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**中遠海運發展股份有限公司**  
**COSCO SHIPPING Development Co., Ltd.\***

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 02866)**

**PROPOSED ADOPTION OF SHARE OPTION INCENTIVE SCHEME**

This announcement is made by the Company pursuant to Rule 13.09(2) of the Hong Kong Listing Rules and the Inside Information Provisions (as defined in the Hong Kong Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Board is pleased to announce that on 16 December 2019, the Board has approved the proposed adoption of the Share Option Incentive Scheme and the Proposed Initial Grant under the Share Option Incentive Scheme by the Company. The Share Option Incentive Scheme will be subject to the review and approval by the SASAC and the approval of the Shareholders at the Shareholders' Meetings.

Pursuant to the Share Option Incentive Scheme and the Proposed Initial Grant, the Board proposed to grant Shares Options to 127 Participants, which comprises 9 Directors and senior management of the Company, 118 core management and business personnel of the Group.

The total number of underlying A Shares in relation to the Share Options (inclusive of the Reserved Share Options) under the Share Option Incentive Scheme shall be 88,474,448 A Shares, representing approximately 0.7622% of the existing total issued share capital of the Company and 1.1154% of the existing A Share capital of the Company as at the date of this announcement.

The EGM and the Class Meetings will be convened for the Shareholders to consider and, if thought fit, approve, among other things, the proposed adoption of the Share Option Incentive Scheme.

A circular containing, among other things, (i) further details of the terms of the Share Option Incentive Scheme and the Proposed Initial Grant; (ii) a notice convening the EGM; and (iii) a notice convening the H Share class meeting will be despatched to the Shareholders as soon as practicable in accordance with the requirements under the Hong Kong Listing Rules.

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## **PROPOSED ADOPTION OF THE SHARE OPTION INCENTIVE SCHEME**

### **1. Purpose of the Share Option Incentive Scheme**

The purpose of the Share Option Incentive Scheme is to, among other things, facilitate the establishment and improvement of the incentive systems of the Company and incentivize the senior management and core management and business personnel of the Group, thereby tying the interests of the Company, the Shareholders and the management together and facilitating the achievement of the development targets of the Company.

### **2. Basis of determining the Participants and the scope of the Participants**

#### ***(1) Basis of determining the Participants***

The scope of the Participants of the Share Option Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Trial Measures, the Administrative Measures, the Hong Kong Listing Rules, the relevant laws, regulations and regulatory documents and the Articles of Association.

#### ***(2) Scope of the Participants***

The scope of the Participants of the Share Option Incentive Scheme is as follows:

- (i) the Participants shall in principle be limited to Directors, senior management and core management, technical and business personnel who have direct impact on the overall results and continuous development of the Group;
- (ii) if a Participant is a Director, chief executive of the Company or a substantial Shareholder or any of their respective associates (as defined in the Hong Kong Listing Rules), each grant of the Share Options to any of the abovementioned persons shall be approved by the independent non-executive Directors;
- (iii) Directors, senior management, core technical and business personnel of the Company who are foreigners may become a Participant;
- (iv) professional managers hired from the market may participate in the share option incentive scheme of his/her company;

- (v) persons-in-charge of central state-owned enterprises managed by the central government of the PRC and the Party committee of the SASAC shall not participate in the Share Option Incentive Scheme;
- (vi) persons who do not hold positions in the Company shall not participate in the Share Option Incentive Scheme;
- (vii) the Supervisors, independent non-executive Directors and any Shareholders or de facto controllers who individually or jointly hold more than 5% of the Shares and their spouse, parents and children shall not participate in the Share Option Incentive Scheme;
- (viii) if a person-in-charge of the controlling Shareholder(s) holds a position in the Company, he/she may participate in the Share Option Incentive Scheme, but can only participate in the share option scheme of one listed subsidiary of the controlling Shareholder(s);
- (ix) Pursuant to the Administrative Measures, a person shall not participate in the Share Option Incentive Scheme if:
  - (a) he/she has been declared as an unsuitable candidate by the Stock Exchange(s) in the past 12 months;
  - (b) he/she has been declared as an unsuitable candidate by the CSRC or its agencies in the past 12 months;
  - (c) he/she has been imposed with administrative penalties or prohibited from entering into the market by the CSRC or its agencies in the past 12 months due to material non-compliance with laws and regulations;
  - (d) he/she has been prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;
  - (e) he/she has been prohibited from participating in share option incentive schemes of listed companies under laws and regulations; or
  - (f) there are other circumstances as determined by the CSRC.

### **3. Source and number of Shares under the Share Option Incentive Scheme**

#### ***(1) Source of the underlying Shares under the Share Option Incentive Scheme***

The source of the underlying Shares of the Share Option Incentive Scheme shall be (i) 79,627,003 A Shares repurchased and held by the Company pursuant to the authorisation granted by the Shareholders at the extraordinary general meeting of the Company and the Class Meetings held on 25 February 2019; and (ii) 8,847,445 A Shares to be issued by the Company. The A Shares to be issued pursuant to the exercise of the Share Options granted under the Share Option Incentive Scheme shall rank pari passu in all respects with all A Shares in issue as at the date of the issuance of such A Shares.

**(2) *Number of the underlying Shares in relation to the Share Options***

The total number of the Share Options to be granted under the Share Option Incentive Scheme shall be 88,474,448 (inclusive of the Reserved Share Options) and the underlying A Shares in relation thereto shall be 88,474,448 A Shares, representing approximately 0.7622% of the existing total issued share capital of the Company and 1.1154% of the existing A Share capital of the Company as at the date of this announcement.

It is proposed that 79,627,003 Share Options will be granted to 127 Participants under the Proposed Initial Grant, upon full exercise of which, 79,627,003 A Shares, representing approximately 0.6860% of the existing total issued share capital of the Company and 1.0039% of the existing A Share capital of the Company as at the date of this announcement, shall be issued. Further details of the Proposed Initial Grant are set out in the section headed “Proposed Initial Grant under the Share Option Incentive Scheme” below.

The remaining 8,847,445 Share Options, being the Reserved Share Options and representing approximately 10% of the total number of the Share Options to be granted under the Share Option Incentive Scheme, will be reserved and granted upon the determination of the relevant Participants by the Board within 12 months after the approval of the Share Option Incentive Scheme by the Shareholders at the Shareholders’ Meetings. If the Participants eligible for the Reserved Share Options are not determined within the abovementioned 12-month period, the Reserved Share Options shall lapse.

Subject to the satisfaction of the Conditions of Exercise, each Share Option entitles the Participant to acquire one A Share at the pre-determined exercise price. The Share Options granted to the Participants shall not be transferred, pledged for guarantee or used for repayment of debts.

Unless otherwise approved by the Shareholders at the Shareholders’ Meetings, the total number of A Shares issued and to be issued upon exercise of the Share Options granted to each Participant (including both exercised and outstanding Share Options) in any 12-month period shall not exceed 1% of the total issued A Share capital of the Company.

During the Validity Period, the aggregate number of underlying A Shares in relation to the Share Options under the Share Option Incentive Scheme shall not exceed 10% of the total issued A Share capital of the Company as at the date of approval of the Share Option Incentive Scheme. The Share Option Incentive Scheme will not result in change of control of the Company.

#### 4. **Validity Period, Date of Grant, Vesting Period, exercise date, exercise period and lock-up provisions**

##### **(1) *Validity Period***

The Share Option Incentive Scheme shall be effective for 10 years from the date on which the Share Option Incentive Scheme is approved at the Shareholders' Meetings.

##### **(2) *Date of Grant***

The Date of Grant of the Share Options (other than Reserved Share Options) shall be determined by the Board within 60 days after the approval of the Share Option Incentive Scheme by the Shareholders at the Shareholders' Meetings. The Date of Grant shall be a trading day (excluding the period during which no Share Options shall be granted pursuant to the requirements under the laws and regulations). The Board shall grant the Share Options to the Participants on the Date of Grant and complete the relevant announcement and registration procedures.

##### **(3) *Vesting Period***

The Vesting Period of the Share Option Incentive Scheme is two years from the Date of Grant.

##### **(4) *Exercise period and exercise date***

The exercise period of the Share Options under the Share Option Incentive Scheme shall be a term of seven years commencing from the Date of Grant. Share Options not exercised within seven years from the Date of Grant shall lapse automatically. Subject to the satisfaction of the Conditions of Exercise, the Share Options granted under the Share Option Incentive Scheme will be exercisable in three tranches after the expiration of the Vesting Period in accordance with the following arrangement:

<b>Exercise period</b>	<b>Duration</b>	<b>Proportion of Share Options exercisable to the total number of Share Options granted</b>
First exercise period	Commencing on the first trading day after the expiration of the 24-month period from the Date of Grant and ending on the last trading day of the 36-month period from the Date of Grant.	1/3
Second exercise period	Commencing on the first trading day after the expiration of the 36-month period from the Date of Grant and ending on the last trading day of the 48-month period from the Date of Grant.	1/3
Third exercise period	Commencing on the first trading day after the expiration of the 48-month period from the Date of Grant and ending on the last trading day of the 84-month period from the Date of Grant.	1/3

The exercise date of the Share Options shall be a trading day and shall not fall within any of the following periods:

- (i) the period commencing from 30 days prior to the publication of periodic reports of the Company, or in the event of delay in publishing the annual report or interim report of the Company due to special reasons, the period commencing from 30 days prior to the original date of publication and ending on one day immediately preceding the publication date;
- (ii) the period commencing from 10 days prior to the publication of the announcements of estimated results and preliminary results of the Company;
- (iii) the period commencing from the date of occurrence of a material event which may have a substantial impact on the trading prices of the Shares and their derivatives or the date on which relevant decision-making procedures commence, and ending on the second trading day following the making of relevant disclosure in accordance with laws; and
- (iv) other periods as stipulated by the CSRC, the Stock Exchanges and applicable laws and regulations.

**(5) Lock-up restrictions**

The A Shares acquired by the Participants pursuant to the exercise of the Share Options under the Share Option Incentive Scheme are subject to the lock-up restrictions in accordance with the Company Law, the Securities Law, the relevant laws, regulations and regulatory documents and the Articles of Association, details of which are set out as follows:

- (i) where the Participant is a Director or a member of the senior management of the Company, the number of Shares which may be transferred by the Participant each year during his/her tenure of office shall not exceed 25% of the total number of the Shares held by him/her, and the Participant shall not transfer any Shares held by him/her within six months after his/her resignation; and
- (ii) where the Participant is a Director or a member of senior management of the Company and he/she sells the Shares within six months of the acquisition or buys back Shares within six months of disposition, all gains arising therefrom shall be vested with the Company and the Board will collect all such gains.

If, during the Validity Period, there is any amendment to the requirements regarding the Share transfer by a Director and/or a member of the senior management of the Company under the Company Law, the Securities Law, the relevant laws, regulations and regulatory documents and the Articles of Association, the amended restrictions shall apply.

## 5. Exercise price and basis of determination

The exercise price of the Share Options to be granted under the Share Option Incentive Scheme shall be RMB2.52 per A Share. Subject to the satisfaction of the Conditions of Exercise, each Share Option entitles the Participant to acquire one A Share at RMB2.52 per A Share.

The exercise price of the Shares Options was determined in accordance with the relevant requirements under the laws and regulations of the PRC (including the Administrative Measures and the Trial Measures) and represents the higher of the following:

- (i) the average trading price of the A Shares on the last trading day immediately preceding the date of announcement of the Share Option Incentive Scheme, being approximately RMB2.52 per A Share;
- (ii) the average trading price of the A Shares for the 20 trading days immediately preceding the date of the announcement of the Share Option Incentive Scheme being approximately RMB2.50 per A Share;
- (iii) the closing price of the A Shares on the last trading day immediately preceding the date of the announcement of the Share Option Incentive Scheme, being RMB2.52 per A Share;
- (iv) the average closing price of the A Shares for the 30 trading days immediately preceding the date of the announcement of the Share Option Incentive Scheme, being approximately RMB2.49 per A Share; and
- (v) the par value of the A Shares, being RMB1.00 per A Share.

The initial exercise price of RMB2.52 will be adjusted in the event of distribution of dividends, capitalization issue, bonus issue, sub-division or consolidation of Shares or rights issue of the Company since the Date of Grant and before the exercise of the Share Options, further details of which are set out in the section headed “Proposed Adoption of the Share Option Incentive Scheme – 7. Methods and procedures for adjustments to the number and the exercise price of the Share Options”.

## 6. Conditions of Grant and Conditions of Exercise

### (1) *Conditions of Grant*

The following conditions must be satisfied before the Share Options are granted to a Participant:

- (i) none of the following circumstances in relation to the Company having occurred:
  - (a) issue of the financial and accounting report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
  - (b) issue of the financial report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion with respect to internal control;
  - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association or any public undertakings during the past 36 months after listing;
  - (d) prohibition from implementation of share option incentive schemes under laws and regulations; and
  - (e) other circumstances as determined by the CSRC;
- (ii) none of the following circumstances in relation to the Participant having occurred:
  - (a) having obtained an assessment grade below “qualified” in his/her performance appraisal for the financial year immediately preceding the grant of the Share Options pursuant to the Appraisal Measures; and
  - (b) any circumstance where a person shall not participate in the Share Option Incentive Scheme as set out in the section headed “Proposed Adoption of the Share Option Incentive Scheme – 2. Basis of determining the Participants and the scope of the Participants”;
- (iii) the audited financial results of the Company for the financial year immediately preceding the Date of Grant having satisfied all of the following conditions:
  - (a) the EOE for the financial year ended 31 December 2018 shall not be less than (i) 45%; (ii) the average EOE for the past three years; and (iii) the 50th percentile of the EOE of the Peer Benchmark Companies for the financial year ended 31 December 2018;
  - (b) based on the results of the Company for the financial year ended 31 December 2016, the compound growth rate on the operating revenue of the Company for the financial year ended 31 December 2018 shall not be less than (i) 2%; and (ii) the 50th percentile of such rate of the Peer Benchmark Companies for the financial year ended 31 December 2018; and
  - (c) the EVA for the financial year immediately preceding the grant of the Share Options shall reach the target assigned by COSCO SHIPPING.



## **(2) Conditions of Exercise**

The following conditions must be satisfied before the Share Options become effective and exercisable by the Participant (including Participant of the Reserved Share Options) pursuant to the terms of the Share Option Incentive Scheme:

- (i) none of the following circumstances in relation to the Company having occurred:
  - (a) issue of the financial and accounting report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
  - (b) issue of the financial report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion with respect to internal control;
  - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association or any public undertakings during the past 36 months after listing;
  - (d) prohibition from implementation of share option incentive schemes under relevant laws and regulations; and
  - (e) other circumstances as determined by the CSRC;
- (ii) none of the following circumstances in relation to the Participant having occurred:
  - (a) any circumstance where a person shall not participate in the Share Option Incentive Scheme as set out in the section headed “Proposed Adoption of the Share Option Incentive Scheme – 2. Basis of determining the Participants and the scope of the Participants”;
- (iii) the Company having achieved the following performance targets for the respective exercise period, and none of the circumstances as stipulated in the relevant requirements of the SASAC and the CSRC that the Share Options shall not become effective having occurred:

<b>Exercise period</b>	<b>Performance targets</b>
First exercise period	<ul style="list-style-type: none"><li>(a) The EOE for the financial year ending 31 December 2020 shall not be less than (i) 46.5%; and (ii) the 75th percentile of the EOE of the Peer Benchmark Companies for the corresponding period;</li><li>(b) based on the results of the Company for the financial year ended 31 December 2018, the compound growth rate on the operating revenue of the Company for the financial year ending 31 December 2020 shall not be less than (i) 6.5%; and (ii) the 75th percentile of such rate of the Peer Benchmark Companies for the corresponding period; and</li></ul>

<b>Exercise period</b>	<b>Performance targets</b>
	(c) the EVA for the financial year ending 31 December 2020 shall reach the target assigned by COSCO SHIPPING and the change in EVA as compared to the previous period is greater than 0.
Second exercise period	<p>(a) The EOE for the financial year ending 31 December 2021 shall not be less than (i) 47%; and (ii) the 75th percentile of the EOE of the Peer Benchmark Companies for the corresponding period;</p> <p>(b) based on the results of the Company for the financial year ended 31 December 2018, the compound growth rate on the operating revenue of the Company for the financial year ending 31 December 2021 shall not be less than (i) 7%; and (ii) the 75th percentile of such rate of the Peer Benchmark Companies for the corresponding period; and</p> <p>(c) the EVA for the financial year ending 31 December 2021 shall reach the target assigned by COSCO SHIPPING and the change in EVA as compared to the previous period is greater than 0.</p>
Third exercise period	<p>(a) The EOE for the financial year ending 31 December 2022 shall not be less than (i) 47.5%; and (ii) the 75th percentile of the EOE of the Peer Benchmark Companies for the corresponding period;</p> <p>(b) based on the results of the Company for the financial year ended 31 December 2018, the compound growth rate on the operating revenue of the Company for the financial year ending 31 December 2022 shall not be less than (i) 7.5%; and (ii) the 75th percentile of such rate of the Peer Benchmark Companies for the corresponding period; and</p> <p>(c) the EVA for the financial year ending 31 December 2022 shall reach the target assigned by COSCO SHIPPING and the change in EVA as compared to the previous period is greater than 0.</p>
	(iv) the Participant having obtained an assessment grade of “qualified” or above in his/her performance appraisal for the financial year immediately preceding the exercise of the Share Options pursuant to the Appraisal Measures.

If the Conditions of Exercise are not satisfied for the relevant exercise period, the respective proportion of the Share Options shall lapse.

## 7. Methods and procedures for adjustments to the number and the exercise price of the Share Options

### *(1) Adjustments to the number of the Share Options*

In the event of capitalization issue, bonus issue, sub-division or consolidation of Shares or rights issue of the Company since the Date of Grant and before the exercise of the Share Options, the number of the Share Options shall be adjusted in the following manner:

- (i) Capitalization issue, bonus issue and sub-division of Shares

$$Q = Q_0 \times (1+N)$$

where,

- (a)  $Q_0$  is the number of the Share Options before the adjustment;
- (b)  $N$  is the ratio of increase per Share resulting from the capitalization issue, bonus issue and sub-division of Shares, which represents the number of Shares being issued upon capitalization issue, bonus issue or sub-division of Shares for each Share; and
- (c)  $Q$  is the number of the Share Options after the adjustment.

- (ii) Consolidation of Shares

$$Q = Q_0 \times N$$

where,

- (a)  $Q_0$  is the number of the Share Options before the adjustment;
- (b)  $N$  is the ratio of consolidation of Shares, which represents the number of Shares after consolidation for each Share; and
- (c)  $Q$  is the number of the Share Options after the adjustment.

- (iii) Rights issue

$$Q = Q_0 \times P_1 \times (1+N)/(P_1+P_2 \times N)$$

where,

- (a)  $Q_0$  is the number of the Share Options before the adjustment;
- (b)  $P_1$  is the closing price as at the record date;
- (c)  $P_2$  is the subscription price of the rights issue;

- (d) N is the basis of the rights issue, which represents the ratio of the number of Shares to be issued under the rights issue to the total issued Share capital of the Company before the rights issue; and
- (e) Q is the number of the Share Options after adjustment.

No adjustment shall be made to the number of the Share Options in the event of issuance of additional Shares by the Company.

**(2) Adjustments to the exercise price of the Share Options**

In the event of distribution of dividends, capitalization issue, bonus issue, sub-division or consolidation of Shares or rights issue of the Company since the Date of Grant and before the exercise of the Share Options, the exercise price of the Share Options shall be adjusted in the following manner:

- (i) Capitalization issue, bonus issue and sub-division of Shares

$$P = P_0 \div (1+N)$$

where,

- (a)  $P_0$  is the exercise price of the Share Options before the adjustment;
- (b) N is the ratio of increase per Share resulting from the capitalization issue, bonus issue and sub-division of Shares; and
- (c) P is the exercise price of Share Options after the adjustment.

- (ii) Consolidation of Shares

$$P = P_0 \div N$$

where,

- (a)  $P_0$  is the exercise price of the Share Options before the adjustment;
- (b) N is the ratio of consolidation of Shares; and
- (c) P is the exercise price of the Share Options after the adjustment.

- (iii) Distribution of dividends

$$P = P_0 - V$$

where,

- (a)  $P_0$  is the exercise price of the Share Options before the adjustment;
- (b) V is the amount of dividend for each Share; and
- (c) P is the exercise price of the Share Options after the adjustment.

(iv) Rights issue

$$P = P_0 \times (P_1 + P_2 \times N) / (P_1 \times (1 + N))$$

where,

- (a)  $P_0$  is the exercise price of the Share Options before the adjustment;
- (b)  $P_1$  is the closing price as at the record date;
- (c)  $P_2$  is the subscription price of the rights issue;
- (d)  $N$  is the basis of the rights issue, which represents the ratio of the number of Shares to be issued under the rights issue to the total issued Share capital of the Company before the rights issue; and
- (e)  $P$  is the exercise price of the Share Options after adjustment.

No adjustment shall be made to the exercise price of the Share Options in the event of issuance of additional Shares by the Company.

**(3) Adjustment procedures**

The Board shall be authorised by the Shareholders at the Shareholders' Meetings to adjust the number and the exercise price of the Share Options under the Share Option Incentive Scheme upon the occurrence of any of the abovementioned circumstances. After the adjustment is made, the Board shall report to the state-owned assets supervision authority, publish an announcement and notify the Participants in respect of the adjustment in a timely manner.

Any adjustment to the number, exercise price or other terms of the Share Options due to other reasons, after being reviewed by the Board, shall be submitted to the Shareholders' Meetings for the Shareholders' consideration and approval before implementation.

In the event of any adjustment to the Share Option Incentive Scheme, the independent non-executive Directors and the Supervisory Committee shall express independent opinion on whether the adjusted Share Option Incentive Scheme is beneficial to the sustainable development of the Company and whether there exists circumstances where the interests of the Company and the Shareholders as a whole would be prejudiced. The Company shall engage legal advisers to advise the Board on whether the adjustment is in compliance with the Administrative Measures, the Articles of Association, the Share Option Incentive Scheme and the relevant laws and regulations.

## 8. Arrangements for changes under the Share Option Incentive Scheme

### *(1) Changes in relation to the Participant*

- (i) Upon the occurrence of any of the following in relation to a Participant, all his/her Share Options which are exercisable but not yet exercised shall cease to be exercisable and the Share Options which are not yet exercisable shall lapse forthwith on the date of occurrence, and the Board shall recover the gain of the Participant from the Share Option Incentive Scheme:
  - (a) the results of the economic responsibility audit and other reports indicate that he/she has failed to perform duties effectively or is involved in serious misconduct or malfeasance;
  - (b) having contravened the PRC laws and regulations or the provisions of the Articles of Association; or
  - (c) having, during his/her tenure of office, involved in acceptance or solicitation of bribery, corruption, theft, leakage of trade and technical secrets, connected transactions and other unlawful acts and misconducts, which prejudice the interest and reputation of and cause significant negative impact to the Company, thereby resulting in significant economic loss to the Company.
- (ii) Upon the occurrence of any of the following in relation to a Participant, all his/her Share Options which are exercisable but not yet exercised shall cease to be exercisable and the Share Options which are not yet exercisable shall lapse forthwith on the date of occurrence:
  - (a) having been declared as an unsuitable candidate by the Stock Exchange(s) in the past 12 months;
  - (b) having been declared as an unsuitable candidate by the CSRC or its agencies in the past 12 months;
  - (c) having been imposed with administrative penalties or prohibited from entering the market by the CSRC or its agencies in the past 12 months due to material non-compliance with laws and regulations;
  - (d) being prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;
  - (e) his/her service contract having been terminated by the Company or there have been a change of job position, as a result of his/her unfitness for the position, failure to pass performance appraisal, involvement in non-compliance with laws, violation of professional ethics, leakage of confidential information of the Company, dereliction of duty, malfeasance or other acts which prejudice the interest or reputation of the Company;
  - (f) becoming an independent non-executive Director, Supervisor or other persons who cannot hold Shares or Share Options;

- (g) other circumstances which materially violate relevant rules of the Company or materially prejudice the interest of the Company as determined by the Board;
  - (h) having been prohibited from participating in share option incentive schemes of listed companies under relevant laws, administrative regulations or departmental rules; or
  - (i) other circumstances as determined by the Remuneration Committee.
- (iii) Upon the occurrence of any of the following in relation to a Participant, all his/her Share Options which are exercisable but not yet exercised shall remain exercisable and shall be exercised within six months after the occurrence of such circumstance(s), and the Share Options which are not yet exercisable shall lapse:
- (a) having been dismissed by the Company or the employment relationship between the Participant and the Company having been terminated due to objective reasons;
  - (b) the Company proposing not to renew the labor contract or employment contract when it expires;
  - (c) the Participant having reached the retirement age pursuant to PRC laws and the rules of the Company and left his/her position due to retirement;
  - (d) upon the death of a Participant, his/her Share Options which are exercisable but not exercised shall remain exercisable and shall be exercised within six months by his/her designated successors or legal successors, and his/her Share Options which are not exercisable shall lapse;
  - (e) the Participant no longer holding a position in COSCO SHIPPING and its subsidiaries due to special assignments, and during the year of occurrence he/she having worked in the Company, its subsidiaries and investees for more than three months and passed the personal performance appraisal; or
  - (f) other circumstances as determined by the Remuneration Committee.
- (iv) Upon the occurrence of any of the following in relation to a Participant, all his/her Share Options which have not been exercised shall lapse forthwith on the date of occurrence:
- (a) having tendered his/her resignation unilaterally; or
  - (b) having been dismissed by the Company due to personal reasons of the Participant.
- (v) Upon the occurrence of any of the following in relation to a Participant, all his/her Share Options which are exercisable but not yet exercised shall remain exercisable and other Share Options granted shall remain valid and exercisable in accordance with the terms of the Share Option Incentive Scheme:
- (a) the Participant having changed his/her job position but still holding a position in the Company, its subsidiaries and investees;

- (b) incapacity of the Participant due to injuries sustained as a result of performance of his/her duties; or
- (c) the Participant having been transferred to COSCO SHIPPING or its subsidiaries, but still having important synergy with the Company after the job transfer and remaining responsible for following up on the previous duties before the job transfer.

Upon occurrence of the circumstance as stated in sub-paragraph (c) above, the Share Options held by such Participant which are exercisable but not yet exercised shall remain valid and exercisable in accordance with the terms of the Share Option Incentive Scheme, and the Board shall authorise the independent non-executive Directors who are members of the Remuneration Committee to determine whether all or part of the Share Options held by such Participant which have not become exercisable shall remain valid in accordance with the terms of the Share Option Incentive Scheme.

- (vi) Other unspecified circumstances and the respective handling methods shall be determined by the Remuneration Committee.

**(2) *Change of circumstances of the Company***

- (i) Upon the occurrence of any of the following in relation to the Company, the Board shall be authorised at the Shareholders' Meetings to determine, in accordance with the magnitude of changes in the relevant conditions, the continual implementation, revision, suspension or termination of the Share Option Incentive Scheme, except for the rights required to be exercised at the Shareholders' Meetings as stipulated in the relevant laws, administrative regulations, departmental rules or regulatory documents:
  - (a) change of control of the Company;
  - (b) merger or demerger of the Company; or
  - (c) other material changes of the Company.
- (ii) Upon the occurrence of any of the following in relation to the Company, the Share Option Incentive Scheme shall be terminated. Share Options which are exercisable but not yet exercised by the Participants shall cease to be exercisable and the Share Options which are not yet exercisable shall be cancelled by the Company:
  - (a) issue of the financial and accounting report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
  - (b) issue of the financial report of the Company for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion with respect to internal control;
  - (c) prohibition from implementation of share option incentive schemes by laws, administrative regulations or departmental rules; or
  - (d) any circumstances as determined by the CSRC.



## 9. Amendments and termination of the Share Option Incentive Scheme

### *(1) Amendments to the Share Option Incentive Scheme*

The Board may make amendments to the Share Option Incentive Scheme and submit to relevant regulatory authorities for filing in accordance with the relevant requirements of laws and regulations. In case of any discrepancies between the terms of the Share Option Incentive Scheme and the requirements of relevant laws, regulations, agreements, the Stock Exchanges, or any changes in the requirements of relevant laws, regulations, agreements or the Stock Exchanges, such requirements of relevant laws, regulations, agreements or the Stock Exchanges shall prevail. If certain amendments to the Share Option Incentive Scheme require the approval of the Shareholders at the Shareholders' Meetings and/or relevant regulatory authorities pursuant to the relevant requirements of laws, regulations, agreements or the Stock Exchanges, the Board must obtain such approval for the amendments to the Share Option Incentive Scheme.

Any amendment to the Share Option Incentive Scheme relating to the matters set out in Rule 17.03 of the Hong Kong Listing Rules and to the advantage of Participants shall not be made without the prior approval of the Shareholders at the Shareholders' Meetings. Any alterations to the terms and conditions of the Share Option Incentive Scheme which are of a material nature or any change to the terms of the Share Options granted must be approved by the Shareholders at the Shareholders' Meetings, except where the alterations take effect automatically under the existing terms of the Share Option Incentive Scheme.

If the Company proposes any amendments to the Share Option Incentive Scheme prior to the approval of the Share Option Incentive Scheme by the Shareholders at the Shareholders' Meetings, the proposed amendments shall be subject to the approval of the Board.

If the Company proposes any amendments to the Share Option Incentive Scheme after the approval of the Share Option Incentive Scheme by the Shareholders at the Shareholders' Meetings (excluding the matters to be resolved by the Board as authorised by the Shareholders at the Shareholders' Meetings), an announcement shall be made in a timely manner and the proposed amendments shall be submitted to the Shareholders' Meetings for consideration, and the proposed amendments shall not:

- (i) result in acceleration in the exercise of Share Options or early release of lock-up restriction; or
- (ii) reduce the exercise price or price of grant of the Share Options.

The independent non-executive Directors and the Supervisory Committee shall express independent opinion on whether the amended Share Option Incentive Scheme is beneficial to the sustainable development of the Company and whether there exists circumstances where the interests of the Company and the Shareholders as a whole would be prejudiced. Legal advisers to the Company shall provide an opinion on whether the adjustment is in compliance with the Administrative Measures, the Articles of Association, the Share Option Incentive Scheme and the relevant laws and regulations and whether there exists circumstances where the interests of the Company and the Shareholders as a whole would be prejudiced.

With respect to the Participants who have been granted with Share Options under the Share Option Incentive Scheme, save with the prior consents of such Participants, the rights and obligations of such Participants shall not be changed or diminished by the amendments or suspension of the Share Option Incentive Scheme.

**(2) *Termination of the Share Option Incentive Scheme***

The Share Option Incentive Scheme shall automatically terminate upon the expiration of the Validity Period, being 10 years from the date on which the Share Option Incentive Scheme is approved at the Shareholders' Meetings.

If the Company proposes to terminate the Share Option Incentive Scheme before the Share Option Incentive Scheme is submitted to the Shareholders' Meetings for the Shareholders' consideration, such proposal shall be subject to the approval by the Board. If the Company proposes to terminate the Share Option Incentive Scheme after the Share Option Incentive Scheme is considered and approved by the Shareholders at the Shareholders' Meetings, such proposal shall be subject to the approval by the Shareholders at the Shareholders' Meetings. During the Validity Period, the Board may, if it considers necessary, propose a resolution to the Shareholders' Meetings for the early termination of the Share Option Incentive Scheme.

In the event of an early termination of the Share Option Incentive Scheme approved by the Shareholders at the Shareholders' Meetings or the automatic termination of the Share Option Incentive Scheme upon the expiration of the Validity Period, the Company shall not grant any Share Options according to the Share Option Incentive Scheme. Unless otherwise required, the Share Options granted prior to the termination of the Share Option Incentive Scheme shall remain valid and exercisable in accordance with the terms of the Share Option Incentive Scheme.

# ACCOUNTING TREATMENT OF THE SHARE OPTION INCENTIVE SCHEME AND IMPACT ON THE OPERATING RESULTS OF THE COMPANY

## 1. Fair value of the Share Options

According to the relevant requirements regarding the recognition of fair value under “Enterprise Accounting Standard No. 11 - Share-based Payment” (《企業會計準則第11號－股份支付》) and “Enterprise Accounting Standard No. 22 - Recognition and Measurement of Financial Instruments” (《企業會計準則第22號－金融工具確認和計量》), the Company shall select an appropriate valuation model to determine the fair value of the Share Options. The Company has selected the Black-Scholes option pricing model and the date of the approval by the Board of the Share Option Incentive Scheme as the benchmark date to determine the fair value of the 79,627,003 Share Options to be granted under the Proposed Initial Grant.

Based on the preliminary calculation by the Company, the estimated fair value of each Share Option is RMB1.02, and the aggregate estimated value of the 79,627,003 Share Options is RMB81,219,500. Details of the relevant parameters used are set out below:

Market price of the A Shares:	RMB2.52, being the fair market price of the A Shares determined pursuant to the requirements of the CSRC and the SASAC
Exercise price of the Share Options:	RMB2.52, being the exercise price of the Share Options determined pursuant to the requirements of the CSRC and the SASAC
Expected life:	Five years, being the weighted expected effective period
Risk-free yield:	2.99%, being the five-year yield to maturity of the national bond rate
Expected volatility:	41.36%, based on the historical volatility rate of the price of the A Shares
Expected rate of dividend:	0.00% <sup>(Note)</sup>

*Note:*

*According to the applicable valuation method and relevant requirements of the SASAC, as the adjustment mechanism to the exercise price of the Share Options upon occurrence of distribution of dividend is provided in the Share Option Incentive Scheme, the expected rate of dividend shall not be taken into account in the determination of fair value of the Share Options.*

The preliminary calculation results of the value of the Share Options are subject to a number of assumptions of the parameters used therein and the limitation of the model adopted. Therefore, the estimated value of the Share Options may be subjective and uncertain.

## 2. Amortisation and impact on the operating results of the Company

The costs of Share Options incurred under the Share Option Incentive Scheme will be recorded as expenses in recurring profits and losses and will be amortised during the relevant periods in accordance with the applicable accounting standards.

Disregarding the stimulation effects of the Share Option Incentive Scheme on the results of the Company, the Company is of the view that the amortisation of the costs of the Share Option Incentive Scheme will have an impact on the net profits of the Company for each relevant financial year during the Validity Period, but such impact will not be significant.

## PROPOSED INITIAL GRANT UNDER THE SHARE OPTION INCENTIVE SCHEME

Pursuant to the Share Option Incentive Scheme, the Board proposed to grant Shares Options to 127 Participants, which comprises 9 Directors and senior management of the Company, 118 core management and business personnel of the Group under the Proposed Initial Grant.

The total number of underlying A Shares in relation to the Share Options to be granted under the Proposed Initial Grant shall be 79,627,003 A Shares, representing approximately 0.6860% of the existing total issued share capital of the Company and 1.0039% of the existing A Share capital of the Company as at the date of this announcement.

The allocation of the Share Options under the Proposed Initial Grant is as set out below:

No.	Name of the Participant	Position of the Participant	Number of Share Options to be granted under the Proposed Initial Grant	Approximate percentage of the number of Share Options to be granted to the Participant to the total number of Share Options under the Share Option Incentive Scheme (%)	Approximate percentage of the number of the underlying A Shares to the total issued share capital of the Company as at the date of this announcement (%)	Approximate percentage of the number of the underlying A Shares to the total issued A Share capital of the Company as at the date of this announcement (%)
1	Wang Daxiong	Executive Director and Chairman of the Board	1,500,000	1.70	0.0129	0.0189
2	Liu Chong	Executive Director and general manager of the Company	1,490,100	1.68	0.0128	0.0188
3	Xu Hui	Executive Director and deputy general manager of the Company	1,490,100	1.68	0.0128	0.0188
4	Lin Feng	Chief accountant of the Company	1,264,300	1.43	0.0109	0.0159
5	Ming Dong	Deputy general manager of the Company	1,264,300	1.43	0.0109	0.0159
6	Zuo Guodong	Secretary of the disciplinary committee of the Company	1,264,300	1.43	0.0109	0.0159
7	Du Haiying	Assistant to the general manager of the Company	975,700	1.10	0.0084	0.0123
8	Peng Hongmin	Safety director	975,700	1.10	0.0084	0.0123
9	Cai Lei	Secretary of the Board	629,400	0.71	0.0054	0.0079

No.	Name of the Participant	Position of the Participant	Number of Share Options to be granted under the Proposed Initial Grant	Approximate percentage of the number of Share Options to be granted to the Participant to the total number of Share Options under the Share Option Incentive Scheme (%)	Approximate percentage of the number of the underlying A Shares to the total issued share capital of the Company as at the date of this announcement (%)	Approximate percentage of the number of the underlying A Shares to the total issued A Share capital of the Company as at the date of this announcement (%)
	Core management and business personnel at the headquarters (32 Participants)		18,329,941	20.72	0.1579	0.2311
	Core management and business personnel of the subsidiaries of the Company (86 Participants)		50,443,162	57.01	0.4346	0.6359
	<b>Total (127 Participants)</b>		<b>79,627,003</b>	<b>90.00</b>	<b>0.6860</b>	<b>1.0039</b>
	<b>Reserved Share Options</b>		<b>8,847,445</b>	<b>10.00</b>	<b>0.0762</b>	<b>0.1115</b>
	<b>Total</b>		<b>88,474,448</b>	<b>100.00</b>	<b>0.7622</b>	<b>1.1154</b>

## **IMPLICATIONS UNDER THE HONG KONG LISTING RULES AND WAIVER FROM STRICT COMPLIANCE WITH NOTE 1 TO RULE 17.03(9) OF THE HONG KONG LISTING RULES**

The Share Option Incentive Scheme constitutes a share option scheme under Chapter 17 of the Hong Kong Listing Rules. Accordingly, any grant of Share Options under the Share Option Incentive Scheme to any Participant who is a connected person of the Company will be exempted from all the reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.92(3)(a) of the Hong Kong Listing Rules.

According to Note 1 to Rule 17.03(9) of the Hong Kong Listing Rules, the exercise price of the relevant share options must be at least the higher of (i) the closing price of the securities as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant.

On the basis that, among other things, the Shares to be issued upon the exercise of the Share Options are A Shares, the basis of determination of the exercise price of the Share Options is in accordance with the relevant laws and regulations in the PRC and the proposed adoption of the Share Option Incentive Scheme will be subject to the approval of the Shareholders at the Shareholders' Meetings, the Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with Note 1 to Rule 17.03(9) of the Hong Kong Listing Rules in respect of the exercise price of the Share Options that may be granted under the Share Option Incentive Scheme.

## EGM AND CLASS MEETINGS

The EGM and the Class Meetings will be convened for the Shareholders to consider and, if thought fit, approve, among other things, the proposed adoption of the Share Option Incentive Scheme.

A circular containing, among other things, (i) further details of the terms of the Share Option Incentive Scheme and the Proposed Initial Grant; (ii) a notice convening the EGM; and (iii) a notice convening the H Share class meeting will be despatched to the Shareholders as soon as practicable in accordance with the requirements under the Hong Kong Listing Rules.

## DEFINITIONS

Unless the context requires otherwise, capitalized terms used in this announcement shall have the meanings as follow:

“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Administrative Measures”	the “Administrative Measures on Share Incentives of Listed Companies (Zhong Guo Zheng Jian Hui Ling No. 126)”# (《上市公司股權激勵管理辦法》(中國證監會令第126號)) issued by the CSRC, as amended and supplemented from time to time
“Appraisal Measures”	the “Share Incentive Scheme Performance Appraisal Measures”# (《股票期權激勵計劃實施考核辦法》) of the Company
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“Class Meetings”	the class meeting of holders of A Share(s) and the class meeting of holders of H Share(s)
“Company”	COSCO SHIPPING Development Co., Ltd.* (中遠海運發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on Main Board of the Hong Kong Stock Exchange (Stock Code: 2866) and the Shanghai Stock Exchange (Stock Code: 601866), respectively
“Company Law”	the Company Law of the People’s Republic of China
“Conditions of Exercise”	the conditions to be satisfied for the Share Options to become effective and exercisable under the Share Option Incentive Scheme

“Conditions of Grant”	the conditions to be satisfied for the grant of Share Options under the Share Option Incentive Scheme
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Date of Grant”	the date on which the Share Options are granted to the Participants by the Company under the Share Option Incentive Scheme
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the proposed adoption of the Share Option Incentive Scheme
“EOE”	earnings before interest, taxes, depreciation and amortisation on average equity
“EVA”	the economic value added, representing the annual net operating profit after tax and deductions of all costs of equity and debt capital invested, calculated in accordance with the “Interim Measures for Business Performance Appraisals of Persons-in-Charge at Central Enterprises”# (《中央企業負責人經營業績考核暫行辦法》) issued by the SASAC
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on Main Board of the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Participant(s)”	the person(s) to be granted Share Option(s) under the Share Option Incentive Scheme
“Peer Benchmark Companies”	19 listed companies principally engaged in similar businesses to the Group’s businesses which have been selected as benchmark companies

“PRC”	the People’s Republic of China, and for the purpose of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Initial Grant”	the proposed initial grant of 79,627,003 Share Options to the Participants pursuant to the Share Option Incentive Scheme
“Remuneration Committee”	the remuneration committee of the Company
“Reserved Share Options”	a total of 8,847,445 Share Options reserved under the Share Option Incentive Scheme, the Participants of which shall be determined by the Board within 12 months after the approval of the Share Option Incentive Scheme by the Shareholders at the Shareholders’ Meetings
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China
“Share Option Incentive Scheme”	the proposed A Share option incentive scheme of the Company
“Share Option(s)”	the right to be granted to a Participant to acquire certain number of A Shares at a pre-determined exercise price in a particular period of time and subject to certain conditions under the Share Option Incentive Scheme
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Meetings”	collectively, the general meeting of the Company and the Class Meetings
“Stock Exchange(s)”	the Shanghai Stock Exchange and/or the Hong Kong Stock Exchange, as the case may be
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“trading day(s)”	any day on which the A Shares are traded on the Shanghai Stock Exchange



“Trial Measures”	the “Trial Measures on Implementation of Share Incentive Schemes by State Controlled Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175)”# 《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號) issued by the SASAC
“Validity Period”	the period during which the Share Option Incentive Scheme remains effective
“Vesting Period”	the period of two years from the Date of Grant
“%”	per cent

By order of the Board  
**COSCO SHIPPING Development Co., Ltd.**  
**Yu Zhen**  
*Company Secretary*

Shanghai, the People’s Republic of China

16 December 2019

*As at the date of this announcement, the Board comprises Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, being executive Directors, Mr. Feng Boming, Mr. Huang Jian and Mr. Liang Yanfeng, being non-executive Directors, and Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, being independent non-executive Directors.*

\* *The Company is a registered non-Hong Kong company as defined under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name “COSCO SHIPPING Development Co., Ltd.”.*

# *For identification purposes only.*