
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt about this circular, you should consult appropriate independent advisers.

If you have sold or transferred all your shares in COSCO SHIPPING Energy Transportation Co., Ltd., you should at once hand this circular, the relevant proxy form and the reply slip to the purchaser or to the bank, stockbroker or other agent through whom the sale was affected for transmission to the purchaser.

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COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.*

中遠海運能源運輸股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1138)

DISCLOSEABLE AND CONNECTED TRANSACTION: CONSTRUCTION OF NEW VESSELS

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



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

A letter from the Board is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee is set out on page 10 of this circular. A letter from the Independent Financial Adviser is set out on pages 11 to 18 of this circular.

A notice convening the EGM to be held at 2:30 p.m. on Monday, 26 February 2018 at 3rd Floor, Ocean Hotel, No. 1171 Dong Da Ming Road, Hongkou District, Shanghai, the People's Republic of China was despatched on Monday, 12 January 2018.

A proxy form for use at the EGM was despatched on Monday, 12 January 2018. Whether or not you are able to attend the above meeting, please complete and return the proxy form in accordance with the instructions printed thereon as soon as practicable and in any event by not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof (i) in case of holders of H Shares, to the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, (ii) in case of holders of A shares, to the Office of the Board of Directors of the Company at 18th Floor, 118 Yuanshen Road, Pudong New District, Shanghai, the People's Republic of China. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or at any adjourned meetings should you so wish.

* for identification purpose only

26 January 2018

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DEFINITIONS

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

“A Shares”	ordinary shares of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB
“Agreements”	Two agreements all dated 29 December 2017, each of which is entered into between the Purchaser and the Vendor for the construction of the Tankers
“associate(s)” or “close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	COSCO SHIPPING Energy Transportation Co., Ltd.* (中遠海運能源運輸股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange
“COSCO SHIPPING”	China COSCO Shipping Corporation Limited* (中國遠洋海運集團有限公司), a PRC state-owned enterprise and an indirect controlling shareholder of the Company
“CSG”	China Shipping (Group) Company* (中國海運(集團)總公司) (now has changed its name to China Shipping Group Company Limited* (中國海運集團有限公司)), a PRC state-owned enterprise wholly-owned by COSCO SHIPPING and the direct controlling shareholder of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 2:30 p.m. on Monday, 26 February 2018 at 3rd Floor, Ocean Hotel, No. 1171 Dong Da Ming Road, Hongkou District, Shanghai, the People’s Republic of China
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
“Independent Board Committee”	the independent board committee constituted by Mr. Ruan Yongping, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng, all being independent non-executive Directors as at the Latest Practicable Date, to make recommendations to the Independent Shareholders in respect of the transactions contemplated under the Agreements

DEFINITIONS

“Independent Financial Adviser”	TC Capital International Limited, the independent financial adviser appointed to make the relevant recommendation to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreements, being a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholder(s)”	the Shareholders other than COSCO SHIPPING and its associates
“Latest Practicable Date”	21 January 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	China Shipping Development (Hong Kong) Marine Co., Limited, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented from time to time
“Share(s)”	A Shares and/or H Shares
“Shareholders”	holders of A Shares and/or H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	Supervisor(s) of the Company
“Tankers”	two motor oil tankers of 308,000 deadweight tons each
“Vendor”	Dalian COSCO KHI Ship Engineering Co., Ltd.

For the purpose of this circular, translation of US\$ into HK\$ or vice versa have been calculated by using an exchange rate of US\$1.00 equal to HK\$7.8191. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

* For identification purpose only.

EXPECTED TIMETABLE

Date of despatch of this circular Friday, 26 January 2018

Latest time for lodging proxy forms for the EGM. 2:30 p.m. Sunday, 25 February 2018

Closure of H Share register of members of the Company from Saturday, 27 January 2018 to
Monday, 26 February 2018

Time and date of EGM 2:30 p.m. Monday, 26 February 2018

LETTER FROM THE BOARD



COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.*

中遠海運能源運輸股份有限公司

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

(Stock Code: 1138)

Executive Directors:

Huang Xiaowen
Liu Hanbo
Lu Junshan

Registered Office:

Room A-1015
No. 188 Ye Sheng Road
China (Shanghai) Pilot Free Trade Zone
People's Republic of China

Non-executive Directors:

Feng Boming
Zhang Wei
Lin Honghua

Place of business in Hong Kong:

20/F., Alexandra House
18 Chater Road
Central, Hong Kong

Independent Non-Executive Directors:

Ruan Yongping
Ip Sing Chi
Rui Meng
Teo Siong Seng

26 January 2018

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION: CONSTRUCTION OF NEW VESSELS

INTRODUCTION

We refer to the announcement dated 29 December 2017 issued by the Company in respect of, among other things, the entering into the Agreements by the Purchaser in relation to the construction of the Tankers subject to approval by the Independent Shareholders at the EGM.

The purpose of this circular is to provide you with further information in relation to the Agreements so that you may make informed decisions on the resolution relating to the transactions contemplated under the Agreements at the EGM.

* for identification purpose only

LETTER FROM THE BOARD

I. THE AGREEMENTS

Date: 29 December 2017

Parties: (i) The Purchaser, as purchaser
(ii) The Vendor, as vendor

Subject matter: The Purchaser entered into the Agreements with the Vendor for the construction of the Tankers.

The expected delivery dates for each of the Tankers are on or before 28 August 2020 and 29 January 2021, respectively.

Consideration: The total consideration for the construction of the Tankers is US\$151,960,000 (equivalent to approximately HK\$1,188,190,436) (subject to adjustments as set out in the section headed “Adjustment to consideration” below).

The consideration is determined by reference to the market price of motor oil tankers ranging in sizes from 300,000 to 320,000 deadweight tons during the past 12 months.

The construction of the Tankers under the Agreements are expected to be funded by the Group as to approximately 70% of the price by bank borrowings and approximately 30% of the price by internal financial resources.

The financing by way of bank borrowings is expected to increase the Group’s level of borrowings. Taking into account the Group’s capital and Shareholders’ base, as well as the Group’s fleet renewal and expansion plans, the Group considers that the above combination of bank borrowing and internal financial resources is the best means of financing for the construction of Tankers.

Payment terms: The prices of the Tankers will be payable in US\$ in cash. Relevant payments under each of the Agreements will be payable in 5 instalments at various stages of the construction of the relevant Tankers, in the proportion of 5%, 10%, 10%, 10% and 65% of the aggregate price of the relevant Tankers.

LETTER FROM THE BOARD

Adjustment to consideration:

Each of the Agreements provides that there will be no adjustment in the price of the relevant Tankers if the delivery is delayed for a period not exceeding 30 days. If the delay exceeds such period of time but does not exceed 150 days, there will be a reduction in the price of the relevant Tankers determined on the basis of the extent of the delay. Such reductions in the price will be calculated based on daily reduction rates of US\$20,000 (equivalent to approximately HK\$156,382) per day, subject to a maximum aggregate amount of reductions of US\$2,400,000 (equivalent to approximately HK\$18,765,840) in respect of each Tankers. Under the Agreements, delay will be permitted on account of force majeure events.

If the delay exceeds 150 days, unless the parties agree otherwise, the Purchaser has the right to refuse to accept delivery of the relevant Tankers in which case all payments paid under the relevant Agreement together with interests will be refunded to the Purchaser.

There will be other downward adjustments in price of the relevant Tankers if its performance (such as speed, fuel consumption rate, deadweight) exceeds or falls below certain agreed criteria (as the case may be). However, should the relevant performance exceed or fall below certain agreed benchmark, the Purchaser has the right to refuse delivery of the relevant Tankers and accept a refund with interest from the Vendor, or reduce the price for the relevant Tankers.

II. GENERAL INFORMATION

The Purchaser, a wholly-owned subsidiary of the Company, is a limited liability company incorporated in Hong Kong and is principally engaged in international shipment and the Group's asset management business in Hong Kong.

The Company is a joint stock company established under the laws of the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange. The Group is principally engaged in (a) investment holding; (b) oil and LNG shipment along the PRC coast and international shipment; and (c) vessel chartering.

The Vendor is principally engaged in the provision of shipbuilding services.

LETTER FROM THE BOARD

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The Directors are optimistic of the demand in the import crude oil transportation market and its persistent growth in the coming years. The Directors are of the view that the construction and ownership of the Tankers will enable the Group to take advantage of the business opportunities in the shipping market, enjoy economies of scale, optimize its overall route arrangements and improve its operating efficiency and profitability.

IV. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 1,554,631,593 A Shares, representing approximately 38.56% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company.

To the best of the Directors' knowledge, information and belief, the Vendor is a non-wholly owned subsidiary of COSCO SHIPPING and is therefore a connected person of the Company. Accordingly, the Agreements and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Agreements and the transactions contemplated thereunder exceeds 5% but are all less than 25%, the Agreements and the transactions contemplated thereunder constitute a discloseable and connected transaction of the Company, and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules, and the announcement, Independent Shareholders' approval, circular and annual reporting requirements under Chapter 14A of the Listing Rules.

Mr. Huang Xiaowen, an executive Director, and Mr. Feng Boming, Mr. Zhang Wei and Ms. Lin Honghua, being the non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its subsidiaries other than the Group. Accordingly, Mr. Huang Xiaowen, Mr. Feng Boming, Mr. Zhang Wei and Ms. Lin Honghua have abstained from voting on the relevant Board resolutions approving the Agreements and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Agreements and the transactions contemplated thereunder and hence no other Director has abstained from voting on such Board resolutions.

An Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the transaction contemplated under the Agreements are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business, and whether they are in the interests of the Company and its Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Agreements are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

V. EGM

The EGM will be held at 2:30 p.m. on Monday, 26 February 2018 at 3rd Floor, Ocean Hotel, No. 1171 Dong Da Ming Road, Hongkou District, Shanghai, the People's Republic of China.

Any Shareholders with a material interest in the transactions contemplated under the Agreements and their associates shall abstain from voting on the resolution approving the Agreements and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, COSCO SHIPPING and its associates are required to abstain from voting on the resolution approving the Agreements at the EGM. Save as disclosed above, no other Shareholder has a material interest in the Agreements and would be required to abstain from voting on the proposed resolution to approve the Agreements, and the transactions contemplated thereunder in the EGM.

The notice of the EGM, reply slip and the proxy form used at the EGM were despatched to the Shareholders on 12 January 2018. Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form (for use at the EGM) in accordance with the instructions printed thereon as soon as possible to the Company's Hong Kong H share registrar and transfer office, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of holders of H Shares) or the Office of the Board of Directors of the Company at 18th Floor, 118 Yuanshen Road, Pudong New District, Shanghai, the PRC (in case of holders of A Shares) but in any event not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the said proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

VI. CLOSURE OF REGISTER OF MEMBERS

The H Share register of the Company will be closed from Saturday, 27 January 2018 to Monday, 26 February 2018 (both days inclusive), during which no transfer of H Shares will be effected. Any holders of H Shares of the Company, whose names appear on the Company's register of members on Monday, 26 February 2018 are entitled to attend and vote at the EGM after completing the registration procedures for attending the meeting. For the holders of H Shares, in order to be entitled to attend and vote at the EGM, their share transfer documents must be lodged with the Company's H share registrar not later than 4:30 p.m. on Friday, 26 January 2018.

The address of the share registrar (for share transfer) for the Company's H Shares is as follows:

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LETTER FROM THE BOARD

Holders of H Shares, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the Office of the Board of Directors of the Company not later than 20 days before the date of the EGM.

Details of the Office of the Board of Directors of the Company are as follows:

18th Floor, 118 Yuanshen Road,
Pudong New District, Shanghai,
The People's Republic of China
Postal Code: 200120
Tel: 86(21) 6596 6666
Fax: 86(21) 6596 6160

VII. RECOMMENDATION

The Directors (other than the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee on page 10 of this circular) consider that the Agreements and the transactions contemplated thereunder are fair and reasonable, and in the interest of the Company and its Shareholders as a whole, and recommend the Independent Shareholders to approve the relevant resolution to be proposed at the EGM.

Yours faithfully,
COSCO SHIPPING Energy Transportation Co., Ltd.
Yao Qiaohong
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.*

中遠海運能源運輸股份有限公司

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

(Stock Code: 1138)

26 January 2018

To the Independent Shareholders

Dear Sir / Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION:
CONSTRUCTION OF NEW VESSELS**

We have been appointed as the Independent Board Committee to advise you in connection with the transactions contemplated under the Agreements, details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 26 January 2018 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We also wish to draw your attention to the letter from the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreements, which contains, among other things, the Independent Financial Adviser's advice, opinions and recommendations regarding the terms of the Agreements, as set out on pages 11 to 18 of the Circular, and the Letter from the Board as set out on pages 4 to 9 of the Circular.

Having given due consideration to the reasons relating to the Agreements and its terms and to the advice and recommendations of the Independent Financial Adviser stated in its letter dated 26 January 2018, we consider (i) the terms of the Agreements to be on normal commercial terms and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) the terms of the Agreements to be fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the transactions contemplated under the Agreements to be in the interests of the Company and the Shareholders as a whole and accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,

Ruan Yongping
*Independent
non-executive
Director*

Ip Sing Chi
*Independent
non-executive
Director*

Rui Meng
*Independent
non-executive
Director*

Teo Siong Seng
*Independent
non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from TC Capital International Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Agreements.



26 January 2018

*The Independent Board Committee and the Independent Shareholders
COSCO SHIPPING Energy Transportation Co., Ltd.*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION CONSTRUCTION OF NEW VESSELS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, the Agreements and the transactions contemplated thereunder, the details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the circular of COSCO SHIPPING Energy Transportation Co., Ltd. (the “**Company**”) to the Shareholders dated 26 January 2018 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 December 2017, the Purchaser (a wholly-owned subsidiary of the Company) entered into the Agreements with the Vendor for the construction of the Tankers.

As at the Latest Practicable Date, COSCO SHIPPING and its associates controlled or were entitled to exercise control over the voting rights in respect of 1,554,631,593 A Shares, representing approximately 38.56% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company. To the best of the Directors’ knowledge, information and belief, the Vendor is a non-wholly owned subsidiary of COSCO SHIPPING and is therefore a connected person of the Company. Accordingly, the Agreements and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Agreements and the transactions contemplated thereunder exceeds 5% but are all less than 25%,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Agreements and the transactions contemplated thereunder constitute a discloseable and connected transaction of the Company, and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules, and the announcement, Independent Shareholders' approval, circular and annual reporting requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors as at the Latest Practicable Date, namely Mr. Ruan Yongping, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng, has been established to advise the Independent Shareholders as to whether the terms of the transaction contemplated under the Agreements are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business, and whether they are in the interests of the Company and its Shareholders as a whole.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the transactions contemplated under the Agreements are fair and reasonable and the transactions contemplated under the Agreements are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and Independent Shareholders as to whether the Independent Shareholders should vote in favour of all the resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to two occasions as detailed in the circulars of the Company dated 22 April 2016 and 29 April 2016 respectively, in which COSCO SHIPPING was a party to the above transactions. Moreover, in the last two years, we have acted as an independent financial adviser to the then Independent Board Committee and Independent Shareholders of COSCO SHIPPING Development Co., Ltd. ("**COSCO Shipping Development**") in relation to a major and connected transaction as detailed in the circular of COSCO Shipping Development dated 12 December 2017, in which the Company and COSCO SHIPPING are the parties to the transaction. Given (i) our independent role in the engagements with the Company and COSCO Shipping Development; and (ii) our fees for the engagements represented an insignificant percentage of our revenue, we consider the engagements would not affect our independence to form our opinion in respect of the Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Agreements; (ii) the Circular; (iii) the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**"); and (iv) the relevant market data and information available from public sources. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the representatives of the Company. We have assumed that all such information, opinions, facts and representations contained or referred to in the Circular, for which the Company is fully responsible, were true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

information and representations provided to us by the Company. The Directors having made all reasonable enquiries confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this document misleading.

We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and the representatives of the Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group and the Vendor, their respective subsidiaries, and/or their associated companies.

PRINCIPAL FACTORS AND REASONS

In formulating our opinion in respect of the Agreements and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Information on the Purchaser, the Group and the Vendor

1.1 *Information on the Purchaser and the Group*

As stated in the Letter from the Board, the Purchaser, a wholly-owned subsidiary of the Company, is a limited liability company incorporated in Hong Kong and is principally engaged in international shipment and the Group's asset management business in Hong Kong. The Group is principally engaged in (i) investment holding; (ii) oil and LNG shipment along the PRC coast and international shipment; and (iii) vessel chartering.

1.2 *Information on the Vendor*

As disclosed in the Letter from the Board, the Vendor is principally engaged in the provision of shipbuilding services.

2. The Agreements

2.1 *Principal terms of the Agreements*

On 29 December 2017, the Purchaser entered into the Agreements with the Vendor for the construction of the Tankers. The principal terms of the Agreements have been set out in the Letter from the Board and are summarized below.

Consideration

As set out in the Letter from the Board, the total consideration for the construction of the Tankers is US\$ 151,960,000 (equivalent to approximately HK\$1,188,190,436) (subject to adjustments as set out in the paragraph headed "Adjustment to consideration" below). The consideration is determined by reference to the market price of motor oil tankers ranging in sizes from 300,000 to 320,000 deadweight tons during the past 12 months.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Payment terms

The prices of the Tankers will be payable in US\$ in cash. Relevant payments under each of the Agreements will be payable in 5 instalments at various stages of the construction of the relevant Tankers, in the proportion of 5%, 10%, 10%, 10% and 65% of the aggregate price of the relevant Tankers.

Adjustment to consideration

Under the Agreements, the expected delivery dates for each of the Tankers are on or before 28 August 2020 and 29 January 2021, respectively.

Each of the Agreements provides that there will be no adjustment in the price of the relevant Tankers if the delivery is delayed for a period not exceeding 30 days. If the delay exceeds such period of time but does not exceed 150 days, there will be a reduction in the price of the relevant Tankers determined on the basis of the extent of the delay. Such reductions in the price will be calculated based on daily reduction rates of US\$ 20,000 (equivalent to approximately HK\$156,382) per day, subject to a maximum aggregate amount of reductions of US\$ 2,400,000 (equivalent to approximately HK\$18,765,840) in respect of each of the Tankers. Under the Agreements, delay will be permitted on account of force majeure events.

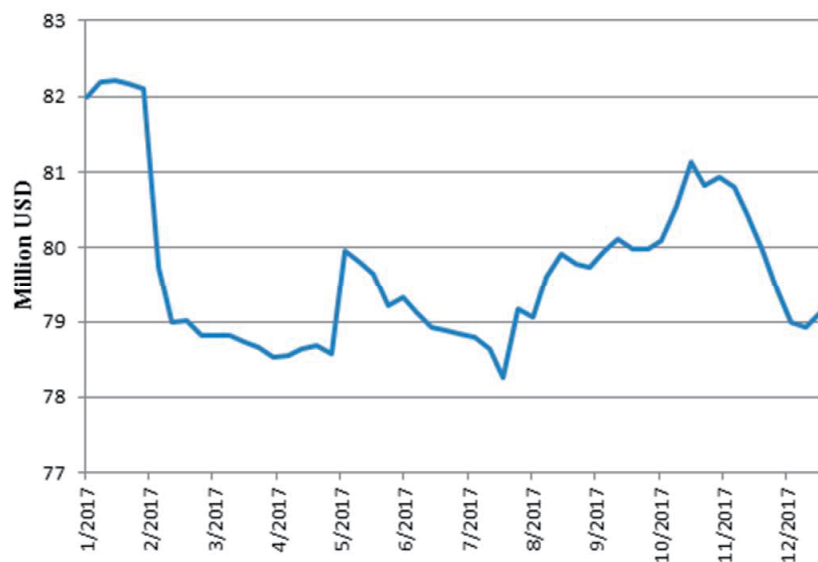
If the delay exceeds 150 days, unless the parties agree otherwise, the Purchaser has the right to refuse to accept delivery of the relevant Tankers in which case all payments paid under the relevant Agreement together with interests will be refunded to the Purchaser.

There will be other downward adjustments in price of the relevant Tankers if its performance (such as speed, fuel consumption rate, deadweight) exceeds or falls below certain agreed criteria (as the case may be). However, should the relevant performance exceed or fall below certain agreed benchmark, the Purchaser has the right to refuse delivery of the relevant Tankers and accept a refund with interest from the Vendor, or reduce the price for the relevant Tankers.

The management of the Company advised that the Group entered 14 agreements of construction of new vessels with independent third parties and the Agreements for the year ended 31 December 2017. We have obtained and reviewed the 14 agreements with independent third parties and noted that 4 agreements (the “**Comparable Agreements**”) entered in November 2017 were construction of oil tanker of 319,000 deadweight tons each, which is with the similar size of the Tankers. We have compared the consideration, payment terms and the adjustment to consideration of the Comparable Agreements with those of the Agreements and noted that the consideration, payment terms and the adjustment to consideration of the Agreements were not less favourable to the Company than those of the Comparable Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The below graph shows the vessel price (“**VESPVLCC Index**”) for current very large crude carrier (“**VLCC**”) for the period from 3 January 2017 to 29 December 2017 (the date of the Agreements) as extracted from Bloomberg.



Source: Bloomberg

As shown in above graph, the VESPVLCC Index for the period from 3 January 2017 to 29 December 2017 ranged from US\$78,260,000 to US\$82,220,000. The consideration of the Tankers of US\$75,980,000 each is lower than the range of VESPVLCC Index for the period from 3 January 2017 to 29 December 2017. Shareholders should note that the size and specifications of the tanker affect the consideration of the tanker. As the size and specifications of the tankers in the Comparable Agreements and the VESPVLCC Index may be not the same as the size and specifications of the Tankers, the Comparable Agreements and the VESPVLCC Index may only be used to provide a general reference only.

Based on the above, we are of the view that the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

3. Reasons for and benefits of the Agreements

As disclosed in the Letter from the Board, the Directors are of the view that the construction and ownership of the Tankers will enable the Group to take advantage of the business opportunities in the shipping market, enjoy economies of scale, optimize its overall route arrangements and improve its operating efficiency and profitability.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the 2017 Interim Report, one of the development strategies of the Group is to position its operations in line with the “One Belt One Road” initiative and establish its foothold in “national oil national shipment” to further compete in the international market. As stated in the 2017 Interim Report, in the second half of 2017 and in the near future, the Group will focus on, among others, developing shipping capacity by multiple strategies and enlarging the economies of scale of the fleet of the Group. The Directors consider that both the international ship purchase/ building market and oil tanker company valuations are at relatively low levels. Thus the Group will track market movements closely in order to capture appropriate low cost development and acquisition opportunities decisively for further reducing the average cost and enlarging the economies of scale of the fleet of the Group.

The below graph shows the VESPVLC Index for the period from 29 January 2013 (the earliest date available in Bloomberg) to 29 December 2017 (the date of the Agreements) as extracted from Bloomberg.



Source: Bloomberg

As shown in the above graph, the VESPVLC Index for the period from 29 January 2013 to 29 December 2017 fluctuated, with a range from US\$71,480,000 to US\$109,420,000, and showed a decreasing trend from March 2015. According to the latest available information in Bloomberg, the VESPVLC Index on 16 January 2018 (updated every Tuesday) rose to US\$84,160,000.

Based on the above, we consider that the entering into the Agreement is in line with the Company’s development strategy to (i) increase shipping capacity and enlarge the economies of scale of the fleet of the Group; and (ii) capture the appropriate low cost development to further reduce the average cost and improve its operating efficiency and profitability.

As stated in the 2017 Interim Report, the Directors consider that, in the medium to long term, global demand for oil tanker shipping capacity will continue to grow, particularly under the impact of significant growth in crude oil exports of the USA and strong growth of import demand from Asian

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countries such as China, the demand for long-haul shipments will continue to increase. The management of the Company advised that it is the intention of the Company to increase the number of tankers with the size of 300,000 deadweight tons or above to cater for the long-haul shipments. We concur with the Directors' view that the entering into the Agreement can increase its competitive in its overall route arrangements.

Having considered that the entering into the Agreement (i) is in line with the Company's development strategy; and (ii) can increase its competitive in its overall route arrangements, we are of the view that the entering into the Agreements is in the ordinary and usual course of business of the Company and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independents Shareholders as a whole.

4. Financial effects of the Agreements

As stated in the Letter from the Board, the construction of the Tankers under the Agreements are expected to be funded by the Group as to approximately 70% of the price by bank borrowings and approximately 30% of the price by internal financial resources.

Net Assets Value

Upon the delivery of the Tankers, the Group would have fixed assets increased by approximately HK\$ 1,188.2 million, whilst current assets will decrease by approximately HK\$356.5 million and bank borrowings will increase by HK\$831.7 million. The Agreements will then have no effect on the net assets value of the Group upon the delivery of the Tankers.

Gearing ratio

As at 30 September 2017, the Group's unaudited total liabilities and total shareholders' equity amounted to approximately RMB 33,590.8 million (approximately HK\$40,470.2 million) and RMB 27,638.4 million (approximately HK\$ 33,298.7 million) respectively, representing a gearing ratio (total liabilities / total shareholders' equity) of approximately 121.5%. Upon the delivery of the Tankers, the Group's total liabilities will increase to approximately RMB 34,281.1 million (approximately HK\$41,301.9 million) and the shareholders' equity will remain unchanged at RMB 27,638.4 million (approximately HK\$ 33,298.7 million), representing a gearing ratio of approximately 124.0%. Thus the gearing ratio will increase 2.5%. We consider that the increase in the gearing ratio upon the delivery of the Tankers is immaterial.

Based on the above, as the Group's net asset value and the gearing ratio will not be materially affected upon the delivery of the Tankers, we are of the view that the Agreements would not have a material adverse effect on the Group upon the delivery of the Tankers.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the delivery of the Tankers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Based on the factors mentioned above, after considering the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned, the entering into the Agreements is in the ordinary and usual course of business of the Company and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole and the Agreements would not have a material adverse effect on the Group upon the delivery of the Tankers, we are of the view that the terms of the transactions contemplated under the Agreements are fair and reasonable and the transactions contemplated under the Agreements are on normal commercial terms, in the ordinary and usual course of the business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders to vote in favor of all the resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder; and (ii) the Independent Shareholders, to vote in favor of all the resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Edward Wu
Chairman

Notes:

Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

For the purpose of this letter, translation of US\$ into HK\$ or vice versa have been calculated by using an exchange rate of US\$1.00 equal to HK\$7.8191. Translation of RMB into HK\$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK\$1.2048. Such exchange rates have been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

APPENDIX I — GENERAL INFORMATION

I. RESPONSIBILITY STATEMENT

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

II. DISCLOSURE OF INTERESTS

Interests and short positions of Directors, Supervisors and chief executives

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive(s) of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company.

Positions held by Directors and Supervisors of the Company in substantial Shareholder(s)

As at the Latest Practicable Date:

- (i) Mr. Huang Xiaowen, an executive Director, was also an executive vice president and party committee member of COSCO SHIPPING;
- (ii) Mr. Feng Boming, a non-executive Director, was also the general manager of the strategic and corporate management division of COSCO SHIPPING;
- (iii) Mr. Zhang Wei, a non-executive Director, was also a general manager of the operating management division of COSCO SHIPPING;
- (iv) Ms. Lin Honghua, a non-executive Director, was also the chief auditor of the finance and accounting division of COSCO SHIPPING; and
- (v) Mr. Weng Yi, a Supervisor, was also the safety director and general manager of the safety management department of COSCO SHIPPING.

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

APPENDIX I — GENERAL INFORMATION

Interests of substantial shareholders

As at the Latest Practicable Date, so far as was known to the Directors, Supervisors or chief executive(s) of the Company, the interests or short positions of the Shareholders who are entitled to exercise or control 5% or more of the voting power at any general meeting or other persons (other than a Director, Supervisor or chief executive(s) of the Company) in the Shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO or which have been notified to the Company and the Stock Exchange were as follow:

Name	Class of Shares	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the total number of the relevant class of Shares of the Company (%)	Approximate percentage of the total issued share capital of the Company (%)
CSG	A Shares	Beneficial owner	1,536,924,595 (L) (Note 2)	56.17	38.12
	A Shares	Other	17,706,998 (L) (Note 2)		
COSCO SHIPPING	A Shares	Interest of controlled corporation	1,554,631,593 (L) (Note 2)	56.82	38.56
GIC Private Limited	H Shares	Investment manager	116,578,000 (L)	8.99	2.89
Prudential plc	H Shares	Interest of controlled corporation	132,158,000 (L) (Note 3)	10.19	3.28
Eastpring Investments	H Shares	Interests of controlled corporation	65,460,000 (L) (Note 3)	5.05	1.62

Notes:

- “L” means long position in the shares.
- Such shareholding includes 1,536,924,595 A Shares directly held by CSG. CSG also holds (a) 7,000,000 A Shares (representing approximately 0.17% of the total voting rights of the Company as at the Latest Practicable Date) through CICC-CCB-Zhongjin Ruihe collective asset management schemes (中金公司-建設銀行-中金瑞和集合資產管理計劃), (b) 2,065,494 A Shares (representing approximately 0.05% of the total voting rights of the Company as at the Latest Practicable Date) through Guotai Junan securities asset management-Industrial Bank - Guotai Junan Junxiang Xinli No.6 collective asset management schemes (國泰君安證券資管-興業銀行-國泰君安君享新利六號集合資產管理計劃), (c) 8,641,504 A Shares (representing approximately 0.21% of the total voting rights of the Company as at the Latest Practicable Date) through AEGON-INDUSTRIAL Fund Management Co., Ltd - China Shipping (Group) Company collective asset management schemes (興業全球基金-上海銀行-中國海運(集團) 總公司). Therefore, CSG and its subsidiaries are interested in 1,554,631,593 A Shares in aggregate as at the Latest Practicable Date, representing approximately 38.56% of the total number of voting rights in the Company as at the Latest Practicable Date.

APPENDIX I — GENERAL INFORMATION

3. According to the notice of disclosure of interests published on the website of the Stock Exchange as at the Latest Practicable Date, Prudential plc is the holding company of Eastspring Investments controlling 75% interest of Eastspring Investments.

Save as disclosed above, as at the Latest Practicable Date, no other person (other than Directors, Supervisors or chief executive(s) of the Company) had any interests or short positions in any Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interests or short positions recorded in the register kept by the Company pursuant to Section 336 of the SFO or any interests or short positions which have been notified to the Company and the Stock Exchange.

III. NO 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 2016, being the date to which the latest published audited financial statements of the Group were made up.

IV. MATERIAL INTERESTS

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date in which a Director was significant in relation to the business of the Group.

V. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor any of their respective close associates had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

APPENDIX I — GENERAL INFORMATION

VI. CONSENT AND EXPERT

The following is the qualification of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualification
TC Capital International Limited	Independent Financial Adviser and a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, (i) the above expert did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2016, being the date to which the latest published audited financial statements of the Company 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; and (ii) the above expert did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

VII. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had entered into or proposed to enter into any service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 20/F., Alexandra House, 18 Chater Road, Central, Hong Kong on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

- (a) the Agreements;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 10 of this circular; and
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 11 to 18 of this circular.