



## Report of the Directors and Financial Statements

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# Report of the Directors

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The board of directors of the Company (the "Board") presents its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015.

## Principal activities and Segmental analysis of operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 42 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

## Business Review

A review of the business of the Group during the year, a discussion on the Group's future business development and principal risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 12 to 15 and Financial Review on pages 42 to 47 of this annual report.

The financial risk management objectives and policies of the Group can be found in note 4 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2015 are provided in note 40 to the consolidated financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial and Operational Highlights on pages 10 to 11 of this annual report.

## Results and Appropriations

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement on page 114 of this annual report.

The directors declared an interim dividend of HK17.3 cents (equivalent to US2.236 cents) per share with a scrip dividend alternative, totalling HK\$508,825,000 (equivalent to US\$65,765,000), which was paid on 26 October 2015.

The directors recommend the payment of a final dividend of HK22.9 cents (equivalent to US2.948 cents) per share with a scrip dividend alternative, totalling HK\$679,342,000 (equivalent to US\$87,454,000), payable on or about 20 July 2016.

## Five-Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 185 of this annual report.

## Donations

Charitable and other donations made by the Group during the year amounted to US\$44,000.

## Shares issued in the year

Details of the shares issued of the Company during the year are shown in note 20 to the consolidated financial statements.

## Distributable Reserves

The distributable reserves of the Company as at 31 December 2015 calculated under the Companies Act of Bermuda amounted to US\$1,630,963,000.

## Borrowings

Details of the borrowings of the Group are set out in note 22 to the consolidated financial statements.

## Retirement benefit schemes

Details of retirement benefit schemes of the Group are set out in notes 3.22 and 32 to the consolidated financial statements.

## Directors

The directors of the Company during the year and up to the date of this report were:

|  |  |
|--|--|
| Mr. LI Yunpeng <sup>2</sup> ( <i>Chairman</i> )                              | (resigned on 21 January 2015)  |
| Mr. WAN Min <sup>2</sup> ( <i>Chairman</i> )                                 | (appointed as Chairman on 21 January 2015<br>and resigned on 29 March 2016)                  |
| Mr. HUANG Xiaowen <sup>2</sup> ( <i>Chairman</i> )                           | (appointed as Chairman and<br>a Non-executive Director on 29 March 2016)                     |
| Mr. QIU Jinguang <sup>1</sup> ( <i>Vice Chairman and Managing Director</i> ) | (appointed as Vice Chairman and<br>Managing Director on 21 January 2015)                     |
| Mr. DENG Huangjun <sup>1</sup>   | (appointed on 16 October 2015)   |
| Mr. FENG Jinhua <sup>1</sup>   | (resigned on 16 October 2015)  |
| Mr. TANG Runjiang <sup>1</sup>   |  |
| Mr. FENG Bo <sup>1</sup>   |  |
| Mr. WANG Wei <sup>2</sup>  |  |
| Mr. WANG Haimin <sup>2</sup>   | (re-designated from an Executive Director to<br>a Non-executive Director on 21 January 2015) |
| Mr. ZHANG Wei <sup>2</sup>   | (appointed on 14 August 2015)  |
| Dr. WONG Tin Yau, Kelvin <sup>1</sup>  |  |
| Mr. Timothy George FRESHWATER <sup>3</sup>                                   | (retired on 14 May 2015)   |
| Dr. FAN HSU Lai Tai, Rita <sup>3</sup>                                       |  |
| Mr. Adrian David LI Man Kiu <sup>3</sup>                                     |  |
| Mr. IP Sing Chi <sup>3</sup>   |  |
| Mr. FAN Ergang <sup>3</sup>  |  |
| Mr. LAM Yiu Kin <sup>3</sup>   | (appointed on 14 August 2015)  |

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

In accordance with Clause 86(2) of the Bye-laws of the Company, Mr. HUANG Xiaowen and Mr. ZHANG Wei, being new directors appointed by the Board, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clauses 87(1) and (2) of the Bye-laws of the Company, Mr. QIU Jinguang, Mr. WANG Haimin, Mr. IP Sing Chi and Mr. FAN Ergang, being directors longest in office since their last re-election, shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors confirming their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## Biographical Details of Directors and Senior Management

Biographical details of directors and senior management are set out on pages 80 to 88 of this annual report.

## Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Directors' Material Interests in Transactions, Arrangements and Contracts

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company and the director's connected party had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Permitted Indemnity Provisions

The Bye-laws of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. Directors liability insurance is in place to protect the Directors of the Company or of its subsidiaries against any potential costs and liabilities arising from claims brought against the Directors.

## Share Options

At a special general meeting of the Company held on 23 May 2003, the shareholders of the Company approved the adoption of a share option scheme (the "2003 Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30 November 1994.

On 5 December 2005, the shareholders of the Company approved the amendments to the 2003 Share Option Scheme at a special general meeting. The definitions of "Participant" and "relevant company" in paragraph 1 of the 2003 Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited and replacing them by China COSCO Holdings Company Limited ("China COSCO"), an intermediate holding company of the Company, and paragraph 8(e) of the 2003 Share Option Scheme was changed to allow a grantee who ceases to be an employee or an executive director of the relevant company (as defined in the 2003 Share Option Scheme) by reason of voluntary resignation from his employment, directorship, secondment or nomination to exercise the option up to his entitlement at the date of cessation within a period of three months following the date of such cessation pursuant to paragraph 7.3(a) of the 2003 Share Option Scheme. These amendments came into effect on 28 February 2006 after the approval of the shareholders of China COSCO at the general meeting held on the same date.

The following is a summary of the principal terms of the 2003 Share Option Scheme:

The 2003 Share Option Scheme was designed to attract, retain and motivate talented participants (the "Participants" or a "Participant") (as defined in note 1 below) to strive for future development and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board might approve from time to time.

Under the 2003 Share Option Scheme, the Board might, at its discretion, invite any Participants to take up options. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant on the Group's business, the length of service of the Participant with the Group or the length of business relationship the Participant has established with the Group and such other factors as the Board might at its discretion consider appropriate.

The maximum number of shares which might be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company should not in aggregate exceed 10% of the total number of shares in issue as at the date of the adoption of the 2003 Share Option Scheme.

The maximum entitlement for any one Participant (including exercised, cancelled and outstanding options) in any twelve months' period should not exceed 1% of the total number of shares in issue.

The period under which an option must be exercised should be such period as the Board might in its absolute discretion determine at the time of grant, save that such period should not be longer than ten years from the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme. The minimum period for which an option must be held before it can be exercised was determined by the Board upon the grant of an option. The amount payable on acceptance of an offer of the grant of options was HK\$1.00. The full amount of the exercise price for the subscription of shares must be paid upon exercise of an option.

The exercise price in relation to each option should be determined by the Board in its absolute discretion, but in any event should be at least the highest of (i) the closing price of the shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date when an option was offered; (ii) a price being the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date on which an option was offered; and (iii) the nominal value of a share.

The 2003 Share Option Scheme was valid and effective for a period of 10 years commencing from the date of adoption and was expired on 22 May 2013. No further options shall thereafter be granted under the 2003 Share Option Scheme but in respect of the outstanding options granted under the 2003 Share Option Scheme, the provisions of the 2003 Share Option Scheme shall remain in full force and effect.

As at the date of this report, a total of 12,380,000 shares (representing approximately 0.42% of the existing total number of issued shares of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2003 Share Option Scheme.

Notes:

- (1) As defined in the 2003 Share Option Scheme (as amended), "Participants" include:
- (i) any employee of the Group (including any executive director of the Group);
  - (ii) any management of China COSCO, or China Ocean Shipping (Group) Company ("COSCO"), the Company's parent company; and
  - (iii) any person seconded or nominated by the Group to represent the Group's interest in any of the Group's associated companies or jointly controlled entities (as defined in note 2 below), or any other company or organisation.

As to whether a particular person falls within the definition of Participants, it shall be determined by the Board in its absolute discretion.

- (2) Under the 2003 Share Option Scheme, associated companies and jointly controlled entities refer to those companies and/or enterprises which have defined and/or disclosed as associates and/or associated companies and joint ventures and/or jointly controlled entities of the Company in the latest audited financial statements of the Company.

Movements of the options, which were granted under the 2003 Share Option Scheme, during the year are set out below:

| Category                                 | Exercise Price<br>HK\$ | Number of share options             |                               |                                 |  |                              |            | Outstanding at<br>31 December<br>2015 | % of total<br>number<br>of issued<br>shares | Exercisable<br>period | Note |
|--|------------------------|-------------------------------------|-------------------------------|---------------------------------|--|------------------------------|------------|---------------------------------------|---|-----------------------|------|
|  |                        | Outstanding<br>at 1 January<br>2015 | Granted<br>during the<br>year | Exercised<br>during<br>the year | Transfer (to)/<br>from other<br>categories<br>during<br>the year | Lapsed<br>during<br>the year |            |                                       |   |                       |      |
| <b>Director</b>                          |                        |                                     |                               |                                 |  |                              |            |                                       |   |                       |      |
| Dr. WONG Tin Yau,<br>Kelvin              | 19.30                  | 500,000                             | -                             | -                               | -  | -                            | 500,000    | 0.017%                                | 18.4.2007-<br>17.4.2017                     | (1), (2)              |      |
|  |                        | 500,000                             | -                             | -                               | -  | -                            | 500,000    |                                       |   |                       |      |
| <b>Continuous contract<br/>employees</b> | 19.30                  | 11,880,000                          | -                             | -                               | (570,000)  | (260,000)                    | 11,050,000 | 0.372%                                | (refer to note 1)                           | (1)                   |      |
| <b>Others</b>                            | 19.30                  | 860,000                             | -                             | -                               | 570,000  | -                            | 1,430,000  | 0.048%                                | (refer to note 1)                           | (1)                   |      |
|  |                        | 12,740,000                          | -                             | -                               | -  | (260,000)                    | 12,480,000 |                                       |   |                       |      |
|  |                        | 13,240,000                          | -                             | -                               | -  | (260,000)                    | 12,980,000 |                                       |   |                       |      |

Notes:

- (1) The share options were granted during the period from 17 April 2007 to 19 April 2007 under the 2003 Share Option Scheme at an exercise price of HK\$19.30. The options are exercisable at any time within ten years from the commencement date which is the date on which an offer is accepted or deemed to be accepted by the grantee pursuant to the 2003 Share Option Scheme (the "Commencement Date"). The Commencement Date of the options was from 17 April 2007 to 19 April 2007.
- (2) These options represent personal interest held by the relevant director as beneficial owner.
- (3) No share options were granted, exercised or cancelled under the 2003 Share Option Scheme during the year ended 31 December 2015.

## Directors' Interest in Shares, Underlying Shares and Debentures

As at 31 December 2015, the interest of the Company's directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### (a) Long positions in the shares of the Company

| Name of director         | Capacity         | Nature of interest | Number of ordinary shares held | % of total number of issued shares of the Company |
|--------------------------|------------------|--------------------|--------------------------------|---|
| Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal           | 564,062                        | 0.019%  |

### (b) Long positions in underlying shares of equity derivatives of the Company

Share options were granted by the Company to certain directors of the Company pursuant to the 2003 Share Option Scheme. Details of the directors' interest in share options granted by the Company are set out under the section headed "Share Options" of this report.

### (c) Long positions in the shares of associated corporations

| Name of associated corporation       | Name of director                  | Capacity         | Nature of interest | Number of H shares held | % of total number of issued H shares of the relevant associated corporation |
|--------------------------------------|-----------------------------------|------------------|--------------------|-------------------------|---|
| China COSCO Holdings Company Limited | Dr. FAN HSU Lai Tai, Rita         | Beneficial owner | Personal           | 10,000                  | 0.0004%   |
|                                      | <b>Ex-director</b><br>Mr. WAN Min | Beneficial owner | Personal           | 2,500                   | 0.0001%   |

| Name of associated corporation       | Name of director                  | Capacity         | Nature of interest | Number of A shares held | % of total number of issued A shares of the relevant associated corporation |
|--------------------------------------|-----------------------------------|------------------|--------------------|-------------------------|---|
| China COSCO Holdings Company Limited | Mr. QIU Jinguang                  | Beneficial owner | Personal           | 6,400                   | 0.00008%  |
|                                      | <b>Ex-director</b><br>Mr. WAN Min | Beneficial owner | Personal<br>Family | 35,000<br>12,000        | 0.00046%<br>0.00016%  |

Note: Mr. WAN Min resigned as Chairman of the Board and a non-executive director of the Company on 29 March 2016.

### (d) Long positions in underlying shares of equity derivatives of associated corporations

Movements of the share appreciation rights granted to the directors of the Company by an associated corporation during the year are set out below:

| Name of associated corporation       | Name of director                  | Capacity         | Nature of interest | Exercise price HK\$ | Number of units of share appreciation rights |                         |                           |                        |                                 | % of total number of issued H shares of the relevant associated corporation | Note     |
|--------------------------------------|-----------------------------------|------------------|--------------------|---------------------|--|-------------------------|---------------------------|------------------------|---------------------------------|---|----------|
|                                      |                                   |                  |                    |                     | Outstanding at 1 January 2015                | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2015 |   |          |
| China COSCO Holdings Company Limited | Mr. DENG Huangjun                 | Beneficial owner | Personal           | 3.195               | 225,000                                      | –                       | –                         | (225,000)              | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 280,000                                      | –                       | –                         | –                      | 280,000                         | 0.011%  | (2)      |
|                                      |                                   |                  |                    | 9.540               | 260,000                                      | –                       | –                         | –                      | 260,000                         | 0.010%  | (3)      |
|                                      | Mr. TANG Runjiang                 | Beneficial owner | Personal           | 3.195               | 75,000                                       | –                       | –                         | (75,000)               | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 65,000                                       | –                       | –                         | –                      | 65,000                          | 0.003%  | (2)      |
|                                      | Mr. FENG Bo                       | Beneficial owner | Personal           | 3.195               | 75,000                                       | –                       | –                         | (75,000)               | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 90,000                                       | –                       | –                         | –                      | 90,000                          | 0.003%  | (2)      |
|                                      |                                   |                  |                    | 9.540               | 85,000                                       | –                       | –                         | –                      | 85,000                          | 0.003%  | (3)      |
|                                      | Mr. WANG Wei                      | Beneficial owner | Personal           | 3.195               | 75,000                                       | –                       | –                         | (75,000)               | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 65,000                                       | –                       | –                         | –                      | 65,000                          | 0.003%  | (2)      |
|                                      |                                   |                  |                    | 9.540               | 60,000                                       | –                       | –                         | –                      | 60,000                          | 0.002%  | (3)      |
|                                      | Mr. WANG Haimin                   | Beneficial owner | Personal           | 3.195               | 57,000                                       | –                       | –                         | (57,000)               | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 90,000                                       | –                       | –                         | –                      | 90,000                          | 0.003%  | (2)      |
|                                      |                                   |                  |                    | 9.540               | 75,000                                       | –                       | –                         | –                      | 75,000                          | 0.003%  | (3)      |
|                                      | Mr. ZHANG Wei                     | Beneficial owner | Personal           | 3.195               | 56,250                                       | –                       | –                         | (56,250)               | –                               | –   | (1)      |
|                                      |                                   |                  |                    | 3.588               | 90,000                                       | –                       | –                         | –                      | 90,000                          | 0.003%  | (2)      |
|                                      |                                   |                  |                    | 9.540               | 75,000                                       | –                       | –                         | –                      | 75,000                          | 0.003%  | (3)      |
|                                      | <b>Ex-director</b><br>Mr. WAN Min | Beneficial owner | Personal           | 3.195               | 75,000                                       | –                       | –                         | (75,000)               | –                               | –   | (1), (4) |
|                                      |                                   |                  |                    | 3.588               | 280,000                                      | –                       | –                         | –                      | 280,000                         | 0.011%  | (2), (4) |
|                                      |                                   |                  |                    | 9.540               | 260,000                                      | –                       | –                         | –                      | 260,000                         | 0.010%  | (3), (4) |

Notes:

- The share appreciation rights were granted by China COSCO, an associated corporation of the Company and a company listed on the Stock Exchange and the Shanghai Stock Exchange, in units with each unit representing one H share of China COSCO, on 16 December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no shares of China COSCO will be issued. The share appreciation rights were exercisable at HK\$3.195 per unit at any time between 16 December 2007 and 15 December 2015, and have been lapsed on 16 December 2015.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 5 October 2006 pursuant to the Plan. Under the Plan, no shares of China COSCO will be issued. The share appreciation rights are exercisable at HK\$3.588 per unit at any time between 5 October 2008 and 4 October 2016.
- The share appreciation rights were granted by China COSCO in units with each unit representing one H share of China COSCO on 4 June 2007 pursuant to the Plan. Under the Plan, no shares of China COSCO will be issued. The share appreciation rights are exercisable at HK\$9.540 per unit at any time between 4 June 2009 and 3 June 2017.
- Mr. WAN Min resigned as Chairman of the Board and a non-executive director of the Company on 29 March 2016.

Save as disclosed above, as at 31 December 2015, none of the directors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Directors' Interest in Competing Business

As at 31 December 2015, the directors namely Mr. WAN Min, Mr. DENG Huangjun, Mr. TANG Runjiang, Mr. FENG Bo, Mr. WANG Wei, Mr. WANG Haimin and Mr. ZHANG Wei, held directorships and/or senior management positions in COSCO and/or COSCO Container Lines Company Limited ("COSCON") and their respective subsidiaries or associates and/or other companies which have interest in container terminals (the "Container Terminals Interest"). In addition, Mr. IP Sing Chi acted as the Group Managing Director of Hutchison Port Holdings Limited (which engages in, inter alia, the operation of container terminals) and directors of certain other companies which have the Container Terminals Interest.

The Board is of the view that the Group is capable of carrying on its businesses independently of the Container Terminals Interest. When making decisions on the container terminals business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interest of the Group.

## Substantial Interest in the Share Capital of the Company

So far as is known to any directors or chief executive of the Company, as at 31 December 2015, the interest of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company or the Stock Exchange were as follows:

| Name                                 | Capacity  | Nature of interests                        | Number of ordinary shares/Percentage of total number of issued shares as at 31 December 2015 |       |                 |   |
|--------------------------------------|---|--|--|-------|-----------------|---|
|                                      |   |  | Long positions   | %     | Short positions | % |
| COSCO Investments Limited            | Beneficial owner  | Beneficial interest                        | 213,989,277  | 7.21  | –               | – |
| China COSCO (Hong Kong) Limited      | Beneficial owner and interest of controlled corporation | Beneficial interest and corporate interest | 1,294,206,113  | 43.63 | –               | – |
| China COSCO Holdings Company Limited | Interest of controlled corporation                      | Corporate interest                         | 1,294,206,113  | 43.63 | –               | – |
| China Ocean Shipping (Group) Company | Interest of controlled corporation                      | Corporate interest                         | 1,294,206,113  | 43.63 | –               | – |

Note: The 1,294,206,113 shares relate to the same batch of shares of the Company. COSCO Investments Limited ("COSCO Investments") is a wholly owned subsidiary of China COSCO (Hong Kong) Limited ("China COSCO (HK)"). Accordingly, the 213,989,277 shares of the Company held by COSCO Investments are also included as part of China COSCO (HK)'s interest in the Company. China COSCO (HK) is a wholly owned subsidiary of China COSCO and it itself held 1,080,216,836 shares of the Company beneficially. Accordingly, China COSCO (HK)'s interest in relation to the 1,294,206,113 shares of the Company are also recorded as China COSCO's interest in the Company. COSCO held 52.85% interest of the total issued shares of China COSCO as at 31 December 2015, and accordingly, COSCO is deemed to have the interest of 1,294,206,113 shares of the Company held by China COSCO (HK).

As informed by China COSCO (HK), it was interested in a total of 1,329,899,469 shares (representing 44.83% of the total issued shares of the Company) as at 31 December 2015 because of the allotment of 18,710,203 shares under the 2015 scrip dividend scheme of the Company and the acquisition of 16,983,153 shares.

Save as disclosed above, as at 31 December 2015, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company which had to be recorded in the register required to be kept under Section 336 of the SFO.



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## Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total number of issued shares of the Company held by the public as required under the Listing Rules.

## Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Major Suppliers and Lessees

The percentage of the Group's container purchases and leasing income attributable to major suppliers and lessees are as follows:

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|   |        |
|---|--------|
| Percentage of container purchases attributable to the Group's largest supplier                          | 27.54% |
| Percentage of container purchases attributable to the Group's five largest suppliers                    | 75.07% |
| Percentage of leasing income attributable to the Group's largest lessee, which is a subsidiary of COSCO | 59.87% |
| Percentage of leasing income attributable to the Group's five largest lessees                           | 79.16% |

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None of the directors or their associates has interest in any of the suppliers or lessees of the Group.

During the year ended 31 December 2015, COSCO have equity interest in China International Marine Containers (Group) Co., Ltd., the holding company of four of the five largest suppliers of the Group. In 2015, these four suppliers attributed 65.62% of container purchases of the Group.

Save as disclosed above, to the knowledge of the directors, none of the shareholders owning more than 5% of the Company's shares has interest in any of the suppliers and lessees of the Group.

## Corporate Governance

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has fully complied with the code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2015.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 54 to 79 of this annual report.

## Connected Transactions

During the year, the Group conducted certain continuing related party transactions, as disclosed in note 39 (Related party transactions) of the audited consolidated financial statements of the Company for the year ended 31 December 2015, some of which constituted continuing connected transactions of the Group (exempted and non-exempted), in respect of which the Company has complied with the relevant applicable requirements under Chapter 14A of the Listing Rules:

### (I) Connected Transactions

#### **(1) Acquisition of the entire issued share capital of China Shipping Ports Development Co., Limited and (2) disposal of the entire issued share capital of Florens Container Holdings Limited**

On 11 December 2015, the Company as the purchaser entered into a conditional sale and purchase agreement (the "CSPD SPA") with China Shipping Container Lines Company Limited ("CSCL") and China Shipping (Hong Kong) Holdings Co., Limited ("CSHK") as the sellers pursuant to which CSCL and CSHK conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of China Shipping Ports Development Co., Limited ("CSPD") for an initial consideration of RMB7,632,455,300, subject to certain adjustments contemplated under the CSPD SPA (the "Acquisition").

Also on 11 December 2015, the Company as the seller entered into a conditional sale and purchase agreement (the "FCHL SPA") with China Shipping Container Lines (Hong Kong) Co., Limited ("CSCLHK") as the purchaser pursuant to which the Company conditionally agreed to dispose and CSCLHK conditionally agreed to acquire (i) the entire issued share capital of Florens Container Holdings Limited ("FCHL"), a then direct wholly owned subsidiary of the Company, for an initial consideration of RMB7,784,483,300 (subject to certain adjustments contemplated under the FCHL SPA), and (ii) the shareholder's loans in the amount of US\$285,000,000 owed by FCHL to the Company and remained outstanding immediately before the date of completion of the transaction contemplated under the FCHL SPA for a consideration of US\$285,000,000 (the "Disposal").

CSPD is a company incorporated in Hong Kong. Prior to completion of the Acquisition, the shares of CSPD were held by CSCL and CSHK as to 49% and 51% respectively. CSCL is a joint stock limited company incorporated in the People's Republic of China (the "PRC") with limited liability and its A shares and H shares are listed and traded on the Shanghai Stock Exchange and the Stock Exchange respectively. CSHK is a company incorporated in Hong Kong and a wholly owned subsidiary of China Shipping (Group) Company ("China Shipping"). CSCLHK is a company incorporated in Hong Kong and a subsidiary of CSCL.

The Acquisition and the Disposal (together the "Transactions") were part of the reorganisation exercise (the "Reorganisation") involving the businesses of COSCO, a controlling shareholder of the Company, and its subsidiaries (the "COSCO Group") and the businesses of China Shipping, a controlling shareholder of CSCL, and its subsidiaries (the "China Shipping Group"). Being a reform of PRC state-owned enterprises ("SOEs"), the Reorganisation was intended to enhance the competitiveness of the SOEs in the global market by creating synergies for and improving the operating efficiency of SOEs in different positions on the same value chain. Under the Reorganisation, businesses of the COSCO Group and the China Shipping Group would be organised such that container shipping, terminals operation and financial services would become the respective core businesses of China COSCO and its subsidiaries, the Group, and the China Shipping Group respectively.

On 23 December 2015, a conditional special cash dividend of HK80 cents per share (the "Special Dividend") was declared, payment of which was conditional on (a) the passing of a resolution approving the Transactions by shareholders of the Company other than China COSCO (Hong Kong) Limited and COSCO Investments Limited, both being indirect subsidiaries of COSCO, and any other shareholders of the Company who were required by the Listing Rules to abstain from voting on the resolution proposed at the special general meeting of the Company held on 1 February 2016 (the "SGM") (the "Independent Shareholders"); and (b) completion of the Transactions in accordance with the provisions of the CSPD SPA and the FCHL SPA.

On 27 January 2016, the Company was informed that according to the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, the valuation of CSPD shall be adjusted. Therefore, a supplemental agreement to the CSPD SPA was entered into by CSCL, CSHK and the Company on the same date, pursuant to which the initial consideration for the CSPD shares of RMB7,632,455,300 as provided in the CSPD SPA was adjusted to RMB7,625,152,000, representing a decrease of approximately 0.10%.

The Transactions were approved by the Independent Shareholders at the SGM. Furthermore, completion of the Acquisition took place on 18 March 2016 and completion of the Disposal took place on 24 March 2016. CSPD has become a wholly owned subsidiary of the Company and FCHL has ceased to be a subsidiary of the Company. The Board has resolved that the Special Dividend be paid on 4 May 2016 to shareholders of the Company whose names appear on the register of members of the Company on 15 April 2016.

The Transactions were deemed by the Stock Exchange as connected transactions of the Company under Chapter 14A of the Listing Rules. The Transactions also constituted major transactions of the Company.

## **(II) Continuing Connected Transactions**

### **Financial Services Master Agreement**

On 28 August 2014, the Company entered into a financial services master agreement (the "Financial Services Master Agreement") with COSCO Finance Co., Ltd. ("COSCO Finance"). Under the Financial Services Master Agreement, COSCO Finance agreed to provide deposit services (the "Deposit Services"), loan services (the "Loan Services"), settlement services (the "Settlement Services") and further financial services which COSCO Finance may from time to time offer (the "Further Financial Services") (collectively known as the "Transactions") to the Group for the period from 1 November 2014 to 31 December 2016 (both dates inclusive).

In respect of the Deposit Services, the interest which will accrue on any deposit placed by the Group with COSCO Finance under the Financial Services Master Agreement will not be lower than (a) the minimum interest rate prescribed by the People's Bank of China ("PBOC") for the same type of deposits; (b) the interest rates offered by commercial banks in the PRC to the Group for the same type of deposits; and (c) the interest rates offered by COSCO Finance to other members of the COSCO Group (including COSCO and subsidiaries held by COSCO as to more than 51%, companies held by COSCO and/or its subsidiaries held by COSCO as to more than 51% (individually or jointly) as to more than 20%, companies held by COSCO and/or its subsidiaries held by COSCO as to more than 51% (individually or jointly) as to less than 20% with COSCO and/or its subsidiaries (individually or jointly) being the largest shareholder, and enterprise legal entities (事業單位法人) and social organisation legal entities (社會團體法人) under COSCO and/or its subsidiaries held by COSCO as to more than 51%) for the same type of deposits. The caps of the daily aggregate of deposits placed by the Group with COSCO Finance (including interest accrued thereon) for each of the period from 1 November 2014 to 31 December 2014 and the two years ending 31 December 2015 and 2016 is RMB1,000,000,000. The maximum daily aggregate of deposits for the year ended 31 December 2015 was RMB755,817,000.

In respect of the Loan Services, the interest rate at which any loan to be provided by COSCO Finance to the Group under the Financial Services Master Agreement will not be higher than (a) the maximum interest rate published by the PBOC for the same type of loans; and (b) the interest rates offered by commercial banks in the PRC to the Group for the same type of loans. The caps of the daily outstanding amount of loans to be provided by COSCO Finance to the Group (including any interest accrued thereon) for each of the period from 1 November 2014 to 31 December 2014 and the two years ending 31 December 2015 and 2016 is RMB1,000,000,000. The maximum daily aggregate of loans for the year ended 31 December 2015 was RMB905,285,000.

In respect of the Settlement Services, any fees which COSCO Finance will charge the Group (a) will comply with any requirements of PBOC and China Banking Regulatory Commission ("CBRC") in respect of the charges for the same type of settlement services; and (b) will not exceed the fees charged by commercial banks in the PRC to the Group for the same type of settlement services or the fees charged by COSCO Finance to other members of the COSCO Group for the same type of settlement services. The annual caps of the aggregate of any fees which COSCO Finance may charge the Group for the Settlement Services for the period from 1 November 2014 to 31 December 2014 and for the two years ending 31 December 2015 and 2016 are RMB800,000, RMB5,000,000 and RMB5,000,000 respectively. No Settlement Services were provided by COSCO Finance to the Group for the year ended 31 December 2015.

In respect of the Further Financial Services, any fee which COSCO Finance will charge the Group (a) will comply with any requirements of PBOC and CBRC in respect of the charges for the same type of financial services; and (b) will not exceed the fees charged by commercial banks in the PRC to the Group for the same type of financial services or the fees charged by COSCO Finance to other members of the COSCO Group for the same type of financial services. For the year ended 31 December 2015, no such services were provided.

The deposit interest rates and the lending rates offered by COSCO Finance to the Group will be equal to or more favourable to the Group than those offered by commercial banks in the PRC to the Group for comparable deposits or, as the case may be, loans. The Financial Services Master Agreement is therefore expected not only to provide the Group with a new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. The Group also expects to be in a better position to manage the security of its funds since COSCO Finance is not considered to be exposed to any significant capital risk.

For the avoidance of doubt, the Financial Services Master Agreement does not preclude the Group from using the services of other financial institutions. The Group still has the freedom to select any major and independent PRC commercial banks as its financial services providers as it thinks fit and appropriate for the benefit of the Group.

COSCO Finance is a subsidiary of COSCO, a controlling shareholder of the Company, and is therefore a connected person of the Company. The Transactions under the Financial Services Master Agreement constituted continuing connected transactions of the Company under the Listing Rules.

## Rental of office premises

On 28 November 2014, COSCO Pacific Management Company Limited ("COSCO Pacific Management") as tenant entered into a tenancy agreement with Wing Thye Holdings Limited ("Wing Thye") as landlord (the "Tenancy Agreement") in respect of the leasing of Units 4901, 4902A and 4903 situated at 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong (the "Premises"). Pursuant to the Tenancy Agreement, COSCO Pacific Management agreed to rent from Wing Thye the Premises for a term of three years commencing from 29 November 2014 at a monthly rental of HK\$1,038,390 exclusive of government rent, rates and management fees. The monthly management fees payable to Wing Thye is HK\$76,619.40 (subject to revision by the management company of the buildings of which the Premises form part from time to time). During the subsistence of the Tenancy Agreement, the maximum aggregate annual value of the rental and the management fee for the two years ending 31 December 2015 and 2016 and for the period from 1 January 2017 to 28 November 2017 are HK\$13,400,000, HK\$13,485,000 and HK\$11,315,000 respectively.

The Company intended to continue to occupy the Premises on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the rental under the Tenancy Agreement, the directors of the Company had made reference to the professional opinion given by DTZ Debenham Tie Leung Limited ("DTZ"), an independent professional valuer. DTZ opined that the monthly rental agreed for the Premises as provided in the Tenancy Agreement was at market level and was fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"). COSCO Pacific Management is a wholly owned subsidiary of the Company. COSCO is a controlling shareholder of both the Company and COSCO Hong Kong. Accordingly, Wing Thye is a connected person of the Company. The Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

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## **Master agreements relating to shipping and terminal related services and container and related services transactions (together the “Shipping and Terminal and Container Related Services Master Agreements”)**

On 30 October 2012, certain subsidiaries of the Company entered into the following master agreements each for a term of three years from 1 January 2013 to 31 December 2015:

- (1) COSCO Shipping Services and Terminal Services Master Agreement entered into between COSCO Ports (Holdings) Limited (“COSCO Ports”, a wholly owned subsidiary of the Company), Piraeus Container Terminal S.A. (“PCT”, a wholly owned subsidiary of the Company) and COSCO in respect of the following transactions:
  - (a) Provision of shipping related services by COSCO Ports and its subsidiaries (collectively the “COSCO Ports Group”) and PCT to COSCO and its associates (excluding the Group and China COSCO and its other associates) (collectively the “Restricted COSCO Group”). The annual caps of the aggregate amount receivable by the COSCO Ports Group and PCT from the Restricted COSCO Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB160,999,000, RMB227,999,000 and RMB299,999,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB19,832,000.
  - (b) Provision of terminal related services by the Restricted COSCO Group to the COSCO Ports Group. The annual caps of the aggregate amount payable by the COSCO Ports Group to the Restricted COSCO Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB69,200,000, RMB104,520,000 and RMB140,028,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB3,125,000.

It was agreed that the service fees payable by the relevant members of the Restricted COSCO Group shall be at rates no less favourable to the relevant members of the COSCO Ports Group or to PCT (as the case may be) than those at which the relevant members of the COSCO Ports Group or PCT charges other independent third party customers for the relevant services. It was also agreed that the service fees payable by the relevant members of COSCO Ports Group shall be at rates no less favourable to the relevant members of the COSCO Ports Group than those at which the relevant members of the Restricted COSCO Group charge other independent third party customers for the relevant services.

- (2) China COSCO Shipping Services and Terminal Services Master Agreement entered into between COSCO Ports, PCT, China COSCO and COSCON in respect of the following transactions:
  - (a) Provision of shipping related services by the COSCO Ports Group and PCT to China COSCO and COSCON and their respective associates (excluding the Group) (collectively the “China COSCO Group”). The annual caps of the aggregate amount receivable by the COSCO Ports Group and PCT from the China COSCO Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB2,388,669,000, RMB4,082,654,000 and RMB6,846,075,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB228,197,000.
  - (b) Provision of terminal related services by the China COSCO Group (including COSCON) to the COSCO Ports Group. The annual caps of the aggregate amount payable by the COSCO Ports Group to the China COSCO Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB58,000,000, RMB87,000,000 and RMB116,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB71,000.

It was agreed that the service fees payable by the relevant members of the China COSCO Group shall be at rates no less favourable to the relevant members of the COSCO Ports Group or to PCT (as the case may be) than those at which the relevant members of the COSCO Ports Group or PCT charges other independent third party customers for the relevant services. It was also agreed that the service fees payable by the relevant members of the COSCO Ports Group shall be at rates no less favourable to the relevant members of the COSCO Ports Group than those at which the relevant members of the China COSCO Group charge other independent third party customers for the relevant services.

- (3) APM Shipping Services Master Agreement entered into between COSCO Ports, PCT and entities trading under the names of Maersk Line, Safmarine, MCC or any other future names with majority ownership by A.P. Moller – Maersk A/S (“APM”) (collectively “the Line”) in respect of the provision of shipping related services by the COSCO Ports Group or PCT to the Line.

The annual caps of the aggregate amount receivable by the COSCO Ports Group and PCT from the Line for such services for the years ended 31 December 2013, 2014 and 2015 are RMB905,651,000, RMB1,318,430,000 and RMB1,875,845,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB262,350,000.

The terms on pricing under the APM Shipping Services Master Agreement are determined based on the existing scale and operations of the businesses of the COSCO Ports Group and PCT, the anticipated growth and development of such businesses and the anticipated demand for such services after taking into account that the economic condition will improve in the future compared with that in the past few years. COSCO Ports Group and PCT would ensure that the terms and rates will be no less favourable to COSCO Ports Group and PCT than the terms and rates available from independent third parties for the relevant transactions.

- (4) Florens-APM Container Purchasing and Related Services Master Agreement entered into between FCHL, a then wholly owned subsidiary of the Company and the Line in respect of the following transactions:
- (a) Purchase of containers and container related materials by FCHL and its subsidiaries (collectively the “Florens Group”) from the Line. The annual caps of the aggregate amount payable by the Florens Group to the Line for such purchase for the years ended 31 December 2013, 2014 and 2015 are US\$20,000,000, US\$31,000,000 and US\$44,000,000 respectively. For the year ended 31 December 2015, the Florens Group did not pay any fees to the Line pursuant to such agreement.
- (b) Provision of container related services by the Line to the Florens Group. The annual cap of the aggregate amount payable by the Florens Group to the Line for such services for each of the years ended 31 December 2013, 2014 and 2015 is US\$150,000. For the year ended 31 December 2015, the Florens Group did not pay any fees to the Line pursuant to such agreement.

The consideration for the purchase of containers and related materials by the relevant members of the Florens Group and the provision of services by the Line shall be at rates no less favourable to the relevant members of the Florens Group (as purchaser or service receiving party, as the case may be) than those at which the Line charges independent third parties for the relevant transactions.

- (5) Nansha Container Terminal Services Master Agreement entered into between COSCO Ports, Guangzhou South China Oceangate Container Terminal Company Limited (“GZ South China”, a subsidiary of the Company) and Guangzhou Port Group Company Limited (廣州港集團有限公司) (“GZ Port Holding”) in respect of the following transactions:
- (a) Provision of container terminal related services by GZ South China to GZ Port Holding and its subsidiaries, branches and associates (collectively the “GZ Port Group”). The annual caps of the aggregate amount receivable by GZ South China from the GZ Port Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB62,350,000, RMB94,030,000 and RMB139,035,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB5,778,000.
- (b) Provision of container terminal related services by the GZ Port Group to GZ South China. The annual caps of the aggregate amount payable by GZ South China to the GZ Port Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB292,370,000, RMB439,450,000 and RMB652,110,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB57,169,000.

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(c) The appointment of GZ South China by GZ Port Holding to charge on behalf of GZ Port Holding the vessels which use the high-frequency wireless communication services at the Guangzhou port, or the agents of such vessels, the high-frequency communication fee at a rate as prescribed by GZ Port Holding from time to time. The relevant annual caps are as follows:

- (i) The annual caps of the aggregate amount of the high-frequency communication fee payable by GZ South China to GZ Port Holding for the years ended 31 December 2013, 2014 and 2015 are RMB6,000,000, RMB9,000,000 and RMB13,500,000 respectively. The total amount of the aforesaid fee paid by GZ South China to GZ Port Holding for the year ended 31 December 2015 was RMB799,000.
- (ii) The annual caps of the aggregate amount of the handling fee receivable by GZ South China in respect of the charging of the high-frequency communication fee for the years ended 31 December 2013, 2014 and 2015 are RMB200,000, RMB300,000 and RMB450,000 respectively. For the year ended 31 December 2015, GZ Port Holding did not pay any fees to GZ South China pursuant to such agreement.

It was agreed that the terms for the provision of services by GZ South China shall be no less favourable to GZ South China (as service providing party) than terms available to GZ South China from independent third parties for the relevant services. It was also agreed that the terms for the provision of services by the relevant members of the GZ Port Group shall be no less favourable to GZ South China (as service receiving party) than terms available to independent third parties from the relevant members of the GZ Port Group for the relevant services.

- (6) Yangzhou Terminal Services Master Agreement entered into between COSCO Ports, Yangzhou Yuanyang International Ports Co., Ltd. (“Yangzhou Yuanyang”, a subsidiary of the Company) and Jiangsu Province Yangzhou Port Group Co., Ltd. (江蘇省揚州港務集團有限公司) (“Yangzhou Port Holding”) in respect of the provision of terminal related services by Yangzhou Port Holding and its subsidiaries, branches and associates (collectively the “Yangzhou Port Group”) to Yangzhou Yuanyang.

The annual caps of the aggregate amount payable by Yangzhou Yuanyang to the Yangzhou Port Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB225,400,000, RMB270,240,000 and RMB324,024,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB54,749,000.

It was agreed that the terms for the provision of services by the relevant members of the Yangzhou Port Group shall be no less favourable to Yangzhou Yuanyang (as service receiving party) than terms available to independent third parties from the relevant members of the Yangzhou Port Group for the relevant services.

- (7) COSCON Container Services Master Agreement entered into between Plangreat Limited (“Plangreat”, a wholly owned subsidiary of the Company), COSCO and COSCON in respect of the provision of container related services by Plangreat and its subsidiaries to the Restricted COSCO Group (including COSCON).

The annual cap of the aggregate amount receivable by Plangreat and its subsidiaries from the Restricted COSCO Group for each of the years ended 31 December 2013, 2014 and 2015 is US\$3,000,000. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$1,672,000.

It was agreed that the service fees payable by the relevant members of the Restricted COSCO Group (including COSCON) shall be at rates no less favourable to Plangreat and its subsidiaries than those at which Plangreat and its subsidiaries charge other independent third party customers for the relevant services.

- (8) Florens-COSCON Container Leasing, Sales and Related Services Master Agreement entered into between FCHL, COSCO and COSCON in respect of the following transactions:
- (a) Grant of leases of containers for a term of not more than three years by the Florens Group to the Restricted COSCO Group (including COSCON). The annual cap of the aggregate amount receivable by the Florens Group from the Restricted COSCO Group for such transactions for each of the years ended 31 December 2013, 2014 and 2015 is US\$2,470,000. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$883,000.
  - (b) Sales of old containers by the Florens Group to the Restricted COSCO Group (including COSCON). The annual caps of the aggregate amount receivable by the Florens Group from the Restricted COSCO Group for such transactions for the years ended 31 December 2013, 2014 and 2015 are US\$2,330,000, US\$2,450,000 and US\$2,570,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$40,000.
  - (c) Provision of container related services by the Florens Group to the Restricted COSCO Group (including COSCON). The annual caps of the aggregate amount receivable by the Florens Group from the Restricted COSCO Group for such services for the years ended 31 December 2013, 2014 and 2015 are US\$1,530,000, US\$1,613,000 and US\$1,710,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$362,000.

It was agreed that the consideration for each of the leasing and sales of containers and the provision of services by the relevant members of the Florens Group to the relevant members of the Restricted COSCO Group (including COSCON) shall be at rates no less favourable to the relevant members of the Florens Group (as lessor, seller or service providing party, as the case may be) than those at which the relevant members of the Florens Group charge independent third parties for the relevant transactions.

- (9) Florens-COSCON Container Related Services and Purchase of Materials Master Agreement entered into between FCHL, COSCO and COSCON in respect of the following transactions:
- (a) Provision of container related services by the Restricted COSCO Group (including COSCON) to the Florens Group. The annual caps of the aggregate amount payable by the Florens Group to the Restricted COSCO Group for the aforesaid services for the years ended 31 December 2013, 2014 and 2015 are US\$4,670,000, US\$5,280,000 and US\$5,960,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$758,000.
  - (b) Purchase of container related materials by the Florens Group from the Restricted COSCO Group (including COSCON). The annual caps of the aggregate amount payable by the Florens Group to the Restricted COSCO Group for such purchase for the years ended 31 December 2013, 2014 and 2015 are US\$50,000, US\$50,000 and US\$70,000 respectively. For the year ended 31 December 2015, Florens Group did not purchase any container-related material from Restricted COSCO Group pursuant to such agreement.

It was agreed that the consideration for the purchase of materials by the relevant members of the Florens Group and the provision of services by the relevant members of the Restricted COSCO Group (including COSCON) shall be at rates no less favourable to the relevant members of the Florens Group (as purchaser or service receiving party, as the case may be) than those at which the relevant members of the Restricted COSCO Group (including COSCON) charge independent third parties for the relevant transactions.

- (10) Nansha Diesel Oil Purchase Master Agreement entered into between COSCO Ports, GZ South China and China Marine Bunker Guangzhou Co., Ltd. (中國船舶燃料廣州有限公司) ("CM Supply") in respect of the purchase of diesel oil by GZ South China from CM Supply.

The annual caps of the aggregate amount payable by GZ South China to CM Supply for the years ended 31 December 2013, 2014 and 2015 are RMB90,000,000, RMB135,000,000 and RMB150,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB895,000.

It was agreed that the terms for the supply of diesel oil by CM Supply shall be no less favourable to GZ South China (as purchaser) than terms available to independent third parties from CM Supply for the relevant transactions.



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(11) Zhangjiagang Container Terminal Services Master Agreement entered into between COSCO Ports, Zhangjiagang Win Hanverky Container Terminal Co., Ltd. (“Zhangjiagang Terminal”, a subsidiary of the Company) and Zhangjiagang Port Group Co., Ltd. (張家港港務集團有限公司) (“Zhangjiagang Port Holding”) in respect of the following transactions:

- (a) Provision of container terminal related services by Zhangjiagang Terminal to Zhangjiagang Port Holding and its subsidiaries, branches and associates (collectively the “Zhangjiagang Port Group”). The annual caps of the aggregate amount receivable by Zhangjiagang Terminal from the Zhangjiagang Port Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB6,280,000, RMB8,890,000 and RMB12,790,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB319,000.
- (b) Provision of container terminal related services by the Zhangjiagang Port Group to Zhangjiagang Terminal. The annual caps of the aggregate amount payable by Zhangjiagang Terminal to the Zhangjiagang Port Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB36,260,000, RMB50,030,000 and RMB69,060,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB14,931,000.

It was agreed that the terms for the provision of services by Zhangjiagang Terminal to the relevant members of the Zhangjiagang Port Group shall be no less favourable to Zhangjiagang Terminal (as service providing party) than terms available to Zhangjiagang Terminal from independent third parties for the relevant services; and shall also be no less favourable to the relevant members of the Zhangjiagang Port Group (as service receiving party) than terms available to independent third parties from Zhangjiagang Terminal for the relevant services. It was also agreed that the terms for the provision of services by the relevant members of the Zhangjiagang Port Group shall be no less favourable to Zhangjiagang Terminal (as service receiving party) than terms available to independent third parties from the relevant members of the Zhangjiagang Port Group for the relevant services.

(12) Xiamen Container Terminal Services Master Agreement entered into between COSCO Ports, Xiamen Ocean Gate Container Terminal Co., Ltd. (“Xiamen Ocean Gate”, a subsidiary of the Company) and Xiamen Haicang Investment Group Co., Ltd. (廈門海滄投資集團有限公司) (“Xiamen Haicang Holding”) in respect of the following transactions:

- (a) Provision of container terminal related services by Xiamen Haicang Holding and its subsidiaries, branches and associates (collectively the “Xiamen Haicang Group”) to Xiamen Ocean Gate. The annual caps of the aggregate amount payable by Xiamen Ocean Gate to the Xiamen Haicang Group for such services for the years ended 31 December 2013, 2014 and 2015 are RMB64,500,000, RMB79,000,000 and RMB93,500,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2015 was RMB12,644,000.
- (b) Provision of container terminal related services by Xiamen Ocean Gate to the Xiamen Haicang Group. The annual caps of the aggregate amount payable by the Xiamen Haicang Group to Xiamen Ocean Gate for such services for the years ended 31 December 2013, 2014 and 2015 are RMB7,000,000, RMB10,000,000 and RMB12,000,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2015 was RMB2,078,000.

It was agreed that the terms for the provision of services by the relevant members of the Xiamen Haicang Group shall be no less favourable to Xiamen Ocean Gate (as service receiving party) than terms available to independent third parties from the relevant members of the Xiamen Haicang Group for the relevant services. It was also agreed that the terms for the provision of services by Xiamen Ocean Gate shall be no less favourable to the relevant members of the Xiamen Haicang Group (as service receiving party) than terms available to independent third parties from Xiamen Ocean Gate for the relevant services.

Further, on 10 July 2015, COSCO Ports and Xiamen Ocean Gate entered into a master agreement with China Marine Bunker Supply Fujian Co., Ltd. (中國船舶燃料供應福建有限公司) (“Chimbusco Fujian”) in respect of the purchase of diesel oil by Xiamen Ocean Gate and its subsidiaries (“XOCT Group”) from Chimbusco Fujian for the period from 1 January 2015 to 31 December 2015 (the “XOCT Diesel Oil Master Agreement”).

The annual cap for the aggregate amount payable by XOCT Group to Chimbusco Fujian for the purchase of diesel oil for the year ended 31 December 2015 is RMB15,000,000. The total amount of the aforesaid transactions for the year ended 31 December 2015 was RMB4,910,000.

It was agreed that the terms for purchase transactions by relevant members of the XOCT Group to Chimbusco Fujian shall be at rates no less favourable to XOCT Group than those available from independent third parties for the relevant transactions.

Since COSCO and China COSCO are controlling shareholders of the Company, members of the Restricted COSCO Group and the China COSCO Group (including COSCO, China COSCO and COSCON) are connected persons of the Company. APM Terminals Invest Company Limited ("APM Terminals"), which is a subsidiary of APM, is a substantial shareholder of a subsidiary of the Company. The Line are majority-owned by APM and are therefore associates of APM Terminals. Accordingly, the Line are connected persons of the Company.

GZ Port Holding has a 41% equity interest in GZ South China. Accordingly, members of the GZ Port Group (including GZ Port Holding) are connected persons of the Company. As Yangzhou Port Holding has a 40% equity interest in Yangzhou Yuanyang, members of the Yangzhou Port Group (including Yangzhou Port Holding) are connected persons of the Company. CM Supply and Chimbusco Fujian are owned as to 50% by COSCO and hence are connected persons of the Company. Zhangjiagang Port Holding has a 49% equity interest in Zhangjiagang Terminal. Accordingly, members of Zhangjiagang Port Group (including Zhangjiagang Port Holding) are connected persons of the Company. Xiamen Haicang Holding has a 30% equity interest in Xiamen Ocean Gate. Therefore, members of the Xiamen Haicang Group (including Xiamen Haicang Holding) are connected persons of the Company.

The continuing connected transactions under agreements numbered (1) to (5) above were subject to the reporting, annual review, announcement and independent shareholders' approval requirements and were approved by the independent shareholders of the Company at the special general meeting held on 29 November 2012 ("2012 SGM"), whilst the transactions under agreements numbered (3) to (5) were exempted from the independent shareholders' approval requirement (so far as applicable) under Rule 14A.101 of the Listing Rules from 1 July 2014 onwards.

With respect to the continuing connected transactions under agreements numbered (7) to (10) and the XOCT Diesel Oil Master Agreement, they were subject to the reporting, annual review and announcement requirements, but were exempt from the independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

In addition, the transactions under agreements numbered (6), (11) and (12) did not constitute continuing connected transactions of the Group for the year ended 31 December 2015, since members of the Yangzhou Port Group, Zhangjiagang Port Group and Xiamen Haicang Group constituted persons connected with insignificant subsidiaries under Rule 14A.09 for the relevant period(s) under Rule 14A.09(1) of the Listing Rules.

As the aforesaid master agreements expired on 31 December 2015, and it was expected that the Group would continue to enter into transactions of similar nature to transactions under existing master agreements, the Group had on 28 October 2015 entered into new master agreements each for a term of three years from 1 January 2016 to 31 December 2018.

## **Master agreement relating to finance lease arrangements (the "Finance Leasing Master Agreement")**

On 30 October 2012, COSCO Ports entered into the Finance Leasing Master Agreement with Florens Capital Management Company Limited ("Florens Capital Management", a then non wholly owned subsidiary of the Company and owned as to 50% by COSCO) for a term of three years from 1 January 2013 to 31 December 2015 in respect of the provision of the Finance Leasing (as defined below) by Florens Capital Management and its subsidiary(ies) (collectively the "Florens Management Group") to the COSCO Ports Group.

Finance Leasing referred to the provision of finance leasing on any machinery, equipment or other property related to shipping and the operation of terminal to be leased to the members of the COSCO Ports Group by the members of the Florens Capital Management Group or to be sold by the members of the COSCO Ports Group to, and then leased back from, members of the Florens Capital Management Group (the "Leasing Equipment") by any member of the Florens Capital Management Group to any member of the COSCO Ports Group pursuant to the Finance Leasing Master Agreement and such other related services as may be agreed between the relevant member of the Florens Capital Management Group and the relevant member of the COSCO Ports Group.

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The lease method includes sale and leaseback pursuant to which the lessor (a member of the Florens Capital Management Group) shall purchase from the lessee (a member of the COSCO Ports Group) the Leasing Equipment which will be leased back to the lessee by the lessor; finance leasing arrangement involving the execution of an entrusted purchase agreement for the intended purchase of Leasing Equipment by the lessee and the subsequent provision of finance lease services to the lessee and the making of lease payments to the lessor; and finance lease arrangement involving the leasing of Leasing Equipment acquired by the lessor to the lessee as per the requirements of the lessee.

The lease period for each Finance Leasing will be determined taking into account, inter alia, the useful life of the relevant Leasing Equipment (which will be assessed by reference to the Group's assets management policy, industry practice, the past experience in using the Leasing Equipment and information obtained from internal engineering department staff who has technical knowledge on the use of the Leasing Equipment), the financial needs of the lessee and the funding availability of the lessor, which in general should not exceed the useful life of such Leasing Equipment.

The lease payments charged by the lessor will include the purchase price or the value of the Leasing Equipment and interest thereon charged on terms no less favourable to the Lessee than those offered by independent third parties and at a rate determined by reference to the benchmark lending rates published by PBOC from time to time, or, if no such rate is available, by reference to, among other factors, the rate charged by the other major financial institutions for the same or similar types of services.

In the event that the purchase price of the Leasing Equipment is paid by the lessor before commencement of the lease period, pre-lease interests on the purchase price may be charged by the lessor and payable by the lessee for the period from the date of payment of the purchase price by the lessor to the date immediately before commencement of the lease period. Pre-lease interests (if charged) will be charged on terms no less favourable to the lessee than those offered by independent third parties and at a rate determined by reference to the benchmark lending rates published by PBOC from time to time, or if no such rate is available, by reference to, among other factors, the rate charged by the other major financial institutions for the same or similar types of services.

An one-off non-refundable handling fee may be charged on terms no less favourable to the lessee than those offered by independent third parties by the lessor and payable by the lessee when the relevant Finance Leasing agreement is entered into and at a rate determined by reference to, among others, the rate charged by the other major financial institutions in relation to finance leasing of the same or similar types of assets, or if available, the applicable rates published by PBOC for this kind of services from time to time, and will be set out in the relevant Finance Leasing agreement.

The legal title and all rights of the Leasing Equipment shall vest in the lessor throughout the lease period. In the event that the lessee fails to make any lease payment or fulfill any obligations under the relevant Finance Leasing agreement and without prejudice to any rights of the lessor under the relevant law, the lessor could take the following steps, namely (1) To demand full repayment of all outstanding lease payments; (2) To recover the relevant Leasing Equipment and to claim all damages arising from the lessee; and/or (3) To take necessary legal actions according to the relevant Finance Leasing agreement.

Subject to the lessee having duly and satisfactorily performed all its obligations under, and upon the expiry of the lease period under the Finance Leasing agreement, the lessee shall have an option to purchase the relevant Leasing Equipment at a price charged on terms no less favourable to the lessee than those offered by independent third parties and at a rate determined by reference to, among other factors, the methodology and market practice for determining such price by the other major financial institutions in relation to finance leasing of the same or similar types of assets, or if available, the applicable rates published by PBOC for this kind of service from time to time, which will be agreed between the lessor and the lessee at the time of entering into, and will be set out in, the Finance Leasing agreement.

The annual caps of the aggregate amount payable by the COSCO Ports Group to the Florens Capital Management Group for such services for the years ended 31 December 2013, 2014 and 2015 are US\$200,000,000, US\$250,000,000 and US\$300,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2015 was US\$28,467,000.

It was agreed that the total consideration payable by the relevant members of the COSCO Ports Group for the provision of the Finance Leasing by members of the Florens Capital Management Group shall be at rates no less favourable to the relevant members of the COSCO Ports Group than those available from other independent third party for the relevant Finance Leasing.

Florens Capital Management is indirectly owned as to 50% by COSCO, which is a controlling shareholder of the Company. Accordingly, the Florens Capital Management Group (including Florens Capital Management) are connected persons of the Company and the entering into of the Finance Leasing Master Agreement constituted a continuing connected transaction of the Company under the Listing Rules. The transaction also constituted a discloseable transaction of the Company. Following completion of the Disposal on 24 March 2016, Florens Capital Management is indirectly owned as to 50% by each of COSCO and CSCLHK.

The Finance Lease Master Agreement was approved by the independent shareholders of the Company at the 2012 SGM.

## **Long term container leasing transactions (with waiver granted by the Stock Exchange)**

During the year, long term container leasing transactions were entered into between COSCO Group and the Group in respect of the provision of long term container leases by the Group to COSCO Group to which the Stock Exchange had, subject to certain conditions, granted waiver dated 14 December 1994 to the Company from strict compliance with the requirements stipulated in the then Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. The total consideration of the aforesaid transactions for the year ended 31 December 2015 amounted to US\$170,325,000. In the opinion of the directors of the Company, the aforesaid transactions were conducted in the ordinary and normal course of business of the Group and using average leasing rates by reference to, if applicable, the average of the available leasing rates quoted from five of the top ten independent container leasing companies.

## **Opinion from the independent non-executive directors on the continuing connected transactions**

Pursuant to the conditions of the waiver in relation to long term container leasing transactions and Rule 14A.55 of the Listing Rules, Mr. Adrian David LI Man Kiu, Mr. IP Sing Chi, Mr. FAN Ergang and Mr. LAM Yiu Kin, independent non-executive directors of the Company, have reviewed the above continuing connected transactions and opined that:

- (i) the long term container leasing transactions had been conducted in the ordinary course of business of the Group and using average market rates by reference to, if applicable, the average of the available leasing rates quoted from five of the top ten independent container leasing companies and were fair and reasonable so far as the shareholders of the Company were concerned; and
- (ii) the rental of office premises transaction and the transactions entered into by the Company, COSCO Ports, PCT, FCHL, GZ South China, Yangzhou Yuanyang, Plangreat, Zhangjiagang Terminal and Xiamen Ocean Gate under the Financial Service Master Agreement, the Shipping and Terminal and Container Related Services Master Agreements, the XOCT Diesel Oil Master Agreement and the Finance Leasing Master Agreement were:
  - entered into in the ordinary and usual course of the Group's businesses;
  - entered into on normal commercial terms or terms no less favourable to the Group than terms available from/to independent third parties; and
  - entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Dr. FAN HSU Lai Tai, Rita confirmed that in view of her position of also being an independent non-executive director of China COSCO and that COSCO (a controlling shareholder of China COSCO) and China COSCO and their respective associates (including but not limited to COSCON, Wing Thye, COSCO Finance, CM Supply, Chimbusco Fujian and Florens Capital Management Group) are parties of the long term container leasing transactions, the rental of office premises transaction and the transactions under the Financial Service Master Agreement, the Shipping and Terminal and Container Related Services Master Agreements, the XOCT Diesel Oil Master Agreement and the Finance Leasing Master Agreement respectively, for good corporate governance practices, she would not take part in the review process in respect of the above mentioned continuing connected transactions and would not express her opinion in relation to such transactions reviewed by the other independent non-executive directors of the Company.

## Report from the auditor on the continuing connected transactions

For the purposes of the conditions of the waiver in relation to long term container leasing transactions, the Board engaged the auditor of the Company to perform certain agreed-upon procedures on the long term container leasing transactions for the year ended 31 December 2015 (the "Relevant Year") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, and the auditor reported that the long term container leasing transactions for the Relevant Year had been conducted in the ordinary and normal course of business of the Group and by reference to, if applicable, the average of the available leasing rates quoted from five of the top ten independent container leasing companies.

For the purposes of Rule 14A.56 of the Listing Rules in relation to the other continuing connected transactions, the Board engaged the auditor of the Company to report on the above continuing connected transactions that are subject to annual review for the Relevant Year in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the such continuing connected transactions, in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31 December 2015 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

|                           | US\$'000  |
|---------------------------|-----------|
| Non-current assets        | 779,554   |
| Current assets            | 143,123   |
| Current liabilities       | (35,992)  |
| Non-current liabilities   | (460,635) |
| Net assets                | 426,050   |
| Share capital             | 105,340   |
| Reserves                  | 276,510   |
| Non-controlling interests | 44,200    |
| Capital and reserves      | 426,050   |

As at 31 December 2015, the Group's attributable interest in these affiliated companies amounted to US\$263,582,000.

## Audit Committee

As at the date of this report, the Audit Committee of the Company consists of three independent non-executive directors.

The Audit Committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its financial statements and liaises on behalf of the Board with external auditor and the Group's internal auditor. During the year, the Audit Committee members met regularly with management, external auditor and the Group's internal auditor and reviewed the internal and external audit reports and the interim and annual consolidated financial statements of the Group.

# Report of the Directors

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## Auditor

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**QIU Jinguang**

*Vice Chairman and Managing Director*

Hong Kong, 29 March 2016