

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 2019.

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 45 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 17 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 2019 are provided in note 43 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 2019 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 2019 are set out in the consolidated income statement on page 131 of this annual report.

The directors declared an interim dividend of HK14.8 cents (equivalent to US1.900 cents) per share with a scrip dividend alternative, totalling HK\$467,906,000 (equivalent to US\$60,069,000), which was paid on 25 October 2019.

The directors recommend the payment of a final dividend of HK15.7 cents (equivalent to US2.028 cents) per share with a scrip dividend alternative, totalling HK\$496,428,000 (equivalent to US\$64,125,000), payable on 17 July 2020.

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 235 of this annual report.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$1,279,000.

SHARES ISSUED IN THE YEAR

Details of the Shares issued by the Company during the year are set out in note 22 to the consolidated financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as of 31 December 2019 calculated under the Companies Act of Bermuda amounted to US\$2,674,839,000.

BORROWINGS

Details of the borrowings of the Group are set out in note 24 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in notes 3.21 and 36 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 ² (<i>Chairman</i>) | (resigned on 25 April 2019) |
| Mr. ZHANG Wei (張為) ¹ (<i>Chairman and Managing Director</i>) | (re-designated from the Vice Chairman to the Chairman on 25 April 2019 and resigned on 13 September 2019) |
| Mr. FENG Boming ¹ (<i>Chairman</i>) | (re-designated from a Non-executive Director to an Executive Director and appointed as the Chairman on 13 September 2019) |
| Mr. FANG Meng ¹ | (resigned on 25 April 2019) |
| Mr. ZHANG Dayu ¹ (<i>Managing Director</i>) | (appointed on 13 September 2019) |
| Mr. DENG Huangjun ¹ | |
| Mr. ZHANG Wei (張煒) ² | |
| Mr. CHEN Dong ² | |
| Mr. WANG Haimin ² | (resigned on 13 March 2020) |
| Dr. WONG Tin Yau, Kelvin ¹ | |
| Dr. FAN HSU Lai Tai, Rita ³ | |
| Mr. Adrian David LI Man Kiu ³ | |
| Mr. FAN Ergang ³ | (resigned on 20 March 2020) |
| Mr. LAM Yiu Kin ³ | |
| Prof. CHAN Ka Lok ³ | |

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. DENG Huangjun, Dr. WONG Tin Yau, Kelvin, Dr. FAN HSU Lai Tai, Rita and Mr. Adrian David LI Man Kiu, being directors longest in office and already served the Company for 3 years 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 94 to 99 of this annual report.

Report of the Directors

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 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. During the period from 19 June 2018 to 18 June 2019, 3,640,554 share options were granted pursuant to the Reserved Grant and no further share options could be granted under the Share Option Scheme since 19 June 2019.

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 53,658,715 Shares (representing approximately 1.70% 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 2019 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 2019 | % of total number of issued Shares | Exercise period | Notes |
|--------------------------------------|-------------------------------|-------------------------------|-------------------------|---------------------------|--|------------------------|---------------------------------|---------------------------------|------------------------------------|-----------------|-------|
| | | Outstanding at 1 January 2019 | Granted during the year | Exercised during the year | Transfer (to)/ from other categories during the year | Lapsed during the year | Outstanding at 31 December 2019 | | | | |
| Directors | | | | | | | | | | | |
| Mr. ZHANG Dayu | 7.27 | - | - | - | 1,200,000 | - | 1,200,000 | 0.04% | 19.6.2020-18.6.2023 | (1), (2), (3) | |
| Mr. DENG Huangjun | 7.27 | 1,200,000 | - | - | - | - | 1,200,000 | 0.04% | 19.6.2020-18.6.2023 | (1), (2) | |
| Dr. WONG Tin Yau, Kelvin | 7.27 | 1,200,000 | - | - | - | - | 1,200,000 | 0.04% | 19.6.2020-18.6.2023 | (1), (2) | |
| Ex-directors | | | | | | | | | | | |
| Mr. ZHANG Wei (張為) | 7.27 | 1,500,000 | - | - | (1,500,000) | - | - | - | 19.6.2020-18.6.2023 | (1), (2), (4) | |
| Mr. FANG Meng | 7.27 | 1,500,000 | - | - | (1,500,000) | - | - | - | 19.6.2020-18.6.2023 | (1), (2), (4) | |
| | | 5,400,000 | - | - | (1,800,000) | - | 3,600,000 | | | | |
| Continuous contract employees | | | | | | | | | | | |
| | 7.27 | 46,015,948 | - | - | (2,692,607) | (1,150,598) | 42,172,743 | 1.33% | 19.6.2020-18.6.2023 | (1), (5), (6) | |
| | 8.02 | 851,966 | - | - | - | - | 851,966 | 0.03% | 29.11.2020-28.11.2023 | (7) | |
| | 8.48 | - | 848,931 | - | - | - | 848,931 | 0.03% | 29.3.2021-28.3.2024 | (8) | |
| | 7.27 | - | 666,151 | - | - | - | 666,151 | 0.02% | 23.5.2021-22.5.2024 | (9) | |
| | 7.57 | - | 1,273,506 | - | - | - | 1,273,506 | 0.04% | 17.6.2021-16.6.2024 | (10) | |
| Others | | | | | | | | | | | |
| | 7.27 | - | - | - | 4,492,607 | - | 4,492,607 | 0.14% | 19.6.2020-18.6.2023 | (1), (4), (5) | |
| | | 46,867,914 | 2,788,588 | - | 1,800,000 | (1,150,598) | 50,305,904 | | | | |
| | | 52,267,914 | 2,788,588 | - | - | (1,150,598) | 53,905,904 | | | | |

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 1,200,000 share options were transferred from the category of "continuous contract employees" pursuant to the terms of the Share Option Scheme.
- These share options were transferred to the category of "others" pursuant to the terms of the Share Option Scheme.
- Amongst the 2,692,607 share options, 1,200,000 share options were transferred to the category of "directors" and 1,492,607 share options were transferred to the category of "others" pursuant to the terms of the Share Option Scheme.
- The 1,150,598 share options were lapsed due to resignation or retirement of 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.

Report of the Directors

- (8) The share options were granted on 29 March 2019 under the Share Option Scheme at an exercise price of HK\$8.48 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) not more than 33.3% of their respective Share Options will be vested on 29 March 2021; (b) not more than 33.3% of their respective Share Options will be vested on 29 March 2022; and (c) not more than 33.4% of their respective Share Options will be vested on 29 March 2023.
- (9) The share options were granted on 23 May 2019 under the Share Option Scheme at an exercise price of HK\$7.27 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) not more than 33.3% of their respective Share Options will be vested on 23 May 2021; (b) not more than 33.3% of their respective Share Options will be vested on 23 May 2022; and (c) not more than 33.4% of their respective Share Options will be vested on 23 May 2023.
- (10) The share options were granted on 17 June 2019 under the Share Option Scheme at an exercise price of HK\$7.57 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) not more than 33.3% of their respective Share Options will be vested on 17 June 2021; (b) not more than 33.3% of their respective Share Options will be vested on 17 June 2022; and (c) not more than 33.4% of their respective Share Options will be vested on 17 June 2023.
- (11) No share options were exercised or cancelled under the Share Option Scheme during the year.
- (12) The fair values of the share options granted during the year and outstanding as at 31 December 2019 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 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 29 March 2019 – 848,931 options | 1.395 | 8.48 | 8.48 | 30.18% | 4 years | 4.30% | 1.44% |
| Granted on 23 May 2019 – 666,151 options | 1.154 | 7.16 | 7.27 | 29.94% | 4 years | 4.30% | 1.68% |
| Granted on 17 June 2019 – 1,273,506 options | 1.187 | 7.45 | 7.57 | 29.84% | 4 years | 4.30% | 1.60% |

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.

- (13) The closing price of the Shares immediately before the date on which the share options were granted on 29 March 2019, 23 May 2019 and 17 June 2019 was HK\$7.63, HK\$7.25 and HK\$7.55.
- (14) Regarding the fulfillment of the performance indicators under the Share Option Scheme, the Company has fulfilled the three indicators namely (1) return on net assets (excluding extraordinary gains and losses) is not lower than 6%; (2) growth rate of revenue is not lower than 15% (compared with revenue of the financial year immediately preceding the date of the Proposed Initial Grant); and (3) economic value added (EVA) indicator accomplished has reached the assessment target set by COSCO SHIPPING. The vesting condition of the share options relating to comparison with the average of the selected peer benchmark enterprises is subject to further confirmation after such enterprises have published their annual reports.

Report of the Directors

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 2019 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 Dayu | Beneficial owner | Personal | 120,000 | 0.004% |
| Mr. DENG Huangjun | Beneficial owner | Personal | 51,059 | 0.002% |
| Mr. ZHANG Wei (張煒) | Beneficial owner | Personal | 30,000 | 0.001% |
| Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal | 603,378 | 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 Development Co., Ltd. | Mr. FENG Boming | Beneficial owner | Personal | 29,100 A shares | 0.0004% |
| | Mr. DENG Huangjun | Interest of spouse | Family | 38,000 A shares | 0.0005% |
| COSCO SHIPPING Energy Transportation Co., Ltd. | Mr. Adrian David LI Man Kiu | Beneficial owner | Personal | 508,000 H shares | 0.04% |

Report of the Directors

(d) LONG POSITIONS IN UNDERLYING SHARES (EQUITY DERIVATIVES) OF ASSOCIATED CORPORATIONS

| Name of associated corporation | Name of director | Capacity | Nature of interest | Exercise Price RMB | Number of share options | % of total number of issued shares of the relevant class of shares of the relevant associated corporation |
|---------------------------------------|-------------------------|--------------------|---------------------------|---------------------------|--------------------------------|--|
| COSCO SHIPPING Holdings Co., Ltd. | Mr. FENG Boming | Interest of spouse | Family | 4.10 | 530,000 | 0.01% |

Note: The share options were granted by COSCO SHIPPING Holdings Co., Ltd. ("COSCO SHIPPING Holdings", a controlling shareholder of the Company), on 3 June 2019 pursuant to the A-shares share option incentive scheme of COSCO SHIPPING Holdings adopted on 30 May 2019. Each share option entitles the person being granted the share option to acquire one A share of COSCO SHIPPING Holdings at an exercise price of RMB4.10. Subject to the vesting period provision and satisfaction of the conditions of exercise, (a) 33% of the share options can be exercised during the first trading day after 24 months from the date of grant (i.e. 3 June 2019) (the "Grant Date") to the last trading day of the 36-month period from the Grant Date; (b) 33% of the share options can be exercised from the first trading day after 36 months from the Grant Date to the last trading day of the 48-month period from the Grant Date; and (c) 34% of the share options can be exercised from the first trading day after 48 months from the Grant Date to the last trading day of the 84-month period from the Grant Date. For details, please refer to the circular dated 18 March 2019 and the announcements dated 22 April 2019, 7 May 2019 and 3 June 2019 of COSCO SHIPPING Holdings.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2019, the directors, namely Mr. FENG Boming, Mr. DENG Huangjun, Mr. ZHANG Wei (張煒), Mr. CHEN Dong and Mr. WANG Haimin held directorships in the associates of COSCO SHIPPING and/or other companies which have interests in terminals operation and management business.

The Board is of the view that the Group is capable of carrying on its businesses independently of the interests referred to in the paragraph above. 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. Other than as disclosed above, none of the Directors and their respective associates has interests in the businesses which competes or was likely to compete, whether directly or indirectly, with the businesses of the Group.

Report of the Directors

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 2019, 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 2019 | | | | Notes |
|--|---|--|---|-------|-----------------|---|----------|
| | | | Long positions | % | Short positions | % | |
| COSCO Investments Limited | Beneficial owner | Beneficial interest | 218,908,243 | 6.92 | - | - | (1), (2) |
| China COSCO (Hong Kong) Limited | Beneficial owner and interest of controlled corporation | Beneficial interest and corporate interest | 1,494,309,652 | 47.26 | - | - | (1), (2) |
| COSCO SHIPPING Holdings Co., Ltd. | Interest of controlled corporation | Corporate interest | 1,494,309,652 | 47.26 | - | - | (1), (2) |
| China Ocean Shipping Co., Ltd. | Interest of controlled corporation | Corporate interest | 1,494,309,652 | 47.26 | - | - | (1), (2) |
| China COSCO SHIPPING Corporation Limited | Interest of controlled corporation | Corporate interest | 1,494,309,652 | 47.26 | - | - | (1), (2) |
| Silchester International Investors LLP | Investment manager | Other interest | 316,631,929 | 10.01 | - | - | (1), (3) |

Notes:

- (1) The percentage was compiled based on the total number of issued Shares as at 31 December 2019 (i.e. 3,161,958,830 Shares).
- (2) The 1,494,309,652 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 218,908,243 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 and it itself held 1,275,401,409 Shares beneficially. Accordingly, China COSCO (HK)'s interest in relation to the 1,494,309,652 Shares is also recorded as COSCO SHIPPING Holdings' interest in the Company. China Ocean Shipping Co., Ltd. ("COSCO Group") held 45.47% equity interest in COSCO SHIPPING Holdings as at 31 December 2019, and accordingly, COSCO Group is deemed to have the interest of 1,494,309,652 Shares held by China COSCO (HK). COSCO is a wholly owned subsidiary of China COSCO SHIPPING Corporation Limited ("COSCO SHIPPING"). Accordingly, COSCO Group's interest in relation to the 1,494,309,652 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 1,544,171,935 Shares (representing 48.84% of the total number of issued Shares) as at 31 December 2019, of which 223,548,369 Shares (representing 7.07% of the total number of issued Shares) were held by COSCO Investments.
- (3) As reported in the Corporate Substantial Shareholder Notice ("Form 2") filed by Silchester International Investors LLP on 4 October 2019, being the latest Form 2 filed before 31 December 2019, it held 316,631,929 Shares, representing 10.02% of the total number of issued Shares as at the date of filing of the Form 2.

Save as disclosed above, as at 31 December 2019, 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.

Report of the Directors

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 2019.

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 | 13% |
| Percentage of purchases attributable to the Group's five largest suppliers | 42% |
| Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer | 18% |
| Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers | 63% |

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

During the year ended 31 December 2019, COSCO SHIPPING, a controlling Shareholder, has equity interest in (1) one of the five largest suppliers of the Group which contributed 11% of the purchases made by the Group; and (2) the largest customer of the Group which contributed 18% of the revenue 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.

Report of the Directors

CORPORATE GOVERNANCE

The Company continues to maintain high standards of corporate governance so as to promote transparency and ensure better protection of shareholders' interest as a whole. The Company has fully complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2019, except the following deviation for a short period of time: Mr. ZHANG Wei (張為) was re-designated from the Vice Chairman of the Board to the Chairman of the Board on 25 April 2019. As he continued to be the Managing Director of the Company (i.e. Chief Executive of the Company), there was deviation from the requirement under code provision A.2.1 (the roles of chairman and chief executive should be separated and should not be performed by the same individual). Mr. ZHANG Wei (張為) resigned as Chairman of the Board and Managing Director of the Company on 13 September 2019 due to work commitments, and thereafter, the roles of Chairman and Managing Director have been performed by different individuals: Mr. FENG Boming has been the Chairman of the Board of the Company and Mr. ZHANG Dayu has been the Managing Director of the Company. Despite the short period of deviation mentioned above, as the management reported all major decisions of the Company to and obtained the approval of the Board Committees and the Board, and the Company had an effective internal control system, the Company was able to ensure adequate check-and-balance for such arrangements.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 54 to 93 of this annual report.

CONNECTED TRANSACTIONS

During the year, the Group conducted certain continuing related party transactions, as disclosed in note 41 (Related party transactions) of the audited consolidated financial statements of the Company for the year ended 31 December 2019, 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 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 rental and management fee paid by COSCO SHIPPING Ports Management for the year ended 31 December 2019 was HK\$15,791,000.

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.

Report of the Directors

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.

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 2019 was RMB2,955,728,000.

Report of the Directors

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 2019 was RMB320,577,000.

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 2019, 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.

As the Financial Services Master Agreement expired on 31 December 2019, and it was expected that the Group would continue to enter into transactions of similar nature to transactions under the Financial Services Master Agreement, the Company had entered into a new financial services master agreement on 30 October 2019 with COSCO SHIPPING for a term of three years from 1 January 2020 to 31 December 2022.

Report of the Directors

(3) MASTER AGREEMENTS RELATING TO SHIPPING AND TERMINAL RELATED SERVICES TRANSACTIONS (COLLECTIVELY, THE "SHIPPING AND TERMINAL RELATED SERVICES MASTER AGREEMENTS")

On 30 October, 22 November and 23 November 2018 respectively, the Company and certain of its subsidiaries entered into the following master agreements each for a term of three years from 1 January 2019 to 31 December 2021:

- (1) COSCO SHIPPING Shipping Services and Terminal Services Master Agreement entered into between the Company and COSCO SHIPPING on 22 November 2018 in respect of the following transactions:
 - (a) Provision of shipping related services by the Group to COSCO SHIPPING, its subsidiaries and associates (excluding the Group) (collectively, the "COSCO SHIPPING Group"), being the terminal services which are related to the shipping business carried out by COSCO SHIPPING, including but not limited to handling, storage, stevedoring, transshipment, maintenance of cargoes and provision of container storage space and terminal facilities, and other ancillary services. The annual caps of the aggregate amount receivable by the Group from the COSCO SHIPPING Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB2,337,172,000, RMB3,369,639,000 and RMB4,127,542,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB1,626,723,000.
 - (b) Provision of terminal related services by the relevant members of COSCO SHIPPING Group to the Group being the shipping services which are related to the terminal business carried out by the Company, including but not limited to the provision of manpower services, cargo handling services, logistics services, purchase of materials, supply of fuel and oil products (including but not limited to diesel oil, fuel oil, lubricating oil, hydraulic oil and transmission oil) and subsidy on port construction fee, and other ancillary services. The annual caps of the aggregate amount payable by the Group to the COSCO SHIPPING Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB163,097,000, RMB238,172,000 and RMB358,201,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB70,982,000.

It was agreed that the service fees payable by the relevant members of the COSCO SHIPPING 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.

Report of the Directors

- (2) Maersk Line Shipping Services Master Agreement entered into between the Company and Maersk Line A/S in its own capacity and for and on behalf of entities trading under the names of Maersk Line, Safmarine, MCC Transport, Sealand and Hamburg Süd and any other future entities where Maersk Line A/S holds a majority ownership (collectively, the “Maersk Line”) on 30 October 2018 in respect of the provision of shipping related services, including but not limited to handling, storage, stevedoring, transshipment, maintenance of cargoes, provision of container storage space and terminal facilities, by members of the Group to the Maersk Line.

The annual caps of the aggregate amount receivable by the Group from the Maersk Line for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB1,079,447,000, RMB1,385,889,000 and RMB1,722,381,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB629,069,000.

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

- (3) GZ Port Company Container Terminal Services Master Agreement entered into between 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”) on 23 November 2018 in respect of the following transactions:
- (a) Provision of terminal related services, including but not limited to cargo inspection related services, leasing of frontloaders, port related services (including without limitation, provision of berths, loading and unloading, inspection, transportation, shifting, boxing and unboxing of containers, transshipment of passenger liners, operation and management of transshipment of cargoes and provision of container storage space), provision of vehicles for hire, repairing services to pontoon, leasing of terminal areas and provision of machinery, and all other ancillary and related services, by GZ South China to GZ Port Company and its subsidiaries and branches (collectively, the “GZ Port Company Group”). 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 2019, 2020 and 2021 are RMB86,972,000, RMB113,063,000 and RMB146,982,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB24,604,000.
- (b) Provision of terminal related services, including but not limited to container handling services, provision of fuel and oil, port related services (including without limitation, provision of berths, cargoes loading and unloading, operation and management of transshipment of cargoes, transshipment and transportation of containers, and provision of container storage space), inspection center services, construction services, electricity supply services, supervision services, surveying services, pollution prevention, manpower services relating to the appointment of seconded staff, leasing and maintenance of frontloaders, floating cranes and pontoons, logistics services, customs declaration and inspection declaration services, procurement and purchase of tyres and materials, marketing centers services (which are mainly in the nature of market expansion, sales and promotion and external coordination) and all other ancillary and related services, by members of the 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 2019, 2020 and 2021 are RMB490,435,000, RMB629,866,000 and RMB810,355,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB40,293,000.

Report of the Directors

It was agreed that the terms (including without limitation, the service fees) for the provision of services by members of the GZ Port Company Group shall 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, and the terms (including without limitation, the service fees) for the provision of services by GZ South China shall be no less favourable to GZ South China (as service providing party) than terms offered by it to independent third parties for the relevant services.

- (4) GZ Port Holding Container Terminal Services Master Agreement entered into between GZ South China and Guangzhou Port Group Company Limited (“GZ Port Holding”) on 23 November 2018 in respect of the provision of terminal related services, including but not limited to property management, property cleaning, pest control and garbage clean up services, “shuttle bus” service, provision of vehicle for staff commuting, safety management, security services, training services, printing services, marketing centers services (which are mainly in the nature of market expansion, sales and promotion and external coordination) and travel agency services, by GZ Port Holding and its subsidiaries, branches and associates (but excluding GZ Port Company, its subsidiaries and branches) (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 2019, 2020 and 2021 are RMB46,963,000, RMB61,052,000 and RMB79,367,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB16,480,000.

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 shall be no less favourable to GZ South China than terms available to GZ South China from independent third parties for the relevant services.

- (5) Xiamen Container Terminal Services Master Agreement entered into between 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”) on 30 October 2018 in respect of the following transactions:
- (a) Provision of terminal related services, including but not limited to project management services, manpower services (including the appointment of seconded staff), inspection services, agency services, equipment leasing services, storage leasing services and all other ancillary and related services, by Xiamen Haicang Holding and its subsidiaries, branches and associates (but excluding Xiamen Ocean Gate) (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 2019, 2020 and 2021 are RMB56,000,000, RMB62,000,000 and RMB68,000,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB12,398,000.
- (b) Provision of terminal related services, including but not limited to loading and unloading services, storage services, manpower services, management services and all other ancillary and related services, by Xiamen Ocean Gate to members of the Xiamen Haicang Group. The annual caps of the aggregate amount receivable by Xiamen Ocean Gate from the Xiamen Haicang Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB6,400,000, RMB7,000,000 and RMB7,600,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB1,136,000.

Report of the Directors

It was agreed that the terms (including without limitation, the service fees) for the provision of services by the 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, and 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 offered by it to independent third parties for the relevant services.

- (6) Yangzhou Terminal Services Master Agreement entered into between Yangzhou Yuanyang International Ports Co., Ltd. ("Yangzhou Yuanyang", a then subsidiary of the Company) and Yangzhou Port of Jiangsu Province Group Co., Ltd. ("Yangzhou Port Holding") on 30 October 2018 in respect of the following transactions:
- (a) Provision of terminal related services, including without limitation, port related services (including without limitation, provision of berths, operation and management of loading and unloading of cargoes, terminal transshipment and transportation, and provision of cargo storage space), manpower services by the appointment of management officials, and all other ancillary and related services, by Yangzhou Port Holding and its subsidiaries, branches and associates (excluding Yangzhou Yuanyang) (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 2019, 2020 and 2021 are RMB46,007,000, RMB50,319,000 and RMB55,062,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB4,185,000.
 - (b) Provision of terminal related services by Yangzhou Yuanyang to members of the Yangzhou Port Group, including without limitation, port related services (including without limitation, provision of berths). The annual caps of the aggregate amount receivable by Yangzhou Yuanyang from the Yangzhou Port Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB31,847,000, RMB31,900,000 and RMB32,090,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB25,749,000.

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 Yangzhou Yuanyang from independent third parties for the relevant services, and the terms (including without limitation, the service fees) for the provision of services by Yangzhou Yuanyang shall be no less favourable to Yangzhou Yuanyang (as service providing party) than terms offered by it to independent third parties for the relevant services.

- (7) Zhangjiagang Container Terminal Services Master Agreement entered into between Zhangjiagang Win Hanverky Container Terminal Co., Ltd. ("Zhangjiagang Win Hanverky", a then subsidiary of the Company) and Zhangjiagang Port Group Co., Ltd. ("Zhangjiagang Port") on 30 October 2018 in respect of the provision of terminal related services, including without limitation, port related services (including without limitation, provision of berths lifting and dropping, unpacking, tallying, packing services, etc.), electricity and fuel supply services, maintenance services, manpower services relating to the appointment of management officials, property cleaning and greening bonsai services, terminal and site repair and renovation services, processed steel wire ropes and power substation management services, and all other ancillary and related services, by Zhangjiagang Port and its subsidiaries, branches and associates (excluding Zhangjiagang Win Hanverky) (collectively, the "Zhangjiagang Port Group") to Zhangjiagang Win Hanverky.

Report of the Directors

The annual caps of the aggregate amount payable by Zhangjiagang Win Hanverky to the Zhangjiagang Port Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB59,465,000, RMB77,898,000 and RMB107,058,000 respectively. The total amount of the aforesaid transactions for the year ended 31 December 2019 was RMB10,937,000.

It was agreed that the terms (including without limitation, the service fees) for the provision of services by members of the Zhangjiagang Port Group shall be no less favourable to Zhangjiagang Win Hanverky than terms available to Zhangjiagang Win Hanverky from independent third parties for the relevant services.

- (8) Lianyungang Terminal Services Master Agreement entered into between Lianyungang New Oriental International Terminals Co., Ltd. ("Lianyungang New Oriental", a subsidiary of the Company) and Lianyungang Port Group Co., Ltd. ("Lianyungang Port") on 30 October 2018 in respect of the following transactions:
- (a) Provision of terminal related services, including but not limited to port facility leasing and maintenance services; port and waterway facilities projects, construction projects, water supply and drainage projects, mechanical and electrical equipment installation projects, road and bridge projects, intelligent building projects, communication conduit design and construction projects; port dredging operations; software development and systems integration; network technology services; environmental project supervision and environmental technology testing services; telecommunications construction projects; catering services; labour services (excluding labour arrangement); measuring instrument testing and weighing equipment installation verification; supply of metal materials, plastic products, rubber products, chemical materials, electrical machinery and equipment, bearings, fasteners, instrumentation and weighing instruments, sales of workplace safety supplies; waste materials recycling; ethanol gasoline supply, diesel retail; gas sales; port railway transportation; electricity and water supply for port area, by Lianyungang Port and its subsidiaries, branches and associates (but excluding Lianyungang New Oriental) (collectively, the "Lianyungang Port Group") to Lianyungang New Oriental. The annual caps of the aggregate amount payable by Lianyungang New Oriental to the Lianyungang Port Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB76,160,000, RMB89,600,000 and RMB101,950,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB64,173,000.
- (b) Provision of terminal related services, including but not limited to container or bulk cargo handling (including barge), warehousing and storage, intra-port transfer, container consolidation and devanning; port facilities and equipment and port machinery leasing; dangerous goods port operations (under the scope of the "Dangerous Goods Port Operation Approval Certificate"), by Lianyungang New Oriental to members of the Lianyungang Port Group. The annual caps of the aggregate amount receivable by Lianyungang New Oriental from the Lianyungang Port Group for such services for the three years ended 31 December 2019, 2020 and 2021 are RMB1,500,000, RMB1,500,000 and RMB1,500,000 respectively. The total amount for the aforesaid transactions for the year ended 31 December 2019 was RMB557,000.

It was agreed that the terms (including without limitation, the service fees) for the provision of services by the members of the Lianyungang Port Group shall be no less favourable to Lianyungang New Oriental (as service receiving party) than terms available to Lianyungang New Oriental from independent third parties for the relevant services, and the terms (including without limitation, the service fees) for the provision of services by Lianyungang New Oriental shall be no less favourable to Lianyungang New Oriental (as service providing party) than terms offered by it to independent third parties for the relevant services.

Report of the Directors

Since COSCO SHIPPING is a controlling shareholder of the Company, members of the COSCO SHIPPING Group are connected persons of the Company.

Maersk Line A/S is an associate of a substantial shareholder of a 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. Accordingly, 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 then subsidiary of the Company, and accordingly, Yangzhou Port Holding is a substantial shareholder of a then subsidiary of the Company.

Zhangjiagang Port has a 49% equity interest in Zhangjiagang Win Hanverky, a then subsidiary of the Company, and accordingly, Zhangjiagang Port is a substantial shareholder of a then subsidiary of the Company.

Lianyungang Port has a 45% equity interest in Lianyungang New Oriental, a subsidiary of the Company, and accordingly, Lianyungang Port is a substantial shareholder of a subsidiary of the Company.

The continuing connected transactions under the agreement numbered (1) above was subject to the reporting, annual review, announcement and independent shareholders' approval requirements and was approved by the independent shareholders of the Company at the special general meeting held on 28 December 2018, whilst the transactions under the agreements numbered (2) to (5) were exempted from the independent shareholders' approval requirement (so far as applicable) under Rule 14A.101 of the Listing Rules.

In addition, the transactions under the agreements numbered (6) to (8) did not constitute continuing connected transactions of the Company for the year ended 31 December 2019, since members of the Yangzhou Port Group, members of the Zhangjiagang Port Group and members of the Lianyungang Port Group, were persons connected with insignificant subsidiaries for the relevant period under Rule 14A.09 of the Listing Rules.

After the year ended 31 December 2019, the Company disposed of all its equity interest in Yangzhou Yuanyang and Zhangjiagang Win Hanverky on 10 February 2020.

Report of the Directors

(4) CONCESSION AGREEMENT

On 25 November 2008, Piraeus Container Terminal S.A. ("PCT"), a wholly owned subsidiary of the Company, 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.

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.

Report of the Directors

- (iii) The Finance Department of the Company will prepare a “Summary for Continuing Connected Transactions” each quarter 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.
- (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. 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 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 Related Services Master Agreements 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 as a whole.

Report of the Directors

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 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the such continuing connected transactions, in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a pro forma combined balance sheet of the affiliated companies as at 31 December 2019 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

| | US\$'000 |
|--------------------------|-------------|
| Non-current assets | 2,177,461 |
| Current assets | 270,210 |
| Current liabilities | (167,706) |
| Non-current liabilities | (1,917,260) |
| Net assets | 362,705 |
| Share capital | 21,288 |
| Reserves | 299,988 |
| Non-controlling interest | 41,429 |
| Capital and reserves | 362,705 |

As at 31 December 2019, interests in such affiliated companies attributable to the Group amounted to US\$400,416,000.

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.

Report of the Directors

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

FENG Boming

Chairman

Hong Kong, 26 March 2020