
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in **COSCO SHIPPING Energy Transportation Co., Ltd.***, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s) or to the bank, licensed dealer in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

**SUPPLEMENTAL CIRCULAR TO THE CIRCULAR DATED
30 NOVEMBER 2018
MAJOR AND CONTINUING CONNECTED TRANSACTIONS
AND
SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



This supplemental circular shall be read together with the circular of the Company dated 30 November 2018.

A letter from the Board is set out on pages 6 to 31 of this supplemental circular. A letter from the Independent Board Committee is set out on pages 32 to 33 of this supplemental circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 61 of this supplemental circular. Capitalised terms used on this cover page have the same meanings as defined in this supplemental circular.

A supplemental notice convening the EGM to be held at 10:00 a.m. on Monday, 17 December 2018 at 3rd Floor, Ocean Hotel, No. 1171 Dongdaming Road, Hongkou District, Shanghai, the PRC is set out on pages N-1 to N-3 of this supplemental circular.

A supplemental proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, please complete and return the enclosed supplemental 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 EGM or any adjournment thereof (i) in case of holders of H Shares, to the Company's H 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 7th Floor, 670 Dongdaming Road, Hongkou 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 EGM or at any adjourned meetings should you so wish.

30 November 2018

* for identification purpose only

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DEFINITIONS

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

“2015 Financial Services Framework Agreement”	the financial services framework agreement dated 29 September 2015 entered into between the Company and CS Finance in relation to the provision of financial services
“2015 Materials and Services Framework Agreement”	the agreement dated 29 September 2015 entered into between the Company and China Shipping in relation to the supply of supporting shipping materials and services
“2016 Financial Services Framework Agreement”	the financial services framework agreement dated 28 April 2016 entered into between Dalian Tanker and Cosco Finance in relation to the provision of financial services
“2016 Materials and Services Framework Agreement”	the agreement dated 28 April 2016 entered into between Dalian Tanker and Cosco Company in relation to the supply and receipt of certain supplies and services
“2017 Insurance Services Framework Agreement”	the agreement dated 28 June 2017 entered into between the Company and COSCO SHIPPING Insurance in relation to the provision of insurance services
“2017 Sea Crew Management Agreement”	the agreement dated 26 December 2017 entered into between the Company and CSSM in relation to the supply of crew services
“2018 Financial Services Framework Agreement”	the financial services framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to the provision of financial services
“2018 Framework Agreements”	the 2018 Financial Services Framework Agreement, the 2018 Lease Framework Agreement, the 2018 Sea Crew Framework Agreement, the 2018 Services Framework Agreement and the 2018 Shipping Materials and Services Framework Agreement
“2018 Lease Framework Agreement”	the property lease framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of property and land use right leasing services
“2018 Sea Crew Framework Agreement”	the sea crew framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of sea crew services

DEFINITIONS

“2018 Services Framework Agreement”	the services framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of certain services
“2018 Shipping Materials and Services Framework Agreement”	the shipping materials and services framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of shipping materials and services
“Announcement”	the announcement of the Company dated 12 November 2018 in relation to the 2018 Framework Agreements
“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange (Stock Code: 600026)
“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會)
“China Shipping”	China Shipping Group Company Limited* (中國海運集團有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of COSCO SHIPPING and the controlling shareholder of the Company, holding approximately 38.56% of the registered capital of the Company as at the Latest Practicable Date
“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 Main Board of the Stock Exchange (stock code: 1138) and the A Shares of which are listed on the Shanghai Stock Exchange (stock code: 600026)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Cosco Company”	China Ocean Shipping (Group) Company* (中國遠洋運輸(集團)總公司), a state-owned company and a wholly-owned subsidiary of COSCO SHIPPING
“Cosco Finance”	one of the predecessors of COSCO SHIPPING Finance prior to the Merger

DEFINITIONS

“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
“COSCO SHIPPING Finance”	COSCO SHIPPING Finance Company Limited* (中遠海運集團財務有限責任公司) (the name of which is subject to the confirmation by the relevant industry and commerce authority), being CS Finance as the surviving entity of the Merger
“COSCO SHIPPING Group”	COSCO SHIPPING and its subsidiaries (excluding the Group)
“CS Finance”	China Shipping Finance Company Limited* (中海集團財務有限責任公司), a company established under the laws of the PRC with limited liability, which is controlled by COSCO SHIPPING subsequent to the Merger and the surviving entity after the Merger
“CSSM”	COSCO SHIPPING Ship Management Co., Ltd.* (中遠海運船員管理有限公司), a state-owned company established under the laws of the PRC with limited liability and wholly-owned by COSCO SHIPPING
“Dalian Tanker”	COSCO SHIPPING Tanker (Dalian) Co., Ltd.* (大連中遠海運油品運輸有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 3rd Floor, Ocean Hotel, No. 1171 Dongdaming Road, Hongkou District, Shanghai, the PRC at 10:00 a.m. on Monday, 17 December 2018 (or at any adjournment thereof)
“Existing Financial Services Framework Agreements”	the 2015 Financial Services Framework Agreement and the 2016 Financial Services Framework Agreement
“Existing Materials and Services Framework Agreements”	the 2015 Materials and Services Framework Agreement and the 2016 Materials and Services Framework Agreement
“Existing Lease Framework Agreement”	the property lease framework agreement entered into between the Company and China Shipping on 29 March 2016 in relation to supply and receipt of property and land use right leasing services
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“H Share(s)”	H share(s) of par value of RMB1 each in the share capital of the Company, which are listed on the Stock Exchange (Stock Code: 1138)
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the 2018 Framework Agreements and the transactions contemplated thereunder
“Independent Financial Adviser” or “Messis Capital Limited”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to make the relevant recommendation to the Independent Board Committee and the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than China Shipping and its associates
“independent third party(ies)”	individual(s) or company(ies) and their respective beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Latest Practicable Date”	27 November 2018, being the latest practicable date prior to the printing of this supplemental circular for ascertaining certain information for the purpose of inclusion in this supplemental circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merger”	the merger by absorption under which CS Finance has absorbed and merged with Cosco Finance in accordance with the merger agreement dated 13 November 2017 entered into between CS Finance and Cosco Finance
“PBC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China

DEFINITIONS

“RMB”	Renminbi Yuan, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented, or otherwise modified from time to time)
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks in Shanghai Stock Exchange
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“%”	per cent

* *For identification purpose only*

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 (*Chairman*)
Liu Hanbo
Lu Junshan

Non-executive Directors:

Feng Boming
Zhang Wei
Lin Honghua

Independent non-executive Directors:

Ruan Yongping
Ip Sing Chi
Rui Meng
Teo Siong Seng

Registered Office:

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

Place of business in the PRC:

670 Dongdaming Road
Hongkou District, Shanghai
People's Republic of China

Place of business in Hong Kong:

RMS 3601-3602, 36/F West Tower
Shun Tak CTR
168-200 Connaught RD Central
Hong Kong

30 November 2018

To the Shareholders

Dear Sir/Madam,

SUPPLEMENTAL CIRCULAR TO THE CIRCULAR DATED 30 NOVEMBER 2018 MAJOR AND CONTINUING CONNECTED TRANSACTIONS AND SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

References are made to the announcement, notice of EGM and the circular of the Company dated 30 October 2018, 2 November 2018 and 30 November 2018, respectively, in relation to the (i) proposed adoption of the revised A share option incentive scheme, (ii) the extension of validity period of the Shareholders' resolutions and authorisation granted to the Board to handle all matters relating to the proposed non-public issuance of A Shares and (iii) the policy on the management of connected transactions.

* for identification purpose only

LETTER FROM THE BOARD

References are made to the announcements of the Company dated 29 September 2015, 29 March 2016, 28 April 2016, 28 June 2017 and 28 December 2017, the circulars of the Company dated 12 November 2015 and 29 April 2016 and the Announcement, in connection with, among other things, the Existing Financial Services Framework Agreements, the Existing Materials and Services Framework Agreements, the Existing Lease Framework Agreement, the 2017 Insurance Services Framework Agreement, the 2017 Sea Crew Management Agreement and the 2018 Framework Agreements.

This supplemental circular shall be read in conjunction with the circular of the Company dated 30 November 2018.

The purpose of this supplemental circular is to provide you with, among other things: (i) details of the 2018 Framework Agreements and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; (iv) a supplemental notice of the EGM; (v) a supplemental proxy form; and (vi) other information as required under the Listing Rules.

2. THE 2018 FRAMEWORK AGREEMENTS

Background Information

In respect of the 2018 Financial Services Framework Agreement

Pursuant to the Existing Financial Services Framework Agreements, CS Finance and Cosco Finance, which have been merged and will be renamed as COSCO SHIPPING Finance, may provide the Group with a range of financial services including (i) deposit services; (ii) loan services; (iii) settlement services; (iv) foreign exchange services; and (v) other financial services as approved by CBIRC. The term of the Existing Financial Services Framework Agreements will expire on 31 December 2018.

On 12 November 2018, the Company entered into the 2018 Financial Services Framework Agreement with COSCO SHIPPING, pursuant to which it shall procure COSCO SHIPPING Finance, a company controlled by COSCO SHIPPING, to provide (subject to Independent Shareholders' approval) the Group with similar services under the Existing Financial Services Framework Agreements for the three years ending 31 December 2021.

In respect of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement

Pursuant to the 2015 Materials and Services Framework Agreement and the 2016 Materials and Services Framework Agreement, each of China Shipping and Cosco Company, respectively, agreed to provide certain supporting materials and services to the Group for its on-going operations.

LETTER FROM THE BOARD

Pursuant to the 2016 Materials and Services Framework Agreement, the Company also agreed to provide the Cosco Company and its subsidiaries certain supporting materials and services for its on-going operations. Pursuant to the 2017 Sea Crew Management Agreement, CSSM shall provide management services of sea crew to the Group. Pursuant to the 2017 Insurance Services Framework Agreement, COSCO SHIPPING Insurance shall provide vessel-related insurance services to the Group. The terms of the Existing Materials and Services Framework Agreements, the 2017 Sea Crew Management Agreement and the 2017 Insurance Services Framework Agreement will expire on 31 December 2018.

On 12 November 2018, the Company entered into the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement with COSCO SHIPPING, pursuant to which the Company and COSCO SHIPPING will provide (subject to Independent Shareholders' approval) to each other's group (and/or the associates of COSCO SHIPPING) with similar services under the Existing Materials and Services Framework Agreements, the 2017 Sea Crew Management Agreement and the 2017 Insurance Services Framework Agreement and certain miscellaneous services for the three years ending 31 December 2021.

In respect of the 2018 Lease Framework Agreement

Pursuant to the Existing Lease Framework Agreement, the Company and China Shipping agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) with property and land use right leasing services. The term of the Existing Lease Framework Agreement will expire on 31 December 2018.

On 12 November 2018, the Company entered into the 2018 Lease Framework Agreement with COSCO SHIPPING, pursuant to which the Company and COSCO SHIPPING will provide (subject to Independent Shareholders' approval) to each other's group (and/or the associates of COSCO SHIPPING) with similar services under the Existing Lease Framework Agreement for the three years ending 31 December 2021.

2018 Financial Services Framework Agreement

Date: 12 November 2018

Parties: COSCO SHIPPING (as provider of services)
The Company (as recipient of services)

Pricing Policy

Under the 2018 Financial Services Framework Agreement:

- (a) *Deposit services:* COSCO SHIPPING Finance may accept deposits from the Group at interest rates not lower, and thus no less favourable to the Group, than (a) the relevant rates stipulated by the PBC for similar type of deposits; and (b) the market interest rates (which refers to interest rates for similar type of deposits offered by independent third party commercial banks in their ordinary course of business in the same or neighboring

LETTER FROM THE BOARD

areas under normal commercial terms); in addition, in determining the interest rates COSCO SHIPPING Finance shall also make reference to the interest rates offered by COSCO SHIPPING Finance to similar companies of the COSCO SHIPPING Group;

- (b) *Loan services:* COSCO SHIPPING Finance may provide loans to the Group at interest rates not higher than (a) the upper limit of the relevant rates stipulated by the PBC for similar type of loans; and (b) the market interest rates (which refers to interest rates for similar type of loans offered by independent third party commercial banks in their ordinary course of business in the same or neighboring areas under normal commercial terms); in addition, the terms of the loans shall be better than (a) the terms offered to the Group by independent third parties for similar type of loans; and (b) the terms offered by COSCO SHIPPING Finance to independent third parties with same credit rating for similar type of loans;
- (c) *Settlement services:* COSCO SHIPPING Finance will not charge the Group any fees for the provision of settlement services for the time being; and
- (d) *Foreign exchange and other services:* The fees charged by COSCO SHIPPING Finance for the provision of foreign exchange services and other financial services shall be (a) in accordance with the requirements stipulated by the PBC or CBIRC for similar type of services (if applicable); (b) not higher than the fees charged by independent third party commercial banks for similar type of services to the Group; and (c) the fees charged by COSCO SHIPPING Finance for similar type of services to an independent third party with the same credit rating.

Internal Control Measures

To ensure sufficient protection of the Shareholders' interest, the Company will adopt, including but not limited to, the following internal control procedures in connection with its utilization of the financial services provided by COSCO SHIPPING Finance:

- (a) Before the Group places any deposits which has a term of three months or more, enters into any loan agreements or any financial services agreements with COSCO SHIPPING Finance, the Company will obtain at least three quotations from independent financial institutions for similar type of services (for instance, in respect of loan services, a loan of the same duration or the same nature);
- (b) In respect of services with transaction amounts less than RMB1 million, quotations of such services together with the offer from COSCO SHIPPING Finance will forthwith be disclosed to the chief financial officer of the Company for review and approval;
- (c) In respect of services with transaction amounts equal to or more than RMB1 million, quotations of such services together with the offer from COSCO SHIPPING Finance will forthwith be disclosed to the chief financial officer of the Company for review. The

LETTER FROM THE BOARD

chief financial officer of the Company will then seek approval from the general manager of the Company or the Board, as appropriate, on whether to accept COSCO SHIPPING Finance's offer;

- (d) All borrowings from COSCO SHIPPING Finance will be conducted in accordance with the terms approved by the chief financial officer, the general manager or the Board, as appropriate;
- (e) The Company will report to the independent non-executive Directors every six months on:
 - i. the loan or credit facilities agreements entered into with COSCO SHIPPING Finance together with information on the comparable quotations obtained from the independent commercial banks; and
 - ii. any changes in the credit ratings of COSCO SHIPPING Finance during the preceding six-month period; and
- (f) The Company will monitor the status of the deposits on a monthly basis through the internet banking services provided by COSCO SHIPPING Finance.

To manage the risks of the Group in utilizing the financial services provided by COSCO SHIPPING Finance, the 2018 Financial Services Framework Agreement requires COSCO SHIPPING Finance:

- (a) To take appropriate measures to ensure the security of its information technology system is secured with security level commensurate with other commercial banks;
- (b) To comply with risk management protocols and guidelines promulgated by the CBIRC and the relevant laws and regulations;
- (c) To provide to the Company a copy of every regulatory report submitted by COSCO SHIPPING Finance to CBIRC;
- (d) To provide to the Company a copy of the monthly financial statements of COSCO SHIPPING Finance in the following month;
- (e) To obtain the approval of the Company prior to engaging in investment of long term securities; and
- (f) To inform the Company of any material adverse event and to take appropriate measures to prevent the occurrence or to minimize the impact of the material adverse event.

LETTER FROM THE BOARD

Annual Caps

The annual caps for the three years ending 31 December 2021 for the continuing connected transactions under the 2018 Financial Services Framework Agreement are as follows:

	Proposed annual caps for the year ending 31 December		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
(1) Maximum daily outstanding balance of deposits (including accrued interest and handling fee) to be placed by the Group with COSCO SHIPPING Finance	9,000,000	10,000,000	11,000,000
(2) Maximum daily outstanding balance of loans (including accrued interest and handling fee) to be granted by COSCO SHIPPING Finance	2,000,000	2,000,000	2,000,000

In arriving at such annual caps, the Directors have considered the following factors:

- (a) the historical figures of the aggregate maximum daily outstanding balance of deposits¹ (including accrued interest and handling fee) placed by the Group with CS Finance and Cosco Finance for the two years ended 31 December 2017 and the six months ended 30 June 2018 were approximately RMB6.5 billion, RMB5.3 billion, and RMB3.6 billion, respectively;
- (b) the historical figures of the aggregate maximum daily outstanding balance of loans² (including accrued interest and handling fee) granted by CS Finance and Cosco Finance to the Group for the two years ended 31 December 2017 and the six months ended 30 June 2018 were approximately RMB908 million, nil and nil, respectively;
- (c) the Group's expectation of its capital needs for the period from now up to 31 December 2021;
- (d) the increase in cash position of the Group upon the Group's proposed non-public issuance of A Shares; and
- (e) COSCO SHIPPING Finance's financial ability.

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Notes:

1. The aggregate maximum daily outstanding balance of deposits (including accrued interest and handling fee) placed by the Group with CS Finance and Cosco Finance represents the sum of the maximum daily outstanding balance of deposits (including accrued interest and handling fee) placed by the Group with CS Finance and Cosco Finance during the relevant year, but such maximum daily outstanding balance of deposits with each of CS Finance and Cosco Finance has fallen on a different date.
2. The aggregate maximum daily outstanding balance of loans (including accrued interest and handling fee) granted by CS Finance and Cosco Finance to the Group represents the sum of the maximum daily outstanding balance of loans (including accrued interest and handling fee) granted by CS Finance and Cosco Finance to the Group during the relevant year, but such maximum daily outstanding balance of loans by each of CS Finance and Cosco Finance has fallen on a different date.
3. For further details of the proposed non-public issuance of A Shares, please refer to the announcement and circular of the Company dated 30 October 2018 and 4 December 2017, respectively.

In considering COSCO SHIPPING Finance's financial ability in the provision of the financial services, the Board has checked the continuing validity of COSCO SHIPPING Finance's licence issued by CBIRC and considered a report prepared by COSCO SHIPPING Finance based on the relevant financial statements and the strategy and development plans of COSCO SHIPPING Finance.

Payment Terms

The payment terms are dependent on the type of financial services to be provided and are determined at the time when such financial services are provided. For foreign exchange and other services, payment generally is to be made upon delivery of the relevant services. The Group expects such terms of payment to be consistent with market terms for the relevant type of financial services and shall obtain three quotations from independent third party banks for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Financial Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Financial Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

Reasons for and benefits of entering into the 2018 Financial Services Framework Agreement

The Group maintains deposits with and engages commercial banks for financial services from time to time as part of its treasury activities and to satisfy its business needs in its ordinary and usual course of business.

The Board believes that by securing deposit and loan services from COSCO SHIPPING Finance for the three years ending 31 December 2021 would ensure availability of funds to the Group at reasonable costs and reduced working capital risks. The terms and conditions provided by COSCO SHIPPING Finance under the 2018 Financial Services Framework Agreement are no less favourable to the Group than those provided by independent third parties.

LETTER FROM THE BOARD

Furthermore, the Group is not restricted under the 2018 Financial Services Framework Agreement to approach, and in fact may choose, any bank or financial institution to satisfy its financial service needs. Its criteria in making the choice could be made on costs and quality of services. Therefore, the Group may, but is not obliged to, continue to use COSCO SHIPPING Finance's services if the service quality provided continues to be competitive. Having such flexibility afforded under the 2018 Financial Services Framework Agreement, the Group is able to better manage its current capital and cashflow position. In addition, it is also expected that COSCO SHIPPING Finance will provide more efficient foreign exchange and settlement services to the Group, as compared to independent third party banks.

Further considering that (i) COSCO SHIPPING Finance is a company controlled by COSCO SHIPPING, which is a wholly state-owned enterprise; and (ii) the Company and/or COSCO SHIPPING Finance will adopt the internal control measures referred to in the paragraph headed "2. The 2018 Framework Agreements – 2018 Financial Services Framework Agreement – Internal Control Measures", the Group expects that it would not be exposed to high credit risks for depositing with COSCO SHIPPING Finance.

In light of the above circumstances, the Directors consider the terms of the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

2018 SHIPPING MATERIALS AND SERVICES FRAMEWORK AGREEMENT, 2018 SEA CREW FRAMEWORK AGREEMENT AND 2018 SERVICES FRAMEWORK AGREEMENT

To facilitate the cooperation between the Group and the COSCO SHIPPING Group and to allow for better utilization of internal resources to increase competitiveness, which is mutually beneficial to each other, COSCO SHIPPING and the Company have entered into the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement in relation to the provision and receipt of shipping materials and services, crew management services, and general services, respectively.

The reason for the bilateral arrangement in relation to the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement is mainly because when the vessel from one group is at a place where it is not able or not economical to receive such supplies or services from its own group due to geographical or other limitations, it may purchase such supplies or services from the other group according to actual circumstances. Further, the materials and services provided by the Group to the COSCO SHIPPING Group under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement are predominately provided within Dalian city, the PRC whereas the materials and services provided by the COSCO SHIPPING Group and/or its associates to the Group under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement are predominately provided elsewhere other than Dalian city, the PRC. Such bilateral arrangement can benefit both groups to reduce their operational costs and achieve synergy.

LETTER FROM THE BOARD

(1) 2018 Shipping Materials and Services Framework Agreement

Date: 12 November 2018

Parties: COSCO SHIPPING
The Company

Shipping Materials and Services to be Provided

The Company has entered into the 2018 Shipping Materials and Services Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the below supplies and services (the "**Shipping Materials and Services**"):

- (1) supply of marine lubricant;
- (2) supply of shipping fuel;
- (3) supply of shipping material and relevant repair services;
- (4) ship management, ship safety management and technical consultation services;
- (5) painting and paint maintenance services;
- (6) ship repair, special coating, technical improvements services, fire control and safety equipment services;
- (7) supply of ship spare parts;
- (8) electrical, electrical engineering services, telecommunication and navigation equipment services;
- (9) supply and repair of ship equipment;
- (10) ship supervision technology services;
- (11) related services for sale and purchase of ships, accessories and equipment;
- (12) ship and related business insurance and insurance brokerage services;
- (13) ship and shipping agency services;
- (14) shipping services and ship charter services; and
- (15) other miscellaneous ship services.

LETTER FROM THE BOARD

Pricing Policy

The fees for the Shipping Materials and Services will be determined by reference to the prevailing market price for similar type of shipping materials and/or services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of shipping materials and/or services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the price chargeable and the terms offered by the Group for the provision of the Shipping Materials and Services to the COSCO SHIPPING Group and/or its associates shall be no less favourable to the Group than those available to independent third parties for similar type of shipping materials and/or services. The price chargeable and the terms offered by the COSCO SHIPPING Group and/or its associates for the provision of the Shipping Materials and Services to the Group shall be no less favourable to the Group than the price and terms received by the Group from independent third parties for similar type of shipping materials and/or services.

Internal Control Measures

In order to ensure the terms provided by the Group are no less favourable to the Group than those available to independent third parties, the Group will make reference to the historical price and terms of the Group providing such materials and/or services to independent third parties. The Group will also make reference to the prevailing market price by obtaining quotations for the provision of such materials and/or services from three independent third party suppliers/service providers which it can make reference to.

In order to ensure the terms provided by the COSCO SHIPPING Group and/or its associates are no less favourable to the Group than those available from independent third parties, the Group will obtain quotations from three independent third party suppliers/service providers for the provision of such materials and/or services and compare the quotations provided by the COSCO SHIPPING Group and/or its associates against those quotations.

The quotations will be reviewed and approved by the deputy general manager of the Company to ensure that the terms offered by the Group are no less favourable to the Group than those available to independent third parties and the terms offered by the COSCO SHIPPING Group and/or its associates are no less favourable to the Group than those available from independent third parties. Moreover, the Company has established a team responsible for reviewing the actual transaction amounts between the Group and the COSCO SHIPPING Group and/or its associates periodically to ensure that the actual transaction amounts between the Group and its connected persons will not exceed the respective proposed annual caps.

LETTER FROM THE BOARD

Annual Cap

The aggregate fees in any financial year for the Shipping Materials and Services will depend on the types or quantity of the Shipping Materials and Services provided by/to the Group. Pursuant to the 2018 Shipping Materials and Services Framework Agreement, the annual caps for the provision and receipt of Shipping Materials and Services are as follows:

	Year ending 31 December		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Proposed annual caps for provision of the Shipping Materials and Services by the Group to the COSCO SHIPPING Group and/or its associates	150,000	180,000	220,000
Proposed annual caps for receipt of the Shipping Materials and Services by the Group from the COSCO SHIPPING Group and/or its associates	7,000,000	9,200,000	9,800,000

These annual caps have been determined based on the actual amounts paid and/or received by the Group under the Existing Materials and Services Framework Agreements and the 2017 Insurance Services Framework Agreement in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018, management's estimates of fleet operational costs over the next three years ending 31 December 2021 and management's estimates of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimated increase in shipping capacity and the estimated increase in revenue as a result of the increase in shipping capacity.

Further, the annual caps for receipt of the Shipping Materials and Services by the Group from the COSCO SHIPPING Group and/or its associates have also been determined with reference to the expected increase in purchase of fuel by the Group from the COSCO SHIPPING Group and/or its associates. The COSCO SHIPPING Group has set up a fuel purchase platform to centralise all the purchases which can achieve lower purchase costs as well as higher services quality from the relevant suppliers. As such, the Group expects to increase in purchase of fuel from COSCO SHIPPING Group and/or its associates than from independent third parties in the future.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Shipping Materials and Services provided to the Group under the Existing Materials and Services Framework Agreements and the 2017 Insurance Services Framework Agreement were approximately RMB2.1 billion, RMB2.4 billion and RMB1.3 billion, respectively.

LETTER FROM THE BOARD

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Shipping Materials and Services provided by the Group under the 2016 Materials and Services Framework Agreement were approximately RMB11 million, RMB26 million and RMB15 million, respectively.

Payment Terms

The payment terms are dependent on the type of the Shipping Materials and Services to be provided and are determined at the time when the Shipping Materials and Services are provided. The material/service fees for the Shipping Materials and Services are generally payable within 30 days after the delivery of the materials/services. The Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Shipping Materials and Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Shipping Materials and Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

(2) 2018 Sea Crew Framework Agreement

Date: 12 November 2018

Parties: COSCO SHIPPING
The Company

Services to be Provided

The Company has entered into the 2018 Sea Crew Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the crew management, training, hiring and related services (the "**Crew Services**").

Pricing Policy

The fees for the Crew Services will be determined by reference to the prevailing market price for similar type of crew services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of crew services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the terms offered by the provider of the Crew Services shall be (i) no less favourable than the terms offered by the provider to independent third parties for similar type of crew services; and (ii) no less favourable than the terms received by the receiver of the Crew Services from independent third parties for similar type of crew services.

LETTER FROM THE BOARD

Internal Control Measures

In order to ensure the terms provided by the Group are consistent with the above pricing policy, the Group will make reference to (i) the historical price and terms of the Group providing such crew services to independent third parties; (ii) the prevailing market price by obtaining quotations for the provision of such crew services from three independent third party service providers which it can make reference to; and (iii) the terms offered by independent third parties to the COSCO SHIPPING Group and/or its associates by obtaining three service contracts for the provision of such crew services by independent third parties from the COSCO SHIPPING Group and/or its associates.

In order to ensure the terms provided by the COSCO SHIPPING Group and/or its associates are consistent with the above pricing policy, the Group will obtain quotations from three independent third party service providers for the provision of such crew services and will obtain three service contracts from the COSCO SHIPPING Group for the provision of such crew services by the COSCO SHIPPING Group and/or its associates to independent third parties and compare the quotations for the Crew Services provided by the COSCO SHIPPING Group and/or its associates against those quotations.

The quotations/service contracts will be reviewed and approved by the deputy general manager of the Company to ensure that the terms offered by the Group or offered by the COSCO SHIPPING Group and/or its associates are consistent with the above pricing policy. Moreover, the Company has established a team responsible for reviewing the actual transaction amounts between the Group and the COSCO SHIPPING Group and/or its associates periodically to ensure that the actual transaction amounts between the Group and its connected persons will not exceed the respective proposed annual caps.

Annual Caps

The aggregate fees in any financial year for the Crew Services will depend on the types or quantity of the Crew Services provided by/to the Group. Pursuant to the 2018 Sea Crew Framework Agreement, the annual caps for the provision and receipt of Crew Services are as follows:

	Year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for provision of the Crew Services by the Group to the COSCO SHIPPING Group and/or its associates	18,000	18,000	18,000
Proposed annual caps for receipt of the Crew Services by the Group from the COSCO SHIPPING Group and/or its associates	1,900,000	2,100,000	2,300,000

LETTER FROM THE BOARD

These annual caps have been determined based on the actual amounts paid and/or received by the Group under the Existing Materials and Services Framework Agreements and the 2017 Sea Crew Management Agreement in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018, management's estimates of fleet operational costs (including potential salary increment for crew members) over the next three years ending 31 December 2021, the optimum crew member reserve ratio and management's estimates of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimated increase in shipping capacity and potential salary increment for crew members.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Crew Services provided to the Group under the Existing Materials and Services Framework Agreements and the 2017 Sea Crew Management Agreement were approximately RMB903 million, RMB633 million and RMB549 million, respectively.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Crew Services provided by the Group under the 2016 Materials and Services Framework Agreement were nil, nil and nil, respectively.

Payment Terms

The payment terms are dependent on the type of the Crew Services to be provided and are determined at the time when the Crew Services are provided. The service fees for the Crew Services are generally payable monthly. The Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Sea Crew Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Sea Crew Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

(3) 2018 Services Framework Agreement

Date: 12 November 2018

Parties: COSCO SHIPPING
The Company

LETTER FROM THE BOARD

Services to be Provided

The Company has entered into the 2018 Services Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the following services (the "**Miscellaneous Services**"):

- (1) computer and software maintenance services;
- (2) accommodation, transportation and conference services;
- (3) sale reception and employee catering services;
- (4) supply of office supplies and labour supplies;
- (5) vehicle rentals, repair, maintenance and chauffeur services;
- (6) office equipment maintenance, property management, back office management and file management services;
- (7) property leasing management services;
- (8) printing, printer maintenance services and paper supply services;
- (9) assistance to marine claims;
- (10) medical services;
- (11) training services;
- (12) courier and gardening services; and
- (13) other miscellaneous services.

Pricing Policy

The fees for the Miscellaneous Services will be determined by reference to the prevailing market price for similar type of services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the terms offered by the provider of the Miscellaneous Services shall be no less favourable than the terms received by the receiver of the Miscellaneous Services from independent third parties for similar type of services.

LETTER FROM THE BOARD

Internal Control Measures

In order to ensure the terms provided by the Group are consistent with the above pricing policy, the Group will make reference to (i) the prevailing market price by obtaining quotations for the provision of such services from three independent third party service providers which it can make reference to; and (ii) the terms offered by independent third parties to the COSCO SHIPPING Group and/or its associates by obtaining three service contracts for the provision of such services by independent third parties from the COSCO SHIPPING Group and/or its associates.

In order to ensure the terms provided by the COSCO SHIPPING Group and/or its associates are consistent with the above pricing policy, the Group will obtain quotations from three independent third party service providers for the provision of such services and compare the quotations provided by the COSCO SHIPPING Group and/or its associates against those quotations.

The quotations/service contracts will be reviewed and approved by the deputy general manager of the Company to ensure that the terms offered by the Group or the terms offered by the COSCO SHIPPING Group and/or its associates are consistent with the above pricing policy. Moreover, the Company has established a team responsible for reviewing the actual transaction amounts between the Group and the COSCO SHIPPING Group and/or its associates periodically to ensure that the actual transaction amounts between the Group and its connected persons will not exceed the respective proposed annual caps.

Annual Caps

The aggregate fees in any financial year for the Miscellaneous Services will depend on the types or quantity of the Miscellaneous Services provided by/to the Group. Pursuant to the 2018 Services Framework Agreement, the annual caps for the provision and receipt of the Miscellaneous Services are as follows:

	Year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for provision of the Miscellaneous Services by the Group to the COSCO SHIPPING Group and/or its associates	30,000	40,000	50,000
Proposed annual caps for receipt of the Miscellaneous Services by the Group from the COSCO SHIPPING Group and/or its associates	130,000	130,000	140,000

These annual caps have been determined based on the actual amounts paid and/or received by the Group under the Existing Materials and Services Framework Agreements in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018 and management's estimates

LETTER FROM THE BOARD

of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimated increase in demand for information technology services.

Further, as the scale of the fleet of the Group is expanding and there is a need to upgrade the shipping software system, it is expected a major upgrade and development in the computer and software system will be initiated by the end of 2018 focusing on shipping software system including shipping, navigational platform, emergency command system and communication system etc. Given that the shipping related software system should be tailored made which requires thorough understanding of the industry and business operations of the Group, the Group expects to obtain such shipping related software system from the COSCO SHIPPING Group and/or its associates. The shipping related software system will be developed in several phases and sold to the Group. The developer of the shipping related software system will also provide software system maintenance services to the Group. As such, the Directors have also taken the above into consideration when determining the annual caps for receipt of the Miscellaneous Services by the Group from the COSCO SHIPPING Group and/or its associates.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Miscellaneous Services provided to the Group under the Existing Materials and Services Framework Agreements were approximately RMB16 million, RMB6 million and RMB3 million, respectively.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Miscellaneous Services provided by the Group under the 2016 Materials and Services Framework Agreement were approximately nil, nil and nil, respectively.

Save for the provision and maintenance of computer and software system which is expected to be unilaterally provided to the Group only, the other services of the Miscellaneous Services are to be provided bilaterally. The reason for the bilateral arrangement is mainly due to the geographical location of the major operations of the Group, which is located in Dalian city, the PRC, and the COSCO Shipping Group and/or its associates, which is located elsewhere other than Dalian city, the PRC.

Payment Terms

The payment terms are dependent on the type of the Miscellaneous Services to be provided and are determined at the time when the Miscellaneous Services are provided. The service fees for the Miscellaneous Services are generally payable monthly. The Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

LETTER FROM THE BOARD

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

Reasons for and benefits of entering into the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement

Certain members of the COSCO SHIPPING Group have been providing the necessary supporting shipping materials and services, crew services and miscellaneous services to the Group since the Group's establishment. Upon acquisition of Dalian Tanker in 2016, the Group has also been providing the necessary supporting shipping materials and services, crew services and miscellaneous services to certain members of the COSCO SHIPPING Group. The transactions between the COSCO SHIPPING Group and the Group are essential to the businesses and operation of both groups.

The terms of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement have been arrived at after arm's length negotiation. The Board believes that securing the Shipping Materials and Services, Crew Services and Miscellaneous Services from the COSCO SHIPPING Group, who is an experienced service provider in the shipping industry, and/or its associates will strengthen the competitiveness of the Group.

In light of the above circumstances, the Directors consider the terms of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement and the transactions contemplated thereunder are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

2018 LEASE FRAMEWORK AGREEMENT

Date: 12 November 2018

Parties: COSCO SHIPPING
The Company

Services to be Provided

The Company has entered into the 2018 Lease Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) with property and land use right leasing services (the "**Leasing Services**").

LETTER FROM THE BOARD

Pricing Policy

The rent for the Leasing Services will be determined by reference to the prevailing market price. The prevailing market price shall be determined by reference to the rent chargeable by independent third parties in their ordinary course of business for providing similar type of properties in the same or neighboring areas under normal commercial terms.

Internal Control Measures

In order to ensure the terms provided by the Group are no less favourable to the Group than those available to independent third parties, the Group will make reference to the historical price and terms of the Group providing such leasing services to independent third parties. The Group will also make reference to the prevailing market price by obtaining quotations for rental of similar type of properties in the same or neighboring areas from three independent third parties which it can make reference to.

In order to ensure the terms provided by the COSCO SHIPPING Group and/or its associates are no less favourable to the Group than those available from independent third parties, the Group will obtain quotations from three independent third parties for rental of similar type of properties in the same or neighboring areas and compare the quotations provided by the COSCO SHIPPING Group and/or its associates against those quotations.

The quotations will be reviewed and approved by the deputy general manager of the Company to ensure that the terms offered by the Group are no less favourable to the Group than those available to independent third parties and the terms offered by the COSCO SHIPPING Group and/or its associates are no less favourable to the Group than those available from independent third parties. Moreover, the Company has established a team responsible for reviewing the actual transaction amounts between the Group and the COSCO SHIPPING Group and/or its associates periodically to ensure that the actual transaction amounts between the Group and its connected persons will not exceed the respective proposed annual caps.

LETTER FROM THE BOARD

Annual Caps

The aggregate fees in any financial year for the Leasing Services will depend on the types or number of properties leased by/to the Group. Pursuant to the 2018 Lease Framework Agreement, the annual caps for the provision and receipt of the Leasing Services are as follows:

	Year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for provision of the Leasing Services by the Group to the COSCO SHIPPING Group and/or its associates	30,000	30,000	30,000
Proposed annual caps for receipt of the Leasing Services by the Group from the COSCO SHIPPING Group and/or its associates	30,000	30,000	30,000

These annual caps have been determined based on the actual amounts paid and/or received by the Group under the Existing Lease Framework Agreement in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018, the estimated aggregate annual rental payable under the specific lease agreements during the term, and a reasonable buffer to cater for possible increases in the number of leases and the amount of rent payable or receivable.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Leasing Services provided to the Group under the Existing Lease Framework Agreement were approximately RMB12 million, RMB18 million and RMB8 million, respectively.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Leasing Services provided by the Group under the Existing Lease Framework Agreement were approximately RMB24 million, RMB27 million and RMB11 million, respectively.

Payment Terms

The rent payable for the Leasing Services are/will generally be payable monthly. The Group believes such payment term is consistent with market term for rental of properties.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Lease Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Lease Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the 2018 Lease Framework Agreement

Certain members of the COSCO SHIPPING Group and/or its associates have been providing the Leasing Services to the Group and the Group has been providing the Leasing Services to certain members of the COSCO SHIPPING Group and/or its associates since the entering into of the Existing Lease Framework Agreement. As the Group has a continuous demand for such types of properties and land use right in the upcoming three years, and the rent to be charged by COSCO SHIPPING Group and/or its associates are competitive, the Company has agreed to rent such properties and land use right from the COSCO SHIPPING Group and/or its associates. Further as the COSCO SHIPPING Group and/or its associates has a continuous demand for such types of properties and land use right in the upcoming three years, and the rent that the COSCO SHIPPING Group and/or its associates are willing to pay is competitive, the Company has agreed to lease such properties and land use right to COSCO SHIPPING Group and/or its associates.

The reason for the bilateral arrangement in relation to the 2018 Lease Framework Agreement is mainly because of the geographical location of the leased properties. The COSCO SHIPPING Group and/or its associates mainly lease properties located in the Guangzhou city, the PRC to the Group whereas the Group mainly leases properties located in the Dalian city, the PRC to the COSCO SHIPPING Group and/or its associates.

In addition, the Board considers that the 2018 Lease Framework Agreement can set up a framework and streamline the leasing procedures in respect of the leasing of properties between members of the Group and the COSCO SHIPPING Group and/or its associates.

In light of the above circumstances, the Directors consider the terms of the 2018 Lease Framework Agreement and the transactions contemplated thereunder are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

3. INFORMATION OF THE PARTIES

The Company is a joint stock limited company incorporated in the PRC, the H Shares of which are listed on the Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange. The Group is principally engaged in investment holding, oil shipment along the coast of the PRC and internationally, international liquefied natural gas (“LNG”) shipment and vessel chartering.

COSCO SHIPPING is a state-owned enterprise which is the indirect controlling shareholder of the Company through China Shipping. COSCO SHIPPING is principally engaged in 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.

COSCO SHIPPING Finance is a company established under the laws of the PRC with limited liability and a company controlled by COSCO SHIPPING. COSCO SHIPPING Finance is principally engaged in provision of deposit services, credit services, financial and financing consultation, credit verification and related consultation and agency services, settlement services and liquidation services.

LETTER FROM THE BOARD

4. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, China Shipping held approximately 38.56% of the issued share capital of the Company. China Shipping is a wholly-owned subsidiary of COSCO SHIPPING. COSCO SHIPPING and China Shipping are therefore the Company's controlling shareholders as defined under the Listing Rules. As such, COSCO SHIPPING and China Shipping are connected persons of the Company within the meaning of the Listing Rules.

COSCO SHIPPING Finance is a company controlled by COSCO SHIPPING and therefore a connected person of the Company. As such, the transactions pursuant to the 2018 Financial Services Framework Agreement constitute continuing connected transactions for the Company.

The transactions pursuant to the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement, the 2018 Services Framework Agreement and the 2018 Lease Framework Agreement also constitute continuing connected transactions of the Company as such agreements were entered into with COSCO SHIPPING.

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 2018 Framework Agreements and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the 2018 Framework Agreements and the transactions contemplated thereunder and hence no other Director has abstained from voting on such Board resolutions.

2018 Financial Services Framework Agreement

In respect of the provision of deposit services under the 2018 Financial Services Framework Agreement, the placement of deposits by the Group with COSCO SHIPPING Finance constitutes a transaction under Chapter 14 of the Listing Rules. The applicable percentage ratios in connection with such placement of deposits are expected to be more than 25% on an annual basis. Therefore, such transactions constitute major and continuing connected transactions of the Company which are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules and the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the provision of loan services under the 2018 Financial Services Framework Agreement, pursuant to Rule 14A.90 of the Listing Rules, such transactions are exempt from all reporting, announcement and Independent Shareholders' approval requirements.

In respect of the provision of foreign exchange services, settlement services and other financial services under the 2018 Financial Services Framework Agreement, the applicable percentage ratios for all future transactions that may take place between the Group and COSCO SHIPPING Finance in respect of such services are expected to be less than 0.1% on an annual basis. Accordingly, pursuant to Rule 14A.76(1)(a) of the Listing Rules, such transactions are exempt from all reporting,

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announcement and Independent Shareholders' approval requirements. Should such transactions exceed the exemption threshold in the future, the Group will re-comply with the applicable Listing Rules.

2018 Shipping Materials and Services Framework Agreement, 2018 Sea Crew Framework Agreement and 2018 Services Framework Agreement

In respect of the provision of the Shipping Materials and Services, Crew Services and Miscellaneous Services by the COSCO SHIPPING Group and/or its associates to the Group under each of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively, as the applicable percentage ratios, when aggregated, are expected to be more than 25% on an annual basis, such transactions constitute major and continuing connected transactions of the Company which are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules and the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the provision of the Shipping Materials and Services, Crew Services and Miscellaneous Services by the Group to the COSCO SHIPPING Group and/or its associates under each of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively, as the applicable percentage ratios, when aggregated, are expected to be more than 0.1% but less than 5% on an annual basis, such transactions constitute continuing connected transactions of the Company which are subject to the reporting, annual review and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2018 Lease Framework Agreement

In respect of the leasing of certain properties by the COSCO SHIPPING Group and/or its associates to the Group under the 2018 Lease Framework Agreement, as the applicable percentage ratios are expected to be more than 0.1% but less than 5% on an annual basis, such transactions constitute continuing connected transactions of the Company which are subject to the reporting, annual review and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the leasing of certain properties by the Group to the COSCO SHIPPING Group and/or its associates under the 2018 Lease Framework Agreement, as the applicable percentage ratios are expected to be more than 0.1% but less than 5% on an annual basis, such transactions constitute continuing connected transactions of the Company which are subject to the reporting, annual review and announcement requirements but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

5. SHANGHAI LISTING RULES IMPLICATIONS

Pursuant to the Shanghai Listing Rules, transaction amounts under all types of related party transactions entered into in the ordinary and usual course of business of the Company and entered into between the Company and the same related party within a 12-month period should be aggregated (save for those which have complied with the relevant approval and/or disclosure procedures), and if the total aggregated transaction amount exceeds 5% of the net asset value of the Group as at the end of the preceding financial year, such related party transactions should be presented to a general meeting for Independent Shareholders' approval. As the transactions contemplated under the 2018 Framework Agreements also constitute related party transactions entered into in the ordinary and usual course of business of the Company under the Shanghai Listing Rules and were all entered into between the Company and COSCO SHIPPING, all the proposed annual caps in the 2018 Framework Agreements shall be aggregated pursuant to the requirements under the Shanghai Listing Rules. It is expected that such aggregated amount would exceed 5% of the net asset value of the Group as at 31 December 2018. Accordingly, ordinary resolutions will be proposed at the EGM for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the 2018 Framework Agreements and the proposed annual caps thereunder.

6. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder, and the Independent Financial Adviser has been appointed to advise and make recommendation to the Independent Board Committee and the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder in accordance with the Listing Rules.

7. EGM

A notice convening the EGM to be held at 3rd Floor, Ocean Hotel, No. 1171 Dongdaming Road, Hongkou District, Shanghai, the People's Republic of China at 10:00 a.m. on Monday, 17 December 2018 (the "**Original Notice of EGM**") has been despatched to the Shareholders on 2 November 2018. The supplemental notice of EGM is set out on pages N-1 – N-3 of this circular for the purpose of informing the Shareholders of the new resolutions to be submitted to the EGM for consideration and approval. The resolutions, which are originally scheduled to be submitted to the EGM for approval as contained in the Original Notice of EGM, remain unchanged. A supplemental proxy form (the "**Supplemental Proxy Form**") for use at the EGM is also enclosed with this supplemental circular. The Supplemental Proxy Form is to be used in respect of the resolutions set out in the supplemental notice of EGM and only serves as a supplement to the original proxy form for the EGM despatched on 2 November 2018 (the "**Original Proxy Form**").

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Whether or not the Shareholders are able to attend the EGM, they are requested to complete and return the Supplemental Proxy Form in accordance with the instructions printed thereon, as soon as possible to (i) the Company's H Share registrar, 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 (ii) to the Office of the Board of Directors of the Company at 7th Floor, 670 Dongdaming Road, Hongkou District, Shanghai, the People's Republic of China (in case of holders of A Shares) and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof.

Completion and return of the Supplemental Proxy Form shall not preclude the Shareholders from attending and voting at the EGM or any adjourned meeting thereof should the Shareholders so wish.

In accordance with the Listing Rules, any Shareholders who has a material interest in the 2018 Framework Agreements shall abstain from voting on the resolutions to approve the 2018 Framework Agreements and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, China Shipping, being a wholly-owned subsidiary of COSCO SHIPPING, held approximately 38.56% of the issued share capital of the Company and will be required to abstain from voting on the relevant resolutions at the EGM accordingly. Save for China Shipping and its associates, to the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the transactions and will be required to abstain from voting on the relevant resolutions to approve the 2018 Framework Agreements and the transactions contemplated thereunder at the EGM.

In accordance with the Listing Rules, the resolutions to be put forward at the EGM will be voted by way of poll.

The Supplemental Proxy Form will not affect the validity of any proxy form duly completed and delivered by the Shareholder in respect of the resolutions set out in the Original Notice of EGM dated 2 November 2018. If the Shareholder has validly appointed a proxy to attend and act for the Shareholder at the EGM but does not duly complete and deliver the Supplemental Proxy Form enclosed, the proxy will be entitled to vote at his/her/its discretion, as the case may be, the resolutions no. 7 to 11, as set out in the supplemental notice of the EGM dated 30 November 2018. If the Shareholder does not duly complete and deliver the Original Proxy form but has duly completed and delivered the Supplemental Proxy Form and validly appointed a proxy to attend and act for the Shareholder at the EGM, the proxy will also be entitled to vote at his/her/its discretion on all the resolutions set out in the Original Notice of EGM dated 2 November 2018. If the proxy being appointed to attend the EGM under the Supplemental Proxy Form is different from the proxy appointed under the Original Proxy Form and both proxies attended the EGM, the proxy validly appointed under the Original Proxy Form shall be designated to vote at the EGM.

For particulars of other resolutions to be considered at the EGM, eligibility for attending the EGM, registration procedures for attending the EGM, and closure of register of members and other matters regarding the EGM, please refer to the Original Notice of EGM.

LETTER FROM THE BOARD

8. RECOMMENDATION

The Shareholders' attention is drawn to:

- (a) the letter from the Independent Board Committee set out on pages 32 to 33 of this supplemental circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning whether the terms of the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder including the proposed annual caps are on normal commercial terms or better and in the Company's ordinary and usual course of business, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and
- (b) the letter from the Independent Financial Adviser set out on pages 34 to 61 of this supplemental circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors but excluding the Directors who are required to abstain from voting) are of the view that the terms of the 2018 Framework Agreements and the transactions contemplated thereunder including the proposed annual caps are on normal commercial terms or better and in the Company's ordinary and usual course of business, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board (including independent non-executive Directors but excluding the Directors who are required to abstain from voting) recommends the Shareholders to vote in favour of the ordinary resolutions to approve the 2018 Framework Agreements and the transactions contemplated thereunder including the proposed annual caps at the EGM.

Your attention is drawn to the additional information set out in the appendix to this supplemental circular.

Yours faithfully,
By order of the Board of
COSCO SHIPPING Energy Transportation Co., Ltd.*
Huang Xiaowen
Chairman

* for identification purpose only



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)

30 November 2018

To the Independent Shareholders

Dear Sir/Madam,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS

We refer to the supplemental circular of the Company to the Shareholders dated 30 November 2018 (the “**Supplemental Circular**”), of which this letter forms part. Terms defined in the Supplemental Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you whether the terms of the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder including the proposed annual caps are on normal commercial terms or better and in the Company's ordinary and usual course of business, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Messis Capital Limited has been appointed as the Independent Financial Adviser to you and us in relation to the deposit services under the 2018 Financial Services Framework Agreement, the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement and the transactions contemplated thereunder. Details of its recommendation are set out in its letter on pages 34 to 61 of the Supplemental Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 31 of the Supplemental Circular and the additional information set out in the appendices to the Supplemental Circular.

Having considered the opinion of the Independent Financial Adviser and the terms of the 2018 Framework Agreements, we consider that the terms of the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO

* for identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder including the proposed annual caps are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolutions set out in the supplemental notice of EGM to approve the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO Shipping Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder including the proposed annual caps.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Mr. Ruan Yongping

Mr. Ip Sing Chi

Mr. Rui Meng

Mr. Teo Siong Seng

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Messis Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder.



30 November 2018

*To: The Independent Board Committee and the Independent Shareholders of
COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.**

Dear Sir or Madam,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of relevant services by the Group from COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the supplemental circular of the Company to the Shareholders dated 30 November 2018 (the “**Supplemental Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Supplemental Circular unless the context otherwise requires.

On 12 November 2018, the Company entered into the 2018 Financial Services Framework Agreement with COSCO SHIPPING whereby COSCO SHIPPING shall procure COSCO SHIPPING Finance, a company controlled by COSCO SHIPPING, to provide the Group, subject to the Independent Shareholders’ approval, with a range of financial services. The Company also entered into the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement with COSCO SHIPPING whereby the COSCO SHIPPING Group and/or its associates may, among others, subject to the Independent Shareholders’ approval, provide to the Group with certain supplies and services and receive from the Group certain supplies and services.

In respect of the provision of deposit services under the 2018 Financial Services Framework Agreement, the placement of deposits by the Group with COSCO SHIPPING Finance constitutes a transaction under Chapter 14 of the Listing Rules. The applicable percentage ratios in connection with such

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LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

placement of deposits are expected to be more than 25% on an annual basis. Therefore, such transactions constitute major and continuing connected transactions of the Company which are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules and the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the provision of shipping materials and services, crew services and miscellaneous services by the COSCO SHIPPING Group and/or its associates to the Group under each of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement, as the applicable percentage ratios, when aggregated, are expected to be more than 25% on an annual basis, such transactions constitute major and continuing connected transactions of the Company which are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules and the reporting, annual review, announcement and Independent Shareholders' approval 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 2018 Frameworks Agreements and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the 2018 Frameworks Agreements and the transactions contemplated thereunder and hence no other Director has abstained from voting on such Board resolutions.

The Independent Board Committee (comprising all independent non-executive Directors namely Mr. Ruan Yongping, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng) has been formed to advise the Independent Shareholders in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we were appointed as an independent financial adviser for the Company on two occasions, as detailed in its circulars dated 4 December 2017 and its announcement dated 30 October 2018. We were also appointed as an independent financial adviser for COSCO SHIPPING Development Co., Ltd. (stock code: 2866), a connected person of the Company, for several occasions, as detailed in its circulars dated 1 December 2016, 19 May 2017, 31 May 2017, 10 May 2018 and 4 September 2018. Notwithstanding the above, the previous engagements with the Company or its connected person would not affect our independence from the Company and we are independent from the Company pursuant to Rule 13.84 of the Listing Rules, in particular that we did not

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

serve as a financial adviser to (i) the Company, (ii) COSCO SHIPPING Group, and (iii) any core connected person of the Company within 2 years prior to 13 November 2018, being date of making our independence declaration to the Hong Kong Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

BASIS OF OUR OPINION

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

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

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the deposit services under the 2018 Financial Services Framework Agreement, and the receipt of the relevant services by the Group from COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement respectively and the transactions contemplated thereunder. Except for its inclusion in the Supplemental Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. BACKGROUND INFORMATION ON THE GROUP

1.1 Background of the Group

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 Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange. The Group is principally engaged in investment holding, oil shipment along the coast of the PRC and internationally, liquefied natural gas (“LNG”) shipment and vessel chartering.

1.2 Financial performance of the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, which are extracted from the Company’s annual reports for the year ended 31 December 2016 (“**2016 Annual Report**”) and the year ended 31 December 2017 (“**2017 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2018 (“**2018 Interim Report**”).

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
		(restated)		(restated)	(restated)
<i>Continuing operations</i>					
Revenue	5,036,166	4,978,869	9,504,935	9,808,889	10,709,298
Operating costs	(4,592,288)	(3,648,918)	(7,251,227)	(7,059,385)	(7,505,633)
Gross profit	443,878	1,330,051	2,253,708	2,749,504	3,203,665
(Loss)/profit for the year/period from continuing operations	(146,620)	923,133	1,893,368	1,210,326	2,784,955
<i>Discontinued operation (Note 1)</i>					
Profit/(loss) for the year/period from discontinued operation, net of tax	–	–	–	760,501	(1,527,222)
(Loss)/(profit) for the year/period attributable to equity holders of the Company	(236,894)	866,246	1,774,647	1,932,524	1,180,921

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. In 2016, the Group underwent a major asset restructuring. As a result of this restructuring, the Group completed the disposal of dry bulk shipping business and such results were classified as discontinued operation.

Revenue from continuing operations decreased from approximately RMB10.7 billion for the year ended 31 December 2015 to approximately RMB9.8 billion for the year ended 31 December 2016, representing a decrease of approximately 8.4%. Such decrease was mainly due to the decrease in revenue from international oil shipment. According to the 2016 Annual Report, the decrease in revenue from international oil shipment market was due to various adverse factors such as the slowdown of global economic growth, the sluggish increase in international oil prices, OPEC continuing to consider reducing oil production, and the increase in new transportation capacity, while overall transportation prices appeared to have started on a downward trend. For the very large crude carrier (“VLCC”) market, the annual average transportation price of the three major traditional routes (the Middle East – Far East TD3, Middle East – US Gulf TD1, West Africa – China TD15) dropped more than 30% month-on-month, while for the international white oil market, the annual average transportation price of the three types of vessels (LR2 ∙ LR1 ∙ MR) in the three traditional routes (Middle East – Japan TC1, the Middle East – Japan TC5, West India – Japan TC12) declined 38%, 39% and 38% month-on-month respectively.

Profit for the year from continuing operations decreased from approximately RMB2.8 billion in 2015 to approximately RMB1.2 billion in 2016, which was mainly due to (i) the decrease in revenue as mentioned above; and (ii) the decrease in other income and net gains of approximately RMB989.8 million or approximately 98.5%, was mainly because the Group disposed of certain vessels in 2015 which received certain government subsidies in that year and it recorded net loss from disposal of property, plant and equipment.

According to the 2017 Annual Report, revenue from continuing operations decreased from approximately RMB9.8 billion for the year ended 31 December 2016 to approximately RMB9.5 billion for the year ended 31 December 2017, representing a decrease of approximately 3.1%. Such decrease was mainly due to the decrease in revenue from international oil shipment. According to the 2017 Annual Report, although the Group completed an international oil shipping volume of approximately 385.3 billion tonne-nautical miles, representing a year-on-year increase of approximately 16.2%, a transportation income of only approximately RMB5.9 billion was recorded, representing a year-on-year decrease of 15.8%, which was mainly due to the decrease in the freight rates level of the vessels in the international oil shipping market by 7%-37%.

Profit for the year from continuing operations increased from approximately RMB1.2 billion in 2016 to approximately RMB1.9 billion in 2017, which was mainly due to the increase in other income and net gains of approximately RMB842 million or approximately 5,619%. Such improvement was mainly contributed by (i) the net gain from disposal of property, plant and equipment compared to a significant loss from disposal of property, plant and equipment due to the Group had disposed of a vessel in 2016 and the difference was approximately RMB316 million; (ii) the increase government subsidiaries recorded by the Group in the amount of approximately RMB234

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million when compared to 2016 and (iii) net exchange gain was resulted for the year when compared to net exchange loss in 2016 which also led the increase in other income and net gains of approximately RMB115 million.

As stated in the 2018 Interim Report, revenue increased from approximately RMB4.98 billion for the six months ended 30 June 2017 to approximately RMB5.04 billion for the six months ended 30 June 2018, representing an increase of approximately 1.2%. The increase in the revenue was mainly attributable to the increase in revenue generated from domestic oil shipping and international LNG shipping. For the domestic oil shipping segment, the domestic coastal crude oil shipping market was generally stable in the first half of 2018. Due to the overhaul of some offshore oil platforms and reduction in processing volume of some refineries arising from the national tax reform policy on product oil and the impact of high oil prices, the total market capacity has decreased, but the freight rate has remained stable. In the first half of 2018, the demand for domestic coastal refined oil shipping was improving, and the market for coastal product oil shipping increased slightly. For the international LNG shipping segment, in the first half of 2018, due to the implementation of the “switch from coal to gas” policy, LNG imports by the PRC continued to rise rapidly, reaching 23.663 million tons, an increase of 51.3% year-on-year. Affected by the surge in natural gas demand in emerging Asian economies such as China, the demand for global LNG spot shipping market was strong in the first half of 2018, with demand exceeding supply, the freight rate rose sharply. The average daily TCE of the 160,000m³ LNG carrier spot market was USD61,692/day, up about 64% year-on-year, and the daily TCE of the 160,000m³ DFDE (dual fuel electric propulsion) LNG carrier spot market reached USD90,000/day in June, the highest since the beginning of 2014.

Loss for the period of approximately RMB146.6 million was recorded for the six months ended 30 June 2018, as compared to a profit for the period of approximately RMB923 million for the six months ended 30 June 2017. The turnaround was mainly attributable to the increase in operating costs. During the first half of 2018, the Group’s cost from principal operations was approximately RMB4,592 million, a year-on-year increase of 25.9%. Such increase was mainly due to the increase in fuel costs, sea crew costs as well as increase in depreciation expenses.

1.3 Financial position on the Group

	As at 30 June 2018		As at 31 December 2017		2016		2015
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>
	(unaudited)		(audited)		(audited) (restated)		(audited) (restated)
Non-current assets	53,685,045		53,135,242		49,288,991		75,277,342
Current assets	8,178,335		7,249,489		9,020,485		10,302,457
Current liabilities	9,629,714		8,874,643		7,616,490		14,089,050
Non-current liabilities	23,637,514		23,248,199		23,104,937		38,920,657
Net assets	28,596,152		28,261,889		27,588,049		32,570,092

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2015, 2016 and 2017 and as at 30 June 2018, property, plant and equipment, cash and cash equivalents, as well as investments in associates and joint ventures were the major assets of the Group, which accounted for approximately 89.1%, 90.3%, 90.0% and 91.1% of the total assets of the Group as at 31 December 2015, 2016 and 2017 and as at 30 June 2018, respectively. The property, plant and equipment of approximately RMB47.5 billion as at 30 June 2018 mainly comprised of vessels. As at 30 June 2018, the Group owned and controlled 146 oil tankers with a total capacity of 21.04 million Dead Weight Tonnage (“DWT”), including 132 self-owned oil tankers with a capacity of 18.17 million DWT, 14 leased oil tankers with a capacity of 2.87 million DWT, and an order of 21 oil tankers with a capacity of 3.9 million DWT. As of 30 June 2018, the Group also had a total of 38 jointly-invested LNG vessels, including 22 LNG vessels in operation with capacity of 3,650,000 cubic metres, 16 LNG vessels under construction with capacity of 2,767,300 cubic metres.

As at 31 December 2015, 2016 and 2017 and as at 30 June 2018, interest-bearing bank and other borrowings and bonds payables were the major liabilities of the Group, which accounted for approximately 82.0%, 70.2%, 75.2% and 74.4% of the total liabilities of the Group as at 31 December 2015, 2016 and 2017 and as at 30 June 2018, respectively.

As a result of the foregoing, the total equity of the Group as at 31 December 2015, 2016 and 2017 and as at 30 June 2018 amounted to RMB32.6 billion, RMB27.6 billion, RMB28.3 billion and RMB28.6 billion, respectively.

1.4 Recent development of the Group’s business

International oil shipping market

According to the 2018 Interim Report, with reference to the BP Statistical Review of World Energy, in 2017, global oil consumption increased about 1.7 million barrels per day, among which, China (500,000 barrels per day), the United States (190,000 barrels per day) and Europe (280,000 barrels per day) contributed the most increments. In particular, the consumption increase of Europe exceeded market expectations, with the growth rate reached the highest level since the financial crisis in 2008, demonstrating the strong global economic recovery in recent years. The International Energy Agency (“IEA”) expects that global oil consumption will continue to grow by about 1.4 million barrels per day in 2018, higher than the historical average. In terms of oil supply, the implementation rate of OPEC production reduction in 2017 was over 100%, and in the first half of 2018, the rate was further increased to exceed market expectations. This increase in oil consumption and decline in oil supply have led to a reduction of 150 million barrels of oil commercial inventories in member countries of the Organisation for Economic Cooperation and Development (“OECD”) in 2017. Thus far, OECD commercial crude oil inventories have fallen below the average level over the past 5 years. At this point, the crude oil inventories accumulated during the global low oil price period (2015-2016) have been basically eliminated. With the decision of OPEC on 22 June 2018 to increase the crude oil production by about 1 million barrels per day from July 2018, the global oil market has started a rebalancing phase, and the recovery of oil trade will stimulate the shipping demand.

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In terms of shipping capacity supply, the gap between the aged tanker time-charter equivalent (“TCE”) and the average market TCE in the sluggish market environment is further widened. With the ballast water convention and the 2020 sulfur emission cap taking effect, the operating cost of aged tankers will continue to increase, whose capacity are expected to be moved out of market at high speed. In terms of new vessel orders, the price of new shipbuilding may enter a rising cycle due to the increase in steel and labor costs and the improvement of shipbuilding standards regulated by environmental protection conventions. As stated in the 2018 Interim Report, new shipbuilding price of VLCC in July 2018 was USD90 million/ship, an increase of 10.4% compared to USD81.5 million/ship in December 2017. New shipbuilding financing generally accounts for 70% of the ship price. Since 2016, the US dollar has entered the rate-increase cycle, and financing costs have increased substantially. The further rise in actual shipbuilding costs will inhibit the growth rate of new ship orders to some extent. In summary, the supply and demand situation of the international oil shipping market is being improved at an accelerated speed. As the particularity of the cargo type-oil, the tanker freight rate was greatly affected by international political and economic factors. Recently, international trade disputes have occurred frequently. Some geopolitical complications of oil-producing countries may affect the international oil shipping market.

Domestic oil shipping market

According to the 2018 Interim Report, with reference to the analysis of China Petroleum Industry Development Report (2018), private refineries have become an emerging force in China’s energy market under the circumstance of China’s stable economic growth and market-oriented reforms in the oil and gas industry; with the implementation of the consumption tax reform on product oil, private refineries are facing structural adjustments featuring the survival of the fittest. According to statistics, from 2017 to 2020, the total processing capacity of the new and expanded oil refining projects of private refineries will reach 110 million tons, and the processing capacity of state-owned refineries will increase by about 26 million tons, which will strongly support the continued growth of China’s imported crude oil and maintain the overall stability of domestic crude oil shipping demand.

In 2018, the demand for product oil products in China is relatively stable, the growth rate of gasoline demand slows down steadily, the demand for diesel oil fell, and the demand for kerosene continues to grow at a high rate. During the “Thirteenth Five-Year Plan” period, large-scale refining and chemical integration projects such as Hengli Petrochemical and Zhoushan Petrochemical have been successively landed. The Chinese refining industry will transform its emphasis from refining to chemical engineering. In general, with the rapid development of China’s refining industry and operation of large-scale refinery projects in Guangdong and Zhoushan in the next two years, refining capacity will continue to grow, structural overcapacity will become increasingly prominent, and product oil exports will be characterized by normalization and large scale.

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LNG shipping market

According to the 2018 Interim Report, BP Statistical Review of World Energy 2018 predicts that global natural gas consumption growth rate will be much higher than that of coal and oil from 2018 to 2040, with an average annual growth rate of 1.6%, while LNG consumption demand will grow more than double, about 40% growth in the next five years. The IEA's Natural Gas Market Report 2018 says that China's sustained economic growth and strong environmental policies will contribute 37% of global natural gas consumption growth from 2017 to 2023, surpassing any other country. As China's natural gas production capacity cannot meet consumption demand, imports will become the main mode of supply. China is expected to become the world's largest natural gas importer by 2019. China's natural gas imports will reach 171 billion cubic meters in 2023, most of which are LNG.

In June 2018, the global natural gas liquefaction capacity was 380 million tons/year. There are currently 85 million tons/year of liquefaction projects under construction, and 169 million tons/year of liquefaction projects are still in front-end engineering design. At the beginning of June 2018, the total number of LNG carriers in the world reached 531, with a total capacity of 78.30 million cubic meters. The capacity was increased by 5.9% compared with the beginning of the year. It is expected that the capacity will increase by 11% in 2018 and by 8% in 2019. Despite the rapid growth of LNG capacity in the next few years, the new LNG projects being continuously completed and put into production, the supply of LNG capacity will continue to be insufficient before 2020. The research institutions predicts that the LNG carriers' spot market will remain high as a whole.

1.5 Background information of COSCO SHIPPING Group

COSCO SHIPPING is a state-owned enterprise and is the indirect controlling shareholder of the Company through China Shipping. COSCO SHIPPING is principally engaged in 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.

1.6 Background information of COSCO SHIPPING Finance

COSCO SHIPPING Finance is a company established under the laws of the PRC with limited liability and a company controlled by COSCO SHIPPING. COSCO SHIPPING Finance is principally engaged in provision of deposit services, credit services, financial and financing consultation, credit verification and related consultation and agency services, settlement services and liquidation services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2 THE DEPOSIT SERVICES UNDER THE 2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT

2.1 Background of the 2018 Financial Services Framework Agreement

Pursuant to the Existing Financial Services Framework Agreements, CS Finance and Cosco Finance may provide the Group with a range of financial services including (i) deposit services; (ii) loan services; (iii) settlement services; (iv) foreign exchange services; and (v) other financial services as approved by CBIRC. The term of the Existing Financial Services Framework Agreements will expire on 31 December 2018.

On 12 November 2018, the Company entered into the 2018 Financial Services Framework Agreement with COSCO SHIPPING, pursuant to which it shall procure COSCO SHIPPING Finance, a company controlled by COSCO SHIPPING, to provide (subject to Independent Shareholders' approval) the Group with similar services under the Existing Financial Services Framework Agreements for the three years ending 31 December 2021.

2.2 Principal terms of the 2018 Financial Services Framework Agreement

The principal terms of the 2018 Financial Services Framework Agreement have been set out in the Letter from the Board and are summarised below.

Date	:	12 November 2018
Parties	:	COSCO SHIPPING (as provider of services) The Company (as recipient of services)

Pricing Policy

Under the 2018 Financial Services Framework Agreement:

- (i) COSCO SHIPPING Finance may accept deposits from the Group at interest rates not lower, and thus no less favourable to the Group, than (a) the relevant rates stipulated by the PBC for similar type of deposits; and (b) the market interest rates (which refers to interest rates for similar type of deposits offered by independent third party commercial banks in their ordinary course of business in the same or neighboring areas under normal commercial terms); in addition, in determining the interest rates COSCO SHIPPING Finance should also make reference to the interest rates offered by COSCO SHIPPING Finance to similar companies of the COSCO SHIPPING Group;
- (ii) COSCO SHIPPING Finance may provide loans to the Group at interest rates not higher than (a) the upper limit of the relevant rates stipulated by the PBC for similar type of loans; and (b) the market interest rates (which refers to interest rates for similar type of loans offered by independent third party commercial banks in their ordinary course of business in the same or neighboring areas under normal commercial terms); in addition, the terms of the loans shall be better than

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- (a) the terms offered to the Group by independent third parties for similar type of loans; and (b) the terms offered by COSCO SHIPPING Finance to independent third parties with same credit rating for similar type of loans;
- (iii) COSCO SHIPPING Finance will not charge the Group any fees for the provision of settlement services for the time being; and
- (iv) The fees charged by COSCO SHIPPING Finance for the provision of foreign exchange services and other financial services shall be (a) in accordance with the requirements stipulated by the PBC or CBIRC for similar type of services (if applicable); (b) not higher than the fees charged by independent third party commercial banks for similar type of services to the Group; and (c) the fees charged by COSCO SHIPPING Finance for similar type of services to an independent third party with the same credit rating.

We have reviewed the 2018 Financial Services Framework Agreement and noted that the pricing policy of the deposit services thereunder are the same as those stipulated in the Existing Financial Services Framework Agreement.

Payment Terms

The payment terms are dependent on the type of financial services to be provided and are determined at the time when such financial services are provided. For foreign exchange and other services, payment generally is to be made upon delivery of the relevant services. The Group expects such terms of payment to be consistent with market terms for the relevant type of financial services and shall obtain three quotations from independent third party banks for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Financial Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Financial Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

2.3 Reasons for and benefits of the provision of Deposit Services by COSCO SHIPPING Finance to the Group under the 2018 Financial Services Framework Agreement

The Group maintains deposits with and engages commercial banks for financial services from time to time as part of its treasury activities and to satisfy its business needs in its ordinary and usual course of business.

As advised by the management of the Company, we are given to understand that the Group has maintained deposits with COSCO SHIPPING Finance (formerly CS Finance and Cosco Finance before the Merger) since 2010. The Board believes that as intra-group service providers, COSCO

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SHIPPING Finance generally have better and more efficient communication with the Group compared with independent banks and financial institutions, and the receipt of deposits services from COSCO SHIPPING Finance for the three years ending 31 December 2021 would ensure flexibility to manage its working capital should the terms offered by the COSCO SHIPPING Finance is better than that of the independent banks or financial institutions.

Furthermore, as advised by the management of the Company, the Group is not restricted under the 2018 Financial Services Framework Agreement to approach, and in fact may choose, any bank or financial institution to satisfy its financial service needs. Therefore, the Group may, but is not obliged to, continue to use COSCO SHIPPING Finance's services if the service quality provided continues to be competitive. Having such flexibility afforded under the 2018 Financial Services Framework Agreement, the Group is able to better manage its current capital and cashflow position. In addition, it is also expected that COSCO SHIPPING Finance will provide more efficient foreign exchange and settlement services to the Group, as compared to independent third party banks.

In addition, we are given to understand that the operations of COSCO SHIPPING Finance are subject to guidelines and requirements issued by the PBOC and the supervision of CBIRC. To the best of the Directors' knowledge and belief, COSCO SHIPPING Finance has been in compliance with all the major financial services rules and regulations and have sound internal control systems. COSCO SHIPPING Finance can provide financial services, including deposit services, based on the approval issued by the CBIRC.

In understanding the financial ability of COSCO SHIPPING Finance, we have reviewed its financial information for the year ended 31 December 2017 and the six months ended 30 June 2018. We noted that COSCO SHIPPING Finance recorded net assets of approximately RMB1.7 billion and RMB1.8 billion as at 31 December 2017 and 30 June 2018 respectively. We have also reviewed the regulatory report for the year ended 31 December 2017 ("**2017 Regulatory Report**") prepared by COSCO SHIPPING Finance which, among others, summarise the current financial positions of COSCO SHIPPING Finance. We noted from the 2017 Regulatory Report that various financial ratios of COSCO SHIPPING Finance met the requirements as set out in "the Interim Measures for the Assessment of Risk Supervision Indicators of Finance Company of Enterprise Group" (《企業集團財務公司風險監管指標考核暫行辦法》) issued by China Banking Regulatory Commission (中國銀行業監督管理委員會) (CBRC, now known as CBIRC). In particular, (i) the capital adequacy ratio of COSCO SHIPPING Finance was approximately 17.20% as at 31 December 2017, which was better than the basic requirement of 10% for finance companies as required by CBRC; (ii) non-performing asset ratio of COSCO SHIPPING Finance was 0% as at 31 December 2017, which was better than the basic requirement of 4% for finance companies as required by CBRC; and (iii) bad loan ratio of COSCO SHIPPING Finance was 0% as at 31 December 2017, which was better than the basic requirement of 5% for finance companies as required by CBRC. Based on the current financial position of COSCO SHIPPING Finance, we concur with Directors' view that the Group would not be exposed to high credit risks for depositing with COSCO SHIPPING Finance.

In addition, we have reviewed the relevant internal control measures of the Group. In particular, (i) the Company will obtain at least three quotations from independent financial institutions for similar type of services before the Groups places any deposits, which has a term of three months or more, with COSCO SHIPPING Finance; (ii) in respect of services with transaction amounts less

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than RMB1 millions, quotations of financial services together with the offer from COSCO SHIPPING Finance will forthwith be disclosed to the chief financial officer of the Company for review and approval; (iii) in respect of services with transaction amounts equal or more than RMB1 millions, quotations of financial services together with the offer from COSCO SHIPPING Finance will forthwith be disclosed to the chief financial officer of the Company for review, and the chief financial officer of the Company will then seek approval from the general manager of the Company, or the Board, as appropriate, on whether to accept COSCO SHIPPING Finance's offer; (iv) the Company will monitor the status of the deposits on a monthly basis through the internet banking services provided by COSCO SHIPPING Finance, (v) COSCO SHIPPING Finance is required to take appropriate measures to ensure the security of its information technology system is secured with security level commensurate the other commercial banks; (vi) COSCO SHIPPING Finance is required to comply with risk management protocols and guidelines promulgated by the CBIRC and the relevant laws and regulations; (vii) COSCO SHIPPING Finance is required to provide the Company a copy of every regulatory report submitted by COSCO SHIPPING Finance to CBIRC; (viii) COSCO SHIPPING Finance is required to provide to the Company a copy of the monthly financial statements of COSCO SHIPPING Finance in the following month; (ix) COSCO SHIPPING Finance is required to obtain the approval of the Company prior to engaging in investment of long term securities; and (x) COSCO SHIPPING Finance is required to inform the Company of any material adverse event and to take appropriate measures to prevent the occurrence or to minimise the impact of the material adverse event. In addition, the auditors of the Company will report on the continuing connected transactions and provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions: (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the 2018 Financial Services Framework Agreement; and (iii) have exceeded the proposed caps under the 2018 Financial Services Framework Agreement; we concur with the Directors' view that, with the aforementioned internal control measures being taken place, the Group is able to ensure that the deposit services are to be provided on normal commercial terms or better and the Group's interests can be sufficiently safeguarded.

We have compared the interest rates offered by COSCO SHIPPING Finance (formerly CS Finance and Cosco Finance before the Merger) with the interest rates offered by independent commercial banks in the PRC for similar type of deposits. We noted that the interest rates offered by COSCO SHIPPING Finance (formerly CS Finance and Cosco Finance before the Merger) were no less favourable than those offered by independent commercial banks in the PRC and the relevant rates stipulated by the PBC for similar type of deposits. Further, we have reviewed the 2016 Annual Report and the 2017 Annual Report and noted that both the auditors and the independent non-executive Directors confirmed that, among others, the terms of the deposit services, was conducted on normal commercial terms and in accordance with the relevant pricing policies of the Group.

Having considered the above, we concur with the view of the Directors that (i) the entering into of the 2018 Financial Services Framework Agreement is in ordinary and usual course of the Group and in the interests of the Company and the Shareholders as a whole and; (ii) the terms of the deposit services under the 2018 Financial Services Framework Agreement are on normal commercial terms and are fair and reasonable.

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2.4 Proposed annual caps for the deposit services

The proposed annual caps for the deposit services contemplated under the 2018 Financial Services Framework Agreement for the three years ending 31 December 2021 are as follows:

	Proposed annual caps for the year ending		
	31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum daily outstanding balance of deposits (including accrued interest and handling fee) to be placed by the Group with COSCO SHIPPING Finance	9,000,000	10,000,000	11,000,000

As advised by the Directors, the above proposed annual caps were determined with reference to (i) the historical transactions amounts; (ii) the Group's expectation of its capital needs; (iii) COSCO SHIPPING Finance's financial ability; and (iv) the increase in cash position of the Group upon the proposed non-public issuance of A shares.

As set out in the Letter from the Board, the historical figures of the aggregate maximum daily outstanding balance of deposits (including accrued interest and handling fee) placed by the Group with CS Finance and Cosco Finance for the two years ended 31 December 2017 and the six months ended 30 June 2018 were approximately RMB6.5 billion, RMB5.3 billion and RMB3.6 billion, respectively. We noted that the aggregate maximum daily outstanding balance deposit of RMB6.5 billion accounted for approximately 72.7% of the proposed annual cap of RMB9 billion for the year ending 31 December 2019.

We have reviewed the 2017 Annual Report and the 2018 Interim Report and noted that there was significant cash inflow and/or outflow from its operating activities, investing activities and financing activities. During the year ended 31 December 2017, the net cash inflow from operating activities and financing activities amounted to approximately RMB3.5 billion and approximately RMB2.4 billion respectively while the net cash outflow from investing activities amounted to approximately RMB7.1 billion. For the six months ended 30 June 2018, the net cash inflow from operating activities amounted to approximately RMB366.7 million while the net cash outflow from investing activities and financing activities amounted to approximately RMB256.5 million and RMB514.0 million, respectively. Further, we have made reference to the circular of the Company dated 4 December 2017 and noted that the Group propose to raise equity funds by way of non-public issuance of A shares. We have further reviewed the announcement of the Company dated 30 October 2018 and noted that the Company propose to extend the validity period of the Shareholders' resolutions relating to the proposed non-public issuance of A shares for a further period of 12 months, i.e. commencing from 18 December 2018 to 17 December 2019 by way of special resolutions. Should the extension of such validity period is to be approved by the Independent Shareholders and upon obtaining the approval from the CSRC, the Company can proceed to raise a net proceeds of approximately RMB5.4 billion which will be gradually utilised to construct and/or acquire tankers for business expansion. As such, it is expected that the cash position of the Group will increase further.

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In addition, having considered that the improvement of the shipping demand in (i) international oil shipping market; (ii) domestic oil shipping market; and (iii) LNG Shipping market, as discussed in the paragraph headed “1.4 Recent development of the Group’s business”, coupled with the potential fleet expansion of the Group in the next three years, the Group expects to be benefited from the stable to positive outlook of oil & LNG shipping market. Based on the above and after taking into account (i) the substantial amount of cash flow of the Group from its operating, financing and investing activities; and (ii) the proposed non-public issuance of A shares of approximately RMB5.4 billion, we concur with the Directors’ view that the proposed annual caps for the maximum daily outstanding balance of deposits will better accommodate the current cash and cash equivalents balance and provide an option for the Group to flexibly manage its surplus cash from operation in the future.

In light of the above, we are of the view that the proposed annual caps for the deposit services under the 2018 Financial Services Framework Agreement for the three years ending 31 December 2021 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Independent Shareholders are concerned.

3 THE SHIPPING MATERIALS AND SERVICES, CREW MANAGEMENT SERVICES AND GENERAL SERVICES UNDER THE 2018 SHIPPING MATERIALS AND SERVICES FRAMEWORK AGREEMENT, 2018 SEA CREW FRAMEWORK AGREEMENT AND 2018 SERVICES FRAMEWORK AGREEMENT

3.1 Background of the 2018 Shipping Materials and Services Framework Agreement, 2018 Sea Crew Framework Agreement and 2018 Services Framework Agreement

Pursuant to the 2015 Materials and Services Framework Agreement and the 2016 Materials and Services Framework Agreement, each of China Shipping and Cosco Company, respectively, agreed to provide certain supporting materials and services to the Group for its on-going operations. Pursuant to the 2016 Materials and Services Framework Agreement, the Company also agreed to provide the Cosco Company and its subsidiaries certain supporting materials and services for its on-going operations. Pursuant to the 2017 Sea Crew Management Agreement, CSSM shall provide management services of sea crew to the Group. Pursuant to the 2017 Insurance Services Framework Agreement, COSCO SHIPPING Insurance shall provide vessel-related insurance services to the Group. The terms of the Existing Materials and Services Framework Agreements, the 2017 Sea Crew Management Agreement and the 2017 Insurance Services Framework Agreement will expire on 31 December 2018.

On 12 November 2018, the Company entered into the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement with COSCO SHIPPING, pursuant to which the Company and COSCO SHIPPING will provide (subject to Independent Shareholders’ approval) to each other’s group (and/or the associates of COSCO SHIPPING) with similar services under the Existing Materials and Services Framework Agreements, the 2017 Sea Crew Management Agreement and the 2017 Insurance Services Framework Agreement and certain miscellaneous services for the three years ending 31 December 2021.

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3.2 Principal terms of the 2018 Shipping Materials and Services Framework Agreement, 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement

3.2.1 *Principal terms of the 2018 Shipping Materials and Services Framework Agreement*

The principal terms of the 2018 Shipping Materials and Services Framework Agreement have been set out in the Letter from the Board and are summarised below.

Date: 12 November 2018
Parties: COSCO SHIPPING
The Company

Shipping Materials and Services to be Provided

The Company has entered into the 2018 Shipping Materials and Services Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the below supplies and services (the "**Shipping Materials and Services**"):

- (1) supply of marine lubricant;
- (2) supply of shipping fuel;
- (3) supply of shipping materials and relevant repair services;
- (4) docking, ship safety management and technical consultation services;
- (5) painting and paint maintenance services;
- (6) ship repair, special coating, technical improvements services, fire control and safety equipment services;
- (7) supply of ship spare parts;
- (8) electrical, electrical engineering, telecommunication and navigation equipment services;
- (9) supply and repair of ship equipments;
- (10) ship supervision technology services;
- (11) related services for sale and purchase of ships, accessories and equipment;
- (12) ship and related business insurance and insurance brokerage services;

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- (13) ship and shipping agency services;
- (14) shipping services and ship charter services; and
- (15) other miscellaneous ship services.

Pricing Policy

The fees for the Shipping Materials and Services will be determined by reference to the prevailing market price for similar type of shipping materials and/or services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of shipping materials and/or services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the price chargeable and the terms offered by the Group for the provision of the Shipping Materials and Services to the COSCO SHIPPING Group and/or its associates shall be no less favourable to the Group than those available to independent third parties for similar type of shipping materials and/or services. The price chargeable and the terms offered by the COSCO SHIPPING Group and/or its associates for the provision of the Shipping Materials and Services to the Group shall be no less favourable to the Group than those available to independent third parties for similar type of shipping materials and/or services.

We have reviewed the 2018 Materials and Services Framework Agreement and noted that the pricing policy of the receipt of the shipping materials and services by the Group from the COSCO SHIPPING Group are the same as those stipulated in the Existing Materials and Services Framework Agreement. In addition, we have obtained and reviewed one contract and/or invoice from COSCO SHIPPING Group and one contract and/or invoice from independent third parties for each category of the Shipping Materials and Services. We note that the prices of the contracts and/or invoices with COSCO SHIPPING Group are no less favourable than that of the contracts and/or invoices with independent third parties. Based on the above, we are of the view that the fees to be charged under the 2018 Materials and Services Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Payment Terms

The payment terms are dependent on the type of the Shipping Materials and Services to be provided and are determined at the time when the Shipping Materials and Services are provided. The materials/services fees for the Shipping Materials and Services are generally payable within 30 days after the delivery of the materials/services. The Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

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Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Shipping Materials and Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Shipping Materials and Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

3.2.2 Principal terms of the 2018 Sea Crew Framework Agreement

The principal terms of the 2018 Sea Crew Framework Agreement have been set out in the Letter from the Board and are summarised below.

Date: 12 November 2018
Parties: COSCO SHIPPING
The Company

Services to be provided

The Company has entered into the 2018 Sea Crew Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the crew management, training, hiring and related services (the "**Crew Services**"):

Pricing Policy

The fees for the Crew Services will be determined by reference to the prevailing market price for similar type of crew services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of crew services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the terms offered by the provider of the Crew Services shall be (i) no less favourable to the Group than those available to independent third parties for similar type of crew services; and (ii) no less favourable than the terms received by the receiver of the Crew Services from independent third parties for similar type of crew services.

We have reviewed the 2018 Sea Crew Framework Agreement and noted that the pricing policy of the receipt of the Crew Services by the Group from the COSCO SHIPPING Group are the same as those stipulated in the 2017 Sea Crew Framework Agreement. In addition, we have obtained and reviewed one contract and/or invoice from COSCO SHIPPING Group and one contract and/or invoice from independent third parties for the Crew Services. We note that the prices of the contracts and/or invoices with COSCO SHIPPING Group are no less favourable than that of the contracts and/or invoices with independent third parties. Based on the above, we are of the view that the

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fees to be charged under the 2018 Sea Crew Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Payment Terms

The payment terms are dependent on the type of the Crew Services to be provided and are determined at the time when the Crew Services are provided. The service fees for the Crew Services are generally payable monthly. The Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Sea Crew Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Sea Crew Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

3.2.3 Principal terms of the 2018 Services Framework Agreement

The principal terms of the 2018 Services Framework Agreement have been set out in the Letter from the Board and are summarised below.

Date: 12 November 2018
Parties: COSCO SHIPPING
The Company

Services to be Provided

The Company has entered into the 2018 Services Framework Agreement with COSCO SHIPPING pursuant to which the Company and COSCO SHIPPING agreed to provide to each other's group (and/or the associates of COSCO SHIPPING) the following services (the "**Miscellaneous Services**"):

- (1) computer and software maintenance services;
- (2) accommodation, transportation and conference services;
- (3) sale reception and employee catering services;
- (4) supply of office supplies and labour supplies;
- (5) vehicle rentals, repair, maintenance and chauffeur services;

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- (6) office equipment maintenance, property management, back office management and file management services;
- (7) property leasing management services;
- (8) printing, printer maintenance services and paper supply services;
- (9) assistance to marine claims;
- (10) medical services;
- (11) training services;
- (12) courier and gardening services; and
- (13) other miscellaneous services.

Pricing Policy

The fees for the Miscellaneous Services will be determined by reference to the prevailing market price for similar type of services. The prevailing market price shall be determined by reference to the price chargeable by independent third parties for similar type of services in their ordinary course of business in the same or neighboring areas under normal commercial terms. Further, the terms offered by the provider of the Miscellaneous Services shall be no less favourable the Group than those available to independent third parties for similar type of services.

We have reviewed the 2018 Services Framework Agreement and noted that the pricing policy of the receipt of the Miscellaneous Services by the Group from the COSCO SHIPPING Group are the same as those stipulated in the Existing Materials and Services Framework Agreement. In addition, we have obtained and reviewed one contract and/or invoice from COSCO SHIPPING Group and one contract and/or invoice from independent third parties for each category of the Miscellaneous Services. We note that the prices of the contracts and/or invoices with COSCO SHIPPING Group are no less favourable than that of the contracts and/or invoices with independent third parties. We are of the view that fees to be charged under the 2018 Services Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Payment Terms

The payment terms are dependent on the type of the Miscellaneous Services to be provided and are determined at the time when the Miscellaneous Services are provided. The service fees for the Miscellaneous Services are generally payable monthly. The

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Group expects such terms of payment to be consistent with market terms for the relevant type of materials and/or services and shall obtain three quotations from independent third parties for comparison purpose.

Term

Subject to the approval being obtained from the Independent Shareholders, the 2018 Services Framework Agreement will be effective from 1 January 2019 to 31 December 2021. Subject to compliance with the Listing Rules, the 2018 Services Framework Agreement may be renewed for another three years from 1 January 2022 upon written agreement by both parties.

3.3 Reasons for and benefits of the provision of Shipping Materials and Services, Crew Services and Miscellaneous Services by members of the COSCO SHIPPING Group to the Group under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and 2018 Services Framework Agreement

Certain members of the COSCO SHIPPING Group have been providing the necessary supporting shipping materials and services, crew services and miscellaneous services to the Group since the Group's establishment. The Shipping Materials and Services, Crew Services and Miscellaneous Services transactions are essential to the businesses and operations of the Group.

The terms of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement have been arrived at after arm's length negotiation. The Board believes that securing the Shipping Materials and Services, Crew Services and Miscellaneous Services from the COSCO SHIPPING Group, who is an experienced service provider in the shipping industry, and/or its associates will strengthen the competitiveness of the Group.

We noted that certain of the goods and services provided by the Group and by the COSCO SHIPPING Group are similar in nature. In light of this, we have discussed with the management of the Company and reviewed the 2017 Annual Report and 2018 Interim Report regarding the commercial rationale for the mutual provision of similar goods and services. We are given to understand that such arrangement was mainly due to the vessel from one group is at a place where it is not able or not economical to receive such supplies or services from its own group due to geographic limitation, it may purchase such supplies or services from another group according to actual circumstances. Such arrangement can benefit both groups to reduce their operational costs and achieving synergy.

In addition, we have reviewed the relevant internal control measures, in particular, (i) the Group will obtain quotations from three independent third party suppliers/service providers for the provision of such materials and/or services and compare the quotations provided by COSCO SHIPPING Group and/or its associates against those quotation; (ii) the quotations will be reviewed and approved by the deputy general manager of the Company to ensure that the terms offered by COSCO SHIPPING Group and/or its associates to the Group are no less favourable than those available to independent third parties; and (iii) the Company has established a team responsible for

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reviewing the actual transaction amounts between the Group and COSCO SHIPPING Group and/or its associates periodically to ensure that the actual transaction amounts between the Group and its connected persons will not exceed the respective proposed annual caps. In addition, the auditors of the Company will report on the continuing connected transactions and provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions: (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement; and (iii) have exceeded the proposed caps under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement; we concur with the Directors' view that, with the abovementioned internal control measure being taken place, the Group is able to ensure that the relevant services to be provided by the COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreements are on normal commercial terms or better and the Group's interests can be sufficiently safeguarded.

Further, we have reviewed 2016 Annual Report and the 2017 Annual Report and noted that both the auditors and the independent non-executive Directors confirmed that, among others, the terms of the Shipping Materials and Services, Crew Services and Miscellaneous services, were conducted on normal commercial terms and in accordance with the relevant pricing policies.

Having considered the above, we concur with the view of the Directors that (i) the entering into of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement are in ordinary and usual course business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the receipt of the relevant services by the Group from the COSCO SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and so far as the Independent Shareholders are concerned.

3.4 Proposed annual caps for the Shipping Materials and Services

The proposed annual caps for the receipt of Shipping Materials and Services for the three years ending 31 December 2021 under the 2018 Shipping Materials and Services Framework Agreement are as follows:

	For the year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for the receipt of the Shipping Materials and Services by the Group from the COSCO SHIPPING Group and/or its associates	7,000,000	9,200,000	9,800,000

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The above proposed annual caps were determined with reference to (i) the actual amounts paid by the Group under the Existing Materials and Services Framework Agreements and the 2017 Insurance Services Framework Agreement in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) management's estimates of the fleet operational costs over the next three years ending 31 December 2021 and management's estimates of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimate increase in shipping capacity and the estimated increase in revenue as a result of the increase in shipping capacity.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Shipping Materials and Services provided to the Group under the Existing Materials and Services Framework Agreements and the 2017 Insurance Services Framework Agreement were approximately RMB2.1 billion, RMB2.4 billion and RMB1.3 billion, respectively.

As discussed with the management of the Company, the proposed annual caps for the receipt of the Shipping Materials and Services are closely related to the fleet business operations of the Group and its operational costs over the next three years. We noted that there is a substantial increase in the annual caps as compared to those for the 3 years ending 31 December 2018. As advised by the management of the Company, the substantial increase in the annual caps is mainly due to the proposed purchase of fuel from the COSCO SHIPPING Group and/or its associates which accounts for over 85% of the annual caps for each of the 3 years ending 31 December 2021. As advised by the management of the Company and noted that COSCO SHIPPING Group has set up a fuel purchase platform to centralise all the purchases which can achieve lower purchase costs as well as higher services quality from the relevant suppliers. Based on the above, we concur with the view of the Directors that it is justifiable to purchase fuel from COSCO SHIPPING Group rather than from independent third parties and hence the inclusion of such purchases in arriving the proposed annual caps for the 3 years ending 31 December 2021 is fair and reasonable.

As advised by the management of the Company, the costs for fuel purchase are based on (i) the estimated demand for fuel as a result of increasing fleet size of the Group; and (ii) the estimated fuel price.

Based on our discussion with the management of the Company, we noted that the Group estimates the increasing demand for fuel for the three years ending 31 December 2021. It is estimated that the demand for fuel from CSOCO SHIPPING Group will increase from 1.3 million tonne in 2019 to 1.6 million tonne in 2021. The increase in demand for fuel is in proportional to the estimated increase in fleet size. As advised by the management of the Company, the Group intends to expand its fleet size. We have reviewed the 2018 Interim Report and understood that, as at 30 June 2018, the Group owned and controlled 146 oil tankers with a total capacity of 21.04 million DWT, including 132 self-owned oil tankers with a capacity of 18.17 million DWT, 14 leased oil tankers with a capacity of 2.87 million DWT, and an order of 21 oil tankers with a capacity of 3.9 million DWT. As of 30 June 2018, the Group had a total of 38 jointly-invested LNG vessels, including 22 LNG vessels in operation with capacity of 3,650,000 cubic metres, 16 LNG vessels under construction with capacity of 2,767,300 cubic metres. Furthermore, we have discussed with the management of the Company and noted that the Company may choose to operate the vessels for self-use at the end of the

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operating leases. As such, the fleet size is expected to increase further. Taking into consideration of the increasing fleet size as mentioned above, we consider that the demand for the fuel is expected to increase.

For the fuel price, as advised by the management of the Company, the Company estimates that the fuel price is increasing. As such, there is an increase in annual caps for the two years ending 31 December 2021. According to the 2018 Interim Report, fuel costs increased from approximately RMB961.1 million for the six months ended 30 June 2017 to approximately RMB1,336.6 million, representing an increase of approximately 39.1%; and according to the 2017 Annual Report, fuel costs increased from approximately RMB1.4 billion for the year ended 31 December 2016 to approximately RMB2.0 billion for the year ended 31 December 2017, representing an increase of approximately 42.4%. Further, in 2016, International Maritime Organisation announced that the effective date for the reduction of shipping fuel sulphur will be 2020. Under the new global cap, ships will have to use shipping fuels with a sulphur content of no more than 0.5% against the current limit of 3.5% in an effort to reduce the amount of sulphur oxide. As advised by the management of the Company, the price of low sulphur fuel is generally higher than that of the fuel with high sulphur content by approximately US\$150-US\$200 per tonne. As such, with the 2020 sulphur emission cap taking effect, the fuel costs of the Group is expected to increase.

For the remaining Shipping Materials and Services, having considered that the improvement of the shipping demand in (i) international oil shipping market; (ii) domestic oil shipping market; and (iii) LNG Shipping market, as discussed in the paragraph headed “1.4 Recent development of the Group’s business”, coupled with the potential fleet expansion of the Group in the next three years as discussed above, it is expected the demand for the other shipping materials and services will surge and hence the demand for the Shipping and Materials Services will also increase.

In light of the above, we are of the view that the proposed annual caps for the Shipping Materials and Services under the 2018 Shipping Materials and Services Framework Agreement for the three years ending 31 December 2021 are determined based on reasonable estimations and after due and careful consideration and they are fair and reasonable so far as the Independent Shareholders are concerned.

3.5 Proposed annual caps for the Crew Services

The proposed annual caps for the receipt of Crew Services for the three years ending 31 December 2021 under the 2018 Sea Crew Framework Agreement are as follows:

	For the year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for the receipt of Crew Services by the Group from the COSCO SHIPPING Group and/or its associates	1,900,000	2,100,000	2,300,000

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The above proposed annual caps were determined with reference to (i) the actual amounts paid by the Group under the Existing Materials and Services Framework Agreements and the 2017 Sea Crew Management Agreement in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) management's estimates of the fleet operational costs over the next three years ending 31 December 2021 and management's estimates of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimate increase in shipping capacity.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Crew Services provided to the Group under the Existing Materials and Services Framework Agreements and the 2017 Sea Crew Management Agreement were approximately RMB903 million, RMB633 million and RMB549 million, respectively.

We noted that there is a substantial increase in the annual caps as compared to those for the 3 years ending 31 December 2018. Further to our discussion with the management of the Company, we are given to understand that COSCO SHIPPING Group, as a parent company, has a thorough understanding on the business and industry requirements of the Group including the operation of fleets. As such, the Crew Services provided by the COSCO SHIPPING Group can be tailored to fit the requirements of the Group in terms of safety and environmental issues. In addition, the management of the Company consider that COSCO SHIPPING Group has the capacity to provide the Crew Services to the Group given the expanding scale of fleet owned by the Group. Based on the aforesaid, we concur with the view of the Directors that it is justifiable to receive the Crew Services from COSCO SHIPPING Group rather than from independent third parties and hence the inclusion of such purchases in the annual caps for the 3 years ending 31 December 2021 is fair and reasonable. As advised by the management of the Company, the amount of Crew Services required are made reference to (i) the estimated fleet size of the Group; (ii) the estimated number of crew member and potential salary increment for the crew members.

Regarding the estimated fleet size of the Group, as stated in the section "3.4 Proposed annual caps for the Shipping Materials and Services" above, taking into account of (i) the improvement of the shipping demand in (a) international oil shipping market; (b) domestic oil shipping market; and (c) LNG Shipping market, as discussed in the paragraph headed "1.4 Recent development of the Group's business and (ii) development trend the own fleet size, the orders of the fleet as well as the Group's intention to operate the vessels on its own, it is expected that the fleet size and hence the demand for the Crew Services will increase further in the 3 years ending 31 December 2021.

Given the expected increase in fleet size of the Group, there will be an increasing demand for Crew Services including the hiring of sea crew members. Further, as advised by the management of the Company, we are given to understand that there is a demand to hire more sea crew members according to the Group's internal policy. We further noted that the Group has an internal crew member reserve ratio to measure the sufficiency of crew members (i.e. aggregate number of crew members divided by aggregate number of duty positions of fleet vessels). As advised by the management of the Group, the optimum ratio is 1.89. However, the ratio is estimated to reach only 1.68 by end of 2018. As such and taking into account of the expanding fleet size in the coming 3

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years, the Group is required to hire over 1,300 crew members in order to reach the optimum ratio. Based on the above, we concur with the view of the Directors that the demand for the Crew Services is expected to increase significantly in the 3 years ending 31 December 2021.

As advised by the management of the Company, the potential salary increment for the crew members has also been included in the consideration of the proposed annual caps. We noted that an increment of 10% to the salaries of the crew members is adopted when the proposed annual caps are arrived at. As advised by the management of the Company, the wage level of the sea crew increased by 8% in 2017 as compared to 2016. Further, as stated in the 2018 Interim Report, sea crew costs increased from approximately RMB539.0 million for the six months ended 30 June 2017 to approximately RMB657.1 million, representing an increase of approximately 21.9%; and according to the 2017 Annual Report, sea crew costs increased from approximately RMB1.0 billion for the year ended 31 December 2016 to approximately RMB1.2 billion for the year ended 31 December 2017, representing an increase of approximately 17.1%. Based on the above, we consider that it is justifiable to include an increment of 10% on the salary of the crew member when arriving the proposed annual caps.

In light of the above, we are of the view that the proposed annual caps for the Crew Services under the 2018 Sew Crew Framework Agreement for the three years ending 31 December 2021 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Independent Shareholders are concerned.

3.6 Proposed annual caps for the Miscellaneous Services

The proposed annual caps for the receipt of Miscellaneous Services for the three years ending 31 December 2021 under the 2018 Services Framework Agreement are as follows:

	For the year ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps for the receipt of Miscellaneous Services by the Group from the COSCO SHIPPING Group and/or its associates	130,000	130,000	140,000

The above proposed annual caps were determined with reference to (i) the actual amounts paid by the Group under the Existing Materials and Services Framework Agreements in the last two financial years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) management's estimates of the market prices and other relevant market developments. The increment of the annual caps for the three years have been determined based on the estimate increase in demand for information technology services.

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For the two years ended 31 December 2017 and the six months ended 30 June 2018, the amounts of the Miscellaneous Services provided to the Group under the Existing Materials and Services Framework Agreements were approximately RMB16 million, RMB6 million and RMB3 million, respectively.

We noted that there is a substantial increase in the annual caps as compared to those for the 3 years ending 31 December 2018. As advised by the management of the Company, the receipt of computer and software system maintenance and development services is expected to account for over 81.5% of the proposed annual caps for the year ending 31 December 2019.

We have enquired with the management of the Company on the reasons for the substantial increase in the amount of the receipt of computer and software system maintenance services. We noted that the current information technology system used by the Group was developed in 2008 and there was no major update or expenses on the maintenance since then. Further, as discussed above and advised by the management of the Company, with the expanding the scale of the fleet of the Group, there is a need to upgrade the shipping software system. As such, a major upgrade and development in the computer and software system will be initiated by the end 2018 and the major focus will be on shipping software system including shipping, navigational platform, emergency command system and communication system etc. In addition, as stated in the 2017 Annual Report, the Group intends to make use of information technology to promote safety by building a digital ship management platform and improve its risk prevention capabilities and safety management efficiency. The demand for information technology services is therefore expected to increase. We have further discussed with the management of the Company and noted that such shipping related software system should be tailored made based on thorough understanding on the industry and business operation of the Group. The shipping related software system will be developed in several phases and sold to the Group. The developer of the shipping related software system will also provide software system maintenance services to the Group. Given the COSCO SHIPPING Group is a parent company of the Group which has complete understanding on the operation and business needs of the Group, we concur with the view of the Directors that it is justifiable to receive the Miscellaneous Services from COSCO SHIPPING Group rather than from independent third parties and hence the inclusion of such purchases in the proposed annual caps for the 3 years ending 31 December 2021 is fair and reasonable.

In light of the above, we are of the view that the proposed annual caps for the Miscellaneous Services under the 2018 Services Agreement for the three years ending 31 December 2021 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that (i) the entering into of the 2018 Financial Services Framework Agreement, the 2018 Shipping Materials and Services Framework Agreements, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of deposit services under the 2018 Financial Services Framework Agreement, the terms of the receipt of the relevant services by the Group from COSCO

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SHIPPING Group and/or its associates under the 2018 Shipping Materials and Services Framework Agreements, the 2018 Sea Crew Framework Agreement and the 2018 Services Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and (iii) the respective proposed annual caps are determined under fair and reasonable grounds. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM.

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

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Mesis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION

The audited consolidated financial statements of the Company for the years ended 31 December 2015, 2016 and 2017 together with the relevant notes to the financial statements of the Company can be found on pages 87 to 198 of the annual report of the Company for the year ended 31 December 2015, pages 86 to 233 of the annual report of the Company for the year ended 31 December 2016 and pages 92 to 222 of the annual report of the Company for the year ended 31 December 2017. Please also see below the hyperlinks to the said annual reports:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/0418/LTN20160418181.pdf>

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428109.pdf>

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0430/LTN20180430606.pdf>

2. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company have been made up.

3. WORKING CAPITAL

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

4. INDEBTEDNESS OF THE GROUP

At the close of business on 31 October 2018, being the latest practicable date for the purpose of indebtedness statement prior to printing of this supplemental circular, the total outstanding interest-bearing bank and other borrowings, other loans and corporate bonds of the Group are as follows:

	Total	Secured	Unsecured
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	26,340,645	17,415,411*	8,925,234
Other loans	1,216,382	—	1,216,382
Corporate bonds	3,988,674	—	3,988,674

* Secured by pledges of the Group's certain vessels and certain vessels under construction.

At the close of business on 31 October 2018, the Group has following significant contingent liabilities and guarantees:

- (i) East China LNG Shipping Investment Co., Limited, a non-wholly-owned subsidiary of the Company, holds 30% equity interest in each of Aquarius LNG Shipping Limited (“**Aquarius LNG**”) and Gemini LNG Shipping Limited (“**Gemini LNG**”), and North China LNG Shipping Investment Co., Limited, a non-wholly-owned subsidiary of the Company, holds 30% equity interest in each of Capricorn LNG Shipping Limited (“**Capricorn LNG**”) and Aries LNG Shipping Limited (“**Aries LNG**”). Each of Aquarius LNG, Gemini LNG, Aries LNG and Capricorn LNG entered into ship building contracts for the construction of one LNG vessel. After the completion of the construction of the LNG vessels, the four companies would, in accordance with the time charters agreements to be signed, lease the LNG vessels to the following charterers:

Company name	Charterer
Aquarius LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Gemini LNG	Papua New Guinea Liquefied Natural Gas Global Company LDC
Aries LNG	Mobil Australia Resources Company Pty Ltd.
Capricorn LNG	Mobil Australia Resources Company Pty Ltd.

On 15 July 2011, the Company entered into four guaranteed leases (the “**Lease Guarantees**”). According to the Lease Guarantees, the Company irrevocably and unconditionally provided the charterers, successors and transferees of the above four companies with guarantee (1) for the four companies to fulfil their respective obligations under the lease, and (2) to secure 30% of such amount payable to the charterers under the lease.

According to the term of the Lease Guarantees and taking into account the possible increase in the value of the lease commitments and the percentage of shareholdings by the Company in the above four companies, the amount of lease guaranteed by the Company is limited to USD8,200,000 (equivalent to approximately RMB57,110,000).

The guarantee period is limited to lease period of each LNG vessel leased by the four associates.

- (ii) At the 2014 seventh Board meeting held on 30 June 2014, the Board approved the ship building contracts, time charter agreements and supplemental construction contracts signed by three joint ventures of the Group (the “**Three Joint Ventures**”) for the Yamal LNG project. To secure the obligation of the ship building contracts, time charter agreements and supplemental construction contracts, the Company provides corporate guarantees to the shipbuilders, Daewoo Shipbuilding & Marine Engineering Co., Ltd. and DY Maritime Limited. The total aggregate liability of the Group under the corporate guarantees is limited to USD167,000,000 (equivalent to approximately RMB1,163,088,000). In addition, the Group provides owner’s guarantees to the charterer, YAMAL Trade Pte. Ltd. The total aggregate liability of the Group under the owner’s guarantees is limited to USD6,400,000 (equivalent to approximately RMB44,573,000).

- (iii) Subsequent to the approval by Shareholders at the annual general meeting held on 8 June 2017, the Company entered into three financing guarantees with two banks (the “**Banks**”), to the extent of amount of USD377.5 million (equivalent to RMB2,629,137,000), in respect of 50% of the bank borrowings provided by the Banks to each of the Three Joint Ventures and was determined on a pro rata basis of the Company’s indirect ownership interest in each of the Three Joint Ventures. The guarantee period provided by the Company for each of the Three Joint Ventures is limited to twelve years after the vessel construction project of each of the Three Joint Ventures is completed.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 October 2018, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2018 up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS

With the entering into of the 2018 Framework Agreements, the Group will have greater flexibility in managing and expanding its international and domestic coastal crude oil shipment and international LNG shipment businesses as the Board believes that intra-group service providers, COSCO SHIPPING and/or its associates, generally have better and more efficient communication with the Group and have better knowledge of the operations of the Group than independent third parties. This will assist the Group to create a globally leading energy transportation fleet in terms of transportation capacities, strengthen its ability to counter the business cycle of the conventional shipping business and its financial stability and enhance its overall profitability.

In respect of the 2018 Financial Services Framework Agreement, (1) deposits to be placed by the Group with COSCO SHIPPING Finance will generate interest income for the Company; (2) loans to be obtained by the Group from COSCO SHIPPING Finance will result in an increase in the scale of assets and liabilities of the Company; and (3) the settlement, foreign exchange and other financial services to be used by the Group and provided by COSCO SHIPPING Finance will not be expected to have any significant effect on the earnings, assets and liabilities of the Group.

In respect of the 2018 Shipping Materials and Services Framework Agreement, the 2018 Sea Crew Framework Agreement, the 2018 Services Framework Agreement and the 2018 Lease Framework Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings and assets and liabilities of the Group.

1. RESPONSIBILITY STATEMENT

This supplemental 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 supplemental 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 supplemental circular misleading.

2. DISCLOSURE OF INTERESTS**Directors', supervisors' and chief executive's interests and short positions**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company or their associates had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

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 an executive vice-president and party committee member of COSCO SHIPPING; (ii) Mr. Feng Boming, a non-executive Director, was the general manager of the strategic and corporate management division of COSCO SHIPPING; (iii) Mr. Zhang Wei, a non-executive Director, was the general manager of the operating management division of COSCO SHIPPING; (iv) Ms. Lin Honghua, a non-executive Director, was the chief auditor of the finance and accounting division of COSCO SHIPPING; (v) Mr. Weng Yi, a supervisor of the Company, was the safety director and general manager of the safety management department of COSCO SHIPPING; and (vi) Mr. Yang Lei, a supervisor of the Company, was the deputy general manager of the legal and risk 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.

Substantial shareholders' and other persons' interests in shares and underlying shares

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 follows:

Name of substantial shareholders	Class of shares	Number of shares held	Percentage of the total number shares of the relevant class	Percentage of the total number of issued shares
China Shipping ⁽³⁾	A	1,554,631,593 (L)	56.82%	38.56%
COSCO SHIPPING ⁽⁴⁾	A	1,554,631,593 (L)	56.82%	38.56%
Prudential plc ⁽⁵⁾	H	157,126,000 (L)	12.12%	3.90%
GIC Private Limited ⁽⁶⁾	H	129,710,000 (L)	10.01%	3.22%
Eastspring Investments	H	80,206,000 (L)	6.19%	1.99%
JPMorgan Chase & Co. ⁽⁷⁾	H	76,713,752 (L)	5.92%	1.90%
		1,358,507 (S)	0.10%	0.03%
		65,757,195 (P)	5.07%	1.63%
BlackRock, Inc. ⁽⁸⁾	H	65,061,864 (L)	5.02%	1.61%
		1,336,000 (S)	0.10%	0.03%

Note 1: A – A Share

H – H Share

L – represents long position

S – represents short position

P – represents lending pool

Note 2: As at the Latest Practicable Date, the total issued share capital of the Company was 4,032,032,861 shares of which 1,296,000,000 were H Shares and 2,736,032,861 were A Shares.

Note 3: As at the Latest Practicable Date, such shareholding included 1,536,924,595 A Shares directly held by China Shipping. China Shipping also held (i) 7,000,000 A Shares 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), (ii) 2,065,494 A Shares

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), and (iii) 8,641,504 A Shares through AEGONINDUSTRIAL 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, China Shipping and its subsidiaries aggregately are interested in 1,554,631,593 A Shares of the Company as at the Latest Practicable Date, representing 38.56% of the total number of shares of the Company.

Note 4: China Shipping is wholly-owned by COSCO SHIPPING. As such, COSCO SHIPPING was deemed to be interested in the shares which China Shipping was interested in.

Note 5: Eastspring Investments was a controlled corporation of Prudential plc. Accordingly, Prudential plc was deemed to be interested in the shares which Eastspring Investments was interested in.

Note 6: As at the Latest Practicable Date, according to the information disclosed to the Company under Division 2 and Division 3 of Part XV of the SFO, GIC Private Limited held the above shares of the Company as an investment manager.

Note 7: As at the Latest Practicable Date, JPMorgan Chase & Co., through various subsidiaries, had an interest in the H Shares, of which 9,110,557 H Shares (long position) and 978,507 H Shares (short position) were held in its capacity as interest of corporation controlled by it; 76,000 H Shares (long position) and 380,000 H Shares (short position) were held in its capacity as investment manager, 1,770,000 H Shares (long position) were held in its capacity as person having a security interest in shares, and 65,757,195 H Shares (long position) were held in its capacity as approved lending agent.

Note 8: As at the Latest Practicable Date, BlackRock, Inc., through various subsidiaries, had an interest in the H Shares, of which 65,061,864 H Shares (long position) and 1,336,000 H Shares (short position) were held in its capacity as interest of corporation controlled by it.

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.

Directors' interest in any asset acquired, disposed or leased

None of the Directors has any material interest, direct or indirect, in any asset which, since 31 December 2017, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

Directors' service contracts

As at the Latest Practicable Date, none of the Directors or supervisors had entered into, or proposed to enter into, any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Directors' interest in contracts and competing interests

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

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.

3. MATERIAL LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

4. CONSENT AND EXPERT

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

Name	Qualification
Messis Capital 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 Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion of its letter and/or opinions and/or the references to its name in the form and context in which it appears.

The letter and recommendation given by the Independent Financial Adviser are given as of the date of this supplemental circular for incorporation herein.

As at the Latest Practicable Date, (i) the Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2017, 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 Independent Financial Adviser 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 member of the Group.

5. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years preceding the date of this supplemental circular and up to the Latest Practicable Date and are or may be material:

- (a) the capital injection agreement dated 6 March 2018 entered into among the Company, PetroChina Company Limited (中國石油天然氣股份有限公司), and Dalian PetroChina Shipping Limited* (大連中石油海運有限公司) (“**PetroChina Dalian**”) and a supplemental agreement dated 6 March 2018 supplemental to the capital injection agreement in relation to the injection of a sum of RMB396,550,896 by the Company into PetroChina Dalian and the capital contribution of no less than RMB122.4 million by the Company to PetroChina Dalian, further details of which are set out in the Company’s announcement dated 6 March 2018;
- (b) the subscription agreement dated 30 October 2017 entered into between the Company and COSCO SHIPPING, pursuant to which COSCO SHIPPING has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of not more than RMB4.2 billion; and
- (c) the shareholders’ agreement dated 13 November 2017 entered into by the Company, COSCO SHIPPING, COSCO SHIPPING Development Co., Ltd.* (中遠海運發展股份有限公司), Dalian Tanker, COSCO SHIPPING Lines Co., Ltd.* (中遠海運集裝箱運輸有限公司), COSCO International Freight Co., Ltd (中遠海運國際貨運有限公司), COSCO SHIPPING Specialized Carriers Co., Ltd (中遠海運特種運輸股份有限公司), Guangzhou Ocean Shipping Co., Ltd (廣州遠洋運輸有限公司), COSCO Bulk Carrier Co., Ltd.* (中遠散貨運輸有限公司), China Ocean Shipping Agency Co., Ltd.* (中國外輪代理有限公司), Qingdao Ocean Shipping Co., Ltd.* (青島遠洋運輸有限公司), COSCO Shipbuilding Industry Company* (中遠造船工業公司), COSCO Shipyard Group Co., Ltd.* (中遠船務工程集團有限公司), China Marine Bunker (Petro China) Co., Ltd.* (中國船舶燃料有限責任公司), COSCO (Xiamen) Co., Ltd.* (中遠海運(廈門)有限公司) and China Ocean Shipping Tally Co., Ltd.* (中國外輪理貨有限公司) in relation to their respective rights and obligations in COSCO SHIPPING Finance Company Limited* (中遠海運集團財務有限責任公司).

6. MISCELLANEOUS

- (a) The registered office of the Company is at Room A-1015, No. 188 Ye Sheng Road, China (Shanghai) Pilot Free Trade Zone, People's Republic of China.
- (b) The head office and principal place of business of the Company in the PRC is 670 Dongdaming Road, Hongkou District, Shanghai, People's Republic of China.
- (c) The place of business of the Company in Hong Kong is Rooms 3601-3602, 36/F West Tower, Shun Tak Center, 169-200 Connaught Road Central, Hong Kong.
- (d) The Company's H Share registrar and transfer office in Hong Kong is at Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The secretary of the Company is Ms. Yao Qiaohong, being an affiliated person of The Hong Kong Institute of Chartered Secretaries. Ms. Yao obtained a company secretary training certificate from the Shanghai Stock Exchange.
- (f) In the event of inconsistency, the English version of this supplemental circular shall prevail over the Chinese version.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at RMS 3601-3602, 36/F West Tower, Shun Tak CTR, 168-200 Connaught RD Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this supplemental circular up to and including 17 December 2018:

- (a) the memorandum and articles of association of the Company;
- (b) the 2018 Framework Agreements;
- (c) the letter from the Board, the text of which is set out in pages 6 to 31 of this supplemental circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in pages 32 to 33 of this supplemental circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out in pages 34 to 61 of this supplemental circular;
- (f) copies of all material contracts as referred to in the section headed "5. Material Contracts" in Appendix II to this supplemental circular;
- (g) the written consent from the Independent Financial Adviser;

- (h) the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017;
- (i) a copy of the circular of the Company dated 26 January 2018;
- (j) a copy of the circular of the Company dated 30 November 2018; and
- (k) a copy of this supplemental circular.

SUPPLEMENTAL NOTICE OF THE EXTRAORDINARY GENERAL MEETING



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)

SUPPLEMENTAL NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Reference is made to the notice of the extraordinary general meeting (the “**EGM**”) issued by COSCO SHIPPING Energy Transportation Co., Ltd.* (the “**Company**”) on 2 November 2018 (the “**Original Notice of EGM**”), in which the resolutions to be considered by the Shareholders at the EGM to be convened at 3rd Floor, Ocean Hotel, No. 1171 Dongdaming Road, Hongkou District, Shanghai, the People's Republic of China at 10:00 a.m. on Monday, 17 December 2018 (or at any adjournment thereof) are set out. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the supplemental circular of the Company dated 30 November 2018 (“**the Supplemental Circular**”).

Supplemental notice is hereby given that the EGM will be held as originally scheduled. In addition to the resolutions set out in the Original Notice of EGM, the EGM will be held to consider and, if thought fit, pass the following ordinary resolutions:

Ordinary Resolutions

7. to approve, ratify and confirm the financial services framework agreement dated 12 November 2018 entered into between the Company and China COSCO Shipping Corporation Limited* (中國遠洋海運集團有限公司) (“**COSCO SHIPPING**”) in relation to the provision of financial services and the transactions and the proposed annual caps contemplated thereunder (the “**2018 Financial Services Framework Agreement**”); and to authorise the directors of the Company (“**Directors**”) to exercise all powers which they consider necessary and do such other acts and things and execute such other documents which in their opinion may be necessary or desirable to implement the transactions contemplated under the 2018 Financial Services Framework Agreement;
8. to approve, ratify and confirm the shipping materials and services framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of shipping materials and services and the transactions and the proposed annual caps contemplated thereunder (the “**2018 Shipping Materials and Services Framework Agreement**”); and to authorise the Directors to exercise all powers which they

* for identification purpose only

SUPPLEMENTAL NOTICE OF THE EXTRAORDINARY GENERAL MEETING

consider necessary and do such other acts and things and execute such other documents which in their opinion may be necessary or desirable to implement the transactions contemplated under the 2018 Shipping Materials and Services Framework Agreement;

9. to approve, ratify and confirm the sea crew framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of sea crew services and the transactions and the proposed annual caps contemplated thereunder (the “**2018 Sea Crew Framework Agreement**”); and to authorise the Directors to exercise all powers which they consider necessary and do such other acts and things and execute such other documents which in their opinion may be necessary or desirable to implement the transactions contemplated under the 2018 Sea Crew Framework Agreement;
10. to approve, ratify and confirm the services framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of certain services and the transactions and the proposed annual caps contemplated thereunder (the “**2018 Services Framework Agreement**”); and to authorise the Directors to exercise all powers which they consider necessary and do such other acts and things and execute such other documents which in their opinion may be necessary or desirable to implement the transactions contemplated under the 2018 Services Framework Agreement; and
11. to approve, ratify and confirm the property lease framework agreement dated 12 November 2018 entered into between the Company and COSCO SHIPPING in relation to supply and receipt of property and land use right leasing services and the transactions and the proposed annual caps contemplated thereunder (the “**2018 Lease Framework Agreement**”); and to authorise the Directors to exercise all powers which they consider necessary and do such other acts and things and execute such other documents which in their opinion may be necessary or desirable to implement the transactions contemplated under the 2018 Lease Framework Agreement.

By order of the Board
COSCO SHIPPING Energy Transportation Co., Ltd.*
Yao Qiaohong
Company Secretary

30 November 2018
Shanghai, The People’s Republic of China

Notes:

- (A) The Supplemental Circular detailing the above resolutions has been despatched to the Shareholders on 30 November 2018.
- (B) A supplemental proxy form is enclosed with this supplemental notice of EGM of the Company.
- (C) Shareholders who intend to appoint a proxy shall complete and return the enclosed supplemental proxy form in accordance with the instructions printed thereon and return it no later than 24 hours before the time designated to hold the EGM or any adjourned meeting thereof.

SUPPLEMENTAL NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (D) For particulars of other resolutions to be considered at the EGM, eligibility for attending the EGM, registration procedures for attending the EGM, and closure of register of members and other matters regarding the EGM, please refer to the Original Notice of EGM.

* *for identification purpose only*