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9 September 2022

To: the independent board committee and the independent shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO ACQUISITIONS OF VESSELS AND OPTIONS TO PURCHASE 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 proposed acquisition of vessels from CSSC Huangpu Wenchong Shipbuilding Company Limited (the "**Acquisitions**"). Details of the Acquisitions are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 9 September 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.

On 1 August 2022 (after trading hours), CA Shipping (being an indirectly non-wholly-owned subsidiary of the Company) or its nominee, as purchaser, has entered into four SPAs (the four agreements are referred as the "**SPA I**", "**SPA II**", "**SPA III**" and "**SPA IV**" respectively) with Huangpu Wenchong Shipbuilding (being an indirect wholly-owned subsidiary of China Shipbuilding Group), as seller, to acquire the Vessels at a total consideration of US$110.00 million (equivalent to approximately HK$858.00 million). On the even date, CA Shipping has entered into the Option Agreement with Huangpu Wenchong Shipbuilding, pursuant to which CA Shipping will have the discretion to exercise the Purchase Options within two months after the effectiveness of the SPAs at a total consideration of up to US$110.00 million (equivalent to approximately HK$858.00 million).

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 Huangpu Wenchong Shipbuilding. Huangpu Wenchong Shipbuilding is a connected person of the Company. The Acquisitions constitute discloseable transactions and connected transactions of the Company and are 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 Hongji, has been established to advise the Independent Shareholders in relation to the Acquisitions. 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 (i) notifiable and connected transactions involving acquisition of vessels (details of which are set out in the Company's circular dated 31 January 2022); and (ii) major and connected transaction in relation to the proposed acquisition of vessels (details of which are set out in the Company's circular dated 16 June 2022). Such past engagements were 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 engagements, 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 Huangpu Wenchong 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 Huangpu Wenchong 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 Acquisitions, we have taken into account the principal factors and reasons set out below.

1. Information on the parties to the Acquisitions

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. As at the date of the Latest Practicable Date, CA Shipping is owned as to 60% by Fortune Vcontainer Carriers and 40% by ASL NAVIGATION.

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 third parties independent of, and not connected with, the Company and its connected persons.

Huangpu Wenchong Shipbuilding (the shipbuilder)

Huangpu Wenchong Shipbuilding is a company incorporated pursuant to 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 Acquisitions**

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 Acquisitions 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$41,364/day in June 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$38,802/day during January to June 2022. The ClarkSea Index increased significantly since 2021, from approximately US$15,386/day in January 2021 to approximately US$41,364/day in June 2022. The shipping industry was on a positive trend recently based on the statistics above.

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 Acquisitions are 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 Acquisitions are in line with the Group's principal business (as the Group purchases vessels for its operating lease business and/or for direct finance lease transactions); (ii) when the vessels purchased under the Acquisitions 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 Acquisitions are in line with the Group's development strategy to continue strengthening its fleet size, we concur with the Management's view that the Acquisitions are 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 Acquisitions

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

(a) The SPAs

On 1 August 2022, CA Shipping or its nominee entered into four SPAs with Huangpu Wenchong Shipbuilding in relation to the acquisition of four Vessels at a consideration of US$110.00 million (equivalent to approximately HK$858.00 million). The SPAs are of broadly similar terms and conditions, except for the delivery dates and certain terms for delay in delivery.

Vessels to be acquired

The Vessels, being four 1,600 TEU container vessels

Delivery date

Pursuant to the SPA I, the vessel shall be delivered on or before 30 July 2024, subject to extension in accordance with the terms of the SPA I.

Pursuant to the SPA II, the vessel shall be delivered on or before 30 September 2024, subject to extension in accordance with the terms of the SPA II.

Pursuant to the SPA III, the vessel shall be delivered on or before 30 November 2024, subject to extension in accordance with the terms of the SPA III.

Pursuant to the SPA IV, the vessel shall be delivered on or before 30 March 2025, subject to extension in accordance with the terms of the SPA IV.

Consideration

The consideration of one Vessel is US$27.50 million and the total consideration of the Vessels is US$110.00 million (equivalent to approximately HK$858.00 million) 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 Huangpu Wenchong Shipbuilding within 5 banking days after effectiveness of the SPAs;

(b) a sum equivalent to 10% of the consideration shall be paid by CA Shipping to Huangpu Wenchong Shipbuilding within 5 banking days after steel cutting of the Vessels;

(c) a sum equivalent to 5% of the consideration shall be paid by CA Shipping to Huangpu Wenchong Shipbuilding within 5 banking days after keel laying of the Vessels;

(d) a sum equivalent to 5% of the consideration shall be paid by CA Shipping to Huangpu Wenchong Shipbuilding within 5 banking days after launching of the Vessels; and

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

Pursuant to the SPAs, all payments made by CA Shipping prior to the delivery of vessels shall be in nature of advance to the shipbuilder (i.e., Huangpu Wenchong Shipbuilding). In the event the SPAs are justifiably cancelled, rescinded or terminated by the purchaser in accordance with the terms of the SPAs, the shipbuilder shall refund to the buyer the full amount of all sums paid by the purchaser 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 (securing refund of 1st, 2nd, 3rd and 4th installments of the consideration) to the buyer according to the term of SPAs for the aforesaid refund.

Pursuant to the SPA I, no adjustment to the consideration shall be made for the 45 days of delay in delivery beyond the delivery date as defined in the SPA I. If the delivery is delayed more than 45 days after the delivery date as defined in the SPA 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 after the 45 days of allowance). If the delay in delivery continues for a period of 225 days after the delivery date as defined in the SPA I, the buyer may rescind or cancel the SPA I according to the terms therein.

Pursuant to the SPA II/SPA III/SPA IV, no adjustment to the consideration shall be made for the 30 days of delay in delivery beyond the delivery date as defined in the SPA II/SPA III/SPA IV. If the delivery is delayed more than 30 days after the delivery date as defined in the SPA II/SPA III/SPA IV, 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 after the 30 days of allowance). If the delay in delivery continues for a period of 210 days after the delivery date as defined in the SPA II/SPA III/SPA IV, the buyer may rescind or cancel the SPA II/SPA III/SPA IV according to the terms therein.

(b) The Option Agreement

On 1 August 2022, CA Shipping has entered into the Option Agreement with Huangpu Wenchong Shipbuilding, pursuant to which CA Shipping will have the discretion to enter into shipbuilding contracts with Huangpu Wenchong Shipbuilding for the construction of further four vessels (i.e. the Option Vessels).

Pursuant to the Option Agreement, CA Shipping shall declare its intention to exercise the Purchase Options in writing to Huangpu Wenchong Shipbuilding within two months after the effectiveness of the SPAs; and within 10 days of declaration of the Purchase Options, CA Shipping and Huangpu Wenchong Shipbuilding shall enter into shipbuilding contracts in substantially identical principal terms to the SPA I suitably and logically amended, at a consideration of US$27.50 million per Option Vessel. If the Purchase Options are not exercised within the stipulated time, the Option Agreement shall become null and void.

Pursuant to the Option Agreement, the Option Vessels shall be delivered on or before 30 April 2025, 30 June 2025, 30 August 2025 and 30 October 2025 respectively.

Analysis on the consideration

Under the Acquisitions, 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 by other companies listed on the Stock Exchange during one year prior to the announcement of Acquisitions dated 1 August 2022 (the "**Market Transactions**"). To the best of our knowledge and as far as we are aware of, we found 7 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 Acquisitions conducted by companies under proximate timeframe prior to the entering into of the Acquisitions. Accordingly, we also consider the Market Transactions to be fair and representative for our analysis.

Purchaser	**Vendor**	**Date of announcement**	**Payment Terms**
An indirect subsidiary of Xiamen International Port Co., Ltd (3378)	Jiangsu Zhenjiang Shipyard Group Co., Ltd.*	3 August 2021	Consideration of each vessel will be settled in four instalments according to the stages of construction, representing 10%, 10%, 40% and 40% of the consideration.
Ten indirect wholly-owned subsidiaries of Orient Overseas (International) Limited (316) and COSCO SHIPPING Holdings Co., Ltd. (1919 & 601919)	Dalian COSCO KHI Ship Engineering Co., Ltd.* and Nantong COSCO KHI Ship Engineering Co., Ltd.*	2 September 2021	The relevant buyer shall pay the respective consideration in cash in five instalments based on progress intervals on the construction of each vessel, with smaller proportion of contract price payable in the first four instalments and the majority of the payment payable upon delivery of the vessel.
Nine wholly-owned special purpose companies of China Development Bank Financial Leasing Co., Ltd. (1606)	New Dayang Shipbuilding Co., Ltd.	30 September 2021	The consideration will be paid according to the agreed milestones in the building progress under the vessel purchase agreements.

Purchaser	Vendor	Date of announcement	Payment Terms
Three indirect non-wholly-owned subsidiaries of COSCO SHIPPING Energy Transportation Co., Ltd. (1138 & 600026)	Hudong-Zhonghua Shipbuilding (Group) Co., Ltd.* and China Shipbuilding Trading Co., Ltd.*	7 December 2021	The consideration is payable in four instalments of 10%, 10%, 10% and 70%, respectively based on the shipbuilding progress.
A wholly-owned subsidiary of COSCO SHIPPING Development Co., Ltd. (2866)	COSCO SHIPPING Heavy Industry (Yangzhou) Co., Ltd.*	18 March 2022	The consideration will be payable in five instalments in accordance with the following manner: (i) 30% of the total consideration would be payable upon signing of the vessel building contract; (ii) 20% of the total consideration would be payable when commencing building of the vessel; (iii) 20% of the total consideration would be payable when keeling the vessel; (iv) 10% of the total consideration would be payable when launching the vessel; and (v) 20% of the total consideration would be payable when delivering the vessel.
An indirect wholly-owned subsidiary of COSCO SHIPPING Energy Transportation Co., Ltd. (1138 & 600026)	Hudong-Zhonghua Shipbuilding (Group) Co., Ltd.* and China Shipbuilding Trading Co., Ltd.*	12 May 2022	The consideration is payable in five instalments of 10%, 20%, 10%, 10% and 50%, respectively based on the shipbuilding progress
Four wholly-owned special purpose vehicles of China Development Bank Financial Leasing Co., Ltd. (1606)	New Dayang Shipbuilding Co., Ltd.	24 June 2022	The consideration will be paid according to the agreed milestones in the building progress under the shipbuilding contract

Source: the Stock Exchange's website

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 4 out of 5 Market Transactions (excluding 2 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 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 Acquisitions. For our due diligence purpose, we obtained from the Company the internal price justification document in relation to the Acquisitions. We noted from such document that the Company considered, among other things, (i) newbuilding prices of the relevant container vessels as published by Clarkson; and (ii) shipbuilding prices of similar vessels in the market as noticed by the Company. For our due diligence purpose, we obtained data as extracted from Clarkson regarding newbuilding price in the market. According to Clarkson's data, the market newbuilding price for comparable container vessels (i) ranged from US$28 million to US$29 million during the period from January to July 2022; and (ii) was US$29 million in July 2022. The purchase price of the Vessels and Option Vessels of US$27.50 million each was lower than the aforesaid recent newbuilding prices in the market. Having considered (i) the aforesaid background of Clarkson; and (ii) that the aforesaid data from Clarkson represents the market shipbuilding prices, we consider it fair and reasonable to make reference to the Clarkson's data. Accordingly, we are also of the view that the consideration of the Acquisitions is fair and reasonable.

Having considered the above, we are of the view that the terms of the Acquisitions are fair and reasonable.

4. Possible financial effects of the Acquisitions

According to the Board Letter, it is currently expected that the consideration of the Acquisitions will be funded as to approximately 30% by shareholders' loan to be provided by the shareholders of CA Shipping or its nominee (as the case may be) and as to approximately 70% by banking facilities to be obtained by them. The Company shall provide the aforesaid shareholders' loan to CA Shipping by its internal resources if so required. If the bank requires the shareholders of CA Shipping or its nominee (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 Acquisitions 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 Acquisitions are on normal commercial terms and are fair and reasonable; and (ii) the Acquisitions are in the ordinary and usual course of business of the Group and are 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 Acquisitions.

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.

* *For the purpose of illustration only, amounts quoted in US$ have been converted into HK$ at the rate of US$1.00 to HK$7.80. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

* *For identification purpose only*