THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in CSSC (Hong Kong) Shipping Company Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CSSC (Hong Kong) Shipping Company Limited
中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED ACQUISITION OF VESSELS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 14 of this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on pages 15 of this circular.

A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 26 of this circular.

A notice convening the EGM to be held at 1801, 18/F, World-wide House, 19 Des Voeux Road Central, Hong Kong on Thursday, 30 June 2022 at 3:30 p.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, is set out on pages 45 to 47 of this circular. A form of proxy for use at the EGM is enclosed in this circular. Whether or not you are able to attend such meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Precautionary measures for the EGM: In order to prevent and control the Coronavirus pandemic as well as safeguard public health, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

(i) Seating at the EGM venue will be arranged so as to allow for appropriate social distancing.
(ii) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the EGM venue. Any person with a body temperature of over 37.3 degrees Celsius, or any individual who has any flu-like symptoms or is otherwise unwell will not be admitted to the EGM venue.
(iii) Every attendee is required to wear a face mask at any time within the EGM venue. Please note that no masks will be provided at the AGM venue and attendees should bring and wear their own masks.
(iv) Any attendee who declines any of the abovementioned measures will be refused admission to the EGM venue.
(v) No refreshment will be served, and there will be no corporate gifts.

In addition, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM instead of attending the EGM in person, by completing and returning the form of proxy attached to this circular. If any Shareholder chooses not to attend the EGM in person but has any question about the resolution set out in the notice of EGM or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our registered office.

In the event that the Coronavirus situation requires the date or/and venue of the EGM to be changed, the Company will, as soon as practicable, publish a notice on the website of the Stock Exchange at www.hkexnews.hk and its website at http://www.csscshipping.cn to notify Shareholders of the date, time and venue of the rescheduled meeting.

16 June 2022

CONTENTS

Page

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

"ASL NAVIGATION"	ASL NAVIGATION LIMITED, a company incorporated in Hong Kong with limited liability
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"CA Shipping"	CA Shipping Company Limited, the joint venture established by Fortune Vcontainer Carriers and ASL NAVIGATION in Hong Kong and is a non-wholly owned subsidiary of the Company
"China Shipbuilding Group"	China State Shipping Corporation*（中國船舶集團有限公司）, a wholly state-owned limited liability company established under the laws of the PRC, being the sole shareholder of CSSC Group and one of the controlling shareholders of the Company
"Company"	CSSC (Hong Kong) Shipping Company Limited（中國船舶(香港)航運租賃有限公司）, a company incorporated under the laws of Hong Kong with limited liability on 25 June 2012, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3877)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"CSSC Group"	China State Shipbuilding Corporation*（中國船舶工業集團有限公司）, a wholly state-owned limited liability company established under the laws of the PRC and one of the controlling shareholders of the Company
"December 2021 Acquisition"	the acquisition of one liquefied natural gas carrier and bearing the builder's hull number H1830A under the December 2021 SPA

"December 2021 SPA"	the agreement dated 6 January 2022 entered into between Fortune Pillar Shipping Limited (a wholly-owned special purpose vehicle of the Company) as purchaser and Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. (a subsidiary of CSSC Group) as vendor in respect of the acquisition of one liquefied natural gas carrier and bearing the builder's hull number H1830A. For further details, please refer to the announcement of the Company dated 28 December 2021
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be held and convened to consider and, if thought fit, approve the Proposed Acquisition
"Fortune Vcontainer Carriers"	Fortune Vcontainer Carriers Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent committee of the Board, comprising all three independent non-executive Directors, established to advise the Independent Shareholders in respect of the Novation Agreements and the Shipbuilding Agreements and the transactions contemplated thereunder
"Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Novation Agreements and the Shipbuilding Agreements and the transactions contemplated thereunder

"Independent Shareholders"	Shareholders who do not have a material interest in the Novation Agreements and the Shipbuilding Agreements and the transactions contemplated thereunder
"Independent Third Party(ies)"	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, supervisors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
"Initial Shipbuilding Contracts"	collectively, the Initial Shipbuilding Contract I and the Initial Shipbuilding Contract II
"Initial Shipbuilding Contract I"	a shipbuilding contract dated 31 March 2022 as supplemented by an addendum dated 27 May 2022 made between ASL Shipping, Limited and Wuchang Shipbuilding for the purchase of the Vessel I by ASL Shipping, Limited
"Initial Shipbuilding Contract II"	a shipbuilding contract dated 31 March 2022 as supplemented by an addendum dated 27 May 2022 made between ASL Shipping, Limited and Wuchang Shipbuilding for the purchase of the Vessel II by ASL Shipping, Limited
"July 2021 Acquisition"	the acquisition of one liquefied natural gas carrier and bearing the builder's hull number H1829A under the July 2021 SPA
"July 2021 SPA"	the agreements dated 2 July 2021 entered into between Fortune Magnificent Shipping Limited (a wholly-owned special purpose vehicle of the Company) as purchaser and Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. (a subsidiary of CSSC Group) as vendor in respect of the acquisition of one liquefied natural gas carrier and bearing the builder's hull number H1829A. For further details, please refer to the announcement of the Company dated 28 December 2021
"Latest Practicable Date"	13 June 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Novation Agreements"	collectively, the Novation Agreement I and the Novation Agreement II
"Novation Agreement I"	the novation agreement dated 27 May 2022 entered into among ASL Shipping, Limited, CA Shipping and Wuchang Shipbuilding, pursuant to which, the rights and obligations of ASL Shipping, Limited under the Initial Shipbuilding Contract I will be transferred to CA Shipping
"Novation Agreement II"	the novation agreement dated 27 May 2022 entered into among ASL Shipping, Limited, CA Shipping and Wuchang Shipbuilding, pursuant to which, the rights and obligations of ASL Shipping, Limited under the Initial Shipbuilding Contract II will be transferred to CA Shipping
"PRC"	the People's Republic of China, which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Proposed Acquisition"	the proposed acquisition of the Vessels
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shares"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of share(s) of the Company
"Shipbuilding Agreements"	collectively, the Shipbuilding Agreement I and the Shipbuilding Agreement II
"Shipbuilding Agreement I"	the building agreement dated 27 May 2022 as supplemented by an addendum dated 13 June 2022 entered into between CA Shipping or its nominee as purchaser and Wuchang Shipbuilding as seller for the acquisition of the Vessel III

"Shipbuilding Agreement II"	the shipbuilding agreement dated 27 May 2022 as supplemented by an addendum dated 13 June 2022 entered into between CA Shipping or its nominee as purchaser and Wuchang Shipbuilding as seller for the acquisition of the Vessel IV
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the same meaning as ascribed to it under the listing Rules
"TEU"	twenty-foot equivalent unit, which is a standard of measurement used in container transport for describing the capacity of container vessels
"US$"	United States dollars, the lawful currency of the United States of America
"Vessels"	collectively, the Vessel I, the Vessel II, the Vessel III and the Vessel IV; and "Vessel" means any of them
"Vessel I"	one 1100TEU container vessel having the builder's hull number AA006M
"Vessel II"	one 1100TEU container vessel having the builder's hull number AA007M
"Vessel III"	one 1100TEU container vessel having the builder's hull number AA009M
"Vessel IV"	one 1100TEU container vessel having the builder's hull number AA0010M
"Wuchang Shipbuilding"	Wuchang Shipbuilding Industry Group Co., Ltd.*（武昌船舶重工集團有限公司）, a company established under the laws of the PRC and is an indirect wholly-owned subsidiary of China Shipbuilding Group
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, conversion of US$ into HK$ is calculated at the approximate exchange rate of US$1.00 = HK$7.80. This exchange rate is adopted for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

* *For identification purposes only. The English names are only translations of the official Chinese names. In case of inconsistency, the Chinese names prevail.*

CSSC (Hong Kong) Shipping Company Limited
中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

Executive Director:
Mr. Zhong Jian *(Chairman)*

Non-executive Directors:
Mr. Li Wei
Mr. Zou Yuanjing

Independent Non-executive Directors:
Mr. Wang Dennis
Mdm. Shing Mo Han Yvonne
Mr. Li Hongji

Registered Office:
1801, 18/F, World-wide House
19 Des Voeux Road Central
Hong Kong

16 June 2022

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION INVOLVING PROPOSED ACQUISITION OF VESSELS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company dated 18 May 2022 and 9 June 2022 in relation to, amongst others, the Proposed Acquisition.

The main purpose of this circular is to provide you with, among other things, (1) further information of the Proposed Acquisition; (2) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (3) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (4) the notice of the EGM.

THE PROPOSED ACQUISITION OF THE VESSELS

The Board is pleased to announce that, on 27 May 2022, CA Shipping (being an indirectly non-wholly owned subsidiary of the Company) has entered into the Novation Agreements and the Shipbuilding Agreements (as supplemented by two addendums dated 13 June 2022) for the Proposed Acquisition, pursuant to which, CA Shipping shall acquire the Vessels at a total consideration of US$91.92 million (equivalent to approximately HK$716.98 million).

THE INITIAL SHIPBUILDING CONTRACTS

On 31 March 2022, ASL Shipping, Limited entered into the Initial Shipbuilding Contracts with Wuchang Shipbuilding in relation to the acquisition of two Vessels at the consideration of US$22.88 million for each Vessel. The principal terms of the Initial Shipbuilding Contracts are substantially the same as the Novation Agreements, save and except for the delivery dates and adjustment to the consideration. On 27 May 2022, ASL Shipping, Limited entered into two addendums with Wuchang Shipbuilding, pursuant to which, the consideration for each Vessel was adjusted to US$22.98 million, taking into account the extra costs of construction. Other than the aforesaid adjustment to the consideration, the other terms of the Initial Shipbuilding Contracts shall remain unchanged.

THE NOVATION AGREEMENTS

Principal terms of the Novation Agreements are as follows:

Novation Agreement I

New buyer	:	CA Shipping, being an indirectly non-wholly owned subsidiary of the Company
Original buyer	:	ASL Shipping, Limited
Builder	:	Wuchang Shipbuilding

Novation Agreement II

New buyer	:	CA Shipping, being an indirectly non-wholly owned subsidiary of the Company
Original buyer	:	ASL Shipping, Limited
Builder	:	Wuchang Shipbuilding

The shipbuilder under the Novation Agreements is an indirect wholly-owned subsidiary of China Shipbuilding Group, the sole shareholder of CSSC Group and one of the controlling shareholders of the Company, holding approximately 74.99% of the issued share capital of the Company as at the Latest Practicable Date, and is therefore a connected person of the Company.

Subject Matter

Pursuant to the Novation Agreement I, all rights and obligations of ASL Shipping, Limited under the Initial Shipbuilding Contract I shall be transferred to CA Shipping subject to the terms and conditions of the Novation Agreement I. Wuchang Shipbuilding agreed to the aforementioned novation.

Pursuant to the Novation Agreement II, all rights and obligations of ASL Shipping, Limited under the Initial Shipbuilding Contract II shall be transferred to CA Shipping subject to the terms and conditions of the Novation Agreement II. Wuchang Shipbuilding agreed to the aforementioned novation.

Vessels to be acquired

The vessel proposed to be acquired under each of the Novation Agreement I and the Novation Agreement II is a 1100TEU container vessel, namely the Vessel I and the Vessel II.

THE SHIPBUILDING AGREEMENTS

Principal terms of the Shipbuilding Agreements are as follows:

Shipbuilding Agreement I

Purchaser	:	CA Shipping or its nominees
Vendor	:	Wuchang Shipbuilding

Shipbuilding Agreement II

Purchaser	:	CA Shipping or its nominees
Vendor	:	Wuchang Shipbuilding

Vessels to be acquired

The vessel proposed to be acquired under each of the Shipbuilding Agreement I and the Shipbuilding Agreement II is a 1100TEU container vessel, namely the Vessel III and the Vessel IV.

Consideration

Pursuant to the Novation Agreements and the Shipbuilding Agreements, the consideration of one Vessel is US$22.98 million and the total consideration of the Vessels is US$91.92 million (equivalent to approximately HK$716.98 million) (the "**Consideration**") and shall be settled in following agreed milestones of the shipbuilding progress of the Vessels:

(a) a sum equivalent to 20% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding within five banking days after the buyer's receipt of refund guarantee by the shipbuilder;

(b) a sum equivalent to 10% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon steel cutting of the Vessels;

(c) a sum equivalent to 5% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon keel laying of the Vessels;

(d) a sum equivalent to 5% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon launching of the Vessels; and

(e) a sum equivalent to 60% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon delivery of the Vessels.

Pursuant to the Initial Shipbuilding Contracts and Shipbuilding Agreements, all payments made by the buyers (i.e. ASL Shipping, Limited and CA Shipping respectively) prior to the delivery of vessels shall be in the nature of advance payment to Wuchang Shipbuilding. In the event the Initial Shipbuilding Contracts and the Shipbuilding Agreements are justifiably cancelled or rescinded by the buyer(s) in accordance with the terms of the Initial Shipbuilding Contracts and the Shipbuilding Agreements, Wuchang Shipbuilding shall refund to the buyer(s) all sums paid to it, together with interest, from the date of receipt by Wuchang Shipbuilding to the date of refund. Wuchang Shipbuilding shall deliver a refund guarantee to the buyer(s) according to the term of Initial Shipbuilding Contracts and the Shipbuilding Agreements for the aforesaid refund.

As at the Latest Practicable Date, Wuchang Shipbuilding had yet to deliver the refund guarantee to ASL Shipping, Limited. As such, no instalments of the Consideration was paid by ASL Shipping, Limited to Wuchang Shipbuilding.

Adjustment to the Consideration

Pursuant to the Initial Shipbuilding Contract, the consideration shall be adjusted downward if there is a delay of delivery for more than 60 days (the "**60-Day Grace Period**"). The consideration shall be reduced by US$5,000 per day if there is a delay of delivery for up to 180 days since the 60-Day Grace Period. ASL Shipping, Limited may terminate the Initial Shipbuilding Contract I if there is a delay in delivery for more than 240 days.

Pursuant to the Initial Shipbuilding Contract II and the Shipbuilding Agreements, the consideration shall be adjusted downward if there is a delay of delivery for more than 30 days (the "**30-Day Grace Period**"). The consideration shall be reduced by US$5,000 per day if there is a delay in delivery for up to 180 days since the 30-Day Grace Period. ASL Shipping, Limited or CA Shipping (or its nominees) (as the case may be) may terminate the Initial Shipbuilding Contract II and the Shipbuilding Agreements if there is a delay in delivery for more than 210 days.

The Consideration has been determined by the parties after arm's length negotiations between the parties, taking into account (1) the construction cost of similar type of vessels from independent third parties, (2) the current market values of similar type of vessels by reference to the publicly available industry reports, such as Shipping Intelligence Weekly and Container Intelligence Monthly issued by Clarkson Research Services Limited and the most recent comparable transactions in the industry reported in a global shipping newspaper, namely, TradeWinds in March 2022, as well as (3) payment terms, technical terms and delivery dates that meet the Company's requirements and agreed between a willing buyer and a willing seller. Based on (i) the publicly available industry data from Clarkson Research Services Limited, the market price for the newbuilding of comparable container ships was approximately US$23.5 million at the end of 2021, approximately US$24.3 million in March 2022 and US$24.5 million in April 2022, respectively and (ii) the comparable transaction amount of about US$25 million reported in TradeWinds in March 2022. The Board (including the independent non-executive Directors) considers that the terms of the Novation Agreements and the Shipbuilding Agreements (including the Consideration) are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

It is currently expected that 25% of the Consideration will be funded by shareholders' loan provided by the shareholders of CA Shipping or its nominees (as the case may be) and 75% of the Consideration will be funded by the banking facilities to be obtained by CA Shipping. The Company shall provide such shareholders' loan to CA Shipping in proportion to its shareholding in CA Shipping by using its internal resources. If the bank requires the shareholders of CA Shipping or its nominees (as the case may be) to provide guarantees and/or collaterals, the Company shall provide such guarantee and/or collaterals in proportion to its shareholding percentage in such entity.

Delivery time

It is currently expected that the Vessels will be delivered between 31 January 2024 to 31 August 2024.

COMPLETION

Completion of the transactions contemplated under the Novation Agreements and the Shipbuilding Agreements is conditional upon the approval obtained from the Independent Shareholders at the EGM. As at the Latest Practicable Date, the aforesaid condition precedent has not been fulfilled.

INFORMATION OF THE PARTIES TO THE NOVATION AGREEMENTS AND THE SHIPBUILDING AGREEMENTS

CA Shipping is a joint venture established by Fortune Vcontainer Carriers and ASL NAVIGATION. As at the Latest Practicable Date, CA Shipping is owned as to 60% by Fortune Vcontainer Carriers and 40% by ASL NAVIGATION. Accordingly, CA Shipping is a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Fortune Vcontainer Carriers is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, which is principally engaged in the provision of leasing services.

ASL NAVIGATION is a company incorporated in Hong Kong with limited liability and is principally engaged in shipping business. As at the Latest Practicable Date, ASL NAVIGATION is wholly-owned by ASL Shipping, Limited. ASL Shipping, Limited is a company incorporated in Hong Kong with limited liability and is principally engaged in shipping business. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the Latest Practicable Date, ASL Shipping, Limited is ultimately owned as to approximately 55% by Hsing Tai-Ming and as to approximately 45% by Yang Xiangdong, respectively. ASL NAVIGATION, ASL Shipping, Limited and its ultimate beneficial owners are Independent Third Parties.

Wuchang Shipbuilding is a company incorporated under the laws of the PRC and is principally engaged in shipbuilding business. It is an indirect wholly-owned subsidiary of China Shipbuilding Group, the sole shareholder of CSSC Group and one of the controlling shareholders of the Company. Accordingly, Wuchang Shipbuilding is a connected person of the Company.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Company is a shipyard-affiliated leasing company and is principally engaged in the provision of leasing services.

The Group is principally engaged in the provision of operating lease and financial lease. During the ordinary and usual course of business of the Group, the Group has been purchasing vessels from CSSC Group and/or its associates (either through entering into direct shipbuilding contract with the shipbuilders or novation of shipbuilding contracts previously entered into between the Group's lessee customers and the shipbuilders) since its incorporation in 2012. The vessels purchased from CSSC Group and/or its associates have been used for the Group's operating lease business and for direct finance lease transactions (both being the Group's principal businesses). The Proposed Acquisition enables the Group to generate leasing income by leasing the Vessels to its customer(s).

Further, the Group has striven to maintain a diversified, modern and youthful vessel portfolio. It will regularly monitor and assess the age, conditions and utilisation of its vessels with the view to optimise its asset allocation and improving the risk resistance capability of assets on an on-going basis. Given that the container ship market has continued to recover and become the largest in the world trade volume in the past two years and the efficiency and security of global supply chain was raised to an unprecedented level of significance due to the COVID-19 impact, the Board considers that, the Proposed Acquisition represents a strategic move for the Group to expand the proportion of feeder container ships in its vessel portfolio so as to capture such opportunity and consistent with the cross-cyclical strategy of the Company. Accordingly, the Directors believe that the entering into of the Novation Agreements will strengthen the Group's leasing business and is consistent with the Group's overall business development strategies. In addition, CSSC Group together with its associates have consistently delivered quality vessels to the Group in a timely manner, and there is has not been any material breach of contractual terms of the shipbuilding agreements on the part of CSSC Group and/or its associates. Therefore, the purchase of vessels from CSSC Group and/or its associates enables the Group to secure the earliest possible ship delivery timetable, which will improve the ultimate operation efficiency. Having considered the above, the Directors believe that the terms of the Novation Agreements and the Shipbuilding Agreements are fair and reasonable and the Novation Agreements and the Shipbuilding Agreements are in the interests of the Company and its Shareholders as a whole.

THE LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, China Shipbuilding Group (through CSSC Group) is interested in 4,602,046,234 Shares, accounting for approximately 75% of the issued share capital of the Company. As China Shipbuilding Group, the sole shareholder of CSSC Group, is the 100% indirect shareholder of Wuchang Shipbuilding, Wuchang Shipbuilding is a connected person of the Company. Therefore, the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Proposed Acquisition exceeds 5% but is less than 25%, the Proposed Acquisition also constitutes a disclosable transaction and connected transaction of the Company and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

In addition, as the Group has entered into the July 2021 SPA and the December 2021 SPA with an associate of CSSC Group, the July 2021 Acquisition, the December 2021 Acquisition and the Proposed Acquisition constitute a series of transactions conducted within 12-month period and shall be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As one or more applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the July 2021 Acquisition, the December 2021 Acquisition and the Proposed Acquisition on an aggregated basis exceed 25% but are less than 100%, the Proposed Acquisition constitutes a major transaction and connected transaction of the Company and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

As China Shipbuilding Group through its direct wholly-owned subsidiary, namely, CSSC Group hold 4,602,046,234 Shares, representing 75% of the entire issued share capital of the Company as at the Latest Practicable Date. Therefore, CSSC Group is an associate of China Shipbuilding Group and a connected person of the Company. As such, China Shipbuilding Group and CSSC Group control or are entitled to exercise control over the voting rights in respect of 4,602,046,234 Shares, representing 75% of the entire issued share capital of the Company as at the Latest Practicable Date and shall abstain from voting at the EGM. Mr. Zhong Jian is an executive Director and chairman of the Board who is also a supervisor of China CSSC Holdings Ltd.*（中國船舶工業股份有限公司）, which is a subsidiary of CSSC Group. Mr. Zou Yuanjing is a non-executive Director who is also a director of Shanghai Waigaoqiao Shipbuilding Co., Ltd.*（上海外高橋造船有限公司）, which is a subsidiary of CSSC Group. Mr. Zhong Jian and Mr. Zou Yuanjing considered to have material interest and had abstained from voting at the Board meeting with respect to the review and approval of the Novation Agreements and the Shipbuilding Agreements.

Save as disclosed above, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, none of the Shareholders and any of their respective close associates has any material interest in the Novation Agreements and the Shipbuilding Agreements and is required to abstain from voting in respect of the shareholders' resolution to approve the same.

EGM AND PROXY ARRANGEMENT

A notice convening the EGM to be held at 1801, 18/F, World-wide House, 19 Des Voeux Road Central, Hong Kong on Thursday, 30 June 2022 at 3:30 p.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, is set out on pages 45 to 47 of this circular. At the EGM, ordinary resolutions will be proposed to approve the Novation Agreements and the Shipbuilding Agreements and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed in this circular. Whether or not you are able to attend such meeting, please complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rules 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the meeting will therefore demand a poll for every resolution to be passed at the EGM pursuant to the Articles of Association of the Company. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

To ascertain the Shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 27 June 2022 to Thursday, 30 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 24 June 2022.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 15 of this circular; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 16 to 26 of this circular; and (iii) the additional information set out in the appendix to this circular.

The Directors (including the independent non-executive Directors) are of the view that (i) the entering into of the Novation Agreements and the Shipbuilding Agreements is in the Group's ordinary course of business; and (ii) the terms of the Novation Agreements and the Shipbuilding Agreements are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Independent Shareholders to attend and vote at the EGM in favour of the ordinary resolution set out in the notice of the EGM.

Yours faithfully,
By order of the Board
CSSC (Hong Kong) Shipping Company Limited
Zhong Jian
Chairman

CSSC (Hong Kong) Shipping Company Limited
中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

16 June 2022

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION INVOLVING PROPOSED ACQUISITION OF VESSELS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 16 June 2022 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee, which has been established to advise the Independent Shareholders in respect of the Novation Agreements and the Shipbuilding Agreements and the transactions contemplated thereunder.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us in this regard. We wish to draw your attention to the "Letter from Somerley Capital Limited" as set out in the Circular. Having considered the principal factors and reasons, and the advice of the Independent Financial Adviser as set out in their letter of advice, we are of the opinion that the terms of the Novation Agreements and the Shipbuilding Agreements are on normal commercial terms in the ordinary and usual course of business of the Company and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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

Yours faithfully,
the Independent Board Committee

Mr. Wang Dennis	**Mdm. Shing Mo Han Yvonne**	**Mr. Li Hongji**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 June 2022

To: the independent board committee and the independent shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION INVOLVING PROPOSED ACQUISITION OF VESSELS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of CSSC (Hong Kong) Shipping Company Limited (the "**Company**") in relation to the acquisition of vessels from Wuchang Shipbuilding Industry Group Co., Ltd. (the "**Proposed Acquisition**"). Details of the Proposed Acquisition are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 16 June 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

CA Shipping (being an indirect non-wholly owned subsidiary of the Company) or its nominees entered into the Proposed Acquisition to acquire the Vessels at a consideration of US$91.92 million (equivalent to approximately HK$716.98 million) from Wuchang Shipbuilding (being an indirect wholly-owned subsidiary of China Shipbuilding Group).

According to the Board Letter, as at the Latest Practicable Date, China Shipbuilding Group (through CSSC Group) is interested in approximately 75% of the issued share capital of the Company and is the indirect shareholder of Wuchang Shipbuilding. Wuchang Shipbuilding is a connected person of the Company. The Proposed Acquisition constitutes a major and connected transaction of the Company and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Dennis, Mdm. Shing Mo Han Yvonne and Mr. Li Hongi, has been established to advise the Independent Shareholders in relation to the Proposed Acquisition. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to notifiable and connected transactions involving acquisition of vessels (details of which are set out in the Company's circular dated 31 January 2022). Such past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Given the independent advisory nature of the past engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and Wuchang Shipbuilding that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the matters set out above.

In formulating our opinion, we have relied on the information as contained in the Circular and the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (the "**Management**"). We have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group or Wuchang Shipbuilding, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Acquisition, we have taken into account the principal factors and reasons set out below.

1. Information on the parties to the Proposed Acquisition

The Group

The Company is a shipyard-affiliated leasing company and is principally engaged in the provision of leasing services.

CA Shipping is a joint venture established by Fortune Vcontainer Carriers and ASL NAVIGATION. CA Shipping is an indirect non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Fortune Vcontainer Carriers is a company established in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, which is principally engaged in the provision of leasing services. ASL NAVIGATION is a company incorporated in Hong Kong with limited liability and is principally engaged in shipping business. As at the Latest Practicable Date, ASL NAVIGATION is wholly-owned by ASL Shipping Limited ("**ASL Shipping**"). As set out in the Board Letter, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the Latest Practicable Date, ASL Shipping is ultimately owned as to approximately 55% by Hsing Tai-Ming and as to approximately 45% by Yang Xiangdong, respectively. ASL NAVIGATION, ASL Shipping and its ultimate beneficial owners are Independent Third Party.

The original buyer under novation arrangement

The Proposed Acquisition involves the novation of agreements originally entered into between Wuchang Shipbuilding, being the shipbuilder, and ASL Shipping, being the original buyer. ASL Shipping is principally engaged in shipping business.

Wuchang Shipbuilding (the shipbuilder)

Wuchang Shipbuilding is a company incorporated under the laws of the PRC and is principally engaged in shipbuilding business. It is an indirect wholly-owned subsidiary of China Shipbuilding Group, the sole shareholder of CSSC Group and one of the controlling shareholders of the Company.

2. Reasons for and benefits of the Proposed Acquisition

As advised by the Management, CSSC Group is a leading state-owned shipbuilding conglomerate in the PRC. CSSC Group has solid experience and substantial expertise in shipbuilding and is equipped with capabilities in constructing a wide range of vessels. The Group is principally engaged in the provision of operating lease and financial lease. During the ordinary and usual course of business of the Group, the Group has been purchasing vessels from CSSC Group and/or its associates (either through entering into direct shipbuilding contract with the shipbuilders or novation of shipbuilding contracts previously entered into between the Group's lessee customers and the shipbuilders) since its establishment in 2012. The vessels purchased from CSSC Group and/or its associates have been used for the Group's operating lease business and for direct finance lease transactions (both being the Group's principal businesses). When the vessels purchased under the Proposed Acquisition are delivered from the shipbuilder, the Group would be able to generate leasing income by leasing the vessels to customer(s).

To understand the shipping market, we have performed an analysis on the ClarkSea Index, a weighted average index of earnings for the main vessel types where the weighting is based on the number of vessels in each fleet sector created by the Clarkson Research Services Limited ("**Clarkson**"). Clarkson is the research arm of Clarkson Plc (https://www.clarksons.com/), an international provider of integrated shipping services. Since the listing of the Company on the Stock Exchange on 17 June 2019, the average ClarkSea Index increased from approximately US$13,050/day in June 2019 to approximately US$40,651/day in March 2022. The ClarkSea Index remained stable from 2019 to 2020, with an average of approximately US$15,082/day in 2019 and an average of approximately US$14,839/day in 2020. The average ClarkSea Index then increased to approximately US$28,700/day in 2021 and approximately US$35,118/day during January to March 2022. The ClarkSea Index increased significantly since 2021, from approximately US$15,386/day in January 2021 to approximately US$40,651/day in March 2022. The shipping industry was on a positive trend recently based on the statistics above.

The Management considers that CSSC Group together with its associates have consistently delivered quality vessels to the Group in a timely manner. In this regard, we obtained from the Company copies of protocol of delivery and acceptance (being documents executed by the shipbuilders and buyers upon delivery of vessels) of certain previous vessels (being the delivered vessels during the year ended 31 December 2021 pursuant to shipbuilding contracts between the Company and CSSC Group and/or its associates which were effective since the Company's listing on the Stock Exchange) acquired from CSSC Group and/or its associates. We noted that the delivery time of these vessels (i.e. the date of the protocol of delivery and acceptance) is within the permitted delivery schedule according to the terms of relevant shipbuilding contracts, and the Management also confirmed that there has not been any material breach of contractual terms of the agreements on the part of CSSC Group and/or its associates. The Management considers that the transactions between the Group and CSSC Group are conducted under fair and reasonable terms, and the vessels supplied by CSSC Group enable the Group to maintain stable business operation.

As advised by the Management, it is the Group's strategy to continue strengthening its fleet size so as to expand its business. According to the Company's 2021 annual report, the Group will continue to maintain continuous investment in new ship leasing assets. With reference to the Company's 2020 annual report and 2021 annual report, the Group' fleet size increased from 136 vessels (90 of which were chartered for operation and 46 of which were under construction) as at 31 December 2020 to 158 vessels (130 of which were under lease and 28 of which were under construction) as at 31 December 2021. As further mentioned in the Company's 2021 annual report, the audited net profit of the Group for the year ended 31 December 2021 increased by approximately 24.6% as compared to that of 2020. As advised by the Management, such increase in profit was mainly attributable to, among other things, (i) the substantial increase of demand of the Group's self-operating bulk carrier fleet; and (ii) the growth of the Group's operating fleet, which is up to 130 vessels as of 31 December 2021, representing an increase of approximately 44.4% from 90 vessels as of 31 December 2020. In light of the above, we consider that the Proposed Acquisition is in line with the Group's development strategy to continue strengthening its fleet size. We are also of the view that the Group's strategy to continue strengthening its fleet size is in the interests of the Company and the Shareholders as a whole having considered (i) that the Group conducts operating and finance lease of vessels as its principal business, the acquisition/construction of vessels is prerequisite to the Group's ordinary business operation; and (ii) the recent positive industry trend as mentioned above.

Taking into account that (i) the Proposed Acquisition is in line with the Group's principal business (as the vessels purchased will be used for the Group's operating lease business and/or for direct finance lease transactions); (ii) when the vessels purchased under the Proposed Acquisition are delivered from the shipbuilder, the Group would be able to generate leasing income by leasing the vessels to customer(s); (iii) the Group has been purchasing vessels from CSSC Group and/or its associates over the past years; and (iv) the Proposed Acquisition is in line with the Group's development strategy to continue strengthening its fleet size, we concur with the Management's view that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole and is in the ordinary and usual course of business of the Group.

3. Principal terms of the Proposed Acquisition

Set out below is a summary of principal terms of the Proposed Acquisition, details of which are set out in the Board Letter.

On 31 March 2022, ASL Shipping entered into two shipbuilding contracts (the "**Initial Shipbuilding Contract I**" and the "**Initial Shipbuilding Contract II**", and collectively, the "**Initial Shipbuilding Contracts**") with Wuchang Shipbuilding in relation to the acquisition of two Vessels at the consideration of US$22.88 million each. The principal terms of the Initial Shipbuilding Contracts are substantially identical, except for the delivery dates and certain terms for delay in delivery. On 27 May 2022, ASL Shipping entered into two addendums (the "**Initial Shipbuilding Contract Addendums**") with Wuchang Shipbuilding pursuant to which the consideration for the acquisition of Vessel shall be adjusted to US$22.98 million, taking into account the extra costs of Vessel construction. Other than the aforesaid adjustment to consideration, the other terms of the Initial Shipbuilding Contracts shall remain unchanged.

On 27 May 2022, CA Shipping (being an indirect non-wholly owned subsidiary of the Company) entered into two novation agreements with Wuchang Shipbuilding (being a subsidiary of CSSC Group) and ASL Shipping pursuant to which, among other things, all rights and obligations of ASL Shipping under the Initial Shipbuilding Contracts (as supplemented by the Initial Shipbuilding Contract Addendums) shall be assumed by CA Shipping or its nominees.

On 27 May 2022, CA Shipping entered into two shipbuilding contracts (the "**New Shipbuilding Contract I**" and the "**New Shipbuilding Contract II**", and collectively, the "**New Shipbuilding Contracts**") with Wuchang Shipbuilding in relation to the acquisition of two Vessels at the consideration of US$22.88 million each. The principal terms of the New Shipbuilding Contract I and the New Shipbuilding Contract II are substantially identical as the Initial Shipbuilding Contract I and the Initial Shipbuilding Contract II respectively, except for the buyer and the delivery dates. On 13 June 2022, CA Shipping entered into two addendums with Wuchang Shipbuilding pursuant to which the consideration for the acquisition of Vessel shall be adjusted to US$22.98 million, taking into account the extra costs of Vessel construction. Other than the aforesaid adjustment to consideration, the other terms of the New Shipbuilding Contracts shall remain unchanged.

Vessels to be acquired

The Vessels, being four 1,100 TEU container vessels

According to the Board Letter, it is currently expected that the Vessels will be delivered between 31 January 2024 to 31 August 2024.

Consideration

The consideration of one Vessel is US$22.98 and the total consideration of the Vessels is US$91.92 million (equivalent to approximately HK$716.98 million) (the "**Consideration**") and shall be settled in following agreed milestones of the shipbuilding progress of the Vessels:

(a) a sum equivalent to 20% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding within five banking days after the buyer's receipt of refund guarantee by the shipbuilder;

(b) a sum equivalent to 10% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon steel cutting of the Vessels;

(c) a sum equivalent to 5% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon keel laying of the Vessels;

(d) a sum equivalent to 5% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon launching of the Vessels; and

(e) a sum equivalent to 60% of the Consideration shall be paid by CA Shipping to Wuchang Shipbuilding upon delivery of the Vessels.

Pursuant to the Initial Shipbuilding Contracts/the New Shipbuilding Contracts, all payments made by the buyer (i.e. ASL Shipping and CA Shipping respectively) prior to the delivery of vessels shall be in nature of advance to the shipbuilder (i.e. Wuchang Shipbuilding). In the event the Initial Shipbuilding Contracts/the New Shipbuilding Contracts are justifiably cancelled or rescinded by the buyer in accordance with the terms of the Initial Shipbuilding Contracts/the New Shipbuilding Contracts, the shipbuilder shall refund to the buyer all sums paid to the shipbuilder, together with interest, from the date of receipt by the shipbuilder to the date of remittance. The shipbuilder shall deliver a refund guarantee to the buyer according to the term of Initial Shipbuilding Contracts/the New Shipbuilding Contracts for the aforesaid refund.

As advised by the Management, Wuchang Shipbuilding had yet to deliver the refund guarantee to ASL Shipping. As at the Latest Practicable Date, no instalments of Consideration was paid by ASL Shipping to Wuchang Shipbuilding.

Pursuant to Initial Shipbuilding Contract I, no adjustment to the consideration shall be made for the 60 days of delay in delivery beyond the delivery date as defined in the Initial Shipbuilding Contract I. If the delivery is delayed more than 60 days after the delivery date as defined in the Initial Shipbuilding Contract I, the consideration shall be reduced by US$5,000 per day (the total reduction shall not be more than 180 days at the specified rate of reduction from the 61st day after the delivery date as defined in the Initial Shipbuilding Contract I). If the delay in delivery continues for a period of 240 days after the delivery date as defined in the Initial Shipbuilding Contract I, the buyer may terminate the Initial Shipbuilding Contract I according to the terms therein.

Pursuant to Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II, no adjustment to the consideration shall be made for the 30 days of delay in delivery beyond the delivery date as defined in the Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II. If the delivery is delayed more than 30 days after the delivery date as defined in the Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II, the consideration shall be reduced by US$5,000 per day (the total reduction shall not be more than 180 days at the specified rate of reduction from the 31st day after the delivery date as defined in the Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II). If the delay in delivery continues for a period of 210 days after the delivery date as defined in the Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II, the buyer may terminate the Initial Shipbuilding Contract II/the New Shipbuilding Contract I/the New Shipbuilding Contract II according to the terms therein.

Analysis on the consideration

Under the Proposed Acquisition, the consideration shall be paid by the buyer to the shipbuilder in instalments according to the shipbuilding progress of vessels, with majority of the consideration payable on the delivery of vessels. As advised by the Management, such payment schedule (i.e. payment in instalments according to the shipbuilding progress with majority of the consideration payable on the delivery of vessels) was determined based on arm's length negotiation with the shipbuilder; and was in line with market practice. For our due diligence purpose, we have identified transactions in relation to the acquisition of vessels from shipbuilders announced/conducted by companies listed on the Stock Exchange during one year prior to the announcement of Proposed Acquisition dated 18 May 2022 (the "**Market Transactions**"). To the best of our knowledge and as far as we are aware of, we found 12 transactions which met the aforesaid criteria. We consider the one-year period to be fair and reasonable as it can demonstrate the trend of transactions of similar nature as the Proposed Acquisition conducted by companies under proximate timeframe prior to the entering into of the Proposed Acquisition. Accordingly, we also consider the Market Transactions to be fair and representative for our analysis. We noted from the Market Transactions that, (i) the purchase price of vessels are paid according to the agreed milestones of the shipbuilding progress; and (ii) in 9 out of 10 Market Transactions (excluding two transactions with no disclosure on detailed payment schedule), majority of the consideration is payable on the delivery of vessels. Accordingly, we are of the view that the payment terms of the Proposed Acquisition are fair and reasonable.

For our due diligence purpose, we enquired of the Management the internal procedures of the Group in relation to the purchase of vessels for leasing purpose. As advised by the Management, for the Group's leasing projects, the business department shall prepare the relevant project reports and/or other supporting documents (such as price justification documents) for the assessment of the risk management department; and the projects shall be reviewed and approved by the Board/general manager's committee (which is a committee comprising the Company's managers and chaired by the Company's general manager). The project reports and/or the relevant supporting documents include relevant assessment of the leasing project, such as analyses of the vessel purchase prices. When preparing the project reports and the relevant supporting documents, the business department would refer to, among other things, prevailing market values for the construction of similar vessels, as ascertained from industry reports prepared by research companies and/or recent comparable transactions in the industry announced by Clarkson (the "**Internal Procedures**").

The Management confirmed that the Company followed the Internal Procedures when entering into the Proposed Acquisition. For our due diligence purpose, we obtained from the Company internal price justification document in relation to the Proposed Acquisition. We noted from such document that the Company considered, among other things, (i) newbuilding prices for feeder container ships as published by Clarkson; and (ii) the shipbuilding price quotes from other shipbuilders which ranged from US$23.5 million to US$24 million. We also obtained a publication by Clarkson dated April 2022 which the Company made reference to when preparing the price justification document. According to such publication, the market newbuilding price for comparable container ships was approximately US$23.5 million at the end of 2021 and approximately US$24.3 million in March 2022. In addition, according to Clarkson's data, the market newbuilding price for comparable container ships was US$24.5 million in April 2022. The purchase price of the Vessels of US$22.98 million each was lower than the aforesaid recent newbuilding price in the market. Having considered (i) the aforesaid background of Clarkson; and (ii) the aforesaid data from Clarkson represents the market shipbuilding prices, we consider it is fair and reasonable to make reference to the Clarkson's data. Accordingly, we are also of the view that the Consideration of the Proposed Acquisition is fair and reasonable.

Having considered the above, we are of the view that the terms of the Proposed Acquisition are fair and reasonable

4. Possible financial effects of the Proposed Acquisition

According to the Board Letter, it is currently expected that 25% of the Consideration of the Proposed Acquisition will be funded by shareholders' loan provided by the shareholders of CA Shipping or its nominees (as the case may be) and 75% of the Consideration of the Proposed Acquisition will be funded by the banking facilities to be obtained by CA Shipping. The Company shall provide such shareholders' loan to CA Shipping in proportion to its shareholding in CA Shipping by using its internal resources. If the bank requires the shareholders of CA Shipping or its nominees (as the case may be) to provide guarantees and/or collaterals, the Company shall provide such guarantee and/or collaterals in proportion to its shareholding percentage in such entity. As advised by the Management, CA Shipping will liaise with the banks regarding the bank facilities and terms of such bank financing will be determined subject to negotiation between CA Shipping and the bank. When determining the terms of the bank financing, CA Shipping would refer to the term of the relevant vessel lease.

As advised by the Management, the Group's bank borrowings mainly represent bank financing for the construction of vessels in its ordinary and usual course of business. For illustration purpose only, according to the 2021 annual report of the Company, the Group had bank borrowings of approximately HK$19.6 billion as at 31 December 2021, with weighted average interest rates ranging from 0.96% to 2.27% per annum.

Upon completion of the Proposed Acquisition and delivery of the Vessels, the Group's fixed assets shall increase by the amount of the Consideration for acquisition; the Group's current assets shall decrease by the amount of the Consideration to be funded by internal resources; and the Group's liabilities shall increase by the amount of the Consideration to be funded by bank financing.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (i) the terms of the Proposed Acquisition are on normal commercial terms and are fair and reasonable; and (ii) the Proposed Acquisition is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Proposed Acquisition.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the annual reports of the Company for the years ended 31 December 2019 (pages 83-180), for the year ended 31 December 2020 (pages 129-244) and for the year ended 31 December 2021 (pages 135-236), respectively. All of which are published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.csscshipping.cn):

(i) annual report of the Company for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042400838.pdf

(ii) annual report of the Company for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042601333.pdf

(iii) annual report of the Company for the year ended 31 December 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700505.pdf

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the present internal resources and facilities presently available from banks and financial institutions, the Group would have sufficient working capital for its present requirements for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

As at the close of business on 30 April 2022, being the lasted practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowing and indebtedness of approximately HK$28,686 million, comprising secured and guaranteed bank loans of approximately HK$8,993 million, unsecured and unguaranteed bank loans of approximately HK$9,520 million, unsecured and guaranteed bond of approximately HK$10,139 million and unsecured and unguaranteed lease liabilities of approximately HK$34 million. As at the close of business on 30 April 2022, the Group had contingent liability in respect of guarantees provided for bank loans of joint ventures of approximately HK$3,102 million.

Save as aforesaid or disclosed herein, and apart from intra-group liabilities, as at the close of business on 30 April 2022, the Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank loans or overdrafts, debt securities or other similar indebtedness, finance leases or other material contingent liabilities.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in provision of leasing business, ship brokerage services and financing business.

At the beginning of 2022, the outbreak of the COVID-19 pandemic was not under control, and the outbreak of Russia-Ukraine conflict, also brought uncertainties to the global economic recovery and the trade development this year. Despite the impact of the international situations, we remain optimistic about the continuing general recovery of the global macro economy and the global seaborne trade.

From the perspective of demand for shipping capacity, according to Clarkson's data, the global seaborne trade turnover volume for 2022 is expected to further increase by 4.0%. Since 2022, due to factors such as mismatches of market supply and demand, event disruptions and energy shortages caused by the repeated epidemics, the market demand for living materials, bulk dry bulk cargo and LNG is relatively strong. In particular, the output of commodities such as crude oil and natural gas, as well as regional commodities such as food, has been hindered by unexpected events recently, and the transport distance of alternative routes may be extended, which will affect the supply and demand pattern of global shipping capacity and continue to push up freight rates. Since March 2022, the freight rate of Baltic tankers on the Europe route has increased by US$30,000 to US$241,000 per day, hitting a new high since 2008. Tense geopolitical situation may bring new opportunities to the shipping market.

From the perspective of the supply side of shipping capacity, according to Clarkson's forecast, the delivery scale of new ships in 2022 is expected to decrease slightly and the gross tonnage is expected to drop by 12% year-on-year. The dismantling of old ships is expected to increase by 17% year-on-year in terms of gross tonnage. Based on this calculation, the growth rate of global fleet capacity will slow down to about 2.4% in 2022, representing a year-on-year decrease of 0.4 percentage point. In addition, considering that the global supply chain disruption, port congestion and other problems will not be completely alleviated within a short period of time, the release of capacity supply and transportation efficiency in the shipping market will continue to be limited. Therefore, it is expected that the fundamentals of the global shipping market will continue to improve in 2022.

From a regulatory and technical perspective, International Maritime Organization (IMO) has adopted mandatory short-term target-based technical and operational measures to reduce greenhouse gas (GHG) emissions – Energy Efficiency Existing Ship Index (EEXI) and Carbon Emission Intensity Index (CII) will come into effect with the International Convention for the Prevention of Pollution from Ships (MARPOL) Annex VI coming into effect on 1 November 2022 and will be binding on the applicable vessels from 1 January 2023. Driven by policies and regulations and market demand, the process of green and low-carbon transformation of ships has accelerated significantly, shifting from financing loans, cargo transportation, fuel use and other aspects tilting towards low-carbon and zero-carbon ships. Meanwhile, it is generally believed in the industry that in order to meet emission requirements, older ships may have to sail at reduced speed, thereby reducing the effective capacity of ships and strongly supporting the continued recovery of the shipping market.

Over the years, the Group has fully leveraged the professional advantages of the shipyard-affiliated leasing companies, as well as its strategic layout and investment. At present, the Group has established a complete offshore clean energy storage transportation system represented by floating liquefied natural gas unit (FLNG), LNG and floating storage and regasification unit (FSRU), as well as a balanced portfolio of green and environmentally-friendly fleet assets such as dual-fuel long-range liquefied petroleum gas carriers, new green bulk carriers, environmentally-friendly large container vessels, automobile ro-ro transportation vessels and smart fishery large-scale aquaculture ships. The diversified quality assets of the Group will bring continuous profits to the Group and help the Group to continue sharing the bonus from the recovery of the shipping industry and resist the risks of market fluctuations in the future.

The Group will continue to give full play to the core advantages of "understand ships", further capture the ship leasing industry, maintain continuous investment in new ship leasing assets, continue to expand the strategic cooperations with major cargo owners and traders, follow the international regulations in the low-carbon field of ships, ship fuel, energy-saving equipment, and cutting-edge technologies for smart ships, and seize new technologies, new ship types, and new market opportunities; continue to improve ship asset management and operation capabilities, accelerate the digital management and intelligent management and control of ship assets, improve the efficiency and effectiveness of ship asset operations; continue to develop green finance, provide more customized and flexible financing solutions, and create value for shareholders and partners.

The Group will continue to implement the national strategy of "peak carbon dioxide emissions, carbon neutrality"(碳達峰、碳中和), seize the opportunity of the green transformation, explore the demand for marine clean energy equipment, deepen and expand the cooperation relationship with well-known oil and gas operators, and continue to seek business opportunities to extend the upstream and downstream industrial chain of offshore clean energy.

2022 marks the 10th anniversary of the Group. The Group will soon enter a new voyage. The Group will adhere to the main tone of "seeking progress while maintaining stability", grasp the "changes" of external situation and the "unchange" of industry development pattern, give full play to the professional advantages of "integration of industry and finance" of manufacturer-affiliated leasing companies, steadily implement the "cross-cycle" development strategy, and steadily maintain the "high-quality" development trend.

Liquidity and Financial Resources and Gearing Ratio

During the year ended 31 December 2021, the Group funded its operations and growth primarily through cash generated from operations, bank borrowings and issuance of bonds. When determining the allocation of its capital resources, the Group primarily considers its business strategies and development plans, future capital needs and projected cash flow.

During the year ended 31 December 2021, the Group primarily relied on bank borrowings and issuance of bonds to finance its capital expenditure and its financial and liquidity needs derived from its growing business operation. Since the Group is principally engaged in the provision of leasing and loan services, which are capital intensive in nature, the Group requires substantial working capital for its daily operations.

Taking into account the historical and expected future cash flows from operations, unutilised available banking facilities of the Group and the bonds issued by the Company during the year ended 31 December 2021, the Directors expected that the Group will have adequate resources to meet its liabilities and commitment as and when they fall due and will be able to continue its operational existence for the foreseeable future.

Capital structure

In 2021, with the continuous and rapid development of its main business, the Group's operating performance steadily improved. Benefiting from excellent international ratings and good market reputation, the Group's liquidity was solid, and its financing capabilities continued to increase and financing methods were increasingly diversified while financing costs continued to decrease. The Group kept abreast of the changes in macro situation and adjusted its financing strategies in a timely manner. The Group also rationally selected USD dollar-denominated financing products and properly arranged the term structure to further optimize its debt structure.

The Group continued to accelerate business cooperation with domestic and foreign banks and other financial institutions to fully ensure the financial support required for business development. As at 31 December 2021, the Group established a solid business relationship with more than 20 banks, and obtained banking facilities of approximately HK$24,200 million (approximately US$3,122 million), of which, loan facilities of approximately HK$19,600 million had been utilised and approximately HK$4,600 million was unutilised as at 31 December 2021. In addition, the Group successfully issued US$500 million green and blue dual-certified bonds in July 2021, with a term of 5 years and a coupon rate of 2.10% per annum. The use of funds includes development of the leasing business (including the green and blue vessel projects), repayment of existing debts and general corporate purposes.

The issuance of green and blue dual-certified bonds was an important step for the Company to promote green development. The Company commenced the new financing model of green bonds in sectors including the research and development of green vessels as well as the development of ocean energy, with an aim to achieve high-quality green development of our businesses by accommodating the demands of green and intelligent development of vessels as well as responding to the goal of carbon neutrality and emission peak. Apart from providing sufficient financial support to subsequent delivery of vessels, the successful issuance of the relevant bonds will further improve the liability duration structure of the Group and effectively reduce average financing costs, thereby providing a strong guarantee for robust business growth.

As at 31 December 2021, the Group's total assets and total liabilities were HK$40,883 million and HK$30,779 million, respectively, and its equity attributable to owners was HK$10,104 million. The gearing ratio was 2.9 times, which was due to the increase in debt scale of the Group as compared to the previous year as a result of the continuous growth in its leasing business. Despite the slight increase, its gearing ratio still maintained at a relatively low level in the industry.

Material Acquisitions and Disposals

During the year ended 31 December 2021, save as disclosed in its 2021 annual report, there was no acquisition and disposal of subsidiaries, associates and joint ventures of the Company.

Industry review

2021 is the second year of the outbreak of global COVID-19 pandemic. All regions around the world joined hands to fight the pandemic and launched more than US$16 trillion of fiscal stimulus. Thanks to the wide application of vaccines and the effective control of the pandemic in China, the Group resumed operations and production, and major economies have successively entered into the stage of economic recovery. According to International Monetary Fund statistics, the global GDP growth reached 5.9% in 2021, recorded the strongest growth in nearly 50 years.

Benefitting from the recovery of global trade demand, the global seaborne trade has resumed growth since February 2021. Clarkson's report shows that the annual seaborne trade turnover volume increased by 3.2%. After showing strong resilience under the impact of the COVID-19 pandemic in 2020, the overall performance of the marine market in 2021 was even better, with the Clarkson's Shipping Index rising strongly, reaching an average of US$28,700 per day in 2021, representing an increase of 93% over 2020, which is the highest level since 2008 (an average of US$13,697 per day for the past 10 years). Meanwhile, due to the different steps of epidemic prevention and control and economic recovery in various countries, port congestion, supply-demand imbalance and supply chain disruption have pushed up the performance difference of the sub-segments of maritime trade. Dry bulk cargo and container trade has become the main driving force of the maritime V-shaped recovery in 2021. The specific performance of each major market in the marine sector in 2021 is as follows:

Dry bulk cargo segment: The bulk carrier shipping market performed strongly in 2021. The annual average of the Baltic Dry Index (BDI) was 2,943 points, increased by 176.1% year-on-year. In the first half of October 2021, the BDI reached a 12-year high of 5,650 points, and has since fallen back in shock. The average daily revenue of bulk carrier spot market in 2021 increased by 185% as compared to 2020, hitting a record high in the past 10 years. It is worth noting that, driven by the growth in demand for minor bulk and grain transportation, small and medium bulk carriers performed better, with Supramax spot market revenue increasing by 210% on a daily basis, and environmentally friendly ship premiums were significant. According to the data of the Baltic Exchange, the charter hire levels of all ship types have shown a substantial rise in 2021: the average charter hire level of the five representative routes of the Capesize (CAPESIZE 180K) was US$33,333 per day, a significant year-on-year increase of 155.0%; the average charter hire level of the 5 representative routes of the largest ship Panama (PANAMAX 82K) was US$26,898 per day, representing a significant year-on-year increase of 171.1%; the average charter hire level of the 10 representative routes of the super handy size ship (SUPRAMAX 58K) was US$26,770 per day, representing a significant year-on-year increase of 226.9%; the average charter hire level of the 7 representative routes of the handy size (HANDYSIZE 38K) was US$25,702 per day, representing a significant year-on-year increase of 221.2%.

Container vessel segment: Driven by a series of non-fundamental factors such as port congestion, severe container shortage, and "ship blockage" of the Suez Canal around the world, the container shipping market continued to hit a record high. According to Clarkson's research, the weighted time charter rate of container vessels increased by 260%, 5 times more than average level of the 10 years (2010-2019) before the COVID-19 pandemic. In December 2021, according to Clarkson's research, the monthly charter hire of 6-12 months for 9000 TEU environmentally friendly container vessels has reached an average of US$149,000 per day per month, representing a year-on-year increase of 257%. The charter hire of feeder container vessels increased at a higher rate. The monthly average charter hire of 2750 TEU non-environment-friendly container vessels was US$72,000 per day (corresponding period of 2020: US$18,000 per day), and the monthly average charter hire of 2750 TEU environmentally-friendly container vessels was US$89,000 per day (corresponding period of 2020: US$20,000 per day).

Oil tanker segment: the recovery of global oil demand was slow due to the repeated outbreak of the COVID-19 pandemic and the decline in US exports. The continuous release of crude oil inventory under the high oil price environment led to the weak recovery of crude oil shipping demand. Meanwhile, the release of oil storage capacity increased the actual supply of transportation capacity in the market, and the freight rate was under the dual pressure of supply and demand and continued to be weak. The refined oil tanker transportation market fluctuated within a narrow range. At the same time, coupled with the repeated COVID-19 pandemic around the world, the demand for refined oil products fluctuated, and the refined oil transportation market fluctuated at a low level. In 2021, the annual average of the Baltic Exchange Dirty Tanker Index (BDTI) and the Baltic Exchange Clean Tanker Index (BCTI) was 643.72 points and 532.16 points respectively, down by 7.8% and 6.6% year-on-year, respectively.

Liquefied natural gas ("**LNG**") segment: In 2021, the global LNG seaborne trade increased by 5.5% year-on-year to 380 million tons. China, for the first time, replaced Japan as the world's largest LNG importer. According to the report of IHS Markit, China imported 81.4 million tons of LNG in 2021, representing a year-on-year increase of 18%. The average spot freight rate of large LNG vessels was US$89,000 per day, representing an increase of 50% as compared with the average for the whole year of 2020, reaching a new high in 8 years. Thanks to the outstanding performance of the market, the dismantling of LNG fleet remained at a low level in 2021, and the global LNG fleet still has a large number of old steam turbine vessels, there will be a greater opportunity for the LNG fleet vessels to renew and upgrade.

Business Review

1) Ship leasing business continued to develop rapidly, and the Group's profit continued to grow fast

In 2021, there was a record high net increase of 40 vessels in the Group's (including joint ventures and associates) vessels under operation, representing a year-on-year increase of 44.4%. Meanwhile, benefitting from the stable growth of long-term leasing assets and the increase in freight rates of self-operated bulk carriers and liquefied natural gas (LNG) transportation carriers and good control over our finance cost had contributed to the Group's steady growth in performance. For the year ended 31 December 2021, the Group's profit for the year was HK$1.388 billion, representing a year-on-year increase of 24.6%; operating profit was HK$1.36 billion, representing a year-on-year increase of 32.6%, both hitting a record high. As at 31 December 2021, the Group's return on average net assets and return on average assets were 14.2% and 3.9%, respectively, representing an increase of 1.4% and 0.1%, respectively, as compared to the corresponding period of 2020. In 2021, the Group (including joint ventures and associates) commenced 57 new lease contracts, completed 17 lease contracts and had 130 ongoing lease contracts, among which, 59 were operating lease contracts and 71 were finance lease contracts. Among the 130 ongoing lease contracts, there were 103 long-term lease contracts and the average remaining lease term was 7.6 years.

In 2021, the recovery trend of the shipping market was apparent. The Group seized market opportunities, implemented the cross-cycle investment strategy and achieved remarkable results. The Group remained optimistic about the green shipping market. In 2021, the Group continued to increase its efforts in investment in high-quality ship in subdivided market segments such as marine clean energy equipment, advanced large container ships, environmentally-friendly Kamsarma bulk carriers, dual-fuel long-range liquefied petroleum gas carriers and environmentally friendly feeder tankers, thereby optimising its asset allocation and improving the risk resistance capability of assets. In particular, the Group seized the unprecedented market conditions in the container vessels and LNG transportation vessels market and entered into long-term lease contracts in respect of 8 ultra-large container ships with the world's leading container ship owners. The Group further invested in a 174,000-cubic LNG carrier. In 2021, the Group (including joint ventures and associates) signed 17 new shipbuilding contracts with a contract amount of US$1.52 billion and the aggregate tonnage of 2.076 million tons. The Group (including joint ventures and associates) signed 22 new second-hand ship financing contracts with a contract amount of US$570 million.

As at 31 December 2021, the Group's (including joint ventures and associates) vessel portfolio reached 158 vessels, including 130 vessels under lease and 28 vessels under construction. The utilisation rate of operating vessel portfolio reached 100%, and the cash collection rate of charter hire of 100%. The Group continued to maintain a diversified, modern and youthful vessel portfolio. In terms of contract value, marine clean energy equipment, tankers, bulk carriers, container vessels and special tonnage carriers accounted for 41.4%, 22.5%, 16.2%, 10.1% and 9.8%, respectively. The diversified ship asset allocation is a strong guarantee for the Group's stable operation and sustainable development in the medium and long term.

2) Self-operated carrier fleet recorded outstanding performance

With the recovery of the global shipping market, the booming dry bulk shipping market has driven the significant increase in the performance of the Group's self-operated bulk carrier fleet. As at 31 December 2021, the Group's self-operated bulk carrier fleet has reached 7 vessels with approximately 460,000 DWT in terms of spot market. Revenue from self-operated bulk carrier fleet was HK$443.07 million, representing a year-on-year increase of HK$277.95 million, while our net profit was HK$248.94 million, representing a year-on-year increase of HK$262.55 million. In 2022, our self-operated carrier fleet has one new 82,000-ton bulk carrier.

The Group's (including joint ventures and associates) self-operated carrier fleet also includes: eight 50,000-ton product oil/chemical tankers (50% equity interest owned by the Group), with a fleet operating income of HK$223.95 million in 2021; six 75,000-ton product oil tankers (50% equity interest owned by the Company), with a fleet operating income of HK$199 million in 2021; and four super-large liquefied gas carriers (50% equity interest owned by the Company), with a fleet operating income of HK$471.79 million in 2021. The above income was calculated based on the market rate of charter hire.

3) *Clean energy business developed rapidly, marine LNG equipment has completed the Group's whole industry chain*

In 2021, the two liquefied natural gas carriers (LNG carriers) independently invested by the Group were officially delivered and started the charter services. The lessees were internationally renowned energy companies. As of 31 December 2021, the revenue of the Group's self-operated LNG fleet was approximately HK$93.96 million and is expected to contribute stable revenue income in 2022. In 2021, the Group's two floating storage and regasification units (FSRUs) were officially delivered and started the charter services, filling the gap of this type of vessels in China. The aforesaid clean energy business has greatly increased the Group's lease income and provided the Group with a head start in the context of energy transformation and development. Through years of consolidation in the field of marine clean energy, the Group has established cooperative relations with internationally renowned energy companies, and further accumulated experience in independent operation and management of high-end ships. As of 31 December 2021, the Group has owned 20 clean energy equipment such as LNG carriers, liquefied petroleum gas (LPG) carriers, very large gas carriers (VLGC), large floating LNG storage and regasification (LNG-FSRU), etc., forming a complete marine clean energy storage-transportation system that is unique in the industry. In 2021, the revenue generated from the Group's clean energy equipment amounted to HK$925.2 million.

4) *Innovative development of green financing with the decrease of financing cost year by year*

In 2021, the consolidated interest rate of the Group's interest-bearing liabilities was 1.9% per annum as compared to 3.0% for the corresponding period in 2020. The Group achieved a significant decrease in financing costs and a steady increase in profitability. During the year, the Group successfully issued a total of US$500 million green and blue dual-certified bonds with an average annual coupon rate of 2.10%. The Group was awarded the "Hong Kong Green and Sustainable Finance Award" by the Hong Kong Quality Assurance Agency. The Group was the first Chinese-funded enterprise to issue green and blue dual-label USD bonds overseas. The Group was also rated "A-"/Stable by S & P Global Ratings and "A"/Stable Subject Credit Tracking Rating by Fitch Ratings for the third consecutive year. The Group attached great importance to establishing close partnerships with cooperative banks and maintaining good credit, continuously optimized the debt structure, created good external financing conditions, and further strengthened the Group's financing ability.

5) Strengthened comprehensive risk management and maintained a high level of asset quality

The Group continued to strengthen comprehensive risk management, comprehensively improved risk identification, monitoring, early warning and handling capabilities. Through proactive risk response and handling, in 2021, the Group successfully reversed impairment losses of HK$50,958,900 through litigation and enforcement. In 2021, we have designed and applied quantitative risk assessment tools, established a customer credit evaluation model, carried out comprehensive and prudent stress testing and dynamic risk early warning, and achieved quantitative risk management throughout the project life cycle. Meanwhile, the Group carried out the integration of internal control and informatization to improve the standardization and effectiveness of the operation of the internal control system, and properly manage and control operational risks. With strict risk control and asset management measures, the Group achieved rental cash collection rate of 100% and the non-performing asset rate decreased to 1.03%.

6) Continued to promote the reform of state-owned enterprises and achieved great achievements

In 2021, the Company, as a pilot enterprise of the "Double Hundred" reform of state-owned enterprises, won the second prize for outstanding achievements in China's enterprise reform and development.

In 2021, in accordance with the relevant policies and guidelines of the State-owned Assets Supervision and Administration Commission, the Company successfully carried out a series of market-oriented reforms. In April 2021, the Group adopted an equity incentive scheme and granted options to 19 senior management officers and key employees, and established a medium and long-term incentive and binding mechanism for risk sharing and benefit-sharing. This reform will greatly enhance the competitiveness of the Group's operation and management and enhance the efficiency of corporate governance, give full play to the enthusiasm of the senior management and key employees, and stimulate the endogenous driving force for corporate development.

In 2021, the Company launched the professional manager reform, established a professional manager system that adapts to market competition with a high degree of unity of authority, responsibility and benefits, recruited talents according to the Company's strategy and business development needs, and implemented a market oriented selection and employment of key management personnel. The above work has made initial progress.

*7) **Put emphasis on the return on investment of investors, and continued to maintain a relatively high dividend policy***

The Group continues rewarding investors with generous dividends, and proposed to distribute a final dividend of HK$0.06 per share (the above dividend is subject to the approval of its forthcoming annual general meeting. Together with the interim dividend of HK$0.03 per share distributed in 2021, the total dividend amount to be fully distributed in 2021 is HK$552,245,961.06. The cash dividend ratio represented a high proportion of approximately 40%.

Employment, Training and Development

As at 31 December 2021, the Group had a total of 81 employees. The Group has a team of high-quality talents with a bachelor's degree or above. As at 31 December 2021, approximately 96% of the Group's employees had a bachelor's degree or above. The Group attaches great importance to the work of talents and comprehensively strengthens the human resources management structure such as organizational structure, remuneration management, performance appraisal, position and rank, training management and talent introduction to provide strong support for business development. For the years ended 31 December 2021, the remuneration of the Group's employees amounted to approximately HK$49.0 million, respectively. The remuneration package of the Group's employees includes basic salary, performance-related bonus and share-based payment expenses.

Pledge of Assets

As at 31 December 2021, the Group's secured bank borrowings of HK$9,623,851,000 were secured by lease receivables of approximately HK$10,566,329,000, certain of shares of the subsidiaries, deposits of approximately HK$114,942,000, general assignments, bareboat charterer assignments, intra group loan assignments and property, plant and equipment of approximately HK$3,627,047,000. Among which, HK$1,432,612,000 were secured by corporate guarantee from the intermediate holding.

Foreign Currency Exposure

In terms of exchange rate structure, the Group continued to uphold its original exchange rate risk management strategies and maintained the basic matching of assets and liabilities in currency. The vessels under finance lease and operating lease are purchased in USD, and the corresponding finance lease receivables and fixed assets are denominated in USD, while the main source of funding is bank loans denominated in USD. There is therefore no significant risk exposure in exchange rate. The Group holds some of its monetary funds in Hong Kong dollars, Renminbi and Euros, but the overall proportion is relatively small.

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 in this circular misleading.

DISCLOSURE OF INTERESTS

Interest of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Name	Capacity/Nature of interests	Number of Shares	Long/Short position	Approximate percentage of shareholding in the Company *(%)*
Zhong Jian	Beneficial owner	12,650,000	Long position	0.21

Interest of substantial shareholders of the Company

As at the Latest Practicable Date, the interests and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company were as follows:

Name	Capacity/Nature of interests	Number of Shares	Long/Short position	Approximate percentage of shareholding in the Company *(%)*
State-owned Assets Supervision and Administration Commission	Interest in controlled corporation*(1)*	4,602,046,234	Long position	75.00
China Shipbuilding Group	Interest in controlled corporation*(1)*	4,602,046,234	Long position	75.00
CSSC Group	Interest in controlled corporation*(1)*	4,602,046,234	Long position	75.00
CSSC International Holding Company Limited ("**CSSC International**")	Beneficial owner*(1)*	4,602,046,234	Long position	75.00
Central Huijin Investment Ltd.	Interest in controlled corporation*(2)*	522,490,000	Long position	8.52
China Re Asset Management (Hong Kong) Company Limited	Investment manager*(2)*	522,490,000	Long position	8.52
China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司) ("**China Reinsurance**")	Beneficial owner*(2)*	522,490,000	Long position	8.52

Notes:

(1) CSSC International is a wholly-owned subsidiary of CSSC Group, which is wholly owned by the State-owned Assets Supervision and Administration Commission. As such, by virtue of the SFO, CSSC Group, China Shipbuilding Group and the State-owned Assets Supervision and Administration Commission are deemed to be interested in the 4,602,046,234 Shares held by CSSC International.

(2) Central Huijin Investment Ltd. holds 71.56% of the equity interest in China Reinsurance. As such, by virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the 522,490,000 Shares held by China Reinsurance. The shares held by China Re Asset Management (Hong Kong) Company Limited are the same batch as those held by China Reinsurance.

As at Latest Practicable Date, save as disclosed above, none of the Directors or chief executive of the Company had or was deemed to have 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 were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

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

DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors has or has had direct or indirect interest in any assets acquired or disposed or by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group since the date to which the latest published audited annual financial statement of the Group were made up.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors are materially interested and which is significant to the business of the Group.

INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates are interested in any business (apart from the Group's business) which competes or is likely to compete, directly or indirectly, with the business of the Group.

SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with any member of the Group which will not expire or be determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

MATERIAL CONTRACT

As at the Latest Practicable Date, the following contract (not being contracts entered into in the ordinary course of business) was entered into by members of the Group within the two years immediately preceding the date of this circular and are, or may be, material:

(1) the subscription agreement dated 21 July 2021 entered into by and between CSSC Capital 2015 Limited (being a direct wholly-owned subsidiary of the Company), the Company, Bank of China (Hong Kong) Limited, CCB International Capital Limited, CLSA Limited, DBS Bank Ltd., ABCI Capital Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CMB International Capital Limited, CNCB (Hong Kong) Capital Limited, Crédit Agricole Corporate and Investment Bank, Haitong International Securities Company Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and SPDB International Capital Limited in relation to the issue of guaranteed bonds in the principal amount of US$500,000,000 due in 2026 by CSSC Capital 2015 Limited.

LANGUAGE

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

EXPERT AND CONSENT

The following are the qualifications of the expert whose letter or advice is contained in this circular:

Name	Qualifications
Somerley 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

The letter or advice from the Independent Financial Adviser is given as of the date of this circular for incorporation in this circular. The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which have been, since 31 December 2021 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

GENERAL

1. the registered office of the Company is located at 1801, 18/F, World-wide House, 19 Des Voeux Road Central, Hong Kong;

2. the Company's Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong; and

3. Mr. Ding Weisong is the company secretary of the Company. He is a non-practicing member of the Chinese Institute of Certified Public Accountants. Ms. Wong Sau Ping is the assistant company secretary of the Company. She is a fellow member of the Hong Kong Institute of Chartered Secretaries.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited accounts of the Group were made up).

DOCUMENTS ON DISPLAY

Copies of the following documents published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.csscshipping.cn) for 14 days from the date of this circular:

(i) the annual reports of the Company for the three years ended 31 December 2021;

(ii) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 26 of this circular;

(iii) the July 2021 SPA;

(iv) the December 2021 SPA;

(v) the Novation Agreements;

(vi) the Initial Shipbuilding Contracts; and

(vii) the Shipbuilding Agreements.

CSSC (Hong Kong) Shipping Company Limited
中國船舶(香港)航運租賃有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 3877)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of CSSC (Hong Kong) Shipping Company Limited (the "**Company**") will be held at 1801, 18/F, World-wide House, 19 Des Voeux Road Central, Hong Kong on Thursday, 30 June 2022 at 3:30 p.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, for the purpose of considering and, if thought fit, passing with or without modifications, the resolution below as an ordinary resolution. Unless otherwise defined herein, the terms herein shall have the same meanings as defined in the circular to the shareholders of the Company dated 16 June 2022 (the "**Circular**").

ORDINARY RESOLUTION

1. "**THAT**,

   (a) the Novation Agreements and Shipbuilding Agreements (as defined in the Circular), copies of which have been produced to the EGM marked "A" and initialed by the chairman of the EGM for identification purposes) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company (the "**Director**") be and is/are hereby authorised to do all such acts and things and sign and execute all such documents and to take such steps as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the Novation Agreements and Shipbuilding Agreements and the transactions contemplated thereunder or in connection therewith and to agree to and make such variation, amendments or waiver of matters relating thereto or in connection therewith."

By order of the Board
CSSC (Hong Kong) Shipping Company Limited
Zhong Jian
Chairman

Hong Kong, 16 June 2022

Notes:

1. The resolution set out in this notice will be taken by poll pursuant to the Listing Rules. The results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

2. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares in the Company may appoint more than one proxy to represent him/her and vote on his/her behalf at the meeting. A proxy need not be a member of the Company but must be present in person to represent him/her.

3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's share registrar in Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.

4. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

6. For the purpose of determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 27 June to Thursday, 30 June 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 June 2022.

7. References to times and dates in this notice are to Hong Kong time and dates.

8. Precautionary measures for the EGM: In order to prevent and control the Coronavirus pandemic as well as safeguard public health, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

   (i) Seating at the EGM venue will be arranged so as to allow for appropriate social distancing.

   (ii) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the EGM venue. Any person with a body temperature of over 37.3 degrees Celsius, or any individual who has any flu-like symptoms or is otherwise unwell will not be admitted to the EGM venue.

   (iii) Every attendee is required to wear a face mask at any time within the EGM venue. Please note that no masks will be provided at the AGM venue and attendees should bring and wear their own masks.

   (iv) Any attendee who declines any of the abovementioned measures will be refused admission to the EGM venue.

   (v) No refreshment will be served, and there will be no corporate gifts.

   In addition, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM instead of attending the EGM in person, by completing and returning the form of proxy attached to this circular. If any Shareholder chooses not to attend the EGM in person but has any question about the resolutions set out in this notice or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our registered office.

   In the event that the Coronavirus situation requires the date or/and venue of the EGM to be changed, the Company will, as soon as practicable, publish a notice on the website of the Stock Exchange at www.hkexnews.hk and its website at http://www.csscshipping.cn to notify Shareholders of the date, time and venue of the rescheduled meeting.

As at the date of this notice, the board of directors of the Company comprises Mr. Zhong Jian as executive director, Mr. Li Wei and Mr. Zou Yuanjing as non-executive directors, and Mdm. Shing Mo Han Yvonne, Mr. Li Hongji and Mr. Wang Dennis as independent non-executive directors.