, Well Hua Shipping Limited, Well State Shipping Limited, Wai Hai Shipping Limited, Well Transport Shipping Limited and Well Force Shipping Limited, the owners of the property rights under the valuation, are wholly-owned subsidiaries of COSCO SHIPPING Bulk Co., Ltd. They hold “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, the eight vessels under construction, respectively.

## II. EXPLANATIONS ON THE ECONOMIC ACTIVITY

The purpose of the valuation is to provide value reference for the economic activity of the proposed transfer of the value of the rights under the construction contracts of the eight vessels under construction including “Huizhihai” by COSCO SHIPPING Bulk Co., Ltd.

## III. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai” (Hull No. N946), “Huixinhai” (Hull No. N947), “Huizhonghai” (Hull No. N948), “Huihuahai” (Hull No. N949), “Huiguohai” (Hull No. N950), “Huitaihai” (Hull No. N951), “Huiminhai” (Hull No. N952) and “Huikanghai” (Hull No. N953).

The scope of valuation is the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$100,038,349.92.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Yangzhou COSCO Shipping Heavy Industry Co., Ltd. With a total length of 299.95 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,790KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huizhihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	2,099	26 November 2019	1 December 2020

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of	Delivery time
				construction	
Huixinhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	22 January 2021
Huizhonghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	15 March 2021
Huihuahai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	16 March 2020	9 April 2021
Huiguohai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	16 March 2020	10 May 2021
Huitaihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 May 2021
Huiminhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 June 2021
Huikanghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 May 2020	25 June 2021

*Note:* The above contractual price is tax-exclusive.

#### IV. EXPLANATIONS ON THE VALUATION BENCHMARK DATE

The valuation benchmark date is 30 September 2020.

Major factors considered by the client in determining the valuation benchmark date include the time requirement on the implementation of the economic activity. It adopted the end of the accounting period to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

**V. EXPLANATIONS ON MAJOR EVENTS WHICH MAY AFFECT THE VALUATION**

1. Based on the shipbuilding contracts on the eight vessels under construction including “Huizhihai”, the subsequent construction fees from the valuation benchmark date to the completion date of the construction of vessels were approximately US\$317,561,500. The construction of the two appraised vessels under construction has not been completed on the valuation benchmark date.
2. According to the shipbuilding contracts, “Without the prior written consent of the other party, neither party may assign the contract to any other individual or company. Unless the buyer gives prior written notice and obtains the consent of the seller, the contract shall be novated as a special purpose vehicle wholly owned by the buyer”. On 27 November 2020, the shipbuilding parties and the proposed transferee signed the deeds of novation, under which the sellers discharged the original buyers from all the responsibilities and obligations under the shipbuilding contracts, and the original buyers transferred all rights, interests, responsibilities and obligations under the shipbuilding contracts to the new buyers.

**VI. EXPLANATIONS ON ASSETS STOCKTAKING**

The scope of assets stocktaking is consistent with the scope of valuation.

To cooperate in the assets valuation, the Company arranged relevant departments and employees and established a special working group on assets stocktaking. Appraisers provided centralized guidance on the working group on assets stocktaking, explained the standards on filling in the breakdown of stocktaking and notes in the process of stocktaking, issued the list of materials to be collected and prepared and emphasized the implementation of the ownership of property rights and specified the layout of physical items. After reaching consensus on the purpose, significance and contents of the assets stocktaking, the working group on assets stocktaking formulated specific implementation plans and implemented the division of work under centralized leadership.

During the process of stocktaking, the Company made detailed arrangement and conducted stocktaking on assets within the scope of valuation under the direct leadership of major responsible persons of all units with the finance department as the main force under the close cooperation of relevant departments. The stocktaking is directly filed with the valuation agency.

**VII. LIST OF MATERIALS**

Major materials provided by the client and the owners of property rights are as follows:

1. Photocopies of business licenses;
2. The corresponding economic activity documents on the valuation purpose;
3. Letters of undertaking of the client and the owners of property rights etc.;
4. The application for assets valuation and stocktaking;
5. The shipbuilding contracts;
6. Relevant technical materials on vessels;
7. Other materials related to the asset valuation.



### Explanations on the Asset Valuation

#### I. EXPLANATIONS ON THE VALUATION TARGET AND SCOPE

##### (I) The Valuation Target and the Contents of the Scope of Valuation

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target under the asset valuation is the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai” (Hull No. N946), “Huixinhai” (Hull No. N947), “Huizhonghai” (Hull No. N948), “Huihuahai” (Hull No. N949), “Huiguohai” (Hull No. N950), “Huitaihai” (Hull No. N951), “Huiminhai” (Hull No. N952) and “Huikanghai” (Hull No. N953).

The scope of valuation is the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$100,038,349.92.

##### (II) Layout and Characteristics of Physical Assets

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tones constructed by Yangzhou COSCO Shipping Heavy Industry Co., Ltd. With a total length of 299.95 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,790KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huizhihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	2,099	26 November 2019	1 December 2020
Huixinhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	22 January 2021

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huizhonghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	15 March 2021
Huihuahai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	16 March 2020	9 April 2021
Huiguohai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	16 March 2020	10 May 2021
Huitaihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 May 2021
Huiminhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 June 2021
Huikanghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 May 2020	25 June 2021

*Note:* The above contractual price is tax-exclusive.

## II. OVERALL EXPLANATIONS ON ASSETS VERIFICATION

### (I) Arrangement of Assets Verifiers, Execution Time and Procedures

In accordance with relevant standards and regulations on assets appraisal and based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights, a professional group verified the assets within the scope of valuation.

Details of the verification procedures are as follows:

Guiding the owners of property rights in assets stocktaking and filling in the breakdown of assets and collecting and summarizing various valuation materials held by the owners of property rights.

Adopting appropriate methods to verify if the accounting statements are consistent with the actual accounts based on the accounting statements on the valuation benchmark date and the application for assets appraisal provided by the owners of property rights under the cooperation of relevant employees of the owners of property rights. Requiring the owners of property rights to supplement, modify and improve the application for assets appraisal based on the verification results.

Verifying the valuation materials provided by the owners of property rights, conducting necessary inspections on the materials about the legal ownership of relevant assets and sources of materials and paying due attention to the legal ownership of relevant assets.

Conducting investigations to understand significant events which may affect the assets valuation.

The conclusions on verification of assets are formed based on the above work after the communications with relevant parties.

## **(II) Matters Affecting the Verification of Assets and the Handling Methods**

Nil.

## **(III) Verification Conclusion**

The ownership of the assets is complete and clear.

# **III. EXPLANATIONS ON VALUATION TECHNOLOGY**

## **(I) Overview of Assets**

The valuation target under the asset valuation is the value of the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai” (Hull No. N946), “Huixinhai” (Hull No. N947), “Huizhonghai” (Hull No. N948), “Huihuahai” (Hull No. N949), “Huiguohai” (Hull No. N950), “Huitaihai” (Hull No. N951), “Huiminhai” (Hull No. N952) and “Huikanghai” (Hull No. N953), on the basis of the completed status.

The scope of valuation is the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”, proposed to be transferred by COSCO SHIPPING Bulk Co., Ltd. on the valuation benchmark date. The construction payments already paid as at the valuation benchmark date in respect of the appraised assets are US\$100,038,349.92.

The appraised vessels under construction are bulk vessels with a DWT of 210,000 tonnes constructed by Yangzhou COSCO Shipping Heavy Industry Co., Ltd. With a total length of 299.95 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessels is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,790KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessels under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement date of	Delivery time
				construction	
Huizhihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	2,099	26 November 2019	1 December 2020
Huixinhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	22 January 2021
Huizhonghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	2 March 2020	15 March 2021
Huihuahai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	1,577	16 March 2020	9 April 2021
Huiguohai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	16 March 2020	10 May 2021
Huitaihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 May 2021
Huiminhai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 April 2020	20 June 2021
Huikanghai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	794	15 May 2020	25 June 2021

*Note:* The above contractual price is tax-exclusive.

**(II) Valuation Procedures**

1. Formulate the working plan on assets valuation based on the purpose of valuation;
2. Guide the owners of property rights to conduct assets stocktaking, fill in the registration form for the valuation and stocktaking of the construction-in-progress on the valuation benchmark date, collect and prepare relevant materials;
3. Inspect, authenticate and verify assets and validate relevant materials;
4. Fill in the draft for key equipment under the assets valuation;
5. Select the valuation method, determine relevant parameters and conduct evaluation and estimation;
6. Summarize and prepare the explanations on the valuation and cases.

**(III) Valuation Methodology*****1. Selection of valuation methodology and the reasons***

Based on the purpose of valuation and the characteristics of the appraised assets, the valuation is based on the assumption of the continuous use of the assets. For the market approach, due to the differences in shipbuilders and major equipment selected by them, the transaction cases in the market cannot accurately consider the impacts of the above factors on the price and hence the market approach is not adopted. For the income approach, the shipping market witnessed significant fluctuations in the freight rates due to the epidemic. In particular, the changes in the international political and economic environment after the epidemic will severely affect the shipping market and the future freight rates in the shipping market cannot be reliably estimated. As a result, the income approach is not adopted in the valuation. For the cost approach, as the shipbuilding cost on the valuation benchmark date can be calculated more accurately and reasonably based on the shipbuilding contracts and the analysis reports on the market price, it is appropriate to adopt the cost approach in the valuation.

***2. Introduction to the cost approach***

Based on the purpose of valuation, the valuation target is the value of the rights under the construction contracts of the eight vessels under construction, namely “Huizhihai”, “Huixinhai”, “Huizhonghai”, “Huihuahai”, “Huiguohai”, “Huitaihai”, “Huiminhai” and “Huikanghai”. The calculation formula is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

*(1) Shipbuilding price of the appraised vessels under construction on the valuation benchmark date*

The price indices at the execution time of contracts and on the valuation benchmark date are determined based on the vessel price information of Clarksons to calculate the new shipbuilding price index.

Shipbuilding price of the appraised vessels under construction on the valuation benchmark date = Contractual price × Index on the valuation benchmark date ÷ Index at the execution time of contracts

(2) *Supervision fees*

They are determined based on the amount in the supervision contract on the actual construction of the appraised vessels.

(3) *Determination of capital costs*

They are determined based on the reasonable construction period for the appraised vessels under construction and the LPR interest rate issued by the People's Bank of China after taking into account the even input of capital.

Capital costs = (Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees) × Reasonable construction period × Interest rate of bank loans for the same period/2

**(IV) Valuation Cases**

***Case I: “Huizhihai”, Item 1 in the Breakdown of Valuation on Construction-in-progress-Vessels***

*1. Overview of the asset*

The carrying value of “Huizhihai”, the construction-in-progress, is US\$20,988,825.96. It is a bulk vessel with a DWT of 210,000 tonnes constructed by Yangzhou COSCO Shipping Heavy Industry Co., Ltd. With a total length of 299.95 meters, a breadth of 50 meters and a depth of 25 meters as the main dimensions, the type of the main engine of the vessel is MAN 6G70ME-C9.5-TII, the horsepower of the main engine is 15,790KW and the generator units are 3 sets of AC450 with a horsepower of 950KW. The contractual price, payment and scheduled delivery time of the appraised vessel under construction are agreed as follows:

Name of vessels	Manufacturer	Contractual price (US\$0'000)	Amount paid (US\$0'000)	Commencement	Delivery time
				date of construction	
Huizhihai	Yangzhou COSCO Shipping Heavy Industry Co., Ltd.	5,220	2,099	26 November 2019	1 December 2020

## 2. *Determination of the appraised value*

The calculation formula under the cost approach is as follows:

The value of the rights under the construction contracts of the vessels under construction = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

- (1) Shipbuilding price of the appraised vessel under construction on the valuation benchmark date

The price indices at the execution time of contracts and on the valuation benchmark date based on the vessel price information of Clarksons are 130 and 127, respectively, then:

Shipbuilding price of the appraised vessel under construction on the valuation benchmark date =  $52,200,000 \times 127 \div 130 = \text{US\$}50,995,400$ .

- (2) Supervision fees

They are determined based on the amount of US\$210,000 in the supervision contract on the actual construction of the appraised vessel.

- (3) Determination of capital costs

Based on the reasonable construction period of 16 months for the appraised vessel under construction and the interest rate of 4.25% determined based on the average of the 1-year and 5-year LPR interest rates issued by the People's Bank of China and after taking into the even input of capital,

$$\text{Capital costs} = (50,995,400 + 210,000) \times 16/12 \times 4.25\%/2$$

$$= \text{US\$}1,450,800$$

- (4) Appraised value = Shipbuilding price of the appraised vessels under construction on the valuation benchmark date + Supervision fees + Capital costs

$$= 50,995,400 + 210,000 + 1,442,000$$

$$= \text{US\$}52,660,000 \text{ (rounding)}$$

**IV. VALUATION CONCLUSION AND ANALYSIS**

On the valuation benchmark date, being 30 September 2020, the appraised value of the appraised assets, namely the rights under the construction contracts of the eight vessels under construction including “Huizhihai”, was US\$421,280,000 (FOUR HUNDRED TWENTY-ONE MILLION TWO HUNDRED EIGHTY THOUSAND US DOLLARS, rounding to the nearest ten thousand).



## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Interests and short positions of Directors, Supervisors and chief executives

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

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

Name	Position	Class of		Number of Shares interested (Note 1)	Approximate percentage of the total number of the relevant class of Shares of the Company (%)	Approximate percentage of the issued share capital of the Company (%)
		Shares	Capacity			
Xu Hui	Director	A Shares	Beneficial owner	1,490,100 (L) (Note 2)	0.02	0.01
		H Shares	Other	945,968 (L) (Notes 3 and 6)	0.03	0.01

*Notes:*

1. “L” means long position in the shares.
2. Such interests relate to share options granted to the Directors on 30 March 2020 pursuant to the A Share option incentive scheme of the Company approved by the Shareholders on 5 March 2020.
3. As disclosed in the announcement of the Company dated 24 November 2016, certain executive Directors, Supervisor, senior management and employees of the Company have voluntarily invested, with their own fund, in an asset management plan (the “**Asset Management Plan**”), pursuant to which the executive Directors, Supervisor, senior management and employees of the Company had subscribed to the units of the Asset Management Plan and entrusted the manager of the Asset Management Plan to manage the Asset Management Plan, which would invest in the H Shares. The manager of the Asset Management Plan shall be responsible for, among other things, the investment and re-investment of the assets under the Asset Management Plan and shall be entitled to exercise the voting rights and other relevant rights in respect of the H Shares held under the Asset Management Plan. The Company did not participate in the Asset Management Plan, and the Asset Management Plan does not constitute a share option scheme or any type of employee benefit scheme of the Company. As at the Latest Practicable Date, the Asset Management Plan has been fully funded and has acquired 6,900,000 H Shares on the market at an average price of HK\$1.749 per H Share.
4. Mr. Wang Daxiong was one of the participants of the Asset Management Plan through which he held approximately 12.10% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 834,677 H Shares represent the interests derived from the units subscribed by Mr. Wang Daxiong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Wang Daxiong did not hold any Shares.
5. Mr. Liu Chong was one of the participants of the Asset Management Plan through which he held approximately 16.13% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 1,112,903 H Shares represent the interests derived from the units subscribed by Mr. Liu Chong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Liu Chong did not hold any Shares.
6. Mr. Xu Hui was one of the participants of the Asset Management Plan through which he held approximately 13.71% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 945,968 H Shares represent the interests derived from the units subscribed by Mr. Xu Hui in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Xu Hui did not hold any Shares.

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

As at the Latest Practicable Date:

- (a) Mr. Huang Jian, a non-executive Director, was also a department general manager of COSCO SHIPPING; and
- (b) Mr. Ye Hongjun, a Supervisor, was also the chief legal adviser of COSCO SHIPPING.

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

**Interests of substantial Shareholders**

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

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

*Notes:*

1. “L” means long position in the shares.
2. Such 4,410,624,386 A Shares represent the same block of Shares.
3. Such 100,944,000 H Shares represent the same block of Shares and is held by Ocean Fortune Investment Limited, an indirectly wholly-owned subsidiary of China Shipping.

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

**3. NO MATERIAL ADVERSE CHANGE**

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

**4. SERVICE CONTRACTS**

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

**5. LITIGATION**

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

**6. MATERIAL INTERESTS**

As at the Latest Practicable Date:

- (a) none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors or the Supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**7. COMPETING INTERESTS**

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

**8. EXPERTS' QUALIFICATIONS AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
China Tong Cheng	Independent valuer
Messis Capital	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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

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

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

## **9. MATERIAL CONTRACTS**

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

- (a) the share transfer agreement dated 12 October 2020 entered into between COSCO Container Industries Limited, Long Honour Investments Limited, Shenzhen Capital (Hong Kong) Container Investments Co., Ltd., Shenzhen Capital Operation Group Co. Ltd. and the Company in relation to the disposal of shares in China International Marine Containers (Group) Co., Ltd. (please refer to the announcement of the Company dated 12 October 2020 and the circular of the Company dated 13 October 2020 for further details);
- (b) the capital increase agreement dated 24 April 2020 entered into among the Company, COSCO SHIPPING, COSCO SHIPPING Energy Transportation Co., Ltd., COSCO Shipping Tanker (Dalian) Co., Ltd., COSCO SHIPPING Lines Co., Ltd., COSCO International Freight Co., Ltd., COSCO SHIPPING Specialized Carriers Co., Ltd., Guangzhou Ocean Shipping Co., Ltd., COSCO (Tianjin) Co., Ltd., China Ocean Shipping Agency Co., Ltd., COSCO (Qingdao) Co., Ltd., COSCO Shipbuilding Industry Company Limited, COSCO Shipyard Group Co., Ltd., China Marine Bunker (Petro China) Co., Ltd., COSCO (Xiamen) Co., Ltd. and China Ocean Shipping Tally Co., Ltd., pursuant to which the parties (as existing shareholders of COSCO SHIPPING Finance Company Limited) have agreed to increase the registered capital of COSCO SHIPPING Finance Company Limited by RMB3,200,000,000 in proportion to their respective shareholding (please refer to the announcement of the Company dated 24 April 2020 for further details);
- (c) the equity transfer agreement dated 25 March 2019 entered into between the Company and COSCO SHIPPING Logistics Co., Ltd., pursuant to which the Company has agreed to dispose of, and COSCO SHIPPING Logistics Co. Ltd. has agreed to acquire, 25% of the equity interests in E-Shipping Global Supply Chain Management (Shenzhen) Co., Ltd. (please refer to the announcement of the Company dated 25 March 2019 for further details);

- (d) the four memoranda of agreement dated 10 January 2019 entered into between (i) CSCL Spring Shipping Co., Ltd., CSCL Summer Shipping Co., Ltd., CSCL Winter Shipping Co., Ltd. and CSCL Bohai Sea Shipping Co., Ltd. (collectively, the “**Vessel Sellers**”) and (ii) FPG Shipholding Panama 48 S.A., FPG Shipholding Panama 49 S.A., FPG Shipholding Panama 50 S.A. and FPG Shipholding Panama 51 S.A. (collectively, the “**Vessel Purchasers**”), pursuant to which the Vessel Sellers have agreed to sell, and the Vessel Purchasers have agreed to purchase, the Vessels, for the aggregate consideration of US\$267 million (please refer to the announcement of the Company dated 10 January 2019 for further details);
- (e) the four instalment sale agreements dated 10 January 2019 entered into between (i) the Vessel Purchasers as sellers and (ii) Ship No. 140 Co., Ltd., Ship No. 141 Co., Ltd., Ship No. 142 Co., Ltd. and Ship No. 143 Co., Ltd., as buyers in respect of the instalment sale of the Vessels (please refer to the announcement of the Company dated 10 January 2019 for further details); and
- (f) the four bareboat charters dated 10 January 2019 entered into between the Vessel Owners and COSCO SHIPPING Development (Hong Kong) Co., Ltd., pursuant to which the Vessel Owners have agreed to charter, and COSCO SHIPPING Development (Hong Kong) Co., Ltd. agreed to take on charter, the Vessels, with the maximum aggregate amount of the instalments of charter hire payable by COSCO SHIPPING Development (Hong Kong) Co., Ltd. to the Vessel Owners estimated to be approximately US\$248 million (please refer to the announcement of the Company dated 10 January 2019 for further details).

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

#### 10. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the Assignment and Novation Agreements;
- (b) the Master Vessel Charter Agreement;
- (c) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;

- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (e) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular;
- (f) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (g) the Articles of Association;
- (h) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019;
- (i) the interim report of the Company for the six months ended 30 June 2020;
- (j) the written consent referred to in the paragraph headed “Experts’ Qualifications and Consent” in this Appendix;
- (k) a copy of the circular of the Company dated 30 October 2020;
- (l) a copy of the circular of the Company dated 20 November 2020; and
- (m) this circular.

## 11. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Cai Lei (“**Mr. Cai**”) and Ms. Ng Sau Mei (“**Ms. Ng**”). Mr. Cai is qualified as a national judicial professional and an insurance assessor, and holds the title of intermediate economist. Ms. Ng is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.
- (b) The legal address of the Company in the PRC is Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.
- (c) The principal place of business of the Company in the PRC is 5299 Binjiang Dadao, Pudong New Area, Shanghai, the PRC.
- (d) The principal place of business of the Company in Hong Kong is 50/F, COSCO Tower, 183 Queen’s Road Central, Hong Kong.
- (e) The Hong Kong H Share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.



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## NOTICE OF EGM

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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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of COSCO SHIPPING Development Co., Ltd. (the “**Company**”) will be held at 1:30 p.m. on Friday, 18 December 2020 (or at any adjournment thereof) at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the People's Republic of China to consider and, if thought fit, pass the following resolutions.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 2 December 2020 (the “**Circular**”).

### ORDINARY RESOLUTION

1. To consider and approve the resolution in relation to the Assignment and Novation Agreements, further details of which are set out in the Circular:

**“THAT:**

- (a) the Assignment and Novation Agreements and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one Director be and is hereby authorized to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Assignment and Novation Agreements and the transactions contemplated thereunder.”

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## NOTICE OF EGM

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### SPECIAL RESOLUTION

2. To consider and approve the resolution in relation to the Adjustment of Caps for Provisions of Guarantees, further details of which are set out in the Circular.

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

Shanghai, the People's Republic of China  
2 December 2020

*Notes:*

1. For the purpose of holding the EGM, the register of H Shares members of the Company (the “**Register of Members**”) will be closed from 15 December 2020 to 18 December 2020 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Holders of the Company's H Shares (the “**H Shareholders**”) whose names appear on the Register of Members at the close of business on 14 December 2020 are entitled to attend and vote at the EGM.
2. In order to attend and vote at the EGM, the H Shareholders shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited (“**Computershare**”), the Company's H Share registrar, not later than 4:30 p.m. on 14 December 2020.

The address of Computershare is as follows:

Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

3. Each H Shareholder who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a Shareholder or not, to attend and vote on his/her behalf at the EGM.
4. The form of proxy must be signed by the Shareholder or his/her attorney duly authorized in writing or, in the case of a legal person, must either be executed under its common seal or under the hand of a legal representative or other attorney duly authorized to sign the same. If the Form of Proxy is signed by an attorney of the appointer, the power of attorney authorizing that attorney to sign, or other document of authorization, must be notarially certified.
5. To be valid, for H Shareholders, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to Computershare at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
6. If a proxy attends the EGM on behalf of a Shareholder, he/she should produce his/her identity card and the form of proxy signed by the Shareholder or his/her legal representative or his/her duly authorized attorney, and specify the date of its issuance. If a legal person Shareholder appoints its corporate representative to attend the EGM, such representative should produce his/her identity card and the notarized copy of the resolution passed by the board of directors or other authorities, or other notarized copy of the licence issued by such legal person Shareholder. The form of proxy duly signed and submitted by HKSCC Nominees Limited are deemed to be valid, and it is not necessary for the proxy(ies) appointed by HKSCC Nominees Limited to produce the signed form of proxy when the proxy(ies) attend(s) the EGM. Completion and return of the form of proxy will not preclude a Shareholder from attending in person and voting at the EGM or any adjournment thereof should he/she so wish.

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## NOTICE OF EGM

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7. Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by way of poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolutions set out in the notice of the EGM will be voted on by poll. Results of the poll voting will be published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) after the EGM.
8. Where there are joint registered holders of any share of the Company, only the person whose name stands first on the Register of Members in respect of such share may vote at the EGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto.
9. The EGM is estimated to last for half a day. Shareholders who attend the EGM in person or by proxy shall bear their own transportation and accommodation expenses.

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

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