

## 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 2018.

### 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 the principal risks and uncertainties faced by the Group are provided in the Chairman’s Statement on pages 12 to 15 and the Financial Review on pages 40 to 44 of this annual report.

The financial risk management objectives and policies of the Group can be found in note 4 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in note 42 to the consolidated financial statements.

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

The environmental policies and performance and compliance with relevant laws and regulations are provided in the 2018 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 2018 are set out in the consolidated income statement on page 119 of this annual report.

The directors declared an interim dividend of HK17.3 cents (equivalent to US2.212 cents) per share with a scrip dividend alternative, totalling HK\$528,942,000 (equivalent to US\$67,631,000), which was paid on 26 October 2018.

The directors recommend the payment of a final dividend of HK15.8 cents (equivalent to US2.020 cents) per share with a scrip dividend alternative, totalling HK\$491,874,000 (equivalent to US\$62,885,000), payable on 19 July 2019.

### 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 215 of this annual report.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$694,000.

### SHARES ISSUED IN THE YEAR

Details of the Shares issued by the Company during the year are set out in note 20 to the consolidated financial statements.

### DISTRIBUTABLE RESERVES

The distributable reserves of the Company as of 31 December 2018 calculated under the Companies Act of Bermuda amounted to US\$2,743,326,000.

## Report of the Directors

### BORROWINGS

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

### RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in notes 3.22 and 34 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>

(resigned on 23 May 2018)

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>

1 Executive director

2 Non-executive director

3 Independent non-executive director

In accordance with Clauses 87(1) and (2) of the Bye-laws of the Company, Mr. HUANG Xiaowen, Mr. FENG Boming, Mr. ZHANG Wei (張煒) and Mr. CHEN Dong, 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, 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 84 to 92 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.

## Report of the Directors

### 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 8 June 2018, the shareholders of the Company approved the adoption of a share option scheme of the Company (the "Share Option Scheme"). The following is a summary of the principal terms of the Share Option Scheme:

The Share Option Scheme was designed to enable the Company (i) to establish and cultivate a performance-oriented culture, under which value is created for the shareholders of the Company (the "Shareholders"), and to establish an interests-sharing and restraining mechanism between the Shareholders and the Company's management; (ii) to further improve the Company's corporate governance structure and provide a unified mechanism to balance the interests among the Shareholders, decision-makers and executives of the Company, to secure stable and long-term development of the Company; (iii) to coordinate the short-term and long-term incentives of the management and professional talents of the Company, to cultivate and strengthen the key personnel, to attract different kinds of talents more flexibly and to improve the long-term development of the Company; (iv) to effectively motivate the management and key personnel to enhance their performance and the core competitiveness of the Company; and (v) to further enhance the Company's competitive advantage in the labour market, to attract, retain and incentivise senior management and personnel at key positions of the Company for achieving the strategic targets of the Company, to enhance the realisation of the long-term strategic targets of the Company and to strengthen cohesion of the Company.

Eligible participants for the Share Option Scheme (the "Participants" or a "Participant") include the directors of the Company, key management personnel such as senior management members at the headquarters of the Company and departmental deputy managers and above, and management personnel (including senior and mid-level management personnel) appointed to subsidiaries and other invested companies of the Company, and senior management members of the Company's subsidiaries excluding independent non-executive directors, Shareholders or de facto controllers of the Company who on their own or in aggregate holding more than 5% of the shares of the Company (the "Shares") and their respective spouses, parents, children or other associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

## Report of the Directors

At the time of adoption of the Share Option Scheme, the total number of share options which might be granted under the Share Option Scheme was 59,450,724, being the aggregate of (1) 53,505,652 share options granted to 4 directors and 6 senior management of the Company and 228 key operation and management personnel, which has been confirmed on the date of approval of the Share Option Scheme, the details of which are set out in the section headed "7. Allocation of Options" of the appendix to the circular of the Company dated 18 May 2018 (the "Proposed Initial Grant"); and (2) 5,945,072 share options granted to senior management members at the headquarters of the Company and departmental general managers, and senior management members of the Company's subsidiaries (not being Participants who have already been granted share options under the Share Option Scheme) (the "Reserved Grant"). If any share options that may be granted pursuant to the Reserved Grant are not so granted within one year from the date of the Proposed Initial Grant (i.e., 19 June 2018), then no such share option may be granted.

The number of share options to be granted to each Participant shall be determined on the basis that the estimated benefit upon exercise of the share options will not exceed 40% of twice of his/her total annual emolument (inclusive of the estimated benefit upon exercise of the share options). The number of share options granted under the Proposed Initial Grant was determined according to the annual salary level in 2016. If the results of the Company is exceptionally outstanding, the cap on the benefit upon exercise of the share options mentioned above may be adjusted according to the regulations of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會) (the "SASAC"). The specific operation and arrangement will be implemented by the Board in accordance with the then regulations of the SASAC.

The maximum entitlement for any one Participant (including exercised, cancelled and outstanding options) in any 12 months' period shall not exceed 1% of the total number of Shares in issue.

Of the 53,505,652 share options available for grant pursuant to the Proposed Initial Grant, a total of 53,483,200 share options were granted and the remaining 22,452 share options will not be available for further grant. As at the date of this report, a total of 56,398,417 Shares (representing approximately 1.81% of the existing issued Shares) may be issued upon exercise of all options which may be granted under the Share Option Scheme, while a total of 51,305,311 Shares (representing approximately 1.65% of the existing issued Shares) may be issued upon exercise of all options which were granted and yet to be exercised under the Share Option Scheme.

Share options cannot be exercised during the two-year period commencing from the date of grant of the share options (the "Restriction Period"). Subject to the fulfilment of the relevant vesting conditions, share options will be vested in three batches evenly over a period of three years after the expiry of the Restriction Period, and each batch of share options vested is exercisable within the relevant exercise period. For details of the vesting and exercise periods in respect of the share options granted, please refer to note 1 of the table regarding movement of the share options during the year 2018 which is set out at the end of this section.

The validity period within which the Participants can take up the underlying Shares under the share options is 5 years from the date of grant of the share options and no consideration is payable on acceptance of the share options.

The exercise price in relation to each share option is determined based on the principle of fair market value and in any event should be 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 formally granted; (ii) the average closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date on which an option was formally granted; and (iii) the nominal value of the Shares.

The Share Option Scheme is valid and effective for a period of 10 years commencing from the date of adoption and will expire on 7 June 2028.

## Report of the Directors

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

Category	Exercise price per share HK\$	Number of share options					Outstanding at 31 December 2018	% of total number of Shares issued	Exercise period	Notes
		Outstanding at 1 January 2018	Granted during the year	Exercised during the year	Transfer (to)/from other categories during the year	Lapsed during the year				
<b>Directors</b>										
Mr. ZHANG Wei (張為)	7.27	N/A	1,500,000	-	-	-	1,500,000	0.05%	19.6.2020-18.6.2023	(1), (2)
Mr. FANG Meng	7.27	N/A	1,500,000	-	-	-	1,500,000	0.05%	19.6.2020-18.6.2023	(1), (2)
Mr. DENG Huangjun	7.27	N/A	1,200,000	-	-	-	1,200,000	0.04%	19.6.2020-18.6.2023	(1), (2)
Dr. WONG Tin Yau, Kelvin	7.27	N/A	1,200,000	-	-	-	1,200,000	0.04%	19.6.2020-18.6.2023	(1), (2)
		N/A	5,400,000	-	-	-	5,400,000			
<b>Continuous contract employees</b>										
	7.27	N/A	48,083,200	-	-	(2,067,252)	46,015,948	1.48%	19.6.2020-18.6.2023	(1), (3)
	8.02	N/A	851,966	-	-	-	851,966	0.03%	29.11.2020-28.11.2023	(4)
		N/A	48,935,166	-	-	(2,067,252)	46,867,914			
		N/A	54,335,166	-	-	(2,067,252)	52,267,914			

Notes:

- The share options were granted on 19 June 2018 under the Share Option Scheme at an exercise price of HK\$7.27 per share. According to the provisions of the Share Option Scheme, share options under each grant have a validity period of five years commencing from the date of grant and cannot be exercised during the Restriction Period. Besides, subject to the fulfilment of the relevant vesting conditions, share options will be vested in three batches evenly over a period of three years after the expiry of the Restriction Period, i.e. (a) 33.3% of the share options will be vested on 19 June 2020; (b) 33.3% of the share options will be vested on 19 June 2021; and (c) 33.4% of the share options will be vested on 19 June 2022. Details of the vesting conditions for the share options are more particularly set out in section headed "11. Performance Target before the Options can be granted and vested – Performance Conditions for the vesting of Share Options" of the circular of the Company dated 18 May 2018.
- These options represent the personal interest held by the relevant director as a beneficial owner.
- The 2,067,252 share options lapsed due to resignation or retirement of, or non-acceptance by, the relevant employees.
- The share options were granted on 29 November 2018 under the Share Option Scheme at an exercise price of HK\$8.02 per Share and were also subject to the Restriction Period. Besides, subject to the fulfilment of the relevant vesting conditions, share options will be vested in three batches evenly over a period of three years after the expiry of the Restriction Period, i.e. (a) 33.3% of the share options will be vested on 29 November 2020; (b) 33.3% of the share options will be vested on 29 November 2021; and (c) 33.4% of the share options will be vested on 29 November 2022.
- No share options were exercised or cancelled under the Share Option Scheme during the year.
- The fair values of the share options granted during the year are estimated based on the Black-Scholes valuation model, and such fair values and significant inputs into the model are as follows:

	Fair value per share option HK\$	Share price at the date of grant HK\$	Exercise price HK\$	Standard deviation of expected share price return	Expected life of share options	Expected dividend paid out rate	Risk-free interest rate
Granted on 19 June 2018 and outstanding as at 31 December 2018 -51,415,948 share options	1.179	6.85	7.27	28.64%	4 years	2.88%	2.21%
Granted on 29 November 2018 and outstanding as at 31 December 2018 -851,966 share options	1.538	7.93	8.02	29.35%	4 years	2.88%	2.29%

The volatility measured at the standard deviation of expected share price return is based on the historical share price movement of the Company prior to the date of grant. Changes in the subjective input assumptions could materially affect the fair value estimation.

The Group recognises the fair value of share options as expenses in the income statement over the vesting period. The fair value of the share options is measured at the date of grant.

- The closing prices of the Shares immediately before the date on which the share options were granted on 19 June 2018 and 29 November 2018 were HK\$7.16 and HK\$8.00, respectively.

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### 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 2018 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 Listing Rules were as follows:

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

Name of director	Capacity	Nature of interest	Number of Shares held	% of total number of issued Shares
Mr. ZHANG Wei (張為)	Beneficial owner	Personal	306,896	0.010%
Mr. FANG Meng	Beneficial owner	Personal	153,448	0.005%
Mr. DENG Huangjun	Beneficial owner	Personal	50,000	0.002%
Mr. ZHANG Wei (張煒)	Beneficial owner	Personal	30,000	0.001%
Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	582,557	0.019%

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

Share options were granted by the Company to certain 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 shares held	% of total number of issued shares of the relevant class of the relevant associated corporation
COSCO SHIPPING Energy Transportation Co., Ltd.	Mr. Adrian David LI Man Kiu	Beneficial owner	Personal	508,000 H shares	0.04%
COSCO SHIPPING Development Co., Ltd.	Mr. DENG Huangjun	Interest of spouse	Family	38,000 A shares	0.0005%
	Mr. FENG Boming	Beneficial owner	Personal	29,100 A shares	0.0004%

## Report of the Directors

### DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2018, 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 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 are interested in terminals 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 have acted and will continue to act in the best interest of the Group, during the performance of their duties as directors of the Company.

### 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 2018, 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 Shares/Percentage of total number of issued Shares as at 31 December 2018				Notes
			Long positions	%	Short positions	%	
COSCO Investments Limited	Beneficial owner	Beneficial interest	213,989,277	6.87	-	-	(1), (2)
China COSCO (Hong Kong) Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,437,683,072	46.18	-	-	(1), (2)
COSCO SHIPPING Holdings Co., Ltd.	Interest of controlled corporation	Corporate interest	1,437,683,072	46.18	-	-	(1), (2)
China Ocean Shipping Company Limited	Interest of controlled corporation	Corporate interest	1,437,683,072	46.18	-	-	(1), (2)
China COSCO Shipping Corporation Limited	Interest of controlled corporation	Corporate interest	1,437,683,072	46.18	-	-	(1), (2)
Silchester International Investor LLP	Investment manager	Other interest	277,420,809	8.91	-	-	(1)
Hermes Investment Management Ltd.	Beneficial owner	Beneficial interest	153,232,292	4.92	-	-	(1), (3)

Notes:

- (1) The percentage was compiled based on the total number of issued Shares as at 31 December 2018 (i.e. 3,113,125,479 Shares).
- (2) The 1,437,683,072 Shares relate to the same batch of Shares. 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 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 Co., Ltd. ("COSCO SHIPPING Holdings") and it itself held 1,223,693,795 Shares beneficially. Accordingly, China COSCO (HK)'s interest in relation to the 1,437,683,072 Shares is also recorded as COSCO SHIPPING Holdings' interest in the Company. China Ocean Shipping (Group) Company ("COSCO") held 45.47% equity interest in COSCO SHIPPING Holdings as at 31 December 2018, and accordingly, COSCO is deemed to have the interest of 1,437,683,072 Shares held by China COSCO (HK). COSCO is a wholly owned subsidiary of China COSCO Shipping Corporation Limited ("COSCO SHIPPING"). Accordingly, COSCO's interest in relation to the 1,437,683,072 Shares is also recorded as COSCO SHIPPING's interest in the Company.  
As informed by China COSCO (HK), it was interested in a total of 1,482,053,652 Shares (representing 47.61% of the total number of issued Shares) as at 31 December 2018, of which 218,908,243 Shares (representing 7.03% of the total number of issued Shares) were held by COSCO Investments.
- (3) As informed by Hermes Investment Management Ltd., it was interested in 166,322,248 Shares (representing 5.34% of the total number of issued Shares) as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any other interest or short positions in the Shares and underlying Shares of the Company which had to be recorded in the register required to be kept under Section 336 of the SFO.

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### PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of its directors, as at the date of this report, there was sufficient public float of the Shares of the Company with no 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 during 2018.

### PRE-EMPTIVE RIGHTS

There are no provisions on pre-emptive rights under the Bye-laws of the Company and there are no restrictions on such rights under the laws of 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 subsisted 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	12%
Percentage of purchases attributable to the Group's five largest suppliers	34%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer	16%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers	56%

None of the directors or their associates is interested in any of the suppliers or customers of the Group.

Save as disclosed above, to the best knowledge of the directors, none of the Shareholders owning more than 5% of the Company's Shares is interested 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 to the Listing Rules throughout the year ended 31 December 2018.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 54 to 83 of this annual report.



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### 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 2018, some of which constituted continuing connected transactions of the Group (exempted or non-exempted) and in respect of which the Company has complied with the relevant applicable requirements under Chapter 14A of the Listing Rules:

#### (1) Rental of office premises

On 28 November 2017, COSCO SHIPPING Ports Management Company Limited ("COSCO SHIPPING Ports Management") as the tenant entered into a tenancy agreement with Wing Thye Holdings Limited ("Wing Thye") as the landlord (the "Tenancy Agreement") in respect of the leasing of Units 4901, 4902A, 4902B and 4903 situated at the 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong (the "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 Premises form part from time to time). During the subsistence of the Tenancy Agreement, the maximum aggregate annual value of the rental and the management fee for the period for the two years ending 31 December 2018 and 2019 and for the period from 1 January 2020 to 28 November 2020 are HK\$15,740,000, HK\$15,840,000 and HK\$14,540,000 respectively.

The Company intended to continue to occupy the Premises on a long term basis as the head office of itself and its subsidiaries and as its principal place of business in Hong Kong. In negotiating the rental under the Tenancy Agreement, the directors of the Company had made reference to the professional opinion given by DTZ Cushman & Wakefield Limited ("DTZ"), an independent professional valuer. DTZ opined that the monthly rental agreed for the Premises as provided in the 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 Tenancy Agreement and the transactions contemplated thereunder constituted continuing connected transaction 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 offer from time to time (the "Further Financial Services") (collectively, the "Transactions") to the Group for the period from 1 January 2017 to 31 December 2019 (both dates inclusive).

On 23 October 2018, China Shipping Finance Co., Ltd. ("CS Finance") completed registration for absorbing and merging with COSCO Finance. Upon the completion, (i) CS Finance continued as the surviving company and was renamed as COSCO SHIPPING Finance Co., Ltd. ("COSCO SHIPPING Finance"); and (ii) COSCO Finance ceased to exist as a legal entity and became a branch of COSCO SHIPPING Finance, and the assets, liabilities, business and employees of which was succeeded by COSCO SHIPPING Finance. Therefore, for transactions entered into on or after 23 October 2018, COSCO Finance shall be hereinafter referred to as a branch of COSCO SHIPPING Finance.

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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 2018 was RMB2,143,585,000.

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 2018 was RMB471,597,000.

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 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 2018, no such services were requested by the Group from COSCO Finance.

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

## Report of the Directors

### (3) Master agreements relating to shipping and terminal related services and container and related services transactions (collectively, 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 among 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 among 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 (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 2018 was RMB157,903,000.
  - (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 2018 was RMB24,260,000.

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 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 the relevant members of the Group for the relevant services.

- (2) China COSCO Shipping Services and Terminal Services Master Agreement entered into among 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 2018 was RMB1,141,305,000.
  - (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 2018 was RMB2,030,000.

## Report of the Directors

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 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 the relevant members of the Group for the relevant services.

- (3) Maersk Line Shipping Services Master Agreement entered into among 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, "Maersk Line")) (as amended by a novation agreement entered into among the Company, COSCO Ports, PCT and Maersk Line A/S on 1 June 2017, pursuant to which, the Company became a party to the Maersk Line Shipping Services Master Agreement in substitution of COSCO Ports and PCT) in respect of the provision of shipping related services by the COSCO Ports Group or PCT 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 2018 was RMB588,282,000.

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 independent third parties for the relevant services.

- (4) Guangzhou Port Company Container Terminal Services Master Agreement entered into among 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 and COSCO Ports (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 2018 was RMB21,089,000.
- (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 2018 was RMB30,341,000.
- (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. For the year ended 31 December 2018, no such services were requested by GZ South China from GZ Port Company Group.

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.

## Report of the Directors

- (5) Guangzhou Port Holding Container Terminal Services Master Agreement entered into among 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, GZ South China and COSCO Ports) (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 2018 was RMB17,409,000.

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 among 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 2018 was RMB11,390,000.
- (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 2018 was RMB611,000.

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 the 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 the terms available to it from independent third parties for the relevant services.

- (7) Yangzhou Terminal Services Master Agreement entered into among 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 2018 was RMB12,194,000.

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.

## Report of the Directors

- (8) Nansha Diesel Oil Purchase Master Agreement entered into among 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. The total amount for the aforesaid transactions for the year ended 31 December 2018 was RMB5,178,000.

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

- (9) Xiamen Diesel Oil Purchase Master Agreement entered into among 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. For the year ended 31 December 2018, there were no such purchases of diesel oil by Xiamen Ocean Gate Group from Chimbusco Fujian.

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 members of Xiamen Ocean Gate Group (as the purchaser) than the terms available to members of Xiamen Ocean Gate Group from independent third parties for the relevant transactions.

Since COSCO SHIPPING, COSCO and COSCO SHIPPING Holdings are controlling shareholders of the Company, members of the Restricted COSCO Group and the COSCO SHIPPING Holdings 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 holds and GZ Port Holding indirectly holds 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.

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.

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

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

The continuing connected transactions under the 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 the agreements numbered (3) to (5) were exempted from the independent shareholders' approval requirement (so far as applicable) under Rule 14A.101 of the Listing Rules.

## Report of the Directors

The continuing connected transactions under the agreements numbered (8) and (9) were subject to the reporting, annual review and announcement requirements, but were exempt from the independent shareholders' approval requirement under Rule 14A.76 of the Listing Rules.

In addition, the transactions under the agreements numbered (6) and (7) did not constitute continuing connected transactions of the Company for the year ended 31 December 2018, since members of the Xiamen Haicang Group and members of the Yangzhou Port Group constituted persons connected with insignificant subsidiaries for the relevant period under Rule 14A.09 of the Listing Rules.

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 Yangzhou Yuanyang with the relevant connected parties continued to be governed by agreements numbered (4) to (9) accordingly.

As the aforementioned master agreements expired on 31 December 2018, and it was expected that the Group would continue to enter into transactions of similar nature to transactions under the existing master agreements, the Group had entered into new master agreements on 30 October, 22 November and 23 November 2018 as required, each for a term of three years from 1 January 2019 to 31 December 2021.

#### **(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. The Company and COSCO Ports agreed that Company assumed all rights and obligations of COSCO Ports under the above agreement.

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 COSCO Ports Group by the members of the Florens Capital Management Group or to be sold by the members of the COSCO Ports Group to, and then leased back from, members of the Florens Capital Management Group (the "Leasing Equipment") by any member of the Florens Capital Management Group to any member of the COSCO Ports Group pursuant to the Finance Leasing Master Agreement and such other related services as may be agreed between the relevant member of the Florens Capital Management Group and the relevant member of the COSCO Ports Group.

The lease method includes sale and leaseback pursuant to which the lessor (a member of the Florens Capital Management Group) shall purchase from the lessee (a member of the COSCO Ports Group) the Leasing Equipment which will be leased back to the lessee by the lessor; finance leasing arrangement involving involves 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 COSCO Ports 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 COSCO Ports Group than those available to the COSCO Ports Group from other independent third party for the relevant Finance Leasing.

## Report of the Directors

The annual caps of the aggregate amount payable by the COSCO Ports 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 were arranged between members of the COSCO Ports Group and members of the Florens Capital Management Group for the year ended 31 December 2018.

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.

Since the entering into of the Finance Lease Master Agreement also constituted a disclosable transaction of the Company, the transaction was 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.

### (6) Master agreement relating to the purchase of oil products

On 8 May 2018, the Company entered into a master agreement with China Shipping & Sinopec Suppliers Co., Ltd. ("China Shipping Sinopec") in relation to the purchase of oil products including but not limited to fuel oil, lubricating oil, hydraulic oil and transmission oil (the "Oil Products") by members of the Group from China Shipping Sinopec and its subsidiaries (collectively, the "China Shipping Sinopec Group") for the period from 1 January 2018 to 31 December 2018 (the "Oil Products Master Agreement").



## Report of the Directors

The annual cap of the aggregate amount payable by the Group to members of China Shipping Sinopec Group for the year ended 31 December 2018 was RMB43,900,000. The total amount of the aforementioned transactions (collectively, the "Purchase Transactions") for the year ended 31 December 2018 was RMB15,563,000.

Pursuant to the Oil Products Master Agreement, the Purchase Transactions were conducted on normal commercial terms and the terms, including the purchase prices, for the purchase of Oil Products will be at rates no less favourable to members of the Group than those available from independent third parties for the Purchase Transactions and the General Pricing Principles (being (i) State-prescribed prices; (ii) where there is no State-prescribed price or if it is higher than the relevant market price (being the price at which the same type of products is provided by independent third parties in the same area in the ordinary course of business on normal commercial terms), according to the relevant market price; and (iii) where there is no relevant market price, according to the price agreed between the relevant member of China Shipping Sinopec Group and the relevant member of the Group based on the costs of the products plus an appropriate margin (which will be determined with reference to, among others, the inflation rate and valuation conducted by independent valuer (where appropriate)) applied to the determination of the purchase prices.

China Shipping Sinopec is a subsidiary of COSCO SHIPPING. Accordingly, members of the China Shipping Sinopec Group are associates of COSCO SHIPPING and connected persons of the Company. The Purchase Transactions constituted continuing connected transactions of the Group.

### Internal control procedures

As part of the Group's internal control systems to ensure that the transactions between the Group and its connected persons are conducted in accordance with the terms of their respective continuing connected transaction master agreements, the Company implemented the following internal control arrangements to the connected transactions conducted, where applicable:

- (i) The relevant business unit of each subsidiary of the Company will periodically observe market conditions and monitor the prevailing market prices, including the pricings of contemporaneous transactions with independent third parties in respect of comparable types of products and/or services in the same or adjacent area in the ordinary course of business. In addition, before entering into any agreements pursuant to the respective continuing connected transaction master agreements, the Group will observe the General Pricing Principles, and where available, the relevant personnel of the Group would compare at least two other contemporaneous transactions or quotations for similar transactions with independent third parties for similar products and/or services in similar quantities and ensure that the terms offered to or by the relevant connected persons are no less favourable to the Group than those available to or from independent third parties.
- (ii) The relevant departments in the head office of the Company and each subsidiary of the Company has a designated person to record the entering into of continuing connected transactions.
- (iii) The Finance Department of the Company will prepare a "Summary for Continuing Connected Transactions" on a quarterly basis and organise meetings regularly to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of their respective continuing connected transaction master agreements. After the "Summary for Continuing Connected Transactions" is reviewed by the relevant departments of the Company and the management, it will be submitted to the Audit Committee of the Company and the Board for further review.
- (iv) The Audit and Supervision Department of the Company will monitor the risks related to continuing connected transactions by reviewing the minutes of important meetings of subsidiaries of the Company as well as accounting records, to identify if the Group has any undisclosed connected transactions.

## Report of the Directors

- (v) The Audit and Supervision Department will also check the terms and implementation status of the Group's policies and requirements related to continuing connected transactions from time to time, including investigating the audited entities' processes for identification of connected persons and the procedures for dealing with continuing connected transactions. The Audit and Supervision Department is also responsible for monitoring the prices of the transactions with connected persons by reviewing samples of the relevant sales contracts and costs, etc., to ensure that such prices are in compliance with the pricing policies under the terms of their respective continuing connected transaction master agreements.
- (vi) Each relevant member of the Group shall monitor its own utilisation of the portion of the annual transaction cap amount allocated by the Company (the "Designated Amount"). If the annual transaction amount of a relevant member of the Group reaches 80% of its Designated Amount, or is expected to exceed its Designated Amount within three months, the member shall inform the relevant personnel from the Finance Department and Legal Department of the Company immediately and the Company shall determine the appropriate actions to be taken, such as (a) require the member not to enter into any further transactions which would cause the Designated Amount to be exceeded; (b) increase the Designated Amount allocated to the member by reducing the Designated Amount(s) allocated to other member(s); or (c) if the accumulative annual transaction amount of the Group exceeds the relevant annual cap, the relevant member(s) of the Group shall provide sufficient reasons and cooperate with the Company to revise the annual cap and comply with the relevant requirements of the Listing Rules.

The Board is of the view that the above methods and procedures can ensure that the pricing and other contract terms for the connected transactions conducted are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and will be conducted on terms no less favourable to the Group than the terms available from independent third parties for the relevant transactions.

### 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 transaction for the rental of office premises and the transactions entered into by the Company, PCT, GZ South China, Yangzhou Yuanyang, Xiamen Ocean Gate and other related subsidiaries under the Financial Services Master Agreement, the Shipping and Terminal and Container Related Services Master Agreements, the Finance Leasing Master Agreement, the Concession Agreement and the Oil Products Master Agreement were:
- entered into in the ordinary and usual course of the Group's businesses;
  - entered into on normal commercial terms or terms no less favourable to the Group than terms available from/to independent third parties; and
  - entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders 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 2018 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 pro forma combined balance sheet of the affiliated companies as at 31 December 2018 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US\$'000
Non-current assets	1,333,566
Current assets	297,608
Current liabilities	(440,134)
Non-current liabilities	(652,455)
Net assets	538,585
Share capital	21,727
Reserves	474,483
Non-controlling interest	42,376
Capital and reserves	538,586

As at 31 December 2018, interests in such affiliated companies attributable to the Group amounted to US\$467,676,000.

### 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, members of the Audit Committee met regularly with the management, the external auditor and the Group's internal auditor, and reviewed the internal and external audit reports as well as 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, 28 March 2019