中國金聯
金聯資本(企業融資)有限公司
Goldlink Capital (Corporate Finance) Limited

28/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

1 December 2022

*To: The Independent Board Committee and the Independent Shareholders of COSCO SHIPPING Development Co., Ltd.**

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS
AND
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the Major and Continuing Connected Transactions, and their respective Proposed Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 1 December 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

References are made to (i) the announcement of the Company dated 30 November 2022, in relation to the Relevant Continuing Connected Transactions. As the current terms of the respective agreements of the Non-exempt Continuing Connected Transactions will expire on 31 December 2022, in view of the Company's intention to continue to enter into transactions of similar nature from time to time after the relevant expiry date, the Company entered into the Non-exempt Continuing Connected Transactions agreements with COSCO SHIPPING for a term of three years commencing on 1 January 2023 and ending on 31 December 2025. In addition, on 30 November 2022, the Company and COSCO SHIPPING Finance entered into the

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Master Financial Services Agreement, pursuant to which COSCO SHIPPING Finance has agreed to provide to the Group, and the Group agreed to purchase from the COSCO SHIPPING Finance, the financial services. The initial term of the Master Financial Services Agreement shall be three years from 1 January 2023 to 31 December 2025.

As at the Latest Practicable Date, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 6,123,503,998 A Shares and 100,944,000 H Shares, representing approximately 45.81% of the total issued share capital of the Company. Accordingly, COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company. In addition, COSCO SHIPPING Finance is an indirect non-wholly owned subsidiary of COSCO SHIPPING and therefore an associate of COSCO SHIPPING. Accordingly, COSCO SHIPPING Finance is also a connected person of the Company.

As one or more applicable percentage ratios in respect of the Proposed Annual Caps for each of the Non-exempt Continuing Connected Transactions calculated in accordance with the Hong Kong Listing Rules are expected to exceed 5%, the Non-exempt Continuing Connected Transactions, together with their respective Proposed Annual Caps, are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more applicable percentage ratios in respect of the Proposed Annual Caps for the Major and Continuing Connected Transaction (being the deposit services to be provided by COSCO SHIPPING Finance to the Group under the Master Financial Services Agreement) calculated in accordance with the Hong Kong Listing Rules are expected to exceed 25%, such transaction, together with the Proposed Annual Caps thereof, constitute (i) a continuing connected transaction subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules; and (ii) a major transaction of the Company which is subject to the reporting, announcement, and the Independent Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Mr. Liu Chong and Mr. Zhang Mingwen, both being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by COSCO SHIPPING to the Board. Accordingly, Mr. Liu Chong, Mr. Zhang Mingwen, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi have therefore abstained from voting on the relevant Board resolutions approving the Relevant Continuing Connected Transactions and their respective Proposed Annual Caps. Save as aforementioned, none of the other Directors has a material interest in the Relevant Continuing Connected Transactions and their respective Proposed Annual Caps, and therefore no other Director has abstained from voting on such Board resolutions.

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The Independent Board Committee (comprising Mr. Cai Hongping, Mr. Lu Jianzhong, Ms. Zhang Weihua and Mr. Shao Ruiqing, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Hong Kong Listing Rules to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions and the Major and Continuing Connected Transaction and their respective Proposed Annual Caps. We, Goldlink Capital (Corporate Finance) 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 relationships with or interests 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 of COSCO SHIPPING Energy Transportation Co., Ltd.* (中遠海運能源運輸股份有限公司) (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1138) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600026), a connected person of the Company, on two occasions. Details of which are set out in its circulars dated (i) 7 December 2021 in relation to the major and continuing connected transactions; and (ii) 8 June 2022 in relation to the connected transactions on the non-exercise of the right of first refusal. Notwithstanding the above, the previous engagements with the Company's connected person would not affect our independence from the Company and we are independent from the Company pursuant to Rule 13.84 of the Hong Kong Listing Rules, in particular that we did not 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 4 November 2022, being the date of making our independence declaration to the Hong Kong Stock Exchange pursuant to Rule 13.85(1) of the Hong Kong Listing Rules.

BASIS OF OUR OPINION

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

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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 Non-exempt Continuing Connected Transactions and the Major and Continuing Connected Transaction and their respective Proposed Annual Caps.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-exempt Continuing Connected Transactions and the Major and Continuing Connected Transaction and their respective Proposed Annual Caps. Except for its inclusion in the 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.

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

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.

With a focus on the integrated logistics industry, the Company will develop shipping leasing, container leasing and container manufacturing business as the core business and shipping supply chain finance services as auxiliary business, take full advantage of the support from investment management and achieve industry-finance integrated development.

1.1 Financial performance of the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for each of the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, which are extracted from the Company's interim report for the six months ended 30 June 2022 (the "**2022 Interim Report**"), the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**") and the Company's annual report for the year ended 31 December 2020 (the "**2020 Annual Report**").

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	Six months ended 30 June		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
		(restated)		*(restated)*	*(restated)*
Continuing operations					
Revenue	13,107,007	14,948,584	34,914,585	12,853,145	7,668,504
Costs of sales	(9,915,937)	(11,013,968)	(24,944,934)	(10,324,027)	(6,503,965)
Gross profit	3,191,070	3,934,616	9,969,651	2,529,118	1,164,539
Profit/(loss) for the period/year from continuing operations	2,695,009	3,020,373	6,073,165	1,005,020	(55,207)

Note: The financial statements for the year ended 31 December 2019, 2020 and the six months ended 30 June 2021 has been restated due to the completion of acquisition of certain subsidiaries in November 2021 and such transactions are accounted for as business combination involving entities under common control

*For the year ended 31 December 2020 ("**FY2020**")*

Revenue of the Group increased from approximately RMB7.7 billion (after restatement) for the year ended 31 December 2019 to approximately RMB12.9 billion (after restatement) for the FY2020, representing an increase of approximately RMB5.2 billion or 67.5%. According to the 2020 Annual Report, the increase in revenue was mainly attributable to the increase in revenue from the container manufacturing business to approximately RMB12.0 billion (after restatement), which was mainly due to the increase in both sales volume and price of containers as a result of shortage in repositioned containers in shipping routes across Europe and the USA and buoyant demands in the domestic container market cause by the COVID-19 pandemic.

The Group recorded a profit from continuing operations for the FY2020 of approximately RMB1.0 billion (after restatement) as compared to a loss of approximately RMB55.2 million (after restatement) for the year ended 31 December 2019. Such turnaround from loss to profit was mainly attributable to (i) the increase in revenue of approximately 67.5%; and (ii) the decrease in finance cost of approximately 37.3% from approximately RMB3.5 billion for the year ended 31 December 2019 to approximately RMB2.2 billion for the FY2020, as a result of the decrease in interests on debts and borrowings due to the repayment of corporate bonds and bank and other borrowings.

*For the year ended 31 December 2021 ("**FY2021**")*

Revenue of the Group increased from approximately RMB12.9 billion (after restatement) for the FY2020 to approximately RMB34.9 billion for the FY2021, representing an increase of approximately RMB22.1 billion or 171.6%. According to the 2021 Annual Report, the increase in the revenue was mainly attributable to the combined effect of (i) the increase in the revenue from the container manufacturing business by approximately 161.3% to RMB31.3 billion, mainly due to increase in both sales volume and price of containers as a result of shortage in repositioned containers in shipping routes across Europe and the USA and buoyant demands in the domestic container market caused by the COVID-19 pandemic; and (ii) the increase in revenue from the shipping and industry-related leasing business by approximately RMB3.0 billion to approximately RMB8.0 billion for the FY2021, mainly due to the conversion of 74 ships of the Group from operating lease to financial leasing during the year, and the change from the time charter business to the bare charter business.

The Group achieved substantial growth from continuing operations at approximately 504.3% to RMB6.1 billion for the FY2021 as compared to approximately RMB1.0 billion (after restatement) for the FY2020, mainly due to (i) the increase in revenue with reasons as stated above; and (ii) the decrease in finance costs to approximately RMB1.8 billion due to the continued repayment of corporate bonds and bank and other borrowings.

*For the six months ended 30 June 2022 ("**6M2022**")*

Revenue of the Group decreased from approximately RMB14.9 billion (after restatement) for the six months ended 30 June 2021 to approximately RMB13.1 billion for the 6M2022, representing a decrease of approximately RMB1.8 billion or 12.3%. According to the 2022 Interim Report, the decrease in the revenue was mainly attributable to the decrease in revenue from container manufacturing business from approximately RMB14.5 billion (after restatement) for the six months ended 30 June 2021 to approximately RMB12.7 billion for the 6M2022, due to declined demand for new containers as a result of the increase in the number of containers on the market and gradual recovery of the container turnover rate.

For the 6M2022, the Group recorded a profit from continuing operations of approximately RMB2.7 billion as compared to a profit of approximately RMB3.0 billion (after restatement) for the six months ended 30 June 2021. The decrease in profit from continuing operations was mainly attributable to (i) the decrease in revenue with reason as discussed above; and (ii) the increase in finance costs from approximately RMB873.9 million (after restatement) for the six months ended 30 June 2021 to approximately RMB971.5 million for the 6M2022.

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1.2 *Financial position of the Group*

	As at 30 June 2022	As at 31 December 2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)* *(restated)*	*(audited)*
Non-Current Assets	102,201,333	99,048,643	110,854,512	114,693,373
Current Assets	29,442,184	33,567,680	42,380,371	29,800,746
Total Assets	131,643,517	132,616,323	153,234,883	144,494,119
Current Liabilities	56,120,993	53,884,645	69,010,602	54,271,559
Non-Current Liabilities	47,770,923	46,042,781	56,818,591	66,014,842
Net current liabilities	(26,678,809)	(20,316,965)	(26,630,231)	(24,470,813)
Total assets less current liabilities	75,522,524	78,731,678	84,224,281	90,222,560
Total equity	27,751,601	32,688,897	27,405,690	24,207,718

As at 31 December 2019, 2020 and 2021 and as at 30 June 2022, property, plant and equipment, cash and cash equivalents, finance lease receivables as well as investments in associates were the major assets of the Group, which accounted for approximately 92.9%, 88.9%, 86.5% and 86.9% of the total assets of the Group as at 31 December 2019, 2020 and 2021 and as at 30 June 2022, respectively.

As at 31 December 2019, 2020 and 2021 and as at 30 June 2022, interest-bearing bank and other borrowings and corporate bonds were the major liabilities of the Group, which accounted for approximately 91.8%, 89.8%, 90.8% and 87.2% of the total liabilities of the Group as at 31 December 2019, 2020 and 2021 and as at 30 June 2022, respectively.

As a result of the foregoing, the total equity of the Group as at 31 December 2019, 2020 and 2021 and as at 30 June 2022 amounted to RMB24.2 billion, RMB27.4 billion, RMB 32.7 billion and 27.8 billion respectively. The net gearing ratio was approximately 275% as at 30 June 2022 as compared to that of approximately 223% as at 31 December 2021.

Despite the Group had net current liabilities as at 31 December 2019, 2020 and 2021 and as at 30 June 2022, we have reviewed the 2021 Annual Report and further understand from the management of the Company that based on the available unutilised banking facilities and unutilised quota for the issuance of corporate bonds as at 31 December 2021, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. As such, we concur with the Directors' view that it is appropriate to prepare the financial statements on a going concern basis.

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2. Background Information on COSCO SHIPPING

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise 90% owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and 10% owned by the National Council for Social Security Fund.

The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

3. Background Information on COSCO SHIPPING Finance

COSCO SHIPPING Finance is a company established in the PRC with limited liability and is an indirect non-wholly owned subsidiary of COSCO SHIPPING. It is principally engaged in the provision of deposit services, loan services, financial and financing consultation, credit verification and related consultation and agency services, settlement, and liquidation.

4. Non-Exempt Continuing Connected Transactions

As the current term of the respective agreements of the Non-exempt Continuing Connected Transactions will expire on 31 December 2022, in light of the Company's intention to continue to enter into transactions of the same nature from time to time after the expiry date, the Company entered into the Non-exempt Continuing Connected Transactions agreements with COSCO SHIPPING for a term of three years commencing on 1 January 2023 and ending on 31 December 2025. The following table sets out the details of the Non-exempt Continuing Connected Transactions:

Agreements in relation to the Non-exempt Continuing Connected Transactions	Products and/or service providers	Products and/or services recipients	Key services
(1) Master Operating Lease Services Agreement	The Group	COSCO SHIPPING Group	Operating lease services including (i) vessels operating lease services; and (ii) operating lease services for containers, car frames and other ancillary equipment and other production equipment

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Agreements in relation to the Non-exempt Continuing Connected Transactions	Products and/or service providers	Products and/or services recipients	Key services
(2) Containers Services Procurement Agreement	The Group	COSCO SHIPPING Group	Container and other ancillary services including sale and purchase of containers and containers commissioned manufacturing services
(3) Containers Services Procurement Agreement	COSCO SHIPPING Group	The Group	Container and other ancillary services include sale and purchase of containers, merchandising of materials ancillary to containers, provision of containers depot, containers logistics, containers management, containers maintenance and other ancillary services.

4.1 Reasons for and benefits of the renewal of the Non-exempt Continuing Connected Transactions

According to the Letter from the Board, due to the long established and close business relationship between the members of the Group and the COSCO SHIPPING Group, a number of transactions have been and will continue to be entered into between the Group and the COSCO SHIPPING Group, which are individually significant and collectively essential to the core business of the Group, and will continue to be beneficial to the Group. In addition, the Non-exempt Continuing Connected Transactions are in line with the business strategy of the Company and will facilitate the future development of the Company as a worldclass excellent shipping industry-finance operator with COSCO SHIPPING characteristics. Moreover, COSCO SHIPPING is a key state-owned enterprise and part of a large shipping conglomerate that operates across different regions, sectors and countries, and the COSCO SHIPPING Group entails well-known marine transportation corporations with outstanding competency in the shipping industry and have developed good experience, familiarity and service systems in respect of the products and services under the Non-exempt Continuing Connected Transaction Agreements.

We are advised by the management of the Company that given the established relationship between the COSCO SHIPPING Group and the Group and as intra-group services providers, both parties generally have better understandings on the types of products and/or services to be provided. The cooperation with the COSCO SHIPPING Group facilitates and supports the growth of the core business of the Group, and enables the Group to fully leverage on their

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advantages and to achieve better operating performance. In particular, the mutual provision of complementary services between the Group and the COSCO SHIPPING Group under the Containers Services Procurement Agreement enables the Group to focus on its principal business through the entrustment of various operational support functions such as the delivery and storage of manufactured containers to external service providers, being professional companies owned by the COSCO SHIPPING Group.

Furthermore, the transactions in respect of the provision of products and services by the Group under the Master Operating Lease Services Agreement and the Containers Services Procurement Agreement are revenue in nature to the Group, whereas the transactions in respect of procurement of products and services by the Group under the Containers Services Procurement Agreement support the principal business of the Group. These agreements provide the Group with the option, but not the obligation, to provide/procure the relevant products and services to/from the COSCO SHIPPING Group. Through such arrangement, the Group will be able to (i) continue to negotiate more favourable terms with the COSCO SHIPPING Group compared with those offered by other external service providers; and (ii) enhance its operational efficiency while reducing operating costs.

After taking into account (i) the principal business of the Group and the COSCO SHIPPING Group; (ii) the established cooperative relationship between the Group and the COSCO SHIPPING Group, where the Group can leverage on the strengths of the COSCO SHIPPING Group to achieve better performance; (iii) the transactions are either revenue in nature or support the principal business of the Group; and (iv) the terms of the transactions are fair and reasonable as discussed below, we are of the view that the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Group and the entering of the Non-exempt Continuing Connected Transactions agreements is in the interests of the Company and the Shareholders as a whole.

4.2 Principal terms and internal control measures in respect of the Non-exempt Continuing Connected Transactions

4.2.1 Terms

The Company and COSCO SHIPPING have agreed to continue to enter into the Non-exempt Continuing Connected Transactions under the Master Operating Lease Services Agreement and the Containers Services Procurement Agreement for a term of three years commencing on 1 January 2023 and ending on 31 December 2025.

4.2.2 Pricing policy and internal control measures in respect of the Non-exempt Continuing Connected Transactions agreements

As stated in the Letter from the Board, in respect of the Master Operating Lease Services Agreement, the pricing policy is determined in accordance with the principles of fairness and reasonableness with reference to the corresponding market price (being the price at which the same or similar type of services are provided by independent third

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parties in the ordinary course of business in the same area and on normal commercial terms). The above market price is generally based on the historical quotations from independent third parties in the past three years. The Directors are of the view that the market price determined based on the historical quotations from independent third parties reflects the terms which are commonly based by market participants in their ordinary course of business in the relevant industry, reflects the fluctuation of supply and demand in the market to a certain extent, and is commercially reasonable and in line with the industry practice, and therefore the resulting market price is fair and reasonable and in the interests of the Company and the Shareholders. In addition, the pricing of the operating lease services provided by the Group will also take into account the impact of the overall market conditions (such as the COVID-19 pandemic, the Russian-Ukraine conflicts and inflation), and on the basis of market price, a reasonable buffer will be reserved to cope with the increase in costs caused by uncertainties.

In respect of the Containers Services Procurement Agreement (products and services to be provided by the Group), the pricing policy is determined in accordance with the principles of fairness and reasonableness with reference to the corresponding market price (being the price at which the same or similar type of services are provided by independent third parties in the ordinary course of business in the same area and on normal commercial terms). As there is no long-term agreed price in the new container trading market, the market price for the provision of container and other ancillary services by the Group to the COSCO SHIPPING Group under the Containers Services Procurement Agreement shall be subject to continuous real-time adjustment mainly based on the current market condition and with reference to the historical quotations from independent third parties. The Directors are of the view that the market price determined based on the current market conditions and with reference to the historical quotations by independent third parties reflects the terms which are commonly based by market participants in their ordinary course of business in the relevant industry, reflects the fluctuation of supply and demand in the market to a certain extent, and is commercially reasonable and in line with the industry practice, and therefore the resulting market price is fair and reasonable and in the interests of the Company and the Shareholders. In addition, the pricing of the containers services provided by the Group will also take into account the impact of the overall market conditions (such as the COVID-19 pandemic, the Russian-Ukraine conflicts and inflation), and on the basis of market price, a reasonable buffer will be reserved to cope with the increase in costs caused by uncertainties.

In respect of products and services to be provided to the Group under the Containers Services Procurement Agreement, the pricing policy is determined in accordance with the principles of fairness and reasonableness with reference to the corresponding market price (being the price at which the same or similar type of services are provided by independent third parties in the ordinary course of business in the same area and on normal commercial terms). The above market price is generally based on the historical quotations from independent third parties in the past three years. In accordance with the relevant internal rules and administrative measures of the Company, it will also obtain such market

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price through price inquiry or competitive negotiation provided or participated by certain independent third-party suppliers, or a bidding and tendering process before the commencement of certain projects.

In considering the fairness and reasonableness of the terms of Non-exempt Continuing Connected Transactions, we have reviewed the internal control measures in place as detailed in the Letter from the Board and sample documents in connection with each of the aforementioned categories of the Non-exempt Continuing Connected Transactions during the current terms of the respective master agreements carried out during the past three years. Set out below is a summary of our work done:

– We are given to understand that the majority of transactions under the Master Operating Lease Services Agreement were covered by the Existing Master Vessel Charter Agreement and the Existing Master Operating Lease Services Agreement. We have obtained and reviewed a list of transactions entered into between the Group and COSCO SHIPPING Group under the Existing Master Vessel Charter Agreement and Existing Master Operating Lease Services Agreement in 2022, and we randomly selected from the aforesaid list and reviewed (i) 4 sample contracts entered into with the COSCO SHIPPING Group under the Existing Master Vessel Charter Agreement and the Existing Master Operating Lease Services Agreement (which we considered such number of sample contracts are fair and representative as those covered (i) the latest pricing terms in 2022 and (ii) different and major types of leasing services as contemplated under the Existing Master Vessel Charter Agreement and the Existing Master Operating Lease Services Agreement (i.e. the lease of containers and lease of vessels services) and (ii) 4 sets of comparable leasing services transactions contracts entered into between the Group and the independent third parties. We noted that the prices in the sample contracts entered into with the COSCO SHIPPING Group were no less favourable to the Group than the prices stated in the contracts with independent third parties;

– for the provision of products and services by the Group under the Containers Services Procurement Agreement, we have obtained and reviewed a list of transactions entered into between the Group and COSCO SHIPPING Group under the Existing Master Containers Services Agreement in 2022, and we (i) from the aforesaid list randomly selected and reviewed 3 sample contracts entered into with the COSCO SHIPPING Group in relation to the sale of containers (which we considered such number of sample contracts are fair and representative as those covered (i) the latest pricing terms in 2022 and (ii) the sales of different and major types of containers) and (ii) obtained 3 sets of transaction documents with independent third parties in 2022 in relation to the sales of containers in comparable specifications. We noted that the prices in the sample contracts entered into with the COSCO SHIPPING Group were no less favourable to the Group than the prices stated in the documents with independent third parties;

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– for the procurement of products and services by the Group under the Container Services Procurement Agreement, we have obtained and reviewed a list of transactions entered into between the Group and COSCO SHIPPING Group under the Existing Master Containers Services Agreement in 2022, and we noted that the majority of the transactions (in terms of transaction amounts) were (i) merchandising of materials ancillary to containers and (ii) containers logistics. In light of the aforesaid, we randomly selected and reviewed 2 sets of sample contracts entered into with the COSCO SHIPPING Group (which we considered such sample contracts are fair and representative as those covered (a) the latest pricing terms in 2022 and (b) different and major types of products/services under the Existing Master Containers Services Agreement, being materials ancillary to containers and containers logistics). We have also obtained and reviewed 2 sets of transaction documents covering the merchandising of materials ancillary to containers and the purchase of containers logistics with independent third parties. We noted that the prices in the sample contracts entered into with the COSCO SHIPPING Group were no less favourable to the Group than the prices stated in the documents with independent third parties; and

– we have reviewed the 2020 Annual Report and the 2021 Annual Report, and we noted that (i) the independent non-executive Directors have reviewed the continuing connected transactions and confirmed these transactions have been entered into (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms or, it there are not sufficient comparable transactions to judge whether the above continuing connected transactions are on normal commercial terms, on terms no less favourable to the Company than terms available to independent third parties; and (3) in accordance with the relevant agreement of the above continuing connected transactions governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (ii) the independent auditor of the Company has confirmed to the Company regarding the continuing connected transactions disclosed above that nothing has come to the auditors' attention that causes them to believe that (1) the continuing connected transactions have not been approved by the Board; (2) the transactions were not conducted, in all material aspects, in accordance with the pricing policies of the Company; (3) the transactions were not conducted, in all material aspects, in accordance with the relevant agreements governing such transactions; and (4) the continuing connected transactions have exceeded the relevant maximum aggregate annual cap amount in respect of each of the continuing connected transactions.

Based on the aforesaid, in particular (i) we have reviewed the 2020 Annual Report and the 2021 Annual Report and note that the Non-exempt Continuing Connected Transactions conducted in 2020 and 2021 are on normal commercial terms; and (ii) our review of sample contracts conducted in 2022 are fair and representative as discussed above, we are therefore of the view that the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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Tel: (852) 2995 9788 Fax: (852)2995 9799
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4.3 Historical transaction amounts and the Proposed Annual Caps for the Non-exempt Continuing Connected Transactions

The following table sets out the historical transaction amounts of the Non-exempt Continuing Connected Transactions for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 as well as the Proposed Annual Caps for each of the three years ending 31 December 2023, 2024 and 2025:

Non-exempt Continuing Connected Transactions	Historical transaction amounts for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022			Proposed Annual Caps for the three years ending 31 December 2025		
	2020 (RMB'000)	2021 (RMB'000)	30 September 2022 (RMB'000)	2023 (RMB'000)	2024 (RMB'000)	2025 (RMB'000)
(1) Services provided by the Group under the Existing Master Vessel Charter Agreement	4,557,464	1,066,522	597,110	6,000,000[1]	6,000,000[1]	6,000,000[1]
(2) Services provided by the Group under the Existing Master Operating Lease Services Agreement	1,096,610	1,251,069	884,877			
(3) Services provided by the Group under the Existing Master Containers Services Agreement	1,485,315	2,495,319	408,993	6,000,000	7,000,000	9,000,000
(4) Services provided to the Group under the Existing Master Containers Services Agreement	6,721,472	1,130,314	665,908	1,250,000	1,350,000	1,450,000

Note 1: The Master Operating Lease Services Agreement will cover the services as currently set out in the Existing Master Vessel Charter Agreement and the Existing Master Operating Lease Services Agreement.

4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group

The Proposed Annual Caps for the provision of lease services by the Group to the COSCO SHIPPING Group under the Master Operating Lease Services Agreement for the three years ending 31 December 2023, 2024 and 2025 are RMB6.0 billion, RMB6.0 billion and RMB6.0 billion, respectively.

According to the Letter from the Board, in arriving at the Proposed Annual Caps for the provision of lease services by the Group to the COSCO SHIPPING Group under the Master Operating Lease Services Agreement, the Directors have considered (i) the historical transaction amounts for the provision of lease services by the Group to the

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56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
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COSCO SHIPPING Group under the Existing Master Vessel Chartering Agreement and the Existing Master Operating Lease Services Agreement for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022; (ii) the type and number of vessels, containers, car frames, and other ancillary equipment and other production equipment expected to be chartered, the respective chartering rate and the period expected to be chartered; (iii) the estimated market fluctuation in terms of chartering price, demands and exchange rate for US$ to RMB; (iv) the estimated future needs for operating lease services of the COSCO SHIPPING Group in light of the expected growth in its transportation capacity; (v) the expected increase in service fees due to increase in costs; and (vi) the prevailing market rate of charter of vessel, containers, car frames and other ancillary equipment and other production equipment of similar classes.

In assessing the fairness and reasonableness of the aforesaid bases and assumptions adopted by the Board in arriving the Proposed Annual Caps for the lease services provided by the Group under the Master Operating Lease Services Agreement, we have (i) obtained from the management of the Company and reviewed the computations in arriving the Proposed Annual Caps; and (ii) discussed with the management of the Company regarding the bases and assumptions in arriving the Proposed Annual Caps for the provision of lease services.

Based on our review on the aforesaid computations, we note that containers leasing and vessels leasing comprise a vast majority of the Proposed Annual Caps under the Master Operating Lease Services Agreement. Based on our discussion with the management of the Company, we understand that the estimated transaction amounts for the leasing of vessels and containers are determined based on (i) the estimated number of vessels and containers to be leased by COSCO SHIPPING Group for each of the three years ending 31 December 2025; and (ii) the estimated fee rates.

In respect of the estimated number of vessels to be leased by the COSCO SHIPPING Group for the three years ending 31 December 2025, we understand from the management of the Company that it is determined based on (i) the existing lease orders on hand from the COSCO SHIPPING Group and it is expected that such existing orders continues to sustain for the three years ending 31 December 2025; (ii) the new vessels leasing business along with the expansion of business of the COSCO SHIPPING Group where the Group intends to lease different types of new vessels including liquefied natural gas carriers, very large gas carriers as well as crude oil carriers etc to COSCO SHIPPING Group for the three years ending 31 December 2025.

In respect of the estimated number of containers to be leased by the COSCO SHIPPING Group for the three years ending 31 December 2025, we note from the computations that there is an increase in the lease of containers for the three years ending 31 December 2025. Based on our discussion with the management of the Company, we are given to understand that the expected increase in lease of containers is mainly due to the expected growth in the transportation capacity of the COSCO SHIPPING Group.

28/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

According to the announcement of COSCO SHIPPING Holdings Co., Ltd. (stock code: 1919.HK) dated 2 September 2021, a company who mainly engages in container shipping for both international and domestic customers and is indirectly controlled by COSCO SHIPPING, there were 32 new vessels in aggregate under purchase orders placed by COSCO SHIPPING Holdings Co., Ltd, which were expected to be delivered during the three years ending 31 December 2025, with aggregated transportation capacity of approximately 585,000 TEUs. Further, according to the annual report of COSCO SHIPPING Holdings Co., Ltd for the year ended 31 December 2021, in January 2022, it upgraded its shipping routes by upgrading the route product for 8 routes with an additional of 3 routes, totalling to 42 routes with a shipping capacity of 4.43 million TEUs, representing additional capacity of approximately 0.3 million TEUs. Based on the above, it is expected that there will be an increase in demand in the leasing of containers from COSCO SHIPPING Holdings Co., Ltd. for the three years ending 31 December 2025.

In respect of the estimated price of leasing of vessels and containers, we are given to understand that it is estimated based on (i) the historical transacted price of leasing of vessels and containers in 2021 and we note that the estimated price of leasing of vessels and containers are generally in line with the historical rates based on our review on the list of transactions in relation to the lease of containers and vessels, and (ii) expected growth of the fee rates in light of the (a) increase in demand of vessels and containers leasing as a result of the expected increase in transportation capacities of the COSCO SHIPPING Group in the coming years and (b) anticipated fluctuations in the exchange rate of RMB against USD.

In respect of the growth rate, we understand from the management that they have made reference to the inflation rate of China and the US. We have searched the inflation rate of China and the US from 3 January 2022 to 29 November 2022, (the "**Review Period**"), as quoted from the National Bureau of Statistics and the US Bureau of Labor Statistics. We noted that the year-on-year monthly inflation rate of China ranged from 0.9% in January 2022 to 2.1% in October 2022, with the highest monthly inflation rate of 2.8% in September 2022, while the year-on-year monthly inflation rate of the US ranged from 7.5% in January 2022 to 7.7% in October 2022, with the highest monthly inflation rate of 9.1% in June 2022. We consider the duration of the Review Period is an appropriate reference as it covers the impact of the recent overall market conditions (such as the COVID-19 pandemic, the high inflation as caused by the Russian-Ukraine conflicts as well as global monetary easing policies).

In respect of the anticipated fluctuations in the exchange rate of RMB against USD, we searched for the exchange rates of US Dollar to RMB during the Review Period, as quoted from the website of State Administration of Foreign Exchange of the PRC. We noted that (i) the exchange rate of US Dollar to RMB quoted on the last day of the Review Period increased by approximately 12.85% as compared to that quoted on 3 January 2022; and (ii) the highest exchange rate of US Dollar to RMB during the Review Period represented a premium of approximately 15.14% over the lowest exchange rate of US Dollar to RMB during the Review Period.

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Based on the above, we are of the view that the bases and assumptions so adopted in arriving the Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group are fair and reasonable so far as the Independent Shareholders are concerned.

4.3.2 Proposed Annual Caps for the Containers Services Procurement Agreement in respect of products and services to be provided by the Group

The Proposed Annual Caps for the provision of the container and other ancillary services by the Group to the COSCO SHIPPING Group under the Containers Services Procurement Agreement for the three years ending 31 December 2023, 2024 and 2025 are RMB6.0 billion, RMB7.0 billion and RMB9.0 billion, respectively.

According to the Letter from the Board, in arriving at the Proposed Annual Caps for the provision of container and other ancillary services by the Group to the COSCO SHIPPING Group under the Containers Services Procurement Agreement, the Directors have considered (i) the historical transaction amounts for the provision of containers and other ancillary services by the Group to the COSCO SHIPPING Group under the Existing Master Containers Services Agreement for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022; (ii) the existing scale of operation of the COSCO SHIPPING Group; (iii) the expected increase in the demand of the COSCO SHIPPING Group for the containers manufactured by the Group and other ancillary services in light of the expected growth in the transportation capacity of the COSCO SHIPPING Group; (iv) the prevailing market rate for the sale and purchase and commissioned manufacturing of containers and the estimated market price of new containers for the three years ending 31 December 2022; and (v) the estimated market fluctuation in terms of container price, demands and exchange rate for US$ to RMB.

In assessing the fairness and reasonableness of the aforesaid bases and assumptions adopted by the Board in arriving the Proposed Annual Caps for the container and other ancillary services to be provided by the Group under the Container Services Procurement Agreement, we have (i) discussed with the management of the Company regarding the bases and assumptions; and (ii) obtained and reviewed the computations prepared by the management of the Company in arriving the Proposed Annual Caps for the container and other ancillary services to be provided by the Group.

We understand from the aforesaid computations that the Proposed Annual Caps are mainly derived from (i) the expected sales of containers for the three years ending 31 December 2025; (ii) the estimated price of containers; and (iii) a buffer for growth rate and anticipated fluctuations in the exchange rate of RMB against US dollars.

We note from the computations that there is an increase in the expected sales of containers for the three years ending 31 December 2025. Based on our discussion with the management of the Company, we are given to understand that the expected increase in sales of containers is mainly due to the expected growth in the transportation capacity of the COSCO SHIPPING Group. As discussed in the above paragraph headed "4.3.1

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56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group", there were 32 new vessels in aggregate under purchase orders placed by COSCO SHIPPING Holdings Co., Ltd, which were expected to be delivered during the three years ending 31 December 2025, with aggregated transportation capacity of approximately 585,000 TEUs. Further, according to the annual report of COSCO SHIPPING Holdings Co., Ltd for the year ended 31 December 2021, in January 2022, it upgraded its shipping routes by upgrading the route product for 8 routes with an additional of 3 routes, totalling to 42 routes with a shipping capacity of 4.43 million TEUs, representing additional capacity of approximately 0.3 million TEUs. Based on the above, it is expected that there is an increase in demand in containers services from COSCO SHIPPING Holdings Co., Ltd. for the three years ending 31 December 2025.

In respect of the estimated price of containers, we are given to understand that it is estimated based on (i) the average historical transacted prices of sales of containers in 2021; (ii) expected growth of the fee rates in light of (a) the increase in demand of containers as a result of the expected increase in transportation capacities of the COSCO SHIPPING Group in the coming years and (b) anticipated fluctuations in the exchange rate of RMB against USD.

In respect of the growth rate of the price of containers, we understand from the management of the Company that they have made reference to the forecast increasing price trends of containers with a growth of ranging from approximately 5% to 6% in 2025 as compared to that in 2023 according to a report published by an independent consulting firm in June 2022. Based on our desktop research, such firm is an independent provider of research and consulting services to the maritime and shipping industry, and have been employing over 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai. Given the background and its expertise in the maritime shipping industry, we consider that the forecast price trends of containers published by such consulting firm is an appropriate reference in assessing forecast price trends of containers from 2023 to 2025.

In respect of the anticipated fluctuations in the exchange rate of RMB against USD, as discussed in the above paragraph headed "4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group", (i) the exchange rate of US Dollar to RMB quoted on the last day of the Review Period increased by approximately 12.85% as compared to that quoted on 3 January 2022; and (ii) the highest exchange rate of US Dollar to RMB during the Review Period represented a premium of approximately 15.14% over the lowest exchange rate of US Dollar to RMB during the Review Period.

Based on the above, we are of the view that the bases and assumptions so adopted in arriving the Proposed Annual Caps for the Container Services Procurement Agreement in respect of the container and other ancillary services to be provided by the Group are fair and reasonable so far as the Independent Shareholders are concerned.

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Tel: (852) 2995 9788 Fax: (852)2995 9799
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4.3.3 Proposed Annual Caps for the Containers Services Procurement Agreement in respect of products and services to be provided to the Group

The Proposed Annual Caps for the provision of the container and other ancillary services by the COSCO SHIPPING Group to the Group under the Containers Services Procurement Agreement for the three years ending 31 December 2023, 2024 and 2025 are RMB1.25 billion, RMB1.35 billion and RMB1.45 billion, respectively.

According to the Letter from the Board, in arriving at the Proposed Annual Caps for the provision of container and other ancillary services by the COSCO SHIPPING Group to the Group under the Containers Services Procurement Agreement, the Directors have considered: (i) the historical transaction amounts for the provision of containers and other ancillary services by the COSCO SHIPPING Group to the Group under the Existing Master Containers Services Agreement for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022; (ii) the prevailing market rate of containers, materials ancillary to containers, containers depot, containers logistics, containers management and containers maintenance; and (iii) the estimated market fluctuation in terms of container price, ancillary materials price, demands and exchange rate for US$ to RMB.

In assessing the fairness and reasonableness of the aforesaid bases and assumptions adopted by the Board in arriving the Proposed Annual Caps for the container and other ancillary services to be provided by the COSCO SHIPPING Group to the Group under the Container Services Procurement Agreement, we have (i) discussed with the management of the Company regarding the bases and assumptions; and (ii) obtained and reviewed the computations prepared by the management of the Company in arriving the Proposed Annual Caps for the container and other ancillary services to be provided to the Group.

Based on our review and our discussion with the management of the Company, we note that the historical transaction amount of the containers services provided to the Group for the year ended 31 December 2021 amounted to approximately RMB1.1 billion during the current terms of the Existing Master Containers Services Agreement, closes to the Proposed Annual Caps. The Directors consider that the historical transaction amount is an appropriate reference in determining the proposed annual cap of RMB1.25 billion for the year ending 31 December 2023 with the assumption that the transaction volume would reach the similar historical level.

We understand from the computations that the vast majority (i.e. over 70%) of the Proposed Annual Caps for the container and other ancillary services to be provided by the COSCO SHIPPING Group to the Group under the Container Services Procurement Agreement are (i) purchase of materials ancillary to containers and (ii) containers logistics. We note that the proposed transactions amounts regarding the purchase of materials ancillary to containers are determined based on (a) the actual historical percentage of purchases of materials ancillary to containers from COSCO SHIPPING Group and (b) the estimated production of containers in the coming three years. On the other hand, we also note that the proposed transactions amounts regarding the containers logistics services are determined based on (a) actual transacted price as specified in the contracts entered into between the Group and the COSCO SHIPPING Group and (b) the estimated demand of containers in the coming three years.

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Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

After taking into consideration above and (i) our workdone as discussed in above paragraph headed "4.2.2 Pricing policy and internal control measures in respect of the Non-exempt Continuing Connected Transactions agreements" and (ii) the transactions are on normal commercial terms as confirmed by the independent non-executive Directors in the 2021 Annual Report, we concur with the view of the Directors that historical amount is an appropriate reference and fair and reasonable in determining the proposed annual cap for the year ending 31 December 2023.

We note from the computations that the Proposed Annual Caps increase gradually along the three years ending 31 December 2025. Based on our discussion with the management of the Company, we understand that the demand of products and services from the COSCO SHIPPING Group contemplated under the Containers Services Procurement Agreement is expected to increase along with the expected increase in demand of containers as a result with the increase in transportation capacities of the COSCO SHIPPING Group in the coming years with reasons as discussed above in the paragraph headed "4.3.2 Proposed Annual Caps for the Containers Services Procurement Agreement in respect of products and services to be provided by the Group".

We further note that in arriving the Proposed Annual Caps, the Directors considered the (i) estimated market fluctuation in terms of container price and ancillary materials price and (ii) anticipated exchange rate between USD and RMB. In respect estimated market fluctuation in terms of container price and ancillary materials price, we understand from the management that they have made reference to the recent inflation rate of China and US. A discussed in the above paragraph headed "4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group", the year-on-year monthly inflation rate of China during the Review Period ranged from 0.9% in January 2022 to 2.1% in October 2022, with the highest monthly inflation rate of 2.8% in September 2022, while the year-on-year monthly inflation rate of US ranged from 7.5% in January 2022 to 7.7% in October 2022, with the highest monthly inflation rate of 9.1% in June 2022.

In respect of the anticipated exchange rate between USD and RMB, as discussed in the above paragraph headed "4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group", (a) the exchange rate of US Dollar to RMB quoted on the last day of the Review Period increased by approximately 12.85% as compared to that quoted on 3 January 2022; and (b) the highest exchange rate of US Dollar to RMB during the Review Period represented a premium of approximately 15.14% over the lowest exchange rate of US Dollar to RMB during the Review Period.

After taking into account, in particular, (i) the Proposed Annual Caps is determined based on the historical transaction amounts of container services provided by the COSCO SHIPPING Group; (ii) the expected growth in demand for container services of COSCO SHIPPING Group; (iii) the Proposed Annual Caps are determined after consideration the estimated market fluctuation in terms of container price and ancillary materials price with

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56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

reference to the inflation rate of China and US as well as the anticipated exchange rate between USD and RMB, we are of the view that the bases and assumptions so adopted in arriving the Proposed Annual Caps for the Container Services Procurement Agreement in respect of the container and other ancillary services to be provided by the COSCO SHIPPING Group to the Group are fair and reasonable so far as the Independent Shareholders are concerned.

5. Major and Continuing Connected Transaction – The Deposit Services Under the Master Financial Services Agreement

On 30 November 2022, the Company and COSCO SHIPPING Finance entered into the Master Financial Services Agreement, pursuant to which COSCO SHIPPING Finance has agreed to provide to the Group, and the Group agreed to purchase from the COSCO SHIPPING Finance, the financial services. The initial term of the Master Financial Services Agreement shall be three years from 1 January 2023 to 31 December 2025. The following table sets out the details of the Master Financial Services Agreement.

Agreement	Service provider	Products and/or services recipient	Key services
Master Financial Services Agreement	COSCO SHIPPING Finance	The Company	Financial services include: (i) deposit services; (ii) loan services (including loan, bills acceptance and discounting, letter of guarantee and other services); (iii) settlement services; (iv) foreign exchange services; and (v) other businesses as approved by CBIRC (including entering into implementation agreements pursuant to the Master Financial Services Agreement to engage COSCO SHIPPING Finance as the financial adviser to provide financial advisory services relating to direct financing in the capital markets such as securities financing.)

28/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

As one or more applicable percentage ratios in respect of the Proposed Annual Caps for the deposit services to be provided by COSCO SHIPPING Finance to the Group under the Master Financial Services Agreement calculated in accordance with the Hong Kong Listing Rules are expected to exceed 25%, such transaction, together with the Proposed Annual Caps thereof, constitute the Major and Continuing Connected Transaction.

5.1 Reasons for and benefits of the Major and Continuing Connected Transaction

According to the Letter from the Board, it is common for large corporate groups in the PRC to set up and maintain a finance company to provide financial services to the group members as this improves centralised management and utilisation efficiency of group funds, and assists the group members in reducing financing costs and investment risks. COSCO SHIPPING Finance is an indirect non-wholly owned subsidiary of COSCO SHIPPING and may provide financial services to the COSCO SHIPPING Group and the Group. The Board believes that as an intra-group service provider, COSCO SHIPPING Finance generally has better and more efficient communication with the Group compared with the independent banks and financial institutions, and the receipt of deposits services from COSCO SHIPPING Finance for the three years ending 31 December 2025 would ensure flexibility to manage its working capital should the terms offered by the COSCO SHIPPING Finance be better than that of the independent banks or financial institutions.

In order to understand the financial position of COSCO SHIPPING Finance, we have obtained and reviewed its financial information for the year ended 31 December 2021 and the six months ended 30 June 2022. We noted that COSCO SHIPPING Finance recorded net assets of approximately RMB32.7 billion and RMB27.8 billion as at 31 December 2021 and 30 June 2022, respectively. We have also obtained and reviewed the regulatory report for the year ended 31 December 2021 (the "**2021 Regulatory Report**") prepared by COSCO SHIPPING Finance which, among others, summarise the current financial position of COSCO SHIPPING Finance. We noted from the 2021 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 CBIRC. In particular, (i) the capital adequacy ratio of COSCO SHIPPING Finance was approximately 11.13% as at 31 December 2021, which was better than the basic requirement of 10.5% for finance companies as required by CBIRC; (ii) non-performing asset ratio of COSCO SHIPPING Finance was nil as at 31 December 2021, which was better than the basic requirement of 4% for finance companies as required by CBIRC; and (iii) bad loan ratio of COSCO SHIPPING Finance was nil as at 31 December 2021, which was better than the basic requirement of 5% for finance companies as required by CBIRC. Further, we have reviewed the capital risk control measures adopted by the Group in respect of the deposits under the Master Financial Services Agreement so that the Group can conduct assessment on the operating qualifications, business and risks of COSCO SHIPPING Finance, so as to control and respond to possible capital risks of COSCO SHIPPING Finance in a timely manner. As such, we concur with the Directors' views that COSCO SHIPPING Finance has the financial capability in providing the deposit services under the Master Financial Services Agreement, and the credit risk involved in the underlying transactions is low.

28/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788 Fax: (852)2995 9799
Website: www.glgsec.com

As at the Latest Practicable Date, the Company held 13.3840% equity interests in COSCO SHIPPING Finance and was the third largest shareholder of COSCO SHIPPING Finance. Therefore, the Company can participate in the decision-making process of COSCO SHIPPING Finance while obtaining the economic benefits brought by the improvement of the service level of COSCO SHIPPING Finance. The Company has certain influence on the operation of COSCO SHIPPING Finance, so that it could better serve the development of the Group. Furthermore, the Group is not restricted under the Master Financial Services 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 the deposit services, loan services, settlement services, foreign exchange services and financial advisory services and other financial services of COSCO SHIPPING Finance if the service quality provided is competitive. Pursuant to the Master Financial Services Agreement, the Group has full discretion to withdraw all funds under the deposit services of the Master Financial Services Agreement on an as-needed basis without any restriction. With such flexibility under the Master Financial Services Agreement, the Group is able to better manage its capital and cash flow position.

Based on the above, in particular that (i) it is in the ordinary and usual course of business of the Company to maintain deposits with different financial institutions; (ii) the established relationship between the Group and COSCO SHIPPING Finance; (iii) the background and the healthy financial position of COSCO SHIPPING Finance; and (iv) the Group would enjoy the flexibility to choose the deposit services from any bank or financial institution to satisfy its financial service needs, we concur with the view of the Directors that the deposit services under the Master Financial Services Agreement are in the ordinary and usual course of business of the Group and that the entering into of the Master Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

5.2 *Principal terms and internal control measures in respect of the Major and Continuing Connected Transaction*

5.2.1 Terms

The initial term of the Master Financial Services Agreement shall be three years from 1 January 2023 to 31 December 2025.

5.2.2 Pricing policy in respect of the Master Financial Services Agreement

In respect of the pricing policy under the Master Financial Services Agreement, as stated in the Letter from the Board, COSCO SHIPPING Finance shall provide deposit services to the Group at interest rates not lower than (i) the benchmark rates stipulated by the PBOC for the same types of deposits; and (ii) the rates offered by the major and independent PRC commercial banks in the service location or adjacent areas in the normal course of business for such types of deposits.

28/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong
Tel: (852) 2995 9788   Fax: (852)2995 9799
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In assessing the fairness and reasonableness on the interest rate chargeable under the Master Financial Services Agreement, we have enquired the management of the Company and understand that there was no change on the demand deposit rate offered by COSCO SHIPPING Finance over the past three years and hence we randomly selected and reviewed 2 set of demand deposit sample documents in connection with (i) historical deposit services provided by COSCO SHIPPING Finance to the Group during past years; (ii) the relevant benchmark rates stipulated by the PBOC; and (iii) the relevant rates offered by 6 major and independent PRC commercial banks. Based on our review, we noted that the interest rates offered by COSCO SHIPPING Finance to the Group in relation to demand deposits were higher than (i) the benchmark rates stimulated by PBOC; or (ii) the rates offered by those 6 major and independent PRC commercial banks which were equivalent to the rate as stimulated by PBOC. We consider that the above number of sample documents are fair and representative (i) those covered the latest pricing terms of the transactions and (ii) there is no change on the demand deposit rate offered by COSCO SHIPPING Finance under the Existing Master Financial Services Agreement. Furthermore, we have reviewed the 2020 Annual Report and the 2021 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.

Based on the above, in particular (i) we have reviewed the 2020 Annual Report and the 2021 Annual Report and noted that both the auditors and the independent non-executive Directors confirmed that, among others, the terms of the deposit services in 2020 and 2021, was conducted on normal commercial terms and in accordance with the relevant pricing policies of the Group; and (ii) our review of sample documents conducted in 2022 which we consider are fair and representative as discussed above, we are of the view that the terms of the deposit services to be provided to the Group under the Master Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

5.3 Proposed Annual Caps for the Major and Continuing Connected Transaction

The Major and Continuing Connected Transaction	**Proposed Annual Caps for the three years ending 31 December 2025**		
	2023 *(RMB'000)*	**2024** *(RMB'000)*	**2025** *(RMB'000)*
The maximum daily outstanding balance of deposits (including accrued interest and handling fee for the deposit services to be provided by COSCO SHIPPING Finance to the Group under the Master Financial Services Agreement)	18,000,000	18,000,000	18,000,000

The Proposed Annual Caps for the maximum daily outstanding balance of deposits (including accrued interest and handling fee for the deposit services to be provided by COSCO SHIPPING Finance under the Master Financial Services Agreement) for each of the three years ending 31 December 2025 are RMB18.0 billion, RMB18.0 billion and RMB18.0 billion, respectively.

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According to the Letter from the Board, in arriving at the Proposed Annual Caps for the maximum outstanding balance of deposits (including accrued interest and handling fee for the deposit services to be provided by COSCO SHIPPING Finance by COSCO SHIPPING Finance under the Master Financial Services Agreement), the Directors have considered (i) the historical transaction amounts for the provision of deposit services by COSCO SHIPPING Finance to the Group under the Existing Master Financial Services Agreement for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022; (ii) the container shipping market has continued to improve in recent years, the operating results of the Group has steadily improved, the net operating cash flow has increased significantly, and the transaction amount of the deposit services under the Master Financial Services Agreement is expected to increase correspondingly; (iii) the expected fluctuation in the exchange rate of RMB against US$ after taking into account that the Group has a certain proportion of revenue denominated in US$; (iv) the general expansion of business of COSCO SHIPPING Finance; and (v) the expected increase in financing demands of the Group, including capital injection in subsidiaries, repayment of the maturing corporate bonds and replenishment of working capital.

In order to assess the fairness and reasonableness of the aforesaid bases and assumptions adopted by the Board in arriving the Proposed Annual Caps for the deposit services under the Master Financial Services Agreement, we have discussed with the management of the Company regarding the bases and assumptions in arriving at the Proposed Annual Caps for the deposit services and we have considered the following:

– We note that, in arriving the Proposed Annual Caps for the deposit services, the Company has considered the highest historical transaction amount of the provision of deposit services of approximately RMB12.8 billion during the two years ended 31 December 2021 and up to 30 September 2022, which represents approximately 71.1% of the Proposed Annual Cap. Taking into account of the cash position of the Group as of 30 June 2022, the Directors consider that and we concur that the historical transaction amount is an appropriate reference in determining the Proposed Annual Caps of RMB18.0 billion for the three years ending 31 December 2025, respectively with the assumption that the transaction volume would reach the similar historical level;

– the Company has considered that the financing demands of the Group will increase along with the expected expansion of the Group's business in the coming years. As discussed in the above paragraphs headed "4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group" and "4.3.2 Proposed Annual Caps for the Containers Services Procurement Agreement in respect of products and services to be provided by the Group", it is expected that the demand of services by the Group on the leasing of vessels as well as leasing and sales of containers will increase along with the increase in transportation capacities of the COSCO SHIPPING Group. Such the management of the Company considers that the demand for the financial services from COSCO SHIPPING Finance (including deposit services) will increase to support its business growth;

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- We have reviewed the announcement of the Company dated 19 May 2022 and note that the shareholders of the COSCO SHIPPING Finance entered into the capital increase agreement where the shareholders of COSCO SHIPPING Finance agree to increase in the registered capital of COSCO SHIPPING Finance by the aggregate of RMB13.5 billion. Upon the completion of the aforesaid capital increase, it is expected that the capacity of COSCO SHIPPING Finance in providing financial services (including deposit services) will be strengthened and in turn enable COSCO SHIPPING Finance to provide stable and favorable financial services to the Group in the coming three years;

- We have reviewed the 2021 Annual Report and noted that there was significant cash inflow and/or outflow from its operating activities, investing activities and financing activities. During the FY2021, the net cash inflow from operating activities and financing activities amounted to approximately RMB14.5 billion and RMB5.9 billion, respectively, while the net cash outflow from investing activities amounted to approximately RMB15.1 billion. The high volume of cash inflow and outflow demonstrates the high demand on financial services from financial institutions (including COSCO SHIPPING Finance) to support the Group's normal operations. Moreover, as at 30 June 2022, the cash and cash equivalents of the Group amounted to approximately RMB14.1 billion, which accounted for approximately 78.5% of the Proposed Annual Caps of RMB18.0 billion for the three years ending 31 December 2025, respectively; and

- we understand from the management of the Company that certain proportion of revenue of the Group was denominated in US Dollar whereas the Proposed Annual Caps are denominated in RMB. As discussed in the above paragraph headed "4.3.1 Proposed Annual Caps for the Master Operating Lease Services Agreement in respect of services to be provided by the Group", (i) the exchange rate of US Dollar to RMB quoted on the last day of the Review Period increased by approximately 12.85% as compared to that quoted on 3 January 2022; and (ii) the highest exchange rate of US Dollar to RMB during the Review Period represented a premium of approximately 15.14% over the lowest exchange rate of US Dollar to RMB during the Review Period. The recent appreciation in US Dollar therefore justified the Proposed Annual Caps amount for the three years ending 31 December 2025.

Taking into consideration of (i) the highest historical transaction amount of the deposit services is an appropriate reference in determining the Proposed Annual Caps with the assumption that the transaction volume would reach the similar historical level; (ii) the financing demands of the Group will increase along with the expected expansion of the Group's business in the coming years; (iii) there is the high volume of cash inflow and outflow for the FY2021; and (iv) the recent appreciation in US Dollar to RMB, we therefore are of the view that the Proposed Annual Caps for the deposit services under the Master Financial Services Agreement for the three years ending 31 December 2025 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.

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RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that (i) the Non-exempt Continuing Connected Transactions have been conducted and will continue to be conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, and that the terms of the Non-exempt Continuing Connected Transactions and their respective Proposed Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Major and Continuing Connected Transaction has been conducted and will continue to conduct in the ordinary and usual course of business of the Group and is therefore in the interests of the Company and the Shareholders as a whole, and that the terms of the Major and Continuing Connected Transaction and the Proposed Annual Caps thereof are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

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 in relation to the Non-exempt Continuing Connected Transactions and the Major and Continuing Connected Transaction, and their respective Proposed Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Goldlink Capital (Corporate Finance) 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 Goldlink Capital (Corporate Finance) Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

* *For identification purpose only*

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