VICE CHAIRMAN'S REPORT

The Group devised its five-year goals encompassing the three strategies and strives to achieve 50% growth in total assets, 60% growth in equity throughput and to double net profit from continuing operations by 2021.

ZHANG Wei
Vice Chairman
and Managing Director

Building on Our Strengths to Address Global Complexities

Looking back at the past year, sluggish global economic growth impeded the revival of the global ports and shipping industries. The International Monetary Fund ("IMF") projected that global economic growth in 2016 would be 3.1%, a similar level to 2015, whereas global trade growth would slow down by 0.8 percentage points to 1.9%, and global container throughput will grow by 1.3%, on a par with 2015. Despite uncertainties in the global economic outlook, intensifying operational difficulties and the trend towards shipping alliances faced by the ports industry, the Group was successfully reorganised last year. This has enabled us to concentrate our efforts on the terminals business, boosting our competitiveness and building on our strengths amid global uncertainties and complexities.

In 2016, the Company's terminals business grew steadily, with equity container throughput increasing by 5% over the previous year to 29,473,573 TEU. The increase was mainly attributable to our overseas terminals business. The equity throughput of our overseas terminals rose by a substantial 25.4% as a result of our development of overseas markets. By contrast, China's foreign trade dropped by 6.8% year-on-year, which limited the growth of the Group's container terminals business on the mainland, and our equity throughput in the Greater China region rose only marginally, by 0.8%, when compared with 2015.

In spite of a challenging business environment in 2016, the Group's terminals with controlling stakes performed well overall, with income increasing by 1.1% year-on-year. Profit contribution grew by 7.1% to US$59,048,000, although gross profit was on a par with the previous year. Impacted by one-off items and declining container throughput at some terminals, the profit of terminals with non-controlling stakes declined by 20.6% to US$183,851,000. In particular, a US$19,800,000 provision for impairment loss was recognised for Qinhuangdao Port Co., Ltd, in contrast to a profit of US$3,808,000 from the disposal of shares and equity interest of two companies that was recorded in 2015. The tax incentives for Shanghai Mingdong Terminal ended in 2015 and the number of operating berths at Ningbo Yuan Dong Terminal fell by two, with the result that the combined profit of these two companies decreased by US$7,069,000. The container throughput volumes of both the Suez Canal Terminal and COSCO-HIT Terminal have been persistently declining, resulting in a total reduction in profit contribution of US$13,358,000. As a result of the above factors, the profit of the terminals business dropped by 15.2% to US$242,898,000.

The Group also converted a majority of its Renminbi bank deposits into US dollar bank deposits during the year, and finance income dwindled by US$7,344,000 as a result of the interest rate differential.

Excluding the discontinued container leasing business and the write back of provision of US$79,152,000 recognised for the discontinued container manufacturing business in 2015, the profit attributable to equity holders of the Company dropped by 32.3% to US$180,937,000.

Healthy Financial Position

The Group adopts a prudent and pragmatic approach towards managing its assets and towards financing, maintaining interest coverage at healthy levels. In light of our five-year strategy and development focus, we have to manage and raise capital effectively. This is of vital importance to the Group's investment in new projects, operations management and cost control.

The foreign exchange market saw major fluctuations in 2016, posing interest rate risks and exchange risks to the Group's operations. We have therefore undertaken appropriate measures to mitigate these risks, including strengthening capital flows and developing new financing channels.

The capital expenditure of the terminals business in 2016 was US$313,902,000, within which acquisition of terminals accounted for US$147,303,000, mainly for acquiring the 35% equity interest in Euromax Terminal. As of the end of 2016, the total value of the Group's assets was US$6,786,456,000, with consolidated net debt at US$665,891,000 and a net debt-to-total equity ratio of 14.0%. The financial situation was healthy.

Corporate Sustainable Development

As a major global terminals operator, COSCO SHIPPING Ports is committed to environmental protection and hopes to drive the development of "green" ports. In line with national policies, the Group continued to promote energy-efficient technologies to reduce carbon emissions during 2016. We support projects that save energy costs and lower carbon emissions in terminals where we have controlling stakes, such as through powering rubber tyred gantry (RTG) with electricity instead of bunker fuel and promoting shoreside power at terminals. We also seek to replace bunker fuel with electricity, adopt LED lighting systems and low-carbon automated management as soon as possible for newly acquired projects, raising energy efficiency and thereby establishing green ports.

Clear Five-year Goals Encompassing Three Strategies

After the reorganisation, the Group examined the business environment and industry trends to develop a corporate vision: The Ports For ALL.

The Group devised its five-year goals encompassing three strategies: developing a global terminals portfolio; bringing into full play the synergies with parent company COSCO SHIPPING's container shipping fleet and the OCEAN Alliance; and strengthening control and management of the ports and terminals business. In line with these strategies, we actively seek investment opportunities in overseas terminals and in ports on the mainland, while integrating and strengthening control over our existing terminals and raising their management efficiency, with the goal of higher equity throughput and faster profit growth. To quantify our goals for the next five years, based on 2016, the Group strives to achieve 50% growth in total assets, 60% growth in equity throughput and to double net profit from continuing operations by 2021.

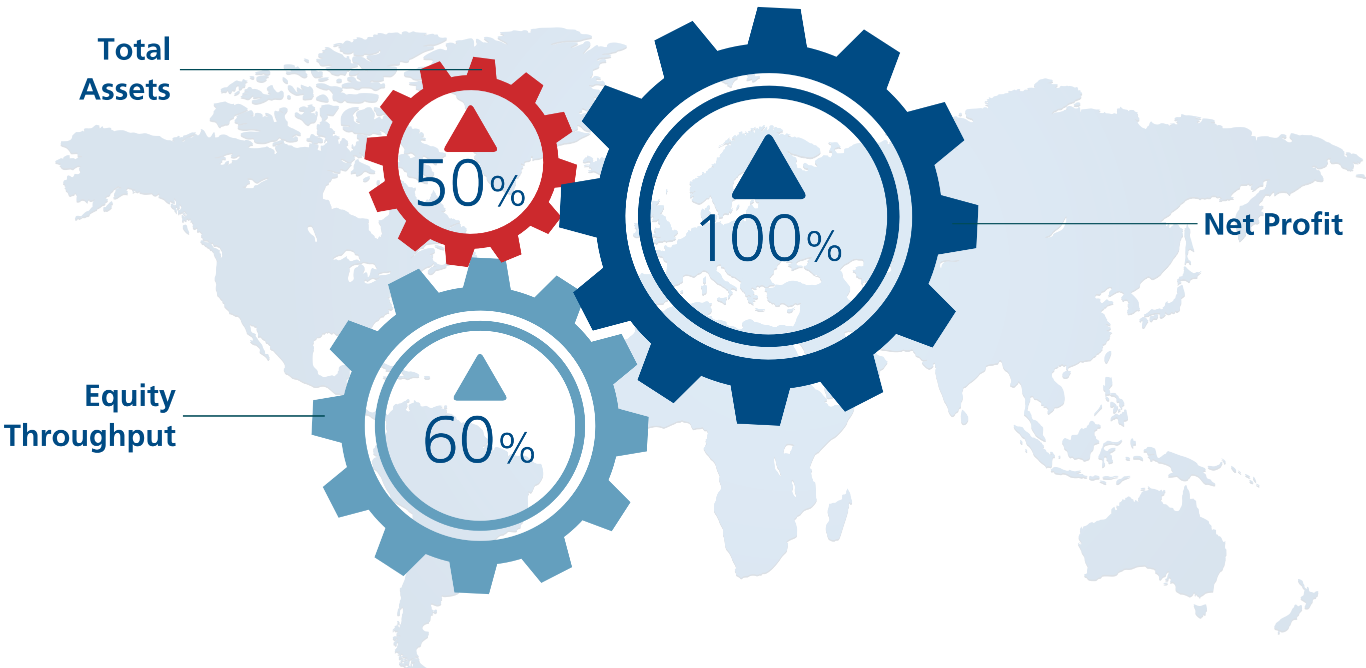
A Global Strategy for a Balanced Portfolio

Owing to the development of alliances and mega-vessels, competition in the container shipping market in 2017 is set to intensify. The Group will capitalise on the unique advantages brought by its parent company's container shipping fleet and the OCEAN Alliance to speed up the development of its global network and strengthen the brand influence of COSCO SHIPPING Ports worldwide.

In 2016, the Group pushed forward with overseas investments and announced the acquisition of three facilities, namely Euromax Terminal in the Netherlands, Vado Ligure Port in Italy and Khalifa Port in Abu Dhabi. We also reached an agreement for large-scale container berths of collaboration with PSA Corporation Limited of Singapore. These projects have contributed to higher overseas throughput and consolidated our global market share. This expansion of our global container terminals network has enhanced our terminals footprint and balanced out the risks in our regional operations.

Looking ahead, the Group will focus on regional projects in Europe, Central and South America and Southeast Asia, while eyeing investment opportunities in Africa. In deciding upon investments and acquisitions, we prioritise control, the ability to generate higher shareholder returns, as well as the value brought to our terminals network at large.

The Group has a vast terminals portfolio in China that gives us an advantageous strategic position in the industry. To boost management efficiency and enable our business on the mainland to make a greater profit contribution, we will focus on large-scale strategic hub ports and select terminals that are low-risk yet offer huge growth potential, reconfiguring our terminals network in the Greater China region to minimise risks and raise profitability.



Promoting Synergies to Increase our Advantages

Since the reorganisation, the Group has narrowed its business focus and moved forward with a clearer sense of direction. We have also benefited from the container shipping fleet of our parent company COSCO SHIPPING, which is an unshakeable core competitive advantage. Since the establishment of COSCO SHIPPING, its container shipping fleet has expanded to approximately 1,600,000 TEU[Note], ranking it fourth in the world with a market share of about 8%. The Group can leverage the unique advantages brought by its parent company's sizeable shipping fleet. Faced with the trend towards shipping alliances, our sister company, COSCO SHIPPING Lines Co., Ltd., formed the OCEAN Alliance with Le Groupe CMA CGM of France, Evergreen Marine Corporation and Orient Overseas Container Line Limited. The alliance's combined shipping capacity of about 5,350,000 TEU makes it one of the world's biggest shipping alliances, with a market share of about 26%, supporting COSCO SHIPPING in the global market. The Group's global strategy improves its ability to serve the shipping alliances, thereby consolidating collaboration with our parent company's container shipping fleet and the OCEAN Alliance and securing a stable source of business. When we acquire terminals, we also enjoy stronger bargaining power, backed by the strength of our parent company and the OCEAN Alliance. This will help us expand our terminals portfolio strategically and generate gains for all parties.

Note: The data is from Alphaliner's "Top 100 World Liner Operating Fleet" as per 10 March 2017.

Strengthening Control and Raising Efficiency

Following reorganisation, the Group's terminals portfolio has expanded further and we now operate and manage a total of 180 berths. As we execute our global strategy, we must raise the efficiency with which we operate and manage the entire terminals portfolio. In this regard, COSCO SHIPPING Ports will work on the following three areas:

1. Increase the proportion of terminals with controlling stakes and raise COSCO SHIPPING Ports' bargaining power in terminal operations, applying the Group's successful experience with Piraeus Terminal in Greece to the entire terminals portfolio.

2. Make strategic equity investments in ports groups to increase our bargaining power in entire port districts, thereby strengthening the Group's leading position in the Greater China region and enabling us to manage entire ports, so that we can enjoy the full development potential of entire port districts in future.

3. Adopt a standardised management and information system for all terminals with controlling stakes, so that the corporate headquarters can monitor the operations of all terminals in real time and regularly assess business performance using standardised metrics, thereby raising the efficiency with which COSCO SHIPPING Ports manages terminal companies.

We will also actively seek to integrate our existing terminals portfolio. To this end, the Group is studying proposals to integrate overlapping investments in the same port, streamline terminal resources and increase terminal profitability.

In addition, the Group will take major steps to bring together high-quality ports resources and integrate its current terminals portfolio on the mainland. On 20 January 2017, the Group announced it would make a strategic equity investment of 16.82% issued share capital in Qingdao Port International Co., Ltd. ("QPI"), involving the transfer of a 20% equity interest in Qingdao Qianwan Terminal together with cash for a total consideration of RMB5,798,619,200. Following completion, the Group's presence has expanded from operating a terminal to managing the entire port in Qingdao, increasing our bargaining power in the whole port and maximising the development potential of the port district to generate sustainable future growth. This new strategic approach to equity investments by the Group serves as an important reference as we plan our future business on the mainland.

To raise operating efficiency and meet the needs of the shipping alliances, the Group announced in December 2016 that it would manage the Kwai Tsing container terminals jointly with Hutchison Port Holdings Trust. This significantly increases the flexibility and processing capacities of the terminals' overall berth and yard planning, maximising the benefits of the facilities and their human resources.

Executing New Strategies and Setting New Milestones

In 2017, the global economy and the shipping industry are expected to grow faster, but caution regarding policy risk is essential. According to the IMF forecast, the global economy will grow by 3.4% year-on-year in 2017, 0.3 percentage points higher than the growth rate in 2016. Of particular note, economic activity will accelerate in both emerging markets and developing economies. Stronger global economic growth is expected to stimulate global trade and the container shipping industry. The IMF forecasts that global trade in 2017 will grow by 3.8% year-on-year, more than double the growth rate of 1.9% in 2016.

Furthermore, in its report dated October 2016, Drewry forecast that global container throughput in 2017 would grow by 2.4% year-on-year, 1.1 percentage points higher than a growth of 1.3% in 2016. However, there is significant uncertainty about the policy trends of the new US government. The political situation indicates that the consensus on cross-border economic integration is weakening, which, together with a return to championing local manufacturing and the rise of protectionism, may pressure the development of global trade.

Against this backdrop, the Group aims to achieve its five-year goals in accordance with its three strategies. We will emphasise investment returns and strategic value, drive the globalisation of our terminals network and enhance our container hub ports network globally so as to raise service levels for shipping companies and the shipping alliances. We will actively seek investment opportunities in terminals where we have controlling stakes to raise their profile and strengthen control over them, in order to raise the operating capacity and efficiency of our terminals portfolio. We will also integrate our current terminals portfolio to enhance the quality of our terminal assets and the effectiveness of their management.

Acknowledgements

The restructured COSCO SHIPPING Ports is imbued with renewed vigour, but we also face new challenges. Backed by our entire team, the Group is making every effort to respond to the support and trust of shareholders. On behalf of the management, I hereby extend my gratitude to all COSCO SHIPPING Ports staff around the world for their dedication and professionalism. With the trust of our shareholders, the efforts of our colleagues and the support of our parent company, COSCO SHIPPING Ports is setting new milestones on the path towards our vision for the next five years.

ZHANG Wei
Vice Chairman and Managing Director
28 March 2017