

# Report of the Directors

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 2017.

## 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 44 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 10 to 13 and Financial Review on pages 42 to 49 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. There was no important event affecting the Group since the end of the financial year ended 31 December 2017.

An analysis of the Group’s performance during the year using financial key performance indicators is provided in the Financial Highlights on pages 8 to 9 of this annual report.

The environmental policies and performance and compliance with the relevant laws and regulations are provided in the 2017 Sustainability Report, which has been published on the same date of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement on pages 133 to 134 of this annual report.

The directors declared an interim dividend of HK10.3 cents (equivalent to US1.316 cents) per share with a scrip dividend alternative, totalling HK\$312,190,000 (equivalent to US\$39,888,000), which was paid on 27 October 2017.

The directors recommend the payment of a final dividend of HK13.1 cents (equivalent to US1.684 cents) per share with a scrip dividend alternative, totalling HK\$400,482,000 (equivalent to US\$51,482,000), payable on 18 July 2018.

## 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 239 of this annual report.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$622,000.

## SHARES ISSUED IN THE YEAR

Details of the shares issued of the Company during the year are shown in note 19 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017 calculated under the Companies Act of Bermuda amounted to US\$2,804,814,000.

## BORROWINGS

Details of the borrowings of the Group are set out in note 21 to the consolidated financial statements.

## RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in notes 3.24 and 33 to the consolidated financial statements.

## DIRECTORS

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

Mr. HUANG Xiaowen<sup>2</sup> (Chairman)

Mr. ZHANG Wei (張為)<sup>1</sup> (Vice Chairman and Managing Director)

Mr. FANG Meng<sup>1</sup>

Mr. DENG Huangjun<sup>1</sup>

Mr. FENG Boming<sup>2</sup>

Mr. ZHANG Wei (張煒)<sup>2</sup>

Mr. CHEN Dong<sup>2</sup>

Mr. XU Zunwu<sup>2</sup>

Mr. WANG Haimin<sup>2</sup>

Dr. WONG Tin Yau, Kelvin<sup>1</sup>

Dr. FAN HSU Lai Tai, Rita<sup>3</sup>

Mr. Adrian David LI Man Kiu<sup>3</sup>

Mr. FAN Ergang<sup>3</sup>

Mr. LAM Yiu Kin<sup>3</sup>

Prof. CHAN Ka Lok<sup>3</sup>

<sup>1</sup> Executive Director

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

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

## Report of the Directors

In accordance with Clauses 87(1) and (2) of the Bye-laws of the Company, Mr. ZHANG Wei (張為), Mr. FANG Meng, Mr. WANG Haimin, Mr. FAN Ergang and Mr. LAM Yiu Kin, 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 94 to 103 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 "Share Option Scheme") and the termination of the share option scheme adopted by the shareholders of the Company on 30 November 1994.

At a special general meeting of the Company held on 5 December 2005, the shareholders of the Company approved the amendments to the Share Option Scheme. The definitions of "Participant" and "relevant company" in paragraph 1 of the Share Option Scheme were amended by deleting all references to COSCO (Hong Kong) Group Limited (now known as COSCO SHIPPING (Hong Kong) Co., Limited) ("COSCO SHIPPING (Hong Kong)") and replacing them by China COSCO Holdings Company Limited (now known as COSCO SHIPPING Holdings Co., Ltd.) ("COSCO SHIPPING Holdings"), an intermediate holding company of the Company, and paragraph 8(e) of the 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 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 Share Option Scheme. These amendments came into effect on 28 February 2006 after the approval of the shareholders of COSCO SHIPPING Holdings at its general meeting held on the same date.

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

The 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 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 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 (i.e. 214,701,229 shares) as at the date of the adoption of the 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 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 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 Share Option Scheme. The options to subscribe for a total of 9,940,000 shares (representing approximately 0.33% of the existing issued shares of the Company) granted under the Share Option Scheme lapsed during 2017. As at 31 December 2017, there was no outstanding option.

Notes:

- (1) As defined in the Share Option Scheme (as amended), "Participants" include:
  - (i) any employee of the Group (including any executive director of the Group);
  - (ii) any management of COSCO SHIPPING Holdings, or China Ocean Shipping Company Limited (formerly China Ocean Shipping (Group) Company) ("COSCO"), both being intermediate holding companies of the 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 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.

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

Category	Exercise Price HK\$	Number of share options					Lapsed during the year	Outstanding at 31 December 2017	% of total number of issued shares	Exercisable period	Note
		Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Transfer (to)/ from other categories during the year						
<b>Director</b>											
Dr. WONG Tin Yau, Kelvin	19.30	500,000	-	-	-	(500,000)	-	-	18.4.2007 - 17.4.2017	(1), (2)	
		500,000	-	-	-	(500,000)	-				
<b>Continuous contract employees</b>											
	19.30	8,310,000	-	-	-	(8,310,000)	-	-	(refer to note 1)	(1)	
<b>Others</b>											
	19.30	1,130,000	-	-	-	(1,130,000)	-	-	(refer to note 1)	(1)	
		9,440,000	-	-	-	(9,440,000)	-				
		9,940,000	-	-	-	(9,940,000)	-				

Notes:

- (1) The share options were granted during the period from 17 April 2007 to 19 April 2007 under the 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 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 Share Option Scheme during the year ended 31 December 2017.

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

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 as at 31 December 2017 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 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
Mr. ZHANG Wei (張煒)	Beneficial owner	Personal	30,000	0.001%
Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	569,467	0.019%

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

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

#### (c) Long positions in 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
COSCO SHIPPING Holdings Co., Ltd.	Dr. FAN HSU Lai Tai, Rita	Beneficial owner	Personal	10,000	0.0004%
COSCO SHIPPING Energy Transportation Co., Ltd.	Mr. Adrian David LI Man Kiu	Beneficial owner	Personal	508,000	0.04%

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
COSCO SHIPPING Development Co., Ltd.	Mr. FENG Boming	Beneficial owner	Personal	29,100	0.0004%
	Mr. DENG Huangjun	Interest of spouse	Family	38,000	0.0005%

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### (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				
					Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2017
COSCO SHIPPING Holdings Co., Ltd.	Mr. ZHANG Wei (張為)	Beneficial owner	Personal	9,540	75,000	-	-	(75,000)	-
	Mr. DENG Huangjun	Beneficial owner	Personal	9,540	260,000	-	-	(260,000)	-
	Mr. FENG Boming	Beneficial owner	Personal	9,540	35,000	-	-	(35,000)	-
	Mr. ZHANG Wei (張煒)	Beneficial owner	Personal	9,540	50,000	-	-	(50,000)	-
	Mr. WANG Haimin	Beneficial owner	Personal	9,540	75,000	-	-	(75,000)	-

Note:

The share appreciation rights were granted by COSCO SHIPPING Holdings, 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 COSCO SHIPPING Holdings on 4 June 2007 pursuant to the share appreciation rights plan adopted by COSCO SHIPPING Holdings (the "Plan"). Under the Plan, no shares of COSCO SHIPPING Holdings 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. All share appreciation rights granted under the Plan lapsed during 2017.

Save as disclosed above, as at 31 December 2017, 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 2017, the directors namely Mr. HUANG Xiaowen, Mr. ZHANG Wei (張為), Mr. FANG Meng, Mr. DENG Huangjun, Mr. FENG Boming, Mr. ZHANG Wei (張煒), Mr. CHEN Dong, Mr. XU Zunwu and Mr. WANG Haimin held directorships and/or senior management positions in China COSCO Shipping Corporation Limited ("COSCO SHIPPING"), the ultimate holding company of the Company and its subsidiaries or associates and/or other companies which have interest in terminal operation and management business (the "Terminals Interest").

The Board is of the view that the Group is capable of carrying on its businesses independently of the Terminals Interest. When making decisions on the 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 2017, 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 2017			
			Long positions	%	Short positions	%
COSCO Investments Limited	Beneficial owner	Beneficial interest	213,989,277	7.10	—	—
China COSCO (Hong Kong) Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,366,459,469	46.06	—	—
COSCO SHIPPING Holdings Co., Ltd.	Interest of controlled corporation	Corporate interest	1,366,459,469	46.06	—	—
China Ocean Shipping Company Limited	Interest of controlled corporation	Corporate interest	1,366,459,469	46.06	—	—
China COSCO Shipping Corporation Limited	Interest of controlled corporation	Corporate interest	1,366,459,469	46.06	—	—
Silchester International Investors LLP	Investment manager	Other interest	277,420,809	9.08	—	—

Note:

The 1,366,459,469 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 COSCO SHIPPING Holdings and it itself held 1,152,470,192 shares of the Company beneficially. Accordingly, China COSCO (HK)'s interest in relation to the 1,366,459,469 shares of the Company is also recorded as COSCO SHIPPING Holdings' interest in the Company. COSCO held 45.47% equity interest in COSCO SHIPPING Holdings as at 31 December 2017, and accordingly, COSCO is deemed to have the interest of 1,366,459,469 shares of the Company held by China COSCO (HK). COSCO is a wholly owned subsidiary of COSCO SHIPPING. Accordingly, COSCO's interest in relation to the 1,366,459,469 shares of the Company is also recorded as COSCO SHIPPING's interest in the Company.

As informed by China COSCO (HK), it was interested in a total of 1,433,989,072 shares (representing 46.91% of the total issued shares of the Company) as at 31 December 2017 because of the allotment of 49,228,060 scrip shares and the acquisition of 18,301,543 shares.



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Save as disclosed above, as at 31 December 2017, 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.

### 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 LISTED SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares in 2017.

### 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 CUSTOMERS

The percentage of the Group's purchases and revenues attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier, which is a subsidiary of COSCO SHIPPING	13%
Percentage of purchases attributable to the Group's five largest suppliers	36%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer, which is a subsidiary of COSCO SHIPPING	15%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers	41%

None of the directors or their associates has interest in any of the suppliers or customers 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 customers 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 2017.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 60 to 93 of this annual report.

## CONNECTED TRANSACTIONS

During the year, the Group conducted certain continuing related party transactions, as disclosed in note 40 (Related party transactions) of the audited consolidated financial statements of the Company for the year ended 31 December 2017, 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 interest in CSP Zeebrugge

On 11 September 2017, China Shipping Ports Development Co., Limited ("CSPD", a wholly owned subsidiary of the Company) as purchaser entered into a legally binding memorandum of understanding (the "MOU") with APM Terminals B.V. ("APM Terminals") as seller, pursuant to which APM Terminals conditionally agreed to sell and CSPD conditionally agreed to purchase approximately 76% of the issued share capital of APM Terminals Zeebrugge NV (now known as CSP Zeebrugge Terminal NV) ("CSP Zeebrugge") (the "Sale Shares") at a maximum aggregate consideration (including refinancing of the existing shareholder loans) of €35,000,000 (subject to adjustments) (the "Zeebrugge Acquisition"). The MOU sets out the conditions precedent to the signing of a share purchase agreement in relation to the Zeebrugge Acquisition (the "Conditions Precedent").

The share capital of CSP Zeebrugge was at that time owned as to approximately 24%, 51% and 25% by CSPD, APM Terminals and Shanghai International Port (Group) Co., Ltd. ("SIPG"), an independent third party, respectively. The Zeebrugge Acquisition was structured such that APM Terminals would first acquire from SIPG its approximately 25% shares in CSP Zeebrugge (the "SIPG Shares"), followed by the sale of the SIPG Shares together with the shares in the share capital of CSP Zeebrugge held by APM Terminals to CSPD or its affiliate immediately thereafter.

After fulfillment of the Conditions Precedent, CSPD as purchaser entered into a share purchase agreement with APM Terminals as seller in relation to the Zeebrugge Acquisition on 8 November 2017.

CSP Zeebrugge operates a container terminal located at the Port of Zeebrugge, which is the second largest port in Belgium. The Zeebrugge Acquisition is in line with the Company's strategy of "developing a comprehensive and well-balanced global terminals network" and "strengthening control and management of the terminals".

APM Terminals is an associate of APM Terminals Invest Company Limited, a substantial shareholder of a subsidiary of the Company, and is therefore a connected person of the Company. The Zeebrugge Acquisition constituted a connected transaction of the Company under the Listing Rules.

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Completion of the Zeebrugge Acquisition took place on 30 November 2017 and CSP Zeebrugge has become a wholly-owned subsidiary of the Company on that date. The consideration paid by CSPD was €36,000,000.

### (II) Continuing Connected Transactions

#### (1) Rental of office premises

On 28 November 2014, COSCO SHIPPING Ports Management Company Limited (formerly COSCO Pacific Management Company Limited) ("COSCO SHIPPING Ports Management") as tenant entered into a tenancy agreement (the "2014 Tenancy Agreement") with Wing Thye Holdings Limited ("Wing Thye") as landlord 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 2014 Tenancy Agreement, COSCO SHIPPING Ports 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 2014 Tenancy Agreement, the maximum aggregate annual value of the rental and the management fee for the period from 29 November 2014 to 31 December 2014, for the two years ending 31 December 2015 and 2016 and for the period from 1 January 2017 to 28 November 2017 were HK\$2,231,000, HK\$13,400,000, HK\$13,485,000 and HK\$11,315,000 respectively.

On 28 November 2017, COSCO SHIPPING Ports Management as tenant entered into a new tenancy agreement with Wing Thye as landlord (the "2017 Tenancy Agreement") in respect of the leasing of the Premises with extension to include Unit No. 4902B on 49th Floor of COSCO Tower (the "Extended Unit"). Pursuant to the 2017 Tenancy Agreement, COSCO SHIPPING Ports Management agreed to rent from Wing Thye the Premises and the Extended Unit (collectively the "Extended Premises") for a term of three years commencing from 29 November 2017 at a monthly rental of HK\$1,223,600 exclusive of government rent, rates and management fees. The monthly management fees payable to Wing Thye is HK\$87,248 (subject to revision by the management company of the building of which the Extended Premises form part from time to time). During the subsistence of the 2017 Tenancy Agreement, the maximum aggregate annual value of the rental and the management fee for the period from 29 November 2017 to 31 December 2017, for the two years ending 31 December 2018 and 2019 and for the period from 1 January 2020 to 28 November 2020 are HK\$1,480,000, HK\$15,740,000, HK\$15,840,000 and HK\$14,540,000 respectively.

The Company intended to continue to occupy the Extended 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 respective rentals under the 2014 Tenancy Agreement and the 2017 Tenancy Agreement, the directors of the Company had made reference to the professional opinion given by DTZ Cushman & Wakefield Limited (formerly DTZ Debenham Tie Leung Limited) ("DTZ"), an independent professional valuer. DTZ opined that the monthly rental agreed for the Premises and the Extended Premises as respectively provided in the 2014 Tenancy Agreement and the 2017 Tenancy Agreement were at market levels and were fair and reasonable.

Wing Thye is a wholly owned subsidiary of COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)"). COSCO SHIPPING Ports Management is a wholly owned subsidiary of the Company. COSCO SHIPPING is a controlling shareholder of both the Company and COSCO SHIPPING (Hong Kong). Accordingly, Wing Thye is a connected person of the Company. The 2014 Tenancy Agreement and the 2017 Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

## (2) Financial Services Master Agreement

On 25 August 2016, 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 its services to the Group for deposit transactions (the "Deposit Transactions"), loan transactions (the "Loan Transactions"), clearing transactions (the "Clearing Transactions") and other financial services which COSCO Finance may from time to time offer (the "Further Financial Services") (collectively the "Transactions") to the Group for the period from 1 January 2017 to 31 December 2019 (both dates inclusive).

In respect of the Deposit Transactions, the rate of interest which will accrue on any deposit placed by the Group with COSCO Finance under the Financial Services Master Agreement will be determined with reference to: (a) market interest rates, being the interest rates set by independent third party commercial banks operating in the same or nearby service area in the PRC in their ordinary course of business on normal commercial terms for the same type of deposit services, determined in accordance with the principle of fairness and reasonableness; and (b) the interest rates offered by COSCO Finance to other parties of the COSCO SHIPPING Group (including COSCO SHIPPING and subsidiaries held by COSCO SHIPPING as to more than 51%, companies held by COSCO SHIPPING and/or its subsidiaries held by COSCO SHIPPING as to more than 51% (individually or jointly) as to more than 20%, companies held by COSCO SHIPPING and/or its subsidiaries held by COSCO SHIPPING as to more than 51% (individually or jointly) as to less than 20% with COSCO SHIPPING 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 SHIPPING and/or its subsidiaries held by COSCO SHIPPING as to more than 51%) for the same type of deposit services. The caps of the daily aggregate amount of deposits placed by the Group with COSCO Finance (including the amount of any interest accrued thereon) for each of the three years ending 31 December 2017, 2018 and 2019 are RMB4,000,000,000. The maximum daily aggregate amount of deposits for the year ended 31 December 2017 was RMB1,609,324,000.

In respect of the Loan Transactions, the rate of interest which will accrue on any loan to be provided by COSCO Finance to the Group under the Financial Services Master Agreement will be determined with reference to: (a) market interest rates, being the interest rates set by independent third party commercial banks operating in the same or nearby service area in the PRC in their ordinary course of business on normal commercial terms for the same type of loan services, determined in accordance with the principle of fairness and reasonableness; and (b) the interest rates charged by COSCO Finance to other parties of the COSCO SHIPPING Group for the same type of loan services. The caps of daily aggregate outstanding amount of loans to be provided by COSCO Finance to the Group (including any interest accrued thereon) for each of the three years ending 31 December 2017, 2018 and 2019 are RMB4,000,000,000. The maximum daily aggregate outstanding amount of loans for the year ended 31 December 2017 was RMB522,967,000.

In respect of the Clearing Transactions, under the Financial Services Master Agreement, no service fee will be charged by COSCO Finance for any clearing services to be provided to members of the Group for each of the three years ending 31 December 2017, 2018 and 2019.

In respect of the Further Financial Services, any fee which COSCO Finance will charge members of the the Group under the Financial Services Master Agreement will be determined with reference to: (a) the handling fees charged by independent third party commercial banks in the PRC for the same type of services provided to the Group; and (b) the handling fees charged by COSCO Finance for the same type of services provided to other third party entities of the same credit rating for the same type of services. For the year ended 31 December 2017, the total amount of the aforesaid transactions was RMB20,000.

## Report of the Directors

The deposit interest rates offered by COSCO Finance to the Group will be equal to or more favourable to the Group than those offered by independent third party commercial banks in the PRC for comparable deposits. The Financial Services Master Agreement is therefore expected to provide the Group with additional means of financing and improve the efficiency of the use of its funds through favourable interest income and costs of financing.

The Financial Services Master Agreement will not preclude the Group from using the services of other financial institutions as it thinks fit and appropriate for the benefit of the Group. Where required, the Group will solicit other reference quotations, where available, from independent third party financial institutions in respect of similar transactions for comparison and consideration.

COSCO Finance is a subsidiary of COSCO SHIPPING, a controlling shareholder of the Company, and is therefore a connected person of the Company. The Transactions constituted continuing connected transactions of the Group.

### **(3) 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 28 October 2015, certain subsidiaries of the Company entered into the following master agreements each for a term of three years from 1 January 2016 to 31 December 2018:

- (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 (as amended by an amendment agreement entered into between the Company, COSCO Ports, PCT and COSCO on 30 March 2016, pursuant to which, the Company became a party to the COSCO Shipping Services and Terminal Services Master Agreement in substitution of COSCO Ports and PCT) in respect of the following transactions:
  - (a) Provision of shipping related services by the Group to COSCO and its associates (the term as defined under the Listing Rules) (excluding the COSCO SHIPPING Holdings Group (as defined below)) (collectively the “Restricted COSCO Group”). The annual caps of the aggregate amount receivable by the Group from the Restricted COSCO Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB562,291,000, RMB705,513,000 and RMB881,877,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB64,865,000.
  - (b) Provision of terminal related services by the Restricted COSCO Group to the Group. The annual caps of the aggregate amount payable by the Group to the Restricted COSCO Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB124,590,000, RMB159,528,000 and RMB198,434,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB21,397,000.

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 Group than those at which the relevant members of the Group charge other independent third party customers for the relevant services. It was also agreed that the service fees payable by the relevant members of the Group shall be at rates no less favourable to the relevant members of the Group than those which independent third party providers charge relevant members of the Group for the relevant services.

(2) China COSCO Shipping Services and Terminal Services Master Agreement entered into between COSCO Ports, PCT, COSCO SHIPPING Holdings and COSCO SHIPPING Lines Co., Ltd. ("COSCO SHIPPING Lines") (as amended by an amendment agreement entered into between the Company, COSCO Ports, PCT, COSCO SHIPPING Holdings and COSCO SHIPPING Lines on 30 March 2016, pursuant to which, the Company became a party to the China COSCO Shipping Services and Terminal Services Master Agreement in substitution of COSCO Ports and PCT) in respect of the following transactions:

- (a) Provision of shipping related services by the Group to COSCO SHIPPING Holdings and COSCO SHIPPING Lines and their respective associates (excluding the Group, COSCO and its subsidiaries) (collectively the "COSCO SHIPPING Holdings Group"). The annual caps of the aggregate amount receivable by the Group from the COSCO SHIPPING Holdings Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB2,592,045,000, RMB2,920,650,000 and RMB3,294,169,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB632,777,000.
- (b) Provision of terminal related services by the COSCO SHIPPING Holdings Group to the Group. The annual caps of the aggregate amount payable by the Group to the COSCO SHIPPING Holdings Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB2,500,000, RMB2,750,000 and RMB3,025,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB131,000.

It was agreed that the service fees payable by the relevant members of the COSCO SHIPPING Holdings Group shall be at rates no less favourable to the relevant members of the Group than those at which the relevant members of the Group charge other independent third party customers for the relevant services. It was also agreed that the service fees payable by the relevant members of the Group shall be at rates no less favourable to the relevant members of the Group than those at which independent third party providers charge relevant members of the Group for the relevant services.

(3) Maersk Line Shipping Services Master Agreement entered into between COSCO Ports, PCT and Maersk Line A/S (for and on behalf Maersk Line and its subsidiaries, including entities trading under the names of Maersk Line, Safmarine, Sealand, or any other entities as Maersk Line A/S shall designate with agreement of relevant members of the Group (as may be applicable) (collectively "MaerskLine")) (as amended by a novation agreement entered into between the Company, COSCO Ports, PCT and Maersk Line A/S on 1 June 2017, pursuant to which, all rights and obligations of COSCO Ports therein was novated to the Company) in respect of the provision of shipping related services by the Group to Maersk Line.

The annual caps of the aggregate amount receivable by the Group from Maersk Line for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB1,598,518,000, RMB1,747,734,000 and RMB1,914,560,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB353,211,000.

The terms on pricing under the Maersk Line Shipping Services Master Agreement shall be at rates no less favourable to members of the Group than that at which members of the Group charge(s) independent third parties for the relevant services.

## Report of the Directors

(4) Guangzhou Port Company 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 Holdings Company Limited ("GZ Port Company") in respect of the following transactions:

(a) Provision of container terminal related services by GZ South China to GZ Port Company and its subsidiaries, branches and associates excluding GZ South China (collectively the "GZ Port Company Group") and excluding any service providing party of the GZ Port Holding Group under the Guangzhou Port Holding Container Terminal Services Master Agreement. The annual caps of the aggregate amount receivable by GZ South China from the GZ Port Company Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB49,220,000, RMB58,522,000 and RMB70,069,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB7,842,000.

(b) Provision of container terminal related services by the GZ Port Company Group to GZ South China (but excluding any service providing party of the GZ Port Holding Group under the Guangzhou Port Holding Container Terminal Services Master Agreement). The annual caps of the aggregate amount payable by GZ South China to the GZ Port Company Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB325,856,000, RMB369,467,000 and RMB421,114,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB24,047,000.

(c) The provision of high-frequency wireless communication services at Guangzhou Port by GZ Port Company Group to GZ South China. The annual caps of the aggregate amount payable by GZ South China to the GZ Port Company Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB4,000,000, RMB6,000,000 and RMB9,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB621,000.

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

(5) Guangzhou Port Holding Container Terminal Services Master Agreement entered into between COSCO Ports, GZ South China and Guangzhou Port Group Company Limited ("GZ Port Holding") in respect of the provision of container terminal related services by GZ Port Holding and its subsidiaries, branches and associates (but excluding GZ Port Company and GZ South China) (collectively the "GZ Port Holding Group") to GZ South China.

The annual caps of the aggregate amount payable by GZ South China to GZ Port Holding Group for such services for the three years ended 31 December 2016, 2017 and 2018 are RMB34,650,000, RMB41,515,000 and RMB47,067,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB16,691,000.

It was agreed that the terms (including without limitation, the service fees) for the provision of services by members of the GZ Port Holding Group will be no less favourable to GZ South China (as service receiving party) than terms available to GZ South China from independent third parties for the relevant services.

(6) 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. ("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 three years ended 31 December 2016, 2017 and 2018 are RMB46,000,000, RMB57,000,000 and RMB72,000,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2017 was RMB11,976,000.

(b) Provision of container terminal related services by Xiamen Ocean Gate to the members of 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 three years ended 31 December 2016, 2017 and 2018 are RMB20,000,000, RMB27,200,000 and RMB37,800,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2017 was RMB632,000.

It was agreed that the terms (including without limitation, the service fees) 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 Xiamen Ocean Gate from independent third parties for the relevant services. It was also agreed that the terms (including without limitation, the service fees) for the provision of services by Xiamen Ocean Gate shall be no less favourable to Xiamen Ocean Gate (as service providing party) than terms available to it from independent third parties 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 COSCO SHIPPING Lines in respect of the provision of container related services by Plangreat and its subsidiaries to the COSCO Group (excluding the Group).

The annual caps of the aggregate amount receivable by Plangreat and its subsidiaries from the COSCO Group (excluding the Group) for the three years ended 31 December 2016, 2017 and 2018 are US\$2,151,000, US\$2,366,000 and US\$2,603,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was US\$3,000.

It was agreed that the service fees payable by the relevant members of the COSCO Group (excluding the Group) 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) Nansha Diesel Oil Purchase Master Agreement entered into between COSCO Ports, GZ South China and China Marine Bunker Guangzhou Co., Ltd. ("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 three years ended 31 December 2016, 2017 and 2018 are RMB30,000,000, RMB33,000,000 and RMB36,300,000 respectively. For the year ended 31 December 2017, no such purchases of diesel oil were made by GZ South China from CM Supply.

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 GZ South China from independent third parties for the relevant transactions.



## Report of the Directors

- (9) Xiamen Diesel Oil Purchase Master Agreement entered into between COSCO Ports, Xiamen Ocean Gate and China Marine Bunker Supply Fujian Co., Ltd. ("Chimbusco Fujian") in respect of the purchase of diesel oil by Xiamen Ocean Gate and its subsidiaries (collectively, the "Xiamen Ocean Gate Group") from Chimbusco Fujian.

The annual caps of the aggregate amount payable by Xiamen Ocean Gate Group to Chimbusco Fujian for the three years ended 31 December 2016, 2017 and 2018 are RMB20,000,000, RMB24,000,000 and RMB28,000,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB1,320,000.

It was agreed that the terms (including without limitation, the prices) for the supply of diesel oil by Chimbusco Fujian shall be at rates no less favourable to the members of the Xiamen Ocean Gate Group (as purchaser) than terms available to members of the Xiamen Ocean Gate Group from independent third parties for the relevant transactions.

- (10) Yangzhou Terminal Services Master Agreement entered into between COSCO Ports, Yangzhou Yuanyang International Ports Co., Ltd. ("Yangzhou Yuanyang", a subsidiary of the Company) and Yangzhou Port of Jiangsu Province Group Co., Ltd. ("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 three years ended 31 December 2016, 2017 and 2018 are RMB159,195,000, RMB190,714,000 and RMB228,506,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2017 was RMB44,388,000.

It was agreed that the terms (including without limitation, the service fees) for the provision of services by the Yangzhou Port Group shall be no less favourable to Yangzhou Yuanyang (as service receiving party) than terms available to the Yangzhou Yuanyang from independent third parties for the relevant services.

Since COSCO SHIPPING, COSCO and COSCO SHIPPING Holdings are controlling shareholders of the Company, members of the Restricted COSCO Group and the COSCO SHIPPING Group (including COSCO SHIPPING, COSCO, COSCO SHIPPING Holdings and COSCO SHIPPING Lines) are connected persons of the Company.

Maersk Line A/S is an associate of a substantial shareholder of subsidiary of the Company, and accordingly Maersk Line A/S and members of the Maersk Line are connected persons of the Company.

GZ Port Company directly and GZ Port Holding indirectly hold a 41% equity interest in GZ South China, a subsidiary of the Company. Accordingly, members of the GZ Port Holding Group and GZ Port Company Group are connected persons of the Company.

Xiamen Haicang Holding has a 30% equity interest in Xiamen Ocean Gate which is a subsidiary of the Company. Therefore, members of the Xiamen Haicang Group (including Xiamen Haicang Holding) are connected persons of the Company.

CM Supply is owned as to 50% and is treated as a subsidiary of COSCO SHIPPING and hence is a connected person of the Company.

Chimbusco Fujian is owned as to 50% by CM Supply and hence is an associate of COSCO SHIPPING. Therefore, Chimbusco Fujian is a connected person of the Company.

Yangzhou Port Holding has a 40% equity interest in Yangzhou Yuanyang, a subsidiary of the Company. Accordingly, members of the Yangzhou Port Group (including Yangzhou Port Holding) are connected persons of the Company.

The continuing connected transactions under agreements numbered (1) and (2) 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 26 November 2015 ("2015 SGM"), whilst the transactions under agreements numbered (3) to (6) were exempted from the independent shareholders' approval requirement (so far as applicable) under Rule 14A.101 of the Listing Rules.

With respect to the continuing connected transactions under agreements numbered (7) to (9), 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 agreement numbered (10) did not constitute continuing connected transactions of the Group for the year ended 31 December 2017, since members of the Yangzhou Port Group constituted persons connected with insignificant subsidiaries under Rule 14A.09.

In order to streamline the organisation of the Group, COSCO Ports was dissolved on 9 June 2017. Before the dissolution, COSCO Ports had transferred its shareholdings in GZ South China, Xiamen Ocean Gate and Yangzhou Yuanyang to the Company and ceased to be the intermediate holding company of the aforesaid companies. The subsisting transactions entered into by GZ South China, Xiamen Ocean Gate and its subsidiaries and Yangzhou Yuanyang with the relevant connected parties continued to be governed by the agreements numbered (4) to (6) and (8) to (10) accordingly.

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

On 28 October 2015, 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 2016 to 31 December 2018 in respect of the provision of the Finance Leasing (as defined below) by Florens Capital Management and its subsidiary(ies) (collectively the "Florens Capital Management Group") to the COSCO Ports Group.

In order to streamline the organisation of the Group, COSCO Ports was dissolved on 9 June 2017. In March 2016, the Company also disposed of all its equity stake in Florens Capital Management to a subsidiary of COSCO SHIPPING (a controlling shareholder of the Company), and thus Florens Capital Management ceased to be a connected subsidiary of Company but continues to be a connected person of the Company by virtue of it being an indirect subsidiary of COSCO SHIPPING.

Accordingly, the Finance Leasing transactions entered into between the companies which were previously held by COSCO Ports (and now held directly by the Company) with Florens Capital Management Group continued to be governed by the Finance Leasing Master Agreement.

## Report of the Directors

Finance Leasing refers 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 Group by the members of the Florens Capital Management Group or to be sold by the members of the 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 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 Group.

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 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 with the option for the lessee to purchase the Leasing Equipment.

The total consideration payable by the relevant members of the Group for the provision of the Financial Leasing by members of Florens Capital Management Group, including the amounts of principal lease payments and interest, handling fees and exercise price of purchase options, will be at rates no less favourable to the relevant members of the Group than those available to the Group from other independent third party for the relevant Finance Leasing.

The annual caps of the aggregate amount payable by the Group to the Florens Capital Management Group for such services for the three years ended 31 December 2016, 2017 and 2018 are US\$120,000,000, US\$140,000,000 and US\$200,000,000 respectively. No new Financial Leasing was arranged between members of the Group and members of the Florens Capital Management Group for the year ended 31 December 2017.

All services under the Finance Leasing Master Agreement was provided by Florens (Tianjin) Finance Leasing Co., Ltd. ("Tianjin Co") (previously a wholly owned subsidiary of Florens Capital Management and which had been fully disposed of by Florens Capital Management to Oriental Fleet International Company Limited, which is an indirect wholly owned subsidiary of COSCO SHIPPING) to the Group, the terms of which are acknowledged by Tianjin Co, Florens Capital Management and the Company to continue to be governed by the Finance Leasing Master Agreement. Since Tianjin Co continues to be a subsidiary of COSCO SHIPPING, which is a controlling shareholder of the Company, it is a connected person of the Company. Accordingly, the transactions with Tianjin Co constituted continuing connected transactions of the Company under the Listing Rules.

The transactions under the Finance Lease Master Agreement constituted continuing connected transactions and a disclosable transaction of the Company, the transactions under the agreement were approved by the independent shareholders of the Company at the 2015 SGM.

### (5) Concession Agreement

On 25 November 2008, PCT as concessionaire and the Company as the sole shareholder of PCT entered into a concession agreement with Piraeus Port Authority S.A. ("PPA") as grantor, which was further amended by an amendment agreement dated 27 November 2014 that became effective on 20 December 2014 (the "Concession Agreement").

Pursuant to the Concession Agreement, in consideration of the payments contemplated thereunder (which include, among others, two fixed annual fees, and a variable annual concession fee based on the aggregate revenue of PCT for pier 2 of the Piraeus Port ("Pier 2") and pier 3 of the Piraeus Port ("Pier 3"), including, following construction of the western part of Pier 3, the turnover generated by the western part of Pier 3), (a) PPA agreed to grant a concession to PCT, (i) for the development, operation and utilisation of Pier 2 and (ii) for the construction, operation and utilisation of the eastern part of Pier 3 and the western part of Pier 3; and (b) PCT has agreed to construct and put into operation, on behalf of PPA, a new oil pier on the southern part of Pier 3 (at PPA's costs).

The concession is for an initial term of 30 years (which commenced on 1 October 2009), with a mandatory extension for a term of 5 years subject to PCT's fulfillment of its obligations to construct the eastern part of Pier 3 in accordance with the timetable agreed in the Concession Agreement. The estimated total consideration for the 35-year term of the Concession is €831,200,000.

In view of the commercial and strategic importance of the Piraeus Port, and the growth potential of the Piraeus Port Container Terminal, the Concession Agreement represents a good opportunity for the Company to invest in a major container outside China and is in line with the Company's strategy to become a leading global port operator.

PPA became a subsidiary of COSCO SHIPPING (Hong Kong) on 10 August 2016. COSCO SHIPPING is a controlling shareholder of both the Company and COSCO SHIPPING (Hong Kong). Accordingly, PPA is a connected person of the Company. The continuing transactions under the Concession Agreement constituted continuing connected transactions of the Company under the Listing Rules since 10 August 2016.

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

Pursuant to Rule 14A.55 of the Listing Rules, Dr. FAN HSU Lai Tai, Rita, Mr. Adrian David LI Man Kiu, Mr. FAN Ergang, Mr. LAM Yiu Kin and Prof. CHAN Ka Lok, independent non-executive directors of the Company, have reviewed the above continuing connected transactions and opined that:

- (i) the rental of office premises transaction and the transactions entered into by the Company, COSCO Ports, PCT, GZ South China, Yangzhou Yuanyang, Plangreat and Xiamen Ocean Gate under the Financial Services Master Agreement, the Shipping and Terminal and Container Related Services Master Agreements, the Finance Leasing Master Agreement and the Concession 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.

### **Report from the auditor on the continuing connected transactions**

For the purposes of Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the above continuing connected transactions that are subject to annual review for the year ended 31 December 2017 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.

## Report of the Directors

### 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 2017 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US\$'000
Non-current assets	1,562,996
Current assets	400,241
Current liabilities	(308,546)
Non-current liabilities	(999,026)
Net assets	655,665
Share capital	116,173
Reserves	495,836
Non-controlling interest	43,656
Capital and reserves	655,665

As at 31 December 2017, the Group's attributable interests in these affiliated companies amounted to US\$567,599,000.

### 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.

### 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

**ZHANG Wei**

*Vice Chairman and Managing Director*

Hong Kong, 26 March 2018