

9 November 2022

*To: The independent board committee and the independent shareholders of
COSCO SHIPPING Holdings Co., Ltd.**

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS REGARDING
(A) ACQUISITION OF LISTED SECURITIES; AND
(B) THE SHIPBUILDING CONTRACTS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of discloseable and connected transactions regarding (A) Acquisition of Listed Securities; and (B) the Shipbuilding Transactions (together with the Acquisition of Listed Securities, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 9 November 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 October 2022 (the “**Acquisition Agreements Date**”), the Company entered into (i) the SIPG Share Transfer Agreement with COSCO SHIPPING, pursuant to which the Company has agreed to purchase and COSCO SHIPPING has agreed to sell 3,476,051,198 SIPG Shares (representing approximately 14.93% of equity interest in SIPG as at the Latest Practicable Date) at the total consideration of RMB18,944,479,029.10; and (ii) the Guangzhou Port Share Transfer Agreement with COSCO, pursuant to which the Company has agreed to purchase and COSCO has agreed to sell 244,105,940 Guangzhou Port Shares (representing approximately 3.24% of equity interest in Guangzhou Port as at the Latest Practicable Date) at the total consideration of RMB778,697,948.60.

On 28 October, 2022, the COSCO MERCURY (a wholly-owned subsidiary of the Company), as the buyer, entered into the five COSCO MERCURY Shipbuilding Contracts on substantially the same terms with Dalian COSCO KHI, as the builder, for the construction of five units of COSCO MERCURY Vessels for a consideration of US\$239.85 million (equivalent to approximately HK\$1,870.83 million) for each COSCO MERCURY Vessel and for an aggregate consideration of US\$1,199.25 million (equivalent to approximately HK\$9,354.15 million) for all five COSCO MERCURY Vessels.

On 28 October 2022, the OOIL Buyers (seven indirect wholly-owned subsidiaries of OOIL, and therefore indirect subsidiaries of the Company), as the buyers, respectively entered into the seven OOIL Shipbuilding Contracts on substantially the same terms with Nantong COSCO KHI, as the builder, for the construction of seven unites of OOIL Vessels for a consideration of US\$239.85 million (equivalent to approximately HK\$1,870.83 million) for each OOIL Vessel and for an aggregate consideration of US\$1,678.95 million (equivalent to approximately HK\$13,095.81 million) for all the OOIL Vessels.

With reference to the Board Letter, the Transactions are subject to the requirements of reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. WU Dawei, Mr. ZHOU Zhonghui, Mr. TEO Siong Seng and Prof. MA Si-hang Frederick (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of (i) the major and continuing connected transactions as contained in the Company's circular dated 24 September 2021; and (ii) the major and continuing connected transactions as contained in the Company's circular dated 21 October 2022. Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, COSCO SHIPPING, COSCO, SIPG, Guangzhou Port, the Builders or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Company is a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange. The Group provides a wide range of container shipping and terminal services covering the whole shipping value chain for both international and domestic customers.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2021 and the six months ended 30 June 2022 (“1H2022”) as extracted from the Company’s annual report for the year ended 31 December 2021 (“2021 Annual Report”) and the Company’s interim report for 1H2022 (“2022 Interim Report”):

	For the six months ended 30 June 2022 RMB'000 (unaudited)	For the year ended 31 December 2021 RMB'000 (audited)	For the year ended 31 December 2020 RMB'000 (audited)	Change from 2020 to 2021 %
Revenues	210,784,853	333,693,611	171,258,834	94.85
– Container shipping business	207,171,206	327,909,237	165,998,877	97.54
– Container terminal business	3,613,647	5,784,374	5,259,957	9.97
Gross profit	98,046,534	140,125,380	24,141,792	480.43
Profit attributable to equity holders of the Company	64,711,625	89,296,138	9,927,098	799.52
	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)	As at 31 December 2020 RMB'000 (audited)	Change from 2020 to 2021 %
Cash and cash equivalents	247,150,892	177,946,969	52,630,331	238.11
Net assets	240,631,857	178,860,542	78,697,057	127.28



The Group recorded revenues of approximately RMB333.7 billion for the year ended 31 December 2021 (“FY2021”), representing an increase of approximately 94.85% as compared to that for the year ended 31 December 2020 (“FY2020”). The Group generated majority of its revenues from container shipping business. The Group’s revenue from container shipping business amounted to approximately RMB327.9 billion for FY2021 and approximately RMB166.0 billion for FY2020, representing approximately 98.27% and approximately 96.93% of the Group’s revenues for FY2021 and FY2020 respectively. The profit attributable to equity holders of the Company amounted to approximately RMB89.3 billion for FY2021, representing an increase of approximately 8 times as compared to that for FY2020. With reference to the 2021 Annual Report, such increase was mainly due to significant increase in revenues and gross profit margin.

The Group recorded revenues of approximately RMB210.8 billion for 1H2022, representing an increase of approximately 51.36% as compared to that the corresponding period in 2021. The Group’s revenues from container shipping business amounted to approximately RMB207.2 billion for 1H2022, representing an increase of approximately 51.85% as compared to the corresponding period in 2021. The profit attributable to equity holders of the Company amounted to approximately RMB64.7 billion for 1H2022, representing an increase of 74.44% as compared to that for the corresponding period in 2021. With reference to the 2022 Interim Report, such increase was mainly due to substantial increase in the Group’s gross profit as partially offset by increase in tax expenses.

With reference to 2022 Interim Report, in the future, the Company will actively respond to the global economic and trade changes and strive to lead reforms and development of the industry. By implementing specific operational measures such as ensuring and stabilising the supply chain, strengthening cooperation with customers, improving global deployment, strengthening digital and intelligence empowerment, promoting low-carbon transformation, and implementing cost control, the Company continues to establish and improve a globalised and digitalised container supply chain service system for customers, and plays an important role in world trade, in order to ensure the stability of the global supply chain, provide better services to customers, and create greater value for the Shareholders.

A. The Acquisition of Listed Securities

Information on COSCO SHIPPING

With reference to the Board Letter, COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (the “SASAC”). The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel, maritime engineering etc. COSCO SHIPPING is the indirect controlling Shareholder and therefore members of the COSCO SHIPPING Group are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules.

Information on COSCO

COSCO is a company incorporated under the laws of the PRC and a wholly-owned subsidiary of COSCO SHIPPING, which is a state-owned enterprise controlled by the SASAC. The scope of business of COSCO includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

Information on SIPG and SIPG Group

With reference to the Board Letter, SIPG is a joint stock company established under the laws of the PRC with limited liability, and was listed on the Shanghai Stock Exchange (stock code: 600018.SH). It is mainly engaged in port-related business including container services, bulk cargo services, port logistics and port services.

Set out below are the consolidated financial information of SIPG Group for the two years ended 31 December 2021 and for 1H2022, which were prepared in accordance with the PRC Accounting Standard for Enterprises, as extracted from SIPG's annual report for FY2021 and SIPG's interim report for 1H2022:

	For the six months ended 30 June 2022 <i>RMB'000</i> <i>(unaudited)</i>	For the year ended 31 December 2021 <i>RMB'000</i> <i>(audited)</i>	For the year ended 31 December 2020 <i>RMB'000</i> <i>(audited)</i>	Change from 2020 to 2021 %
Total operating income	20,094,438	34,288,697	26,119,461	31.28
Net profit attributable to shareholders of SIPG	10,813,600	14,682,049	8,307,143	76.74
	As at 30 June 2022 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(audited)</i>	As at 31 December 2020 <i>RMB'000</i> <i>(audited)</i>	Change from 2020 to 2021 %
Total assets	175,957,235	170,787,479	155,924,750	9.53
Net assets attributable to shareholders of SIPG	105,899,083	99,790,796	87,517,865	14.02

Information on Guangzhou Port and Guangzhou Port Group

With reference to the Board Letter, Guangzhou Port is a joint stock company established under the laws of the PRC with limited liability, and was listed on the Shanghai Stock Exchange (stock code: 601228.SH). It is mainly engaged in port-related business including container services, bulk cargo services, port logistics and port services, and trading business.

Set out below are the consolidated financial information of Guangzhou Port Group for the two years ended 31 December 2021 and for 1H2022, which were prepared in accordance with the PRC Accounting Standard for Enterprises, as extracted from Guangzhou Port's annual report for FY2021 and Guangzhou Port's interim report for 1H2022

	For the six months ended 30 June 2022	For the year ended 31 December 2021	For the year ended 31 December 2020	Change from 2020 to 2021
	<i>Approximately RMB'000 (unaudited)</i>	<i>Approximately RMB'000 (audited)</i>	<i>Approximately RMB'000 (audited)</i>	<i>%</i>
Total operating income	6,207,164	12,020,347	11,252,752	6.82
Net profit attributable to shareholders of Guangzhou Port	682,990	1,135,227	872,861	30.06

	As at 30 June 2022	As at 31 December 2021	As at 31 December 2020	Change from 2020 to 2021
	<i>Approximately RMB'000 (unaudited)</i>	<i>Approximately RMB'000 (audited)</i>	<i>Approximately RMB'000 (audited)</i>	<i>%</i>
Total assets	41,164,706	40,013,023	33,826,170	18.29
Net assets attributable to shareholders of Guangzhou Port	15,032,428	14,680,864	13,803,110	6.36

Reasons for and benefits of the Acquisition of Listed Securities

With reference to the Board Letter, the Company is committed to providing customers with a supply chain solution of integrated container shipping + port + related logistics services and building a more resilient, globalized and digital supply chain service system. Port and port-related services constitute an important and indispensable part of the supply chain in shipping industry, and both the SIPG and Guangzhou Port are the leading market players in relation to port-related services. Therefore, the Acquisition of SIPG Shares and the Acquisition of Guangzhou Port Shares are an important measure for the Company to build a global digital supply chain for its customers, which could enable it to strengthen its role as an investment platform, and promote its transformation from shipping lane operations to full supply chain operations. After the completion of the Acquisition of SIPG Shares and the Acquisition of Guangzhou Port Shares, the Company will be able to further deepen the strategic partnership with SIPG and Guangzhou Port, and strengthen the integration and synergy of different links in supply chain, promote the participation of all parties in the construction of digital shipping with capital investment, and contribute to the construction of a new development pattern regarding the inbound digital shipping, and the mutual flow of inbound and outbound digital shipping.

SIPG and Guangzhou Port are high-quality enterprises in the port industry. SIPG is a leading enterprise in the port industry in the PRC. Its home port has ranked the first in the world in terms of container throughput for many years, and its operating income and net profit scale have been at the top of the list. Guangzhou Port is also a high standard port in southern PRC with comprehensive advantages of both domestic and foreign trade, and maintained a stable operating income and net profit in recent years. The Acquisition of SIPG Shares and the Acquisition of Guangzhou Port Shares through direct equity investment in the two major port conglomerates are beneficial to the Company's consolidation of port industry resources, and optimization of business deployment, improvement of the quality of operations and earnings, effective inhibition of cyclical risks, and enhancement of core competitiveness of full chain services.

We noted that both SIPG and Guangzhou Port had been paying out dividend to their shareholders since their listing with dividend pay-out ratio (based on the dividend per share declared/paid and the basic earnings per share) ranged from approximately 30.13% to 61.36% for SIPG and approximately 30.16% to 31.10% for Guangzhou Port. Since both the SIPG and Guangzhou Port will not become subsidiaries of the Company upon completion of the Acquisition of Listed Securities and their financial statements will not be consolidated into the Group's financial statements, the Acquisition of Listed Securities enables the Group to enjoy future dividends from both SIPG and Guangzhou Port.

Overview of the port industry

Cargo throughput in major coastal ports in the PRC (including Shanghai and Guangzhou)

Set out below are the cargo throughput in major coastal ports in the PRC (including Shanghai and Guangzhou) during the four years ended 31 December 2021 and for the period from January 2022 to September 2022 published by the Ministry of Transport of the PRC:

	2018	2019	2020	2021	January to September 2022
Cargo throughput in major coastal ports in the PRC (<i>approximate million tons</i>)	9,223.92	9,187.74	9,480.02	9,972.59	7,528.24
Cargo throughput in Shanghai (<i>approximate million tons</i>)	683.92	663.51	651.05	698.27	490.55
Cargo throughput in Guangzhou (<i>approximate million tons</i>)	593.96	606.16	612.39	623.67	469.08

As shown in the above table, there was year-on-year increase in cargo throughput in major coastal ports in the PRC for each of the year 2020 and 2021. The cargo throughput in major coastal ports in the PRC increased from approximately 9,223.92 million tons for the year 2018 to approximately 9,972.59 million tons for the year 2021, representing a compound annual growth rate (“CAGR”) of approximately 1.97%.

Container throughput in major coastal ports in the PRC (including Shanghai and Guangzhou)

Set out below are the container throughput in major coastal ports in the PRC (including Shanghai and Guangzhou) during the four years ended 31 December 2021 and for the period from January 2022 to September 2022 published by the Ministry of Transport of the PRC:

	2018	2019	2020	2021	January to September 2022
Container throughput in major coastal ports in the PRC (<i>approximate million TEUs</i>)	221.18	230.92	234.29	249.33	193.38
Container throughput in Shanghai (<i>approximate million TEUs</i>)	42.01	43.30	43.50	47.03	34.89
Container throughput in Guangzhou (<i>approximate million TEUs</i>)	21.62	22.83	23.17	24.18	18.13

As shown in the above table, there was year-on-year increase in the container throughput in major coastal ports in the PRC (including Shanghai and Guangzhou) for each of the year 2019, 2020 and 2021. The container throughput in major coastal ports in the PRC increased from approximately 220.30 million TEUs for the year 2018 to approximately 249.33 million TEUs for the year 2021, representing a CAGR of approximately 4.21%.

The above statistics demonstrates the continuous growth of the PRC port industry.

Having considered the above reasons for and benefits of the Acquisition of Listed Securities, we are of the view that the Acquisition of Listed Securities is conducted in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Acquisition of Listed Securities

On 28 October 2022, the Company entered into (i) the SIPG Share Transfer Agreement with COSCO SHIPPING in relation to the Acquisition of SIPG Shares; and (ii) the Guangzhou Port Share Transfer Agreement with COSCO in relation to the Acquisition of Guangzhou Port Shares.

	SIPG Share Transfer Agreement with COSCO SHIPPING	Guangzhou Port Share Transfer Agreement with COSCO
<i>Parties:</i>	(i) the Company (as purchaser); and (ii) COSCO SHIPPING (as vendor)	(i) the Company (as purchaser); and (ii) COSCO (as vendor)
<i>Nature of transaction:</i>	The Company has agreed to purchase and COSCO SHIPPING has agreed to sell 3,476,051,198 SIPG Shares (representing approximately 14.93% of the equity interest in the SIPG as at the Latest Practicable Date) at the total consideration of RMB18,944,479,029.10.	The Company has agreed to purchase and COSCO has agreed to sell 244,105,940 Guangzhou Port Shares (representing approximately 3.24% of the equity interest in Guangzhou Port as at the Latest Practicable Date) at the total consideration of RMB778,697,948.60.

Consideration

The total consideration under the SIPG Share Transfer Agreement is RMB18,944,479,029.10 (i.e. RMB5.45 per SIPG Share, the “**SIPG Consideration**”) is payable in cash by the Company in the manner as set out in the Board Letter.



With reference to the Board Letter, the SIPG Consideration was determined after arm's length negotiations between the parties to the SIPG Share Transfer Agreement with reference to the higher of (i) the audited value of the net asset per SIPG Share for the financial year ended 31 December 2021 (i.e. RMB4.29 per SIPG Share), and (ii) the arithmetic average of the daily weighted average market prices of the SIPG Shares over thirty (30) trading days immediately prior to the holding announcement dated 29 October 2022 published by SIPG in relation to the Acquisition of SIPG Shares (i.e. RMB5.45 per SIPG Share).

The total consideration under the Guangzhou Port Share Transfer Agreement is RMB778,697,948.60 (i.e. RMB3.19 per Guangzhou Port Share, the "Guangzhou Port Consideration") is payable in cash by the Company in the manner as set out in the Board Letter.

With reference to the Board Letter, the Guangzhou Port Consideration was determined after arm's length negotiations between the parties to the Guangzhou Port Share Transfer Agreement with reference to the higher of (i) the audited value of the net asset per Guangzhou Port Share for the financial year ended 31 December 2021 (i.e. RMB2.37 per Guangzhou Port Share), and (ii) the arithmetic average of the daily weighted average market prices of the Guangzhou Port Shares over thirty (30) trading days immediately prior to the holding announcement dated 29 October 2022 published by Guangzhou Port in relation to the Acquisition of Guangzhou Port Shares (i.e. RMB3.19 per Guangzhou Port Share).

With reference to the Board Letter, according to article 32 of the Order No. 36 as promulgated by the SASAC, the Ministry of Finance of the PRC and the China Securities Regulatory Commission, the price of the shares of listed companies to be non-publicly transferred by state-owned shareholders shall not be less than the higher of (i) the arithmetic average of the daily weighted average market prices of the shares of such listed company over thirty (30) trading days immediately prior to the holding announcement of such listed company; and (ii) the audited value of the net asset per share of such listed company for the recent financial year. We noted that the SIPG Consideration and the Guangzhou Port Consideration were determined in accordance to the article 32 of the Order No. 36.

The SIPG Consideration and the Guangzhou Port Consideration will be funded entirely by the owned funds or self-raised funds of the Company.

The SIPG Consideration per SIPG Share represents:

- (i) a premium of approximately 3.42% over the closing price of RMB5.27 per SIPG Share as quoted on the Shanghai Stock Exchange on the trading day immediately preceding the date of the SIPG Share Transfer Agreement;
- (ii) a premium of approximately 3.02% over the average closing price of RMB5.29 per SIPG Share as quoted on the Shanghai Stock Exchange on the last five consecutive trading days immediately preceding the date of the SIPG Share Transfer Agreement; and
- (iii) the average closing price of RMB5.45 per SIPG Share as quoted on the Shanghai Stock Exchange on the last 30 consecutive trading days immediately preceding the date of the SIPG Share Transfer Agreement.

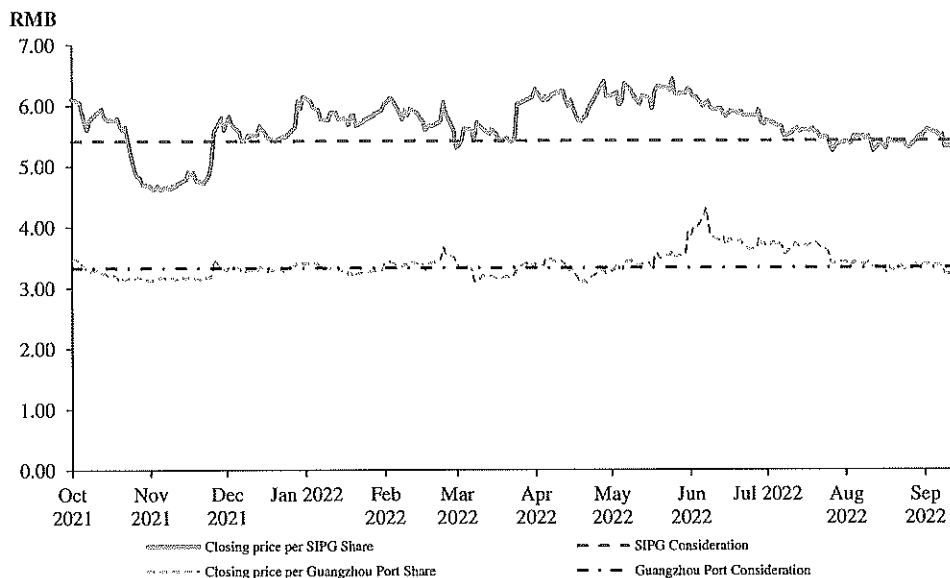
The Guangzhou Port Consideration per Guangzhou Port Share represents:

- (i) a premium of approximately 0.95% over the closing price of RMB3.16 per Guangzhou Port Share as quoted on the Shanghai Stock Exchange on the trading day immediately preceding the date of the Guangzhou Port Share Transfer Agreement;
- (ii) a premium of approximately 2.24% over the average closing price of RMB3.12 per Guangzhou Port Share as quoted on the Shanghai Stock Exchange on the last five consecutive trading days immediately preceding the date of the Guangzhou Port Share Transfer Agreement; and
- (iii) the average closing price of RMB3.19 per Guangzhou Port Share as quoted on the Shanghai Stock Exchange on the last 30 consecutive trading days immediately preceding the date of the Guangzhou Port Share Transfer Agreement.

Historical closing prices

To assess the fairness and reasonableness of the SIPG Consideration and the Guangzhou Port Consideration, we reviewed the daily closing prices of SIPG Shares and Guangzhou Port Shares as quoted on the Shanghai Stock Exchange from 1 November 2021 up to and including the Acquisition Agreements Date (the “**Review Period**”), being a period of approximately one year prior to the Acquisition Agreements Date which is commonly adopted for analysis. The comparisons of (i) the daily closing prices of SIPG Shares and the SIPG Consideration per SIPG Share; and (ii) the daily closing prices of Guangzhou Port Shares and the Guangzhou Port Consideration per Guangzhou Port Share, are illustrated as follows:

Historical daily closing price per SIPG Share and Guangzhou Port Share



Source: the cninfo website

During the Review Period, the highest and lowest closing prices of SIPG Shares as quoted on the Shanghai Stock Exchange were RMB6.43 recorded on 1 June 2022 and RMB4.62 recorded on 12 November 2021 respectively. The SIPG Consideration of RMB5.45 per SIPG Share falls within the aforesaid closing price range and is lower than the closing price of SIPG Shares for 175 trading days out of the total of 242 trading days during the Review Period.

During the Review Period, the highest and lowest closing prices of Guangzhou Port as quoted on the Shanghai Stock Exchange were RMB4.31 recorded on 14 June 2022 and RMB3.07 recorded on 26 April 2022 respectively. The Guangzhou Port Consideration of RMB3.19 per Guangzhou Port Share falls within the aforesaid closing price range, is lower than the closing price of Guangzhou Port Shares for 183 trading days out of the total of 242 trading days and is close to the lower end of the closing prices of Guangzhou Port Shares during the Review Period.

Trading multiples analysis

In order to further assess the fairness and reasonableness of the SIPG Consideration and the Guangzhou Port Consideration, we performed the following trading ratio analyses which are commonly adopted in the market, including price-to-earnings ratio (“**PER**”), price-to-book ratio (“**PBR**”), dividend yield and dividend pay-out ratio. We searched for companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which have similar lines of business as SIPG and Guangzhou Port (i.e. port-related business) that are not under special treatment. To the best of our knowledge and as far as we are aware of, we found 15 companies which met the said criteria and they are exhaustive (the “**Comparable Companies**”).

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)	Dividend	
				Dividend yield (Note 3) (%)	Dividend pay-out ratio (Note 4) (%)
Rizhao Port Co., Ltd. (SH600017)	Port loading, unloading, stockpiling and transshipment business	11.23	0.61	1.49	16.69
Jinzhou Port Co., Ltd. (SH600190 & SH900952)	Provision of comprehensive logistics services such as cargo handling, transportation, warehousing and other ancillary services	46.65	0.89	0.68	31.74

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)	Dividend yield (Note 3) (%)	Dividend pay-out ratio (Note 4) (%)
Tianjin Port Holdings Co., Ltd. (SH600717)	Loading, unloading and handling, commodity storage, intermodal transportation, freight forwarding, commodity sales and comprehensive port services	11.78	0.64	2.55	30.05
Tangshan Port Group Co., Ltd. (SH601000)	Port integrated transportation business	7.26	0.81	13.67 (Note 5)	99.30 (Note 5)
Jiangsu Lianyungang Port Co., Ltd. (SH601008)	Cargo loading, unloading, stockpiling and related port management business	48.83	1.29	0.70	34.15
Ningbo Zhoushan Port Company Limited (SH601018)	Port loading and unloading business and other business such as integrated logistics and trading	15.72	1.22	2.57	32.84
Qingdao Port International Co., Ltd. (6198.HK & SH601298)	Port and port-related services such as stevedoring, stacking, logistics of containers, metal ores, coal, crude oil, grains, break bulk cargo, financing services business, and port supporting business such as port machinery manufacture, construction, tugboat and barging, and ocean shipping tallying	8.78	0.99	4.78	41.99

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)	Dividend yield (Note 3) (%)	Dividend pay-out ratio (Note 4) (%)
Qinhuangdao Port Co., Ltd. (3369.HK & SH601326)	Provision of terminal facilities for vessels and provision of port services; other port related services; and import and export services of goods	14.10	0.88	2.14	30.13
Liaoning Port Co., Ltd. (2880.HK & SH601880)	Provision of terminal business and logistics services; tallying and tugging services for vessels sailing on international and domestic lines; port logistics and port information technology consultation services; crude oil storage in port area; refined oil products storage; and import and export of goods and technology	19.90	0.99	1.70	33.80
Shenzhen Yan Tian Port Holdings Co., Ltd. (SZ000088)	Port investment, development and operation, terminal construction project management, toll highway operation and management, customs supervision warehousing and other port supporting storage operations	22.37	1.10	0.65	14.62

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)	Dividend yield (Note 3) (%)	Dividend pay-out ratio (Note 4) (%)
Zhuhai Port Co., Ltd. (SZ000507)	Inter-provincial and intra-provincial general cargo transportation business, waterway general cargo transportation business, port operation business, beverage production business, power generation, transmission and supply business and gas operation business	10.87	0.72	2.28	24.75
Beibu Gulf Port Co., Ltd. (SZ000582)	Port loading, unloading and storage business, tugboat and port management, logistics agency business and tally business	12.29	1.00	2.58	31.72
Xiamen Port Development Co., Ltd. (SZ000905)	Port integrated logistics and port trading services	22.77	1.13	0.75	14.36
Nanjing Port Co., Ltd. (SZ002040)	Port development and construction, provision of cargo loading, unloading and warehousing services, container storage, transportation and other ancillary services and the sales of related accessories in the port area	21.76	1.05	0.82	17.91
China Merchants Port Group Co., Ltd. (SZ001872 & SZ201872)	Port loading, unloading and warehousing business, bonded logistics business and port supporting business	12.86	0.84	3.11	30.78

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)	Dividend	
				yield (Note 3) (%)	pay-out (Note 4) (%)
Maximum (excluding outlier)		48.83	1.29	4.78	41.99
Minimum (excluding outlier)		7.26	0.61	0.65	14.36
Average (excluding outlier)		19.14	0.94	1.91	27.54
SIPG (Note 6)		8.64	1.20	3.42	30.13
Guangzhou Port (Note 6)		21.20	1.60	1.84	31.10

Source: the cninfo website

Notes:

1. The PERs of the Comparable Companies were calculated based on their respective then latest published audited profit attributable to the shareholders for the year, their respective closing prices as quoted on the Shanghai Stock Exchange or Shenzhen Stock Exchange and total issued shares as at the Acquisition Agreements Date.
2. The PBRs of the Comparable Companies were calculated based on their respective then latest published net asset value attributable to the shareholders, their respective closing prices as quoted on the Shanghai Stock Exchange or Shenzhen Stock Exchange and total issued shares as at the Acquisition Agreements Date.
3. The dividend yield of the Comparable Companies were calculated based on their respective dividend per share (tax inclusive) declared/paid divided by their respective closing prices as quoted on the Shanghai Stock Exchange or Shenzhen Stock Exchange as at the Acquisition Agreements Date.
4. The dividend pay-out ratio of the Comparable Companies, SIPG and Guangzhou Port were calculated based on their respective dividend (tax inclusive) declared/paid for FY2021 divided by their respective net profit attributable to the shareholders of the company for FY2021.
5. The dividend yield and dividend pay-out ratio of Tangshan Port Group Co., Ltd. (SH601000) were exceptionally high and was considered to be an outlier.
6. The implied PER of the SIPG Consideration and the Guangzhou Port Consideration were calculated based on their respective then latest published audited profit attributable to the shareholders for the year, their respective total issued shares as at the Acquisition Agreements Date, the SIPG Consideration per SIPG Share and the Guangzhou Port Consideration per Guangzhou Port Share; the implied PBR of the SIPG Consideration and the Guangzhou Port Consideration were calculated based on their respective then latest published net asset value attributable to the shareholders, their respective total issued shares as at the Acquisition Agreements Date, the SIPG Consideration per SIPG Share and the Guangzhou Port Consideration per Guangzhou Port Share; and the implied dividend yield of the SIPG Consideration and the Guangzhou Port Consideration were calculated based on their respective dividend per share (tax inclusive) declared/paid divided by the SIPG Consideration per SIPG Share or the Guangzhou Port Consideration per Guangzhou Port Share.

As illustrated in the above table, the PERs of the Comparable Companies ranged from approximately 7.26 times to 48.83 times; the PBRs of the Comparable Companies ranged from approximately 0.61 times to 1.29 times; the dividend yield of the Comparable Companies (excluding outlier) ranged from approximately 0.65% to 4.78%; and the dividend pay-out ratio of the Comparable Companies for FY2021 (excluding outlier) ranged from approximately 14.36% to 41.99%.

The implied PER of the SIPG Consideration is within the PER range of the Comparable Companies and is lower than the average of the PERs of the Comparable Companies; the implied PBR of the SIPG Consideration is within the PBR range of the Comparable Companies and is higher than the average PBRs of the Comparable Companies; the implied dividend yield of the SIPG Consideration is within the dividend yield range (excluding outlier) of the Comparable Companies and is higher than average dividend yield (excluding outlier) of the Comparable Companies; and the dividend pay-out ratio of SIPG is within the dividend pay-out ratio range (excluding outlier) of the Comparable Companies and is higher than the average dividend pay-out ratio (excluding outlier) of the Comparable Companies.

Despite that the implied PBR of the Guangzhou Port Consideration is higher than the PBR range of the Comparable Companies, the implied PER of the Guangzhou Port Consideration is within the PER range of the Comparable Companies and is higher than the average PERs of the Comparable Companies; and the implied dividend yield of the Guangzhou Port Consideration is within the dividend yield range (excluding outlier) of the Comparable Companies and is lower than the average dividend yield (excluding outlier) of the Comparable Companies; and the dividend pay-out ratio of Guangzhou Port is within the dividend pay-out ratio range (excluding outlier) of the Comparable Companies and is higher than the average dividend pay-out ratio (excluding outlier) of the Comparable Companies.

Having considered the above and that:

- (i) the SIPG Consideration of RMB5.45 per SIPG Share falls within the above-mentioned closing price range of the SIPG Shares and is lower than the closing price of SIPG Shares for 175 trading days out of the total of 242 trading days during the Review Period;
- (ii) the Guangzhou Port Consideration of RMB3.19 per Guangzhou Port Share falls within the above-mentioned closing price range of the Guangzhou Port Shares, is lower than the closing price of Guangzhou Port Shares for 183 trading days out of the total of 242 trading days and is close to the lower end of the closing prices of Guangzhou Port Shares during the Review Period;
- (iii) the implied PER, implied PBR, implied dividend yield of SIPG Consideration and the dividend pay-out ratio of SIPG for FY2021 are within their respective range of the Comparable Companies;

- (iv) despite that the implied PBR of the Guangzhou Port Consideration is higher than the PBR range of the Comparable Companies, the implied PER and implied dividend yield of the Guangzhou Port Consideration and the dividend pay-out ratio of Guangzhou Port for FY2021 are within their respective range of the Comparable Companies; and
- (v) both of the SIPG Consideration and the Guangzhou Port Consideration was determined in accordance with the article 32 of the Order No. 36,

we are of the view that the SIPG Consideration and the Guangzhou Port Consideration are fair and reasonable.

Adjustment of consideration

With reference to the Board Letter, if SIPG or Guangzhou Port conducts any distribution of cash dividend, bonus issue, capitalization of capital reserve or any other ex-right and ex-dividend matters before the completion of the Acquisition of SIPG Shares or the Acquisition of Guangzhou Port Shares (as the case may be), (i) the number of SIPG Shares under the SIPG Share Transfer Agreement and consideration per SIPG Share for the Acquisition of SIPG Shares; and (ii) the number of Guangzhou Port Shares under the Guangzhou Port Share Transfer Agreement and consideration per Guangzhou Port Share for the Acquisition of Guangzhou Port Shares shall be adjusted accordingly in line with relevant applicable rules and regulations.

Possible financial effect of the Acquisition of Listed Securities

With reference to the Board Letter, both SIPG and Guangzhou Port will not become subsidiaries of the Company and their financial statements will not be consolidated into the financial statements of the Group upon completion of the Acquisition of SIPG Shares/the Acquisition of Guangzhou Port Shares.

With reference to the 2022 Interim Report, the unaudited consolidated net assets of the Group was approximately RMB240.6 billion as at 30 June 2022. As confirmed by the Directors, the Acquisition of Listed Securities will not have material effect on the consolidated net assets of the Group.

It should be noted that the aforesaid analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisition of Listed Securities.

Recommendation on the Acquisition of Listed Securities

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisition of Listed Securities are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition of Listed Securities is conducted 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 recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition of Listed Securities and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

B. The Shipbuilding Transactions

Information on COSCO MERCURY

With reference to the Board Letter, COSCO MERCURY is a company incorporated in the Cayman Islands with limited liability and is a wholly-owned subsidiary of COSCO SHIPPING Lines. It is principally engaged in financing, shipbuilding and leasing in respect of container vessels. COSCO SHIPPING Lines is a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company. It is principally engaged in container shipping.

Information on OOIL and OOIL Buyers

With reference to the Board Letter, OOIL is a company incorporated in Bermuda with members' limited liability and listed on the Main Board of the Stock Exchange (stock code: 316), and a non-wholly owned subsidiary of the Company. It is principally engaged in container transport and logistics services.

With reference to the Board Letter, each of the OOIL Buyers is a company incorporated in Marshall Islands, and is an indirect wholly-owned subsidiary of OOIL. Each of them is established for the purpose of entering into the respective OOIL Shipbuilding Contracts.

Information on the Builders

With reference to the Board Letter, Nantong COSCO KHI is a company established in the PRC and is an associate of COSCO SHIPPING, and in which each of COSCO SHIPPING and Kawasaki (a heavy industrial manufacturer whose shares are listed on the Tokyo Stock Exchange and Nagoya Stock Exchange) indirectly or directly holds 50% equity interest respectively. Nantong COSCO KHI is principally engaged in the business of manufacturing, sales and repairing of ships.

With reference to the Board Letter, Dalian COSCO KHI is a company established in the PRC and is owned by COSCO SHIPPING (through its wholly-owned subsidiaries), Kawasaki (a heavy industrial manufacturer whose shares are listed on the Tokyo Stock Exchange and Nagoya Stock Exchange) and Nantong COSCO KHI as to 36%, 34% and 30% respectively. Dalian COSCO KHI is principally engaged in the business of design, manufacturing, sales and repairing of ships (excluding military ships).

Reasons for and benefits of the Shipbuilding Transactions

With reference to the Board Letter, the Shipbuilding Transactions are new measures of the Group to actively promote the development of using clean fuels in the fleet in accordance with the new trend of the green, low-carbon and smart shipping industry development, which help

the Group to continue to reinforce its position in the industry. The dual-brand fleet has achieved a leapfrog development from “global shipping” to “shipping global”. The Shipbuilding Transactions are beneficial to the Company’s comprehensive consolidation of the competitive advantages of the east and west lane of the dual-brand, and achievement of balanced development of the global service network through the tiered layout of the shipping capacity of the Company. The vessels ordered under the Shipbuilding Transactions are all 24,000 TEU container vessels. The design and construction of the vessels incorporate mainstream edge-cutting concepts and integrate many energy-saving, emission-reduction and smart vessel technologies, which will help consolidate the long-term cost advantages of the Group and enhance the core competitiveness of the Group.

With reference to the Board Letter the Builders’ offers are optimal amongst the major shipbuilders (including independent third party shipbuilders) in that they meet the factors evaluated during the quotation process, as (i) they have been well-recognised in the shipbuilding industry for their manufacturing process and quality control, which is crucial to the performance of the vessels; (ii) their vessel delivery schedule fits with the strategic plan of the Group; (iii) the Builders have previously been engaged by the Group to build twelve mega-sized 23,000 TEU class vessels and ten 16,000 TEU class NeoPanamax vessels in 2020 and 2021, therefore engaging the same Builders again in the Shipbuilding Transactions is expected to provide synergy in construction, given that the Builders have gained an improved understanding of the Group’s operational and technical specifications, requirements and standard for its new buildings compared to other shipbuilders; and (iv) their prices are comparable to that obtained during the quotation process of the Group with other major shipbuilders (including independent third-party shipbuilders).

Overview of the shipping industry

Set out below are the volume of freight transported through maritime transportation of the PRC during the five years ended 31 December 2021 published by the National Bureau of Statistics of the PRC:

	2017	2018	2019	2020	2021
Volume of freight transported through maritime transportation of the PRC (<i>approximate billion tons</i>)	6.7	7.0	7.5	7.6	8.2
Total volume of freight transported of the PRC (<i>approximate billion tons</i>)	48.0	51.5	47.1	47.4	53.0

As shown in the table above, there was year-on-year increase in the volume of freight transported through maritime transportation of the PRC during each of the year 2018, 2019, 2020 and 2021. The volume of freight transported through maritime transportation of the PRC increased from approximately 6.7 billion tons in 2017 to approximately 8.2 billion tons in 2021, representing a compound annual growth rate of approximately 5.39%.

In addition, despite the decrease in total volume of freight transported of the PRC in 2019 as compared to that for 2018, the volume of freight transported through maritime of the PRC increased by approximately 0.5 billion in 2019 as compared to that for 2018.

Set out below are the freight turnover of maritime transport (being the product of the quantity of freight (in tons) multiply by the distance of the transport (in kilometres)) of the PRC during the five years ended 31 December 2021 published by the National Bureau of Statistics of the PRC:

	2017	2018	2019	2020	2021
Freight turnover of maritime transport of the PRC (billion ton-km)	9,861.1	9,905.3	10,396.3	10,583.4	11,557.8

As shown in the table above, there was year-on-year increase in the freight turnover of maritime transport of the PRC during each of the year 2018, 2019, 2020 and 2021. The volume of freight turnover of maritime transport of the PRC increased from approximately 9,861.1 billion ton-km in 2017 to approximately 11,557.8 billion ton-km in 2021, representing a compound annual growth rate of approximately 4.05%.

Set out below are the average weekly China Containerized Freight Index (“CCFI”) during the five years ended 31 December 2021 and for the period from January 2022 to September 2022, published by Wind Financial Terminal:

	2017	2018	2019	2020	2021	January to September 2022
Average weekly CCFI	820.08	818.43	823.98	984.42	2,626.41	3,163.95

As shown in the table above, there was year-on-year increase in the average weekly CCFI during each of the year 2019, 2020 and 2021. The average weekly CCFI increased from approximately 820.08 in 2017 to approximately 2,626.41 in 2021, representing a compound annual growth rate of approximately 33.78%. Furthermore, the average weekly CCFI for the period from January 2022 to September 2022 further increased to approximately 3,163.95, representing a year-on-year increase of approximately 31.41% as compared to the corresponding period in 2021.

The above statistics demonstrate the continuous growth of the PRC shipping market.

In light of the above, we are of the view that the Shipbuilding Transactions are conducted in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole.

Principal terms of the Shipbuilding Transactions

Pursuant to the each of the COSCO MERCURY Shipbuilding Contracts and the OOIL Shipbuilding Contracts, COSCO MERCURY and each of the OOIL Buyers shall pay the respective consideration of US\$239.85 million (equivalent to approximately HK\$1,870.83 million) in cash in five instalments based on the progress of the construction of each the COSCO MERCURY Vessel or OOIL Vessel (as the case may be), with smaller proportion of contract price payable in the second, third and fourth instalments and the larger proportion of the consideration payable in the first and fifth instalments.

Considerations of the Shipbuilding Contracts

As advised by the Directors, (i) the Group did not enter into any comparable shipbuilding contracts (in terms of vessel type, size and specification) with independent third party shipbuilders within the past year from the date of the Shipbuilding Contracts; and (ii) as far as the Directors are aware of, the Builders did not enter into any comparable shipbuilding contracts (in terms of vessel type, size and specification) with independent third party customers within the past year from the date of the Shipbuilding Contracts.

For our due diligence purpose, we attempted to identify terms of recent shipbuilding/purchasing transactions for container vessels comparable to the COSCO MERCURY Vessels and the OOIL Vessels in the market. Nevertheless, shipbuilding and purchasing transactions and their terms are generally not public information available from official sources. Accordingly, to our best effort and on a non-exhaustive basis, we identified four shipbuilding and purchasing transactions for the construction or purchase of container vessels with over 10,000 TEUs (which are considered to be sizeable container vessels, the “**Reference Vessels**”) (with available information on the prices of such vessels) announced from 1 January 2022 up to and including the date of the Shipbuilding Contracts, being the 10-month period up to and including the date of the Shipbuilding Contracts within the current calendar year, reflecting the recent market practices for the construction or purchase of vessels comparable to those under the Shipbuilding Contracts. We consider the number of shipbuilding and purchasing transactions identified were sufficient to serve as a reference for our analysis. We noted that the price of the Reference Vessels ranged from US\$6,944 per TEU to US\$10,687 per TEU (the “**Reference Price Range**”) based on the information disclosed. Despite the size and specification of the Reference Vessels might not be the same or similar as the COSCO MERCURY Vessels and the OOIL Vessels, we considered the aforesaid referenced price range can provide a general reference of recent prices of container vessels. The consideration for each COSCO MERCURY Vessels and OOIL Vessels pursuant to the Shipbuilding Contracts of approximately US\$239.85 million implied a shipbuilding price of approximately US\$9,993.75 per TEU (the “**Implied Unit Price**”), which is within the Reference Price Range.

We also noted from the Company’s past announcements that the Group entered into various shipbuilding contracts with the Builders during 2020 and 2021 for the construction of container vessels with capacity ranged from 16,000 TEUs to 23,000 TEUs per vessel. We noted that the prices for the construction of such container vessels ranged from approximately

US\$155.68 million to US\$157.71 million per vessel, which implied shipbuilding price ranged from approximately US\$6,768.70 to US\$6,856.91 per TEU for those shipbuilding contracts entered into during 2020 and approximately US\$9,848.75 per TEU for those shipbuilding contracts entered into during 2021 (the “**2021 Implied Unit Price**”). The Implied Unit Price does not deviate much from the 2021 Implied Unit Price.

Given that the Implied Unit Price is at the higher end of the Reference Price Range, for our due diligence purpose, we searched for factors that affect the price of container vessels. We noted from a report titled “Shipbuilding market developments, first semester 2022 – Monitoring developments in ship supply, demand, prices and costs” published by the Organisation for Economic Co-operation and Development on 7 July 2022 (the “**OECD Report**”) that, prices of newbuilding ships are influenced by, among other things, second-hand prices, shipping freight rates, trade volume through maritime transportation and the relevant construction costs of vessels.

In respect of the second-hand prices of vessels, we noted from the OECD Report that the price index for second-hand ships increased sharply since 2020 which affected the price of new ships, and the price index for new ships also increased substantially following the aforesaid increase in price index for second-hand ships in 2020, driven by strong demand for ships.

In respect of shipping freight rates and trade volume through maritime transportation, as detailed in the section headed “Reasons for and benefits of the Shipbuilding Transactions” above, there were continuous growth in the volume of freight transported through maritime transportation of the PRC, the freight turnover of maritime transport of the PRC and the average weekly CCFI for the past years.

In respect of the construction costs, we noted from Wind Financial Terminal that the monthly international steel composite price index fluctuated between 139.30 to 195.70 for the period from January 2017 to December 2020. Thereafter, the monthly international steel composite price index increased significantly and reached the highest of 353.90 for April 2022.

Having considered the above, in particular that (i) the Implied Unit Price is within the Reference Price Range; (ii) the Implied Unit Price does not deviate much from the 2021 Implied Unit Price; and (iii) the factors which affect the price for newbuilding ships as noted from the OECD Report and the recent development of these factors, we consider the Implied Unit Price to be fair and reasonable.

Payment terms under the Shipbuilding Contracts

As aforementioned, the considerations of the Shipbuilding Contracts shall be paid in five instalments based on the progress of the construction of each COSCO MERCURY Vessel or OOIL Vessel (as the case may be), with smaller proportion of contract price payable in the second, third and fourth instalments and the larger proportion of the consideration payable in the first and fifth instalments.

For our due diligence purpose, we identified six notifiable and/or connected transactions in relation to the construction of vessels (including but not limited to container vessels) as announced by listed companies on the Stock Exchange (other than the Company and OOIL) from 1 January 2022 up to and including the date of the Shipbuilding Contracts, being the 10-month period up to and including the date of the Shipbuilding Contracts within the current calendar year, reflecting the recent market practices regarding the payment arrangement for the construction of vessels. To the best of our knowledge, the aforesaid transactions are exhaustive and we consider that they are sufficient for us to assess the fairness and reasonableness of the payment terms. We noted that the payment terms of the aforesaid transactions were generally in four or five instalments based on the shipbuilding progress, with a substantial portion of the total consideration being paid upon the physical delivery of such vessels. We consider the payment terms under the Shipbuilding Contracts are comparable to the payment terms of the aforesaid identified transactions.

In case of delay in delivery of the COSCO MERCURY Vessel(s) or the OOIL Vessel(s) (as the case may be), the liquidated damages payable by Dalian COSCO KHI or Nantong COSCO KHI (as the case may be) shall be deducted from the fifth instalment of the consideration, of which the amount shall be assessed on the length of delayed period after the expiration of the original delivery date. If the length of the delayed period exceeds a certain number of days, the relevant buyer may, at its option, terminate the relevant Shipbuilding Contracts without any incurrence of penalty payable by the relevant buyer.

In the event that any of the Shipbuilding Contracts is terminated by the relevant buyer in accordance with the specific terms thereof, Dalian COSCO KHI or Nantong COSCO KHI (as the case may be) shall refund to the relevant buyer in US Dollars the full amount already paid by the buyer to Dalian COSCO KHI or Nantong COSCO KHI (as the case may be), together with interest incurred thereof.

Having considered the principal terms of the Shipbuilding Contracts as set out above, we are of the view that the terms of the Shipbuilding Transactions are on normal commercial terms and are fair and reasonable.

Recommendation on the Shipbuilding Transactions

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Shipbuilding Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Shipbuilding Transactions are conducted 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 recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Shipbuilding Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *for identification purposes only*