



COSCO SHIPPING INTERNATIONAL (SINGAPORE) CO., LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 196100159G)

FREQUENTLY ASKED QUESTIONS RELATING TO THE PROPOSED DISPOSAL OF 60% SHAREHOLDING INTEREST IN COSCO SHIPPING (SINGAPORE) PTE. LTD. (THE “SALE COMPANY”)

This document was prepared for informational purposes only and must be read in conjunction with the Company’s Circular to shareholders dated 8 December 2021 in relation to the Proposed Transaction.

TRANSACTION OVERVIEW AND RATIONALE

Question 1:

How is the current operations like in the Sale Company? How did the Sale Company perform in the past few years?

Company’s response:

The Sale Company is a wholly owned subsidiary of COSCO SHIPPING International (Singapore) Co., Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) and it was founded in 1993. It currently owns a small fleet consisting of 3 vessels with an average age of 16 years. All vessels are of the same ship type, Supramax, and have a total tonnage of approximately 163,000 tons. It is primarily engaged in the business of dry bulk shipping, with the main focus on owning and chartering of vessels.

In FY2020, the shipping segment contributed 18.0% to the Group’s total revenue and a small profit to the Group. The financial highlights of the Sale Company for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020, and financial periods ended 1H2020 and 1H2021 are set out in Appendix C of the Company’s Circular to shareholders dated 8 December 2021 (the “**Circular**”) on SGXNet and the Company’s corporate website.

Question 2:

Can you provide a brief introduction of the purchaser, COSCO (H.K.) Shipping Co., Limited (“**COSCO HK**” or “**Purchaser**”) and its parent company, COSCO SHIPPING Bulk Co., Ltd. (“**COSCO SHIPPING Bulk**”)?

Company’s response:

COSCO HK was established in 1994 and is a wholly owned subsidiary of COSCO SHIPPING Bulk. As at 30 June 2021, the Purchaser owns a fleet of 98 vessels with a total capacity of around 11.32 million deadweight tons.

COSCO HK’s parent company, COSCO SHIPPING Bulk, is a wholly owned subsidiary of China COSCO SHIPPING Corporation Limited (“**China COSCO SHIPPING**”). COSCO SHIPPING Bulk is one of the largest bulk shipping corporations in the world. It operates more than 400 bulk carriers of various types, with a total tonnage of approximately 40 million tonnes, loading iron ore, coal, grain, and other bulk cargoes. COSCO SHIPPING Bulk’s services cover shipping routes in the People’s Republic of China coastal areas and world-wide major ports, and has shipping service networks all over the world with more than 1,700 management staff and 12,500 seafarers.

Question 3:

Can you provide a brief background of this Proposed Transaction? How will the Proposed Transaction benefit the Company, its shareholders, and the Sale Company? Why the disposal is for 60% and not the whole business?

Company's response:

The Proposed Transaction represents the Company's strategic decision to (a) streamline its current conglomerate structure to increase focus on the Company's core logistics business and (b) achieve better performance for the Group's other existing businesses, including the shipping business currently carried out through the Sale Company.

Given the scale and profile of the vessels, the Sale Company has limited marketing capabilities and market competitiveness. The Company believes that dry bulk shipping business is complementary to the Group's core logistics business and ship repair and marine engineering services, but requires the necessary resources and scale to develop and expand further. Hence, the Company is not considering a disposal of its entire interest in the Sale Company but only a partial disposal of interest in the Sale Company.

Cooperating with the Purchaser through retaining 40% interest in the Sale Company allows the Sale Company to achieve sustainable development and growth.

Moving forward, the Sale Company will benefit from the network and management of COSCO SHIPPING Bulk. It will be able to expand its operations in Southeast Asia through leveraging on COSCO SHIPPING Bulk's marketing capabilities, global network of customers, specialities, expertise, resources and management skills.

Overall, the Proposed Transaction is beneficial for the long-term sustainability of the Sale Company, which will ultimately create value for the Company's shareholders. Further information on the benefits of and rationale for the Proposed Transaction is set out in section 3 of the Circular on SGXNet and the Company's corporate website.

Question 4:

Why is the Company disposing of part of its shipping business to COSCO HK, and not to any other purchasers?

Company's response:

The Purchaser is a wholly-owned subsidiary of COSCO SHIPPING Bulk, which is one of the largest dry bulk shipping corporations in the world. After completion, the Sale Company will be able to make use of COSCO SHIPPING Bulk's network and management to steadily expand its operating scale, which will improve its competitiveness and allows it to achieve better performance.

In addition, as the Company and COSCO SHIPPING Bulk are under the leadership and support of the same parent company, China COSCO SHIPPING, they have common development goals, similar corporate cultures, and management styles. As such, both parties can quickly achieve internal integration and optimal distribution of resources and business synergies.

Question 5:

Can the Company provide details as to how any potential conflicts of interests are addressed?

Company's response:

As the Sale Company will be majority owned ultimately by COSCO SHIPPING Bulk after the completion of the Proposed Transaction, and COSCO SHIPPING Bulk is also engaged in shipping business in Southeast Asia, there may be perceived potential conflicts of interest with the Sale Company, e.g. in deciding whether a shipping contract is to be carried out by the Sale Company or by COSCO SHIPPING Bulk and whose vessels to utilise to fulfil the shipping contract.

However, as the Sale Company has a relatively small fleet of vessels compared to COSCO SHIPPING Bulk, its capacity is relatively limited. In light of such limited capacity, it is likely that COSCO SHIPPING Bulk, which has a bigger fleet of vessels and resources, may take on potential shipping contracts in Southeast Asia which the Sale Company is not able to handle, and such situation should not be perceived as causing a potential conflict of interest as the interests of the Sale Company and the Group are not being prejudiced.

A perceived conflict may arise when COSCO SHIPPING Bulk takes on shipping contracts in Southeast Asian routes when the Sale Company's self-owned vessels are not fully utilised. In this regard, given the objective and rationale of the Proposed Transaction and as COSCO SHIPPING Bulk will become the major shareholder of the Sale Company after Completion, after taking into consideration various factors including customers' requirements on the specifications of vessels required, availability and location of vessels, and efficient deployment of vessels, all things being equal, for so long as COSCO SHIPPING Bulk has major shareholding interests in and ultimate control over the Sale Company, COSCO SHIPPING Bulk will endeavour to avoid competition with the Sale Company's self-owned vessels for shipping contracts in Southeast Asian routes.

Senior management of the Sale Company will carry out regular discussions with the Marketing Department of COSCO SHIPPING Bulk on potential shipping contracts which involve the Southeast Asian routes for the Sale Company's unutilised self-owned vessels, and whether competition with COSCO SHIPPING Bulk may occur, after taking into consideration various factors including customers' requirements on the specifications of vessels required, availability and location of vessels, and efficient deployment of vessels. Senior management will then report its findings to the Company's nominated directors on the board of the Sale Company on a quarterly basis.

On a quarterly basis, the Company's nominated directors on the board of the Sale Company will report to the Audit and Risk Management Committee ("**ARMC**") of the Company on whether any competition for shipping contracts in Southeast Asian routes has occurred. The ARMC will review the above on an annual basis to assess if the existing measures put in place are adequate, and if deemed necessary, will recommend fine-tuning and changes for improvement.

PERFORMANCE AND OUTLOOK OF DRY BULK SHIPPING INDUSTRY

Question 6:

How did the dry bulk shipping industry perform in the past?

Company's response:

The Baltic Dry Index ("**BDI**") is a measure of shipping costs for commodities. The BDI at the start of year 2020 was 976 points and it ended at 1,366 points, averaging 1,066 points for the entire year, lower than the average of 1,353 points in 2019. BDI averaged 2,257 points in the first half of 2021, representing a 229% growth from the average of 685 points in the first half of 2020. 2020 was a difficult year for the dry bulk shipping industry, mainly due to the pandemic. However, as reflected in the BDI as at 30 September 2021, after a strong performance in the first half of 2021, dry bulk charter rates moved steadily higher in the second half of 2021, reaching its highest level in thirteen years. In addition to rising rates, dry bulk secondhand prices have reached levels last seen in 2014. Dry bulk rates and prices are expected to remain firm over the next few months and then falling back and remaining relatively flat over the coming years, on assumptions that port delays will fall back significantly over the next 12 months, as they return to more normal levels, helped by improved infrastructure, fewer weather-related disruptions, and other factors. For further information, please refer to section 2.5 of the Circular on SGXNet and the Company's corporate website.

Question 7:

What is the outlook of the dry bulk shipping industry in Southeast Asia in the coming years? How can the Sale Company leverage on the RCEP agreement and the “One Belt, One Road” initiative?

Company’s response:

There are 11 countries in Southeast Asia with a total area of about 4.5 million km² and a total population of more than 650 million. It is one of the regions with the highest potential for economic development. In November 2020, the ten ASEAN countries together with China, Japan, South Korea, Australia, and New Zealand signed a Regional Comprehensive Economic Partnership Agreement (“RCEP”) to set up a free trade zone. With the formation of a free trade zone with the largest participating population and the greatest development potential in the world, it will help stabilize the supply chain, and will promote trade activities including dry bulk shipping activities in the region.

As the Southeast Asian countries continue its industrialisation and urbanisation, coupled with RCEP and “One Belt, One Road” initiative, these countries will become the main driving force for medium and long-term global economic growth. The Company believes that Southeast Asia will become one of the most important regions for the development of world trade in the future. Therefore, Southeast Asia is the regional market that the Sale Company will focus on in developing its bulk shipping business.

VALUATION AND CONSIDERATION OF THE SALE SHARES

Question 8:

How is the Consideration determined? What valuation methods did the Company use? Is the Consideration in the best interest of the Company and its shareholders?

Company’s response:

For this transaction, the Company commissioned an independent valuer in Singapore to carry out an independent valuation of 60% shareholding interest in the Sale Company.

The valuer had valued the Sale Company based on valuation date of 30 June 2021 and had considered the merits of each of the approaches (Income Approach, Market Approach and Net Asset Value Approach) as well as the availability of the information. It applied the Income Approach as a primary approach to estimate the Market Value range of 60% of the share capital of the Sale Company. Under the Income Approach, the Market Value has been estimated as the sum of the future free operating cash flows expected to be generated by the Sale Company discounted to its present value as at the valuation date, using the Weighted Average Cost of Capital. It also applied the Market Approach as a cross-check to the value derived under the Income Approach. It considered but did not apply the NAV Approach as the Sale Company has been profitable in the past years and its revenue is highly dependent on the time charter (“TC”) rate. Considering the high volatility of the BDI, an indicator of market TC rate, the replacement costs may not best reflect the Sale Company future economic benefits.

The Consideration for all the Sale Shares is US\$42,391,000 (equivalent to approximately S\$57.01 million¹). The Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser on a willing-buyer and willing-seller basis and taking into account the Valuation as at 30 June 2021.

The Independent Financial Adviser (“IFA”) is of the opinion that the Proposed Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders. Based on the rationale for and the terms of the Proposed Transaction as set out in

¹ For illustrative purposes, the foreign exchange rate of US\$1 : S\$1.3448 is used to show the S\$ equivalent of the Consideration.

the Circular, the Independent Directors are also of the opinion that the Proposed Transaction is in the best interests of the Company and the shareholders, and concur with the advice of the IFA that the Proposed Transaction is on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Question 9:

Is the Consideration higher than the carrying value? If so, what is the gain on carrying value?

Company's response:

Based on the latest announced consolidated financial statements of the Group for the financial period ended 30 June 2021, the carrying value (which is also the NTA) of the Sale Company and the Sale Shares amount to S\$70.13 million and S\$42.08 million respectively.

For illustrative purposes, assuming that the Proposed Partial Disposal is completed on 30 June 2021, the excess of the proceeds over the carrying value of the Sale Shares is approximately S\$14.93 million and the gain on the Proposed Partial Disposal (being the net effect of (i) the proceeds of S\$57.01 million; add (ii) the fair value of the remaining 40% interests retained in the Sale Company of S\$38.00 million; less (iii) the carrying value of the Sale Company of S\$70.13 million; and less (iv) the reclassification of translation reserves as at 30 June 2021 of S\$9.29 million) is approximately S\$15.59 million.

MATTERS RELATING TO THE UPCOMING EXTRAORDINARY GENERAL MEETING

Question 10:

What are some of the conditions precedent to the completion of the Proposed Transaction?

Company's response:

Completion of the Sale and Purchase Agreement is conditional upon the satisfaction of conditions precedent, which include the following:

- (i) the Proposed Transaction having been cleared by SGX-ST, and where clearance from SGX-ST is obtained subject to any conditions, such conditions being reasonably acceptable to the Company and the Purchaser, as the case may be;
- (ii) the Proposed Transaction having been approved by the Company's shareholders at a general meeting or at any adjournment thereof;
- (iii) completion of the sale and purchase of all the Sale Shares taking place simultaneously;
- (iv) no breach of the Sale and Purchase Agreement has occurred and all representations and warranties made by the parties under the Sale and Purchase Agreement are true, accurate, complete and not misleading; and
- (v) the Company and the Purchaser having entered into the Shareholders' Agreement on completion of the Sale and Purchase Agreement.

Question 11:

Since this Extraordinary General Meeting (“EGM”) is conducted via electronic means, how do we cast votes?

Company’s response:

Due to the current COVID-19 restriction orders in Singapore, shareholders will not be able to attend the EGM in person. All shareholders who wish to vote on the resolutions tabled at the EGM must appoint the Chairman of the EGM as their proxy to attend, speak and vote on their behalf at the EGM, in accordance with the instructions on the proxy form.

The duly completed and signed proxy form must be deposited via any of the following means:

- (i) **by post** to the Company’s Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02, Singapore 068898; or
- (ii) **by email** to the Company’s Share Registrar, Tricor Barbinder Share Registration Services at sg.is.COSCOproxy@sg.tricorglobal.com; or
- (iii) **by electronic submission**, lodged at the Company’s EGM pre-registration site, <https://conveneagm.sg/coscoshippingegm>.

in any case, by 2.00 p.m. on 20 December 2021 (being not less than 72 hours before the time for holding the EGM).

CPF or SRS investors who wish to appoint the Chairman of the EGM as their proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 13 December 2021.

Shareholders are strongly encouraged to submit completed proxy forms electronically, through email or electronic submission.

If you have any enquiries regarding voting, please contact Financial PR, the Company’s Investor Relations Consultant, at:

Tel: (65) 6438 2990

Fax: (65) 6438 0064

Email: coscoshipping@financialpr.com.sg

If you like to find out more information regarding voting, you can also refer to the Notice of Extraordinary General Meeting that the Company uploaded on SGXNet and its corporate website on 8 December 2021.

Question 12:

How do we participate in the EGM?

Company’s response:

All shareholders who wish to follow the proceedings of the EGM through the Live EGM Webcast must pre-register online to create an account at the URL: <https://conveneagm.sg/coscoshippingegm> to enable the Company to verify your status as shareholders. The website will be open for Pre-registration from 2.00 p.m. on 8 December 2021 and will close at 2.00 p.m. on 20 December 2021. Investors who hold shares through depository agents must approach their respective depository agents to pre-register by 5.00 p.m. on 13 December 2021 in order to allow sufficient time for their respective depository agents to in turn pre-register their interest with the Company. Following the verification, authenticated shareholders will receive an email on their authentication status by 12.00 p.m. on 22 December 2021 and will be able to access the Live EGM Webcast using the account created.

For further information, please refer to the Company’s Announcement on Notice of Alternative Arrangement on SGXNet and the Company’s corporate website on 8 December 2021.