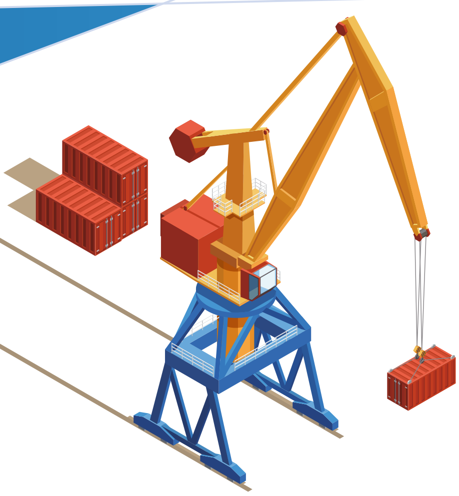
Operational Review



Markets Review

The global economy experienced a steady broadbased recovery in 2017, and the confidence of investors has been restored. According to the International Monetary Fund ("IMF"), global economic growth was expected to reach 3.7% in 2017 – the fastest growth pace since 2011 – which had driven the expansion of international trade to 4.7%, an increase of 2.2 percentage points over the previous year. Domestically, China's economy continued to gather steam, with imports and exports fueled by rising external and internal demands. According to the statistics of the China Customs Department, the total amount of imports and exports in 2017 grew 14.2%, with exports and imports increasing by 10.8% and 18.7% respectively.

Backed by the increase of international trade and the steady recovery of the global economy, there was a turnaround in the global shipping market as the increase in the demand over supply during the year helped alleviate the overcapacity in the industry. According to Drewry Shipping Consultants Limited, the total throughput of global containers was expected to increase by 5.4% in 2017, rising 2 percentage points over 2016. Ports in China have also reported good growth as total throughput for the year was 236,800,000 TEU, an increase of 8.3%, up 4.7 percentage points from last year.

In 2017, the OCEAN Alliance was officially established. According to a survey conducted by Alphaliner on 13 February 2018, the OCEAN Alliance, together with the 2M and THE Alliances, accounted for 79% of the global container shipping capacity. With more than 41 shipping routes in Eastwest bound and Middle East Red Sea bound and 350 container vessels, the OCEAN Alliance, of which COSCO SHIPPING, the parent company of the Company, is a member, has a total fleet capacity of 3,500,000 TEU. Ever since it started operation in April 2017, the OCEAN Alliance has been increasing its calls to the terminals of COSCO SHIPPING Ports and has accounted for 44% of the total throughput of the Group's subsidiaries for the year. The Group believes the calls of the OCEAN Alliance's fleet will continue to drive the growth of the Group's throughput going forward.

Overall Performance

Benefitting from the economic recovery and with growth fueled by its acquisitions, the Group has achieved promising results for the year, with total throughput of 100,202,185 TEU. Excluding the throughput of QPI from May to December 2017 and the throughput of QQCT in 2016, the throughput increased by 13.4% to 87,932,185 TEU (2016: 77,572,219 TEU). Throughput generated from the Greater China region increased by 8.0% to 69,091,521 TEU (2016: 63,989,237 TEU) accounting for 78.6% of the Group's total. Throughput from the China region (excluding Hong Kong and Taiwan) increased by 6.8% to 63,904,439 TEU (2016: 59,827,565 TEU) occupying 72.7% of the total. The performance of the overseas portfolio was also encouraging for the year. Throughput increased by 38.7% to 18,840,664 TEU (2016: 13,582,982 TEU), made up 21.4% (2016: 17.5%) of the total, mainly due to the contribution by Vado Reefer Terminal and the two-month contribution by the NPH Group. Added to this was Euromax Terminal with the inclusion of its throughput starting in October 2016, and recording a throughput of 2,693,337 TEU in 2017.

Excluding throughput of QPI from May to December 2017 and the throughput of QQCT in 2016, total equity throughput of the Group increased by 11.0% to 29,740,584 TEU (2016: 26,798,320 TEU). With the operating efficiency of the Group's terminals continuing to improve and adding the contributions from QPI, total terminal profit increased by 23.4% to US$299,866,000 for the year (2016: US$242,898,000).

COSCO SHIPPING Ports continued to extend its international footprint with an aim to build a balanced portfolio of terminals across an extensive network. During the year, the Group continued to explore overseas investment

90 target bulk berths

with a total designed annual handling capacity of

273,740,000 tons

opportunities to align with one of its key strategies, ie, Globalization. In China, the Group seized the development opportunity presented by the "Yangtze River Economic Belt" by taking a majority stake in Wuhan Terminal and Nantong Tonghai Terminal. It targets to develop these two subsidiaries into transshipment hub ports in the middle and lower reaches of the Yangtze River delta, so as to optimise the terminals network in the Yangtze River. Moreover, the investment in QPI further consolidated the Group's leading position in the China market. The increased stake in the Zeebrugge Terminal in Belgium and the acquisition of the NPH Group enabled the Group to complete its terminal network in Mediterranean and Northwest Europe, which now covers major European hinterlands and shipping routes. The investment in Abu Dhabi Terminal in 2016 enabled the Group to extend its reach to the Middle East. Moving forward, the investment focus of the Group will then be in Southeast Asia, Latin America and Africa, so as to continue to extend its network of terminals. As at 31 December 2017, the Group operated and managed 35 ports with 179 container berths around the world with a total annual handling capacity amounting to 102,720,000 TEU and 86 cargo berths in operation with an annual handling capacity of 262,670,000 tons. The Group's terminal network currently spreads from the five major coastal port regions in China to Southeast Asia in Asia, and beyond to the Middle East, Europe and the Mediterranean.

Operational Review

199 target berths

under the Group's container terminals and the total designed annual handling capacity was

116,495,000 TEU

Total throughput by region

	Throughput (TEU)	Year-on-year change (%)	Percentage of total (%)
Bohai Rim*	15,974,976	+5.7	18.2
Yangtze River Delta	19,630,693	+6.1	22.3
Southeast Coast and others	5,079,660	+12.1	5.8
Pearl River Delta	27,049,187	+9.5	30.8
Southwest Coast	1,357,005	+19.2	1.5
Overseas	18,840,664	+38.7	21.4
Total*	**87,932,185**	**+13.4**	**100.0**

Equity throughput by region

	Throughput (TEU)	Year-on-year change (%)	Percentage of total (%)
Bohai Rim*	5,189,478	+1.1	17.4
Yangtze River Delta	5,586,737	+3.4	18.8
Southeast Coast and others	2,927,250	+16.8	9.8
Pearl River Delta	8,046,814	+11.6	27.1
Southwest Coast	542,802	+19.2	1.8
Overseas	7,447,503	+22.3	25.1
Total*	**29,740,584**	**+11.0**	**100.0**

Note: * Excluding throughput of QPI from May to December 2017 and throughput of QCCT in 2016.

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Greater China Total Throughput

69,091,521 TEU[1]

↑8.0%

Overseas Total Throughput

18,840,664 TEU

↑38.7%

Bohai Rim[1]

15,974,976 TEU

↑5.7%

Dalian Container Terminal [2]	6,758,148	+15.2%
Dalian Dagang Terminal	24,582	+16.5%
Tianjin Euroasia Terminal	2,469,753	+10.6%
Tianjin Five Continents Terminal	2,580,943	+0.4%
Yingkou Terminal [3]	3,011,107	-12.9%
Jinzhou New Age Terminal	571,113	+27.2%
Qinhuangdao New Harbour Terminal	559,330	+8.5%
QPI [4]	12,270,000	N/A

Pearl River Delta

27,049,187 TEU

↑9.5%

Yantian Terminals	12,703,733	+8.6%
Guangzhou Terminal [5]	10,856,559	+2.7%
Hong Kong Terminal [6]	3,488,895	+43.4%

Notes:

1. Excluded throughput of QPI from May to December 2017 and throughput of QQCT in 2016.
2. The merger of DCT, DPCT and DICT was completed in October 2017. The figure of DCT in FY2016 included the throughput of DPCT and DICT; while the figure of DCT in FY2017 included the throughput of DPCT and DICT for the first ten months and the throughput of DCT in November and December.
3. Yingkou Container Terminal and Yingkou New Century Terminal were put under same management since May 2017. Therefore, the throughputs of the two terminals were combined within the throughput of Yingkou Terminal.
4. The throughput of QPI was included since 1 May 2017.
5. The integration of operation of Guangzhou Nansha Stevedoring Terminal and Guangzhou South China Oceangate Terminal was commenced in August 2017. Therefore, the throughputs of the two terminals were combined within the throughput of Guangzhou Terminal.
6. The co-management and operation of COSCO-HIT Terminal, Asia Container Terminal and Hongkong International Terminal was commenced on 1 January 2017. Therefore, the throughputs of COSCO-HIT Terminal and Asia Container Terminal were combined within the throughput of Hong Kong Terminal.
7. The throughput of NPH Group was included since 1 November 2017.
8. The throughput of Vado Reefer Terminal was included since 1 April 2017.
9. The throughput of Euromax Terminal was included since 1 October 2016.
10. The total throughput of bulk cargo (excluding QPI) in 2017 was 80,810,524 tons (FY2016: 80,821,924 tons), which was similar to last year. The throughput of Dalian Automobile Terminal Co., Ltd. was 711,040 vehicles (FY2016: 569,942 vehicles), representing an increase of 24.8%. The throughput of bulk cargo of QPI from May to December 2017 was 18,343,000 tons.

Yangtze River Delta

19,630,693 TEU

↑ 6.1%

Shanghai Pudong Terminal	2,650,396	+3.7%
Shanghai Mingdong Terminal	6,500,062	+10.2%
Ningbo Yuan Dong Terminal	2,980,839	+17.5%
Lianyungang New Oriental Terminal	2,872,563	-7.3%
Zhangjiagang Terminal	735,918	+9.0%
Yangzhou Yuanyang Terminal	489,108	+7.7%
Nanjing Longtan Terminal	2,881,008	+3.9%
Taicang Terminal	520,799	+1.5%

Overseas

18,840,664 TEU

↑ 38.7%

Piraeus Terminal	3,691,815	+6.4%
Zeebrugge Terminal	316,448	+14.1%
NPH Group [7]	554,028	N/A
COSCO-PSA Terminal	2,044,536	+13.0%
Vado Reefer Terminal [8]	39,455	N/A
Euromax Terminal [9]	2,693,337	+311.9%
Kumport Terminal	1,063,335	+59.8%
Suez Canal Terminal	2,528,647	-0.7%
Antwerp Terminal	2,166,096	+12.7%
SSA Terminals	188,455	+24.4%
Busan Terminal	3,554,512	+70.5%

Southeast Coast and others

5,079,660 TEU

↑ 12.1%

Xiamen Ocean Gate Terminal	1,501,001	+32.7%
Quan Zhou Pacific Terminal	1,384,479	+5.8%
Jinjiang Pacific Terminal	495,993	+36.2%
Kao Ming Terminal	1,698,187	-1.8%

Southwest Coast

1,357,005 TEU

↑ 19.2%

Qinzhou International Terminal	1,357,005	+19.2%

Terminal Portfolio* (as of 31 December 2017)

Terminal company	Share holdings	Target Number of Berths	Designed annual handling capacity (TEU)	Depth (m)
Bohai Rim		**53**	**23,350,000**	
		3	**780,000 vehicles**	
		63	**236,020,000 tons**	
QPI	18.41%	23	10,000,000	N/A
		61	207,020,000 tons	N/A
Dalian Container Terminal	19%	14	6,250,000	17.8
Dalian Dagang Terminal	35%	1	100,000	9.1
Dalian Automobile Terminal	24%	3	780,000 vehicles	11
Tianjin Euroasia Terminal	30%	3	1,700,000	16.5
Tianjin Five Continents Terminal	28%	4	1,500,000	16.5
Yingkou Container Terminal	50%	2	1,000,000	14
Yingkou New Century Terminal	40%	2	1,400,000	15.5
Jinzhou New Age Terminal	51%	2	600,000	15.4
Qinghuangdao New Harbour Terminal	30%	2	800,000	15.8
Dongjiakou Ore Terminal	25%	2	29,000,000 tons	19.2-24.5
Yangtze River Delta		**39**	**19,820,000**	
		22	**28,520,000 tons**	
Shanghai Pudong Terminal	30%	3	2,300,000	12
Shanghai Mingdong Terminal	20%	7	5,600,000	12.8
Ningbo Yuan Dong Terminal	20%	3	1,800,000	17-22
Ningbo Meishan Terminal	20%	2	1,200,000	17
Lianyungang New Oriental Terminal	55%	4	1,200,000	15
Zhangjiagang Terminal	51%	3	1,000,000	10-11
Yangzhou Yuanyang Terminal	55.59%	2	700,000	12
		8	10,950,000 tons	8-12
Nanjing Longtan Terminal	16.14%	10	4,000,000	12.5-14.5
Taicang Terminal	39.04%	2	550,000	12
		2	4,000,000 tons	12
Nantong Tonghai Terminal	51%	3	1,470,000	12.5
		1	5,373,000	12.5
Wuhan Terminal	70%	4	4,200,000 tons	9
Jiangsu Petrochemical	30.4%	7	4,000,000 tons	15.4

Note: The terminal portfolio includes operating and non-operating terminal companies, berths and designed annual handling capacity.

Terminal Portfolio* (as of 31 December 2017)

Terminal company	Share holdings	Target number of berths	Designed annual handling capacity (TEU)	Depth (m)
Southeast Coast and others		**13**	**7,400,000**	
		5	**9,200,000 tons**	
Xiamen Ocean Gate Terminal	70%	4	2,600,000	16
		1	4,000,000 tons	6.6-13.6
Quan Zhou Pacific Terminal	82.35%	3	1,200,000	7.0-15.1
		2	1,000,000 tons	5.1-9.6
Jinjiang Pacific Terminal	80%	2	800,000	9.5-15.3
		2	4,200,000 tons	7.5-9.5
Kao Ming Terminal	20%	4	2,800,000	16.5
Pearl River Delta		**30**	**27,025,000**	
Yantian Terminal Phases I & II	14.59%	5	4,500,000	14.0-15.5
Yantian Terminal Phase III	13.36%	11	9,925,000	16.0-16.5
Guangzhou Nansha Stevedoring Terminal	40%	4	5,000,000	14.5
Guangzhou South China Oceangate Terminal	39%	6	4,200,000	15.5
COSCO-HIT Terminal	50%	2	1,800,000	15.5
Asia Container Terminal	60%	2	1,600,000	15.5
Southwest Coast		**2**	**1,200,000**	
Qinzhou International Terminal	40%	2	1,200,000	15.1
Overseas		**62**	**37,700,000**	
		2	**600,000 pallets**	
Piraeus Terminal	100%	8	6,200,000	14.5-18.5
Suez Canal Terminal	20%	8	5,100,000	16
Kumport Terminal	26%	6	3,000,000	15-16.5
Zeebrugge Terminal	100%	3	1,000,000	17.5
Antwerp Terminal	20%	6	3,500,000	14.5-16.5
COSCO-PSA Terminal	49%	3	3,000,000	18
Busan Terminal	5.50%	8	4,000,000	15-16
Seattle Terminal	13.33%	2	900,000	15
Euromax Terminal	35%	5	3,200,000	16.65
Abu Dhabi Terminal	90%	3	2,400,000	18
Vado Reefer Terminal	40%	1	300,000	14.1
		2	600,000 pallets	14.1
Valencia Terminal	51%	6	4,100,000	16
Bilbao Terminal	39.78%	3	1,000,000	21
Total		**294**		
Total number of container berths/ designed annual handling capacity		**199**	**116,495,000**	
Total number of bulk berths/ designed annual handling capacity		**90**	**273,740,000 tons**	
Total number of automobile berths/ designed annual handling capacity		**3**	**780,000 vehicles**	
Total number of reefer berths/ designed annual handling capacity		**2**	**600,000 pallets**	

During 2017, the Group endeavoured to upgrade the proportion of its interests in terminals to strengthen its role in their operation. In 2017, it acquired 51% of the shares of the NPH Group in Spain, the remaining 76% stake in Zeebrugge Terminal, and 51% of Nantong Terminal and 70% of Wuhan Yangluo Terminal, which increased the number of controlled terminals of the Group to 15, with a total designed capacity of 28,470,000 TEU. During the year, total equity throughput of the Group's subsidiaries amounted to 11,053,112 TEU (2016: 10,027,597 TEU), representing an increase of 10.2% compared with last year.

In addition, the proportion of overseas terminal business of the Group continues to increase. As at 31 December 2017, the number of overseas terminals under the Group increased to 13 with a total designed throughput of 37,700,000 TEU, representing an increase of 5.8 percentage points from 26.5% in 2016 to 32.3%, with a significant proportion of that increase from overseas businesses. Overseas terminals completed a total container equity throughput of 7,447,503 TEU in 2017, an increase of 22.3% over the previous year, representing an increase of 2.3 percentage points from 22.7% in the previous year to 25.0%. In January 2018, a new berth was added to COSCO-PSA Terminal in Singapore, together with two large berths replaced in January 2017. Currently, the terminal operates three large container berths in Pasir Panjang Port, the total quay length is 1,200 metres. Its operating capacity has increased from 1,000,000 TEU in 2016 to 3,000,000 TEU at present and its operational capability has been greatly enhanced. On 5 November 2017, the construction of the 90% owned Abu Dhabi Terminal was officially started. The terminal has 1,200 metres of quay length and three container berths with a design annual handling capacity of 2,400,000 TEU. This facility will be put into operation in the first quarter of 2019, further enhancing the Group's overseas business.

Regional Performance

Bohai Rim

A stable performance was recorded in the Bohai Rim region. The throughput of the region, excluding QPI and Qingdao Qianwan Terminal, reached 15,974,976 TEU for 2017 (2016: 15,112,768 TEU), an increase of 5.7% and accounted for 18.2% (2016: 19.5%) of the Group's total. The throughput of QPI in May to December 2017 totalled 12,270,000 TEU.

DCT completed the merger with DPCT and DICT in October 2017 and recorded a combined throughput of 1,324,584 TEU in November and December. In the first 10 months of 2017, the total throughput of DPCT and DICT amounted to 5,433,564 TEU. Benefiting from the acceleration in local trade, the throughput of Tianjin Euroasia Terminal amounted to 2,469,753 TEU (2016: 2,232,973 TEU), a 10.6% increase. Impacted by the adjustment of shipping routes in the Port of Yingkou, the total throughput of Yingkou Container Terminal and Yingkou New Century Terminal dropped by 12.9% to 3,011,107 TEU (2016: 3,456,184 TEU), offsetting part of the throughput growth in the Bohai Rim region.

Yangtze River Delta

In the Yangtze River Delta region a positive performance was recorded. The throughput of the region, reached 19,630,693 TEU for 2017 (2016: 18,508,168 TEU), an increase of 6.1% and accounted for 22.3% (2016: 23.9%) of the Group's total. Impacted by the decrease in local trade and competition from neighbouring terminals, the throughput of Lianyungang New Oriental Terminal declined 7.3% to 2,872,563 TEU (2016: 3,100,243 TEU). All of the other terminals in the region recorded varying increases in their throughput. Benefiting from the new routes and callings of the new alliances and the increased overall frequency of ship calls, Shanghai Pudong Terminal and Shanghai Mingdong Terminal recorded 3.7% and 10.2% increases respectively in their throughput whereas the throughput of Ningbo Yuan Dong Terminal also recorded a 17.5% growth to 2,980,839 TEU (2016: 2,536,182 TEU).

Southeast Coast and other regions

A solid performance was recorded in the Southeast Coast and other regions. The regional throughput reached 5,079,660 TEU for 2017 (2016: 4,533,026 TEU), an increase of 12.1%, and accounted for 5.8% (2016: 5.8%) of the Group's total. Benefitting from the addition of shipping routes and increased frequency of calls by the OCEAN Alliance, Xiamen Ocean Gate Terminal enjoyed an outstanding performance and recorded a considerable 32.7% increase in its throughput to 1,501,001 TEU (2016: 1,131,197 TEU). Also taking advantage of the increased trade in the region and integrated marketing activities, Quan Zhou Pacific Terminal and Jinjiang Pacific Terminal recorded increases of 5.8% and 36.2% in their throughput. The growth for Jinjiang Pacific Terminal is particularly noteworthy, as the terminal actively attracted new clients and developed new routes.

Pearl River Delta

In the Pearl River Delta region an ideal performance was recorded. The throughput of the region reached 27,049,187 TEU for 2017 (2016: 24,697,218 TEU), an increase of 9.5% and accounted for 30.8% (2016: 31.8%) of the Group's total. All of the terminals in the region recorded throughput increases as international trade has slowly recovered. Driven by increased laden and transshipment containers, the throughput of Yantian International Container Terminals Co., Ltd. rose 8.6% to 12,703,733 TEU (2016: 11,696,492 TEU), substantially higher than the 5.3% growth for the Port of Shenzhen. Benefitting from the support from the OCEAN Alliance and increased efficiency resulting from integrated operation, the throughput of Guangzhou Nansha Stevedoring and Guangzhou South China Oceangate Terminal increased by 2.7% to a combined 10,856,559 TEU (2016: 10,567,976 TEU).

As a result of the global economic recovery and the return of some of the routes by shipping companies to Hong Kong, the throughput of the Port of Hong Kong expanded by 4.8% to 20,755,000 TEU. Benefiting from increased local trade and improved efficiency from the co-management since 2017 by COSCO-HIT Terminal, Asia Container Terminal and Hongkong International Terminal, COSCO-HIT Terminal and Asia Container Terminal handled 3,488,895 TEU for 2017 (2016: 2,432,750 TEU), a 43.4% surge.

Southwest Coast

Driven by the twin trends of increased local trade and goods transfer in the Southwest Coast region, the throughput of Qinzhou International Terminal has risen. Thus, the Southwest Coast region recorded a strong performance. The throughput of the region reached 1,357,005 TEU for 2017 (2016: 1,138,057 TEU), an increase of 19.2% and accounted for 1.5% (2016: 1.5%) of the Group's total.

Overseas

On the strength of the global economic recovery, the Group's overseas business recorded an outstanding performance in 2017, with its throughput reaching 18,840,664 TEU, a 38.7% increase. Excluded Vado Reefer Terminal and the NPH Group, which were included in April and November 2017 respectively with a total throughput of 593,483 TEU, the throughput of the Group's overseas business recorded vigorous growth of 34.3% to 18,247,181 TEU.

All overseas terminals have recorded throughput increases, except for the Suez Canal Terminal in Egypt, whose throughput for 2017 slightly decreased by 0.7% owing to the adjustment of routes between May and July. Benefitting from increased calling by the OCEAN Alliance and THE Alliance, the throughput of Piraeus Terminal and Kumport Terminal rose in 2017 by 6.4% and 59.8% to 3,691,815 TEU (2016: 3,470,981 TEU) and 1,063,335 TEU (2016: 665,398 TEU) respectively. The throughput of Antwerp Terminal in Belgium increased by 12.7% to 2,166,096 TEU (2016: 1,922,281 TEU), impacted by the installation of new equipment and the addition of new routes in 2017. Euromax Terminal in Rotterdam also saw a solid performance, with its throughout reaching 2,693,337 TEU.

Powered by increased throughput in new Southeast Asian markets, COSCO-PSA Terminal and Busan Terminal both performed strongly. In January 2017, COSCO-PSA Terminal was moved to a new terminal with a higher capacity, which drove its throughput to reach 2,044,536 TEU (2016: 1,809,428 TEU), a 13.0% growth compared with last year, exceeding the 8.9% increase in the Port of Singapore. Benefitting from improved efficiency following integration of its resources, the throughput of Busan Terminal soared 70.5% to 3,554,512 TEU (2016: 2,084,592 TEU).

Three Major Development Strategies of the Company

With the constant change of the operational environment in the global shipping market, the new landscape created by the strategic alliances of shipping enterprises and the continuous business growth of the alliances, terminals operators are required to have a more comprehensive and extensive global terminal network to meet the business needs of the major shipping alliances and act in concert with their development of routes in order to acquire the largest share of the market.

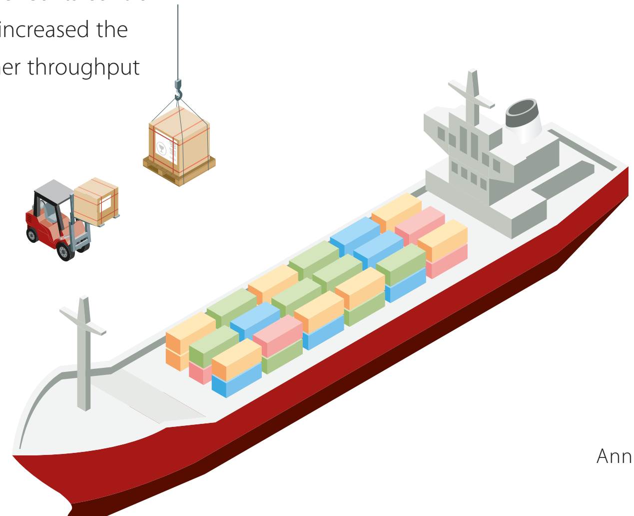
Against this backdrop, the Group, following its reorganisation in 2016, has established the "The Ports For ALL" development concept, which presents three strategic directions for terminal business development, namely to develop a global terminal network; to achieve synergies between its parent company, COSCO SHIPPING, and the OCEAN Alliance; and to strengthen the control and management of its ports and terminals business.

In 2017, under the guidance of these major strategies, the Group has achieved significant results in its terminals business. COSCO SHIPPING Ports has fully utilised the advantages of synergies between COSCO SHIPPING and the OCEAN Alliance, enhanced its network of global container hub ports and improved its services for shipping alliances. Concurrently, it has actively sought opportunities for investment in overseas terminals and domestic port projects, strengthened its control over and integrated its existing terminals and increased the efficiency of its terminal management for higher throughput with beneficial effects for its business.

Business Development

During the year, the Group has completed investments in four port companies. On 12 June 2017, the Group entered into a sales and purchase agreement with TPIH Iberia, S.L.U. for the acquisition of 51% equity interest in the NPH Group for EUR203,490,000. The NPH Group operates two container terminals, Valencia Terminal and Bilbao Terminal, as well as two facilitative rail terminals, Conte-Rail Terminal and Zaragoza Rail Terminal. The two container terminal companies have a total quay length of 3,465 metres and nine container berths with an annual handling capacity of 4,570,000 TEU and a planned future increase to 5,100,000 TEU. The transaction was completed on 31 October 2017.

Valencia Terminal is strategically located and is the largest container terminal of Valencia Port, one of the three major ports in the Mediterranean Sea, and serves as a transshipment hub in the western Mediterranean. Bilbao Terminal is the only container terminal in Spain's Bilbao Port and the largest and most advanced container terminal in the southern European region. The transaction further improves the Group's network layout in the western Mediterranean and Europe. Moreover, as the Group has become the controlling shareholder of the NPH Group and the two container terminals at Valencia Terminal and Bilbao Terminal, they will have business support from COSCO SHIPPING and the OCEAN Alliance. The two facilitative rail terminals will also provide extended services for COSCO SHIPPING Lines, a fellow subsidiary of the Company, and customers. Beginning in April 2017, the OCEAN Alliance has reshuffled their routes to the Valencia Terminal and launched the feeder service in the Port of Bilbao.



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On 11 September 2017, the Group entered into a legally binding memorandum of understanding with APM Terminals B.V. and on 8 November, the Group signed a share purchase agreement in respect of the acquisition of the remaining approximately 76% of the issued share capital of Zeebrugge Terminal for a total consideration of EUR35,000,000 (including refinancing of the existing shareholders' loan). This new acquisition, together with the original 24% equity interest held by the Group, has made Zeebrugge Terminal the second overseas wholly-owned terminal of the Group following Piraeus Terminal in Greece. With a total quay length of 1,275 metres and three container berths, the terminal has a design annual handling capacity of 1,000,000 TEU and a potential increase to 2,000,000 TEU in the future. The transaction was completed on 30 November 2017.

Zeebrugge Port is the second largest port in Belgium. It is a natural deep-water port that can accommodate large vessels and it is located strategically to function as a transportation hub to all directions. Zeebrugge Terminal has good road and rail network connections to Europe, and coastal ports in Northwest Europe, Central Europe and Eastern Europe. Upon completion of the acquisition, Zeebrugge Terminal will be an important gateway for the Group in the northwestern European region, contributing to the construction of a global strategic pivot.

On 18 July 2017, the Group signed an equity transfer agreement with Jiangsu Changjiangkou Development Group Co., Ltd. and Nantong Integrated Bonded Area Development Limited to acquire a 51% equity interest in Nantong Tonghai Terminal at a total consideration of RMB105,281,000 and to pay up the registered capital at shareholding proportion of RMB297,840,000. The transaction was completed on 29 September 2017. Nantong Tonghai terminal has three container berths and one bulk cargo berth. It is expected to commence operation by mid-2018. The annual handling capacity of container and bulk cargo throughputs at the terminal after the commencement of operation is expected to be 1,470,000 TEU and 5,370,000 tons respectively. With its geographical advantage, the Port of Nantong is located along the coast of China's Yangtze River and the Group plans to build it into a transshipment hub in the lower reaches of the Yangtze River.

In addition, the Group acquired a 70% equity interest in Wuhan Terminal, a subsidiary of Wuhan Iron & Steel Group Logistics Co., Ltd. ("WISGL"), at a consideration of RMB297,500,000 on 22 December 2017 to operate Wuhan Terminal and the sea-rail combined transportation project. Wuhan Terminal will also utilise the proceeds from external financing or shareholders' loans for technological transformation, development of logistics park and sea-rail combined transportation with a total investment amount of approximately RMB1,526,000,000. The Port of Yangluo currently has three operating areas (Phase III) with an annual handling capacity of 2,000,000 TEU. In 2017, the phase III terminal of the Port of Yangluo completed a throughput of 1,260,000 TEU. It is estimated that the transformation of Wuhan Terminal will be completed at the end of 2019. Upon completion, the throughput capacity of the entire Port of Yangluo will reach 2,800,000 TEU, ranking the first in river ports in China.

Enhance Collaboration Value

Following the completion of its reorganisation in 2016, COSCO SHIPPING Ports has formulated long-term development strategies that concentrate on the deployment of collaboration value amongst its ports. The collaboration values stem from the integrated or coordinated operations between existing terminal operators and their partners. On 20 January 2017, the Group

announced its strategic investment in 16.82% of QPI's issued share capital in the form of an injection of RMB5,798,619,200, a 20% stake in Qingdao Qianwan Terminal and cash. The transaction was completed on 19 May 2017. At present, the Group holds an 18.41% interest in QPI.

After the completion of the project, the operating model of the Group in the Port of Qingdao extended from the operation of one single terminal to the management of the whole port, which not only strengthened its control over the whole port, but also enabled it to fully enjoy the room for development and future continuous growth of the whole port. Furthermore, the Group will work closely with QPI to form strategic partnership in developing overseas business. This new model of strategic investment in the port authority acts as a significant reference for the Group's future deployment of its businesses in Mainland China.

In addition, through the integration of its existing terminals resources, the Group has enhanced its competitiveness and the profitability of its terminals. During the year, Yingkou Container Terminal and Yingkou New Century Terminal began their operations under same management since May 2017; the merger of DCT, DPCT and DICT was completed in October 2017, with DCT as the surviving entity, in which the Group holds a 19% stake; Guangzhou Nansha Stevedoring Terminal and Guangzhou South China Oceangate Terminal commenced their integrated operational mode in August 2017; the co-management of COSCO-HIT Terminal, Asia Container Terminal and Hongkong International Terminal starting 1 January 2017. The integration of terminals can ease unnecessary and irrational regional competition, promoting healthy development in the industry.

Expand Terminal Extension Services

One of the Group's strategic plans involves the provision of extended services of terminals in both their upper and lower reaches. During the year, the Group vigorously executed logistics park projects in places such as the Abu Dhabi Khalifa Container Freight Station project, and projects in Nantong Tonghai port and Wuhan Yangluo port and developed extended terminal services in order to enhance the competitiveness of these terminals.

In November 2017, the Group and Abu Dhabi Ports Company signed a tenancy agreement for the Abu Dhabi Khalifa container freight Station project, which involved the leases of a specified port area outside the terminal area and the construction of a container freight station measuring 270,000 square metres. The Group can take advantage of the advanced transport infrastructure in the region to further utilise the geographical advantages of the Port of Khalifa to deliver goods to more than 4,500,000,000 consumers and international markets through the sea, road, rail and air transport network based on the Abu Dhabi Khalifa Container Freight Station project and to develop the terminal into a local transport, transshipment and distribution centre as soon as possible.

In March 2017, the Group signed a cooperation agreement with the Nantong Municipal Government to jointly operate Nantong Terminal. Concurrently, the Nantong Municipal Government agreed to provide the Group with the right to use a 5,412 Mu plot of land as a container operation area and logistics park site. The project has been undertaken with the cooperation with fellow subsidiary COSCO SHIPPING Lines to establish a transshipment hub in the lower reaches of the Yangtze River by building a new model for the integrated development and operation of terminal parks. The Wuhan Yangluo sea-rail combined transportation project is a cooperation project of the Group and WISGL. The project is located in the port area of Yangluo Jiangbei terminal and covers an area of more than 700 Mu. It is planned to be a modern logistics collection and distribution centre integrating the functions of terminals, container transport, logistics, warehouses, yards, container yards and sea-rail combined transportation centres. In addition, the Group signed a strategic cooperation agreement with China Gezhouba Group International Engineering Co., Ltd. in May 2017 which will open a new chapter in the field of investment, construction and logistics for global ports. The Company believes that the extension of upstream and downstream industry chain services will bring newly added value to the development of the terminal business and help to further enhance the influence and competitiveness of the Company's terminal business along both upstream and downstream industry chains.

Improve Terminal Operational Efficiency

In an effort to broaden the global business landscape and market share, the Group is committed to optimising terminal assets and enhancing the terminal operational efficiency. During the year, the Group signed a contract with a terminal equipment supplier in relation to the application of the latest terminal operation system to the Group's terminals. Khalifa Terminal Phase II, which is under construction, will take the lead in adopting such system. In addition, the Group has adopted a unified management and information system to promote the unification of the information systems for terminals in which the Group has controlling stakes, so that the headquarters of the Company can examine the operation status of each of its terminals in real time and regularly quantify the business performance with unified performance indicators so as to enhance the enthusiasm of the terminal companies. Concurrently, the Group also introduced and applied innovative information technologies to optimise the workflow and business operations of various departments through information and electronic means. It also provided high-quality services for customers while enhancing safety and overall operational efficiency.

The Group also formulated standardised and unified operational standards for core processes such as gate management, yard operations and front-line terminal operations. Through the key performance evaluation system, the Group carried out comprehensive, effective management of the workload and operational capability, operational services, operational efficiency and resource utilisation of its terminal companies. The Group encouraged its business teams to adopt the best practices, improve their overall professional standards in order to ensure the provision of quality services for their clients.

Build Green Ports

The Group is duty-bound to develop green port in protecting the environment. During the year, the Group continuously monitors and strengthens its terminal management of environmental-protection issues related to production and operation such as energy consumption, greenhouse gas emissions, air pollution, usage of materials and sewage and waste management. Through comprehensive management procedures, the application of advanced technologies and equipment and continuous environmental protection investment, the Group aims to minimise or eliminate the impact of the terminal business on the environment and the consumption of natural resources, enhance operational efficiency and achieve "double benefits" through economy of operations and protection of the environment. The Group has actively fulfilled its commitment to building "green ports" by formulating the "Regulations on Emissions Reduction" and issued specific energy-saving targets to its terminal companies.

Prospects

COSCO SHIPPING Ports is dedicated to becoming a leading port player in the world and creating development opportunities by promoting the synergies within the entire shipping industry including logistics, upstream and downstream businesses. According to the IMF, the global economic growth that took place in 2017 will continue into 2018 with a projected increase of 3.9% in 2018, slightly higher than the 3.7% growth in 2017; while the world trade volume is expected to rise even more strongly to 4.6% in 2018, essentially the same growth rate as in 2017.

The advantages of COSCO SHIPPING Ports lie in the facts that the fleet of COSCO SHIPPING, its parent company, was ranked fourth globally and that it has strong backing from the OCEAN Alliance, a powerful organisation whose members constitutes 28% of the global container capacity. In 2018, the Group will fully leverage the synergies with COSCO SHIPPING and the OCEAN Alliance, strengthen its service capability to serve shipping alliances and continue to improve its global container transshipment hub network, so as to seize the business opportunities offered by the huge market share of the OCEAN Alliance. At the same time, the Group will continue to establish close partnerships and good relationships with port groups, terminal operators and international liner companies. An example of such relationship-building can be seen in the Group taking the lead during January 2017 to sign a memorandum of understanding with CMA CGM Group to strengthen the cooperation between both parties in the field of global port investment and operations. The Group will strive to create the most valuable platform for sharing with and benefitting all stakeholders. COSCO SHIPPING Ports believes that through the cooperation of both parties, it can not only provide more quality services but also capture more business opportunities.

In respect of terminal investment, in selecting investment and merger and acquisition projects, the Group pays particular attention as to whether the control of the terminal can help enhance shareholder returns and weighs the value added to the overall terminal network layout. COSCO SHIPPING Ports will continue to exert its competitive advantages to further optimise its global terminal network by exploring investment opportunities in Southeast Asia, South Asia, West Asia, Africa, the Americas and Latin America, with the vision of building its global terminal network with controlling stakes that has linkage effects on cost, services and synergies, and providing its customers with a win-win network at maximised value. Aside from that, it will continue to participate in domestic port consolidations, team up with port authorities to strengthen its portfolio domestically.

COSCO SHIPPING Ports will adhere firmly to its five-year targets by getting hold of every development opportunities and aligning its development philosophy of "The Ports For All", working towards building a synergistic platform that offer mutual benefits for the entire shipping industry. COSCO SHIPPING Ports will continue to enhance its overall profitability by further strengthening the brand building, increasing terminal operational efficiency, and optimising its terminal portfolio, so as to maximise long-term value for its shareholders amid advancing towards the objectives of its five-year plan.

Control

Strengthening control and management of the ports and terminals business – further integrating our existing terminals portfolio and increasing the value of these investments through building controlling stakes; increasing our influence in entire ports through equity investments in port groups; and adopting a unified management and information system to integrate terminal operations.