

# 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 2020.

## 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 42 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments 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 38 to 43 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 2020 are provided in note 40 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 2020 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 2020 are set out in the consolidated income statement on page 137 of this annual report.

The Board declared an interim dividend of HK16.0 cents (equivalent to US2.068 cents) per share with a scrip dividend alternative, totalling HK\$519,420,000 (equivalent to US\$67,135,000), which was paid on 23 October 2020.

The Board also declared a second interim cash dividend of HK17.5 cents (equivalent to US2,256 cents) per share, totalling HK\$580,177,000 (equivalent to US\$74,793,000), payable on 5 May 2021.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 239 of this annual report.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$1,249,000.

## SHARES ISSUED IN THE YEAR

Details of the Shares issued by the Company during the year are set out in note 19 to the consolidated financial statements.

## Report of the Directors

### DISTRIBUTABLE RESERVES

The distributable reserves of the Company as of 31 December 2020 calculated under the Companies Act of Bermuda amounted to US\$2,649,155,000.

### BORROWINGS

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

### RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in notes 3.21 and 33 to the consolidated financial statements.

### DIRECTORS

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

Mr. FENG Boming<sup>1</sup> (*Chairman*)

Mr. ZHANG Dayu<sup>1</sup> (*Managing Director*)

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

Mr. ZHANG Wei<sup>2</sup>

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

Mr. WANG Haimin<sup>2</sup> (resigned on 13 March 2020)

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> (resigned on 20 March 2020)

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

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

Mr. YANG Liang Yee Philip<sup>3</sup> (appointed on 29 April 2020)

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. ZHANG Wei, Mr. CHEN Dong and Mr. LAM Yiu Kin, being directors longest in office since their last re-election, shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors confirming their independence, 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 100 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 OPTION SCHEME****GENERAL INFORMATION OF THE SHARE OPTION SCHEME**

On 26 October 2017, the Board approved the "Share Option Scheme of COSCO SHIPPING Ports Limited (Proposed)" (公司股票期權激勵計劃(草案)). At a special general meeting of the Company held on 8 June 2018, the shareholders of the Company (the "Shareholders") approved the adoption of a share option scheme containing the terms of the said proposed scheme (the "Share Option Scheme").

On 19 June 2018, the Board was of the view that all the conditions of the grant of options had been fulfilled, and determined the date of the initial grant be on 19 June 2018 for the granting of 53,483,200 share options to 238 eligible participants, and had handled all necessary issues regarding the grant of share options.

Pursuant to the relevant requirements under the Share Option Scheme, within one year after the abovementioned initial grant, the Company had granted a total of 3,640,554 share options to 17 participants in four times on 29 November 2018, 29 March 2019, 23 May 2019 and 17 June 2019, respectively, and had handled all necessary issues regarding the grant of share options.

Please refer to the circular of the Company dated 18 May 2018 (the "Circular") and announcements of the Company dated 19 June 2018, 29 November 2018, 29 March 2019, 23 May 2019 and 17 June 2019 for details of the Share Option Scheme and each grant.

## Report of the Directors

### 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, 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")).

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) which 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.

As at the date of this report, a total of 51,403,380 Shares (representing approximately 1.55% 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. According to the provisions of the Share Option Scheme, no share options could be granted under the Share Option Scheme since 19 June 2019 (i.e. one year from the date of the initial grant).

## Report of the Directors

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 2020 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.

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

Category	Exercise price per share HK\$	Outstanding at 1 January 2020	Granted during the year	Exercised during the year	Transfer (to)/ from other categories during the year	Lapsed/ Cancelled during the year	Outstanding at 31 December 2020	% of total number of issued Shares	Exercise period	Notes
<b>Directors</b>										
Mr. ZHANG Dayu	7.27	1,200,000	-	-	-	-	1,200,000	0.04%	19.6.2020-18.6.2023	(1), (2)
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)
		3,600,000	-	-	-	-	3,600,000			
<b>Continuous contract employees</b>	7.27	42,172,743	-	-	(1,819,613)	(1,853,715)	38,499,415	1.16%	19.6.2020-18.6.2023	(1), (3), (4)
	8.02	851,966	-	-	-	(246,995)	604,971	0.02%	29.11.2020-28.11.2023	(5), (6)
	8.48	848,931	-	-	-	-	848,931	0.03%	29.3.2021-28.3.2024	(7)
	7.27	666,151	-	-	-	-	666,151	0.02%	23.5.2021-22.5.2024	(8)
	7.57	1,273,506	-	-	-	-	1,273,506	0.04%	17.6.2021-16.6.2024	(9)
<b>Others</b>	7.27	4,492,607	-	-	1,819,613	-	6,312,220	0.19%	19.6.2020-18.6.2023	(1), (4)
		50,305,904	-	-	-	(2,100,710)	48,205,194			
		53,905,904	-	-	-	(2,100,710)	51,805,194			

## Report of the Directors

### Notes:

- (1) 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 were 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.
- (2) These options represent the personal interest held by the relevant director as a beneficial owner.
- (3) Amongst the 1,853,715 share options, 1,669,480 share options were lapsed due to resignation or retirement of the relevant employees and 184,235 share options were cancelled according to the results of personal performance appraisal of the relevant employees.
- (4) The 1,819,613 share options were transferred from the category of "continuous contract employees" to the category of "others" pursuant to the terms of the Share Option Scheme.
- (5) 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 were 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.
- (6) Amongst the 246,995 share options, 233,501 share options were lapsed due to the resignation of the relevant employee and 13,494 share options were cancelled according to the results of personal performance appraisal of the relevant employee.
- (7) 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) 33.3% of the share options were vested on 29 March 2021; (b) 33.3% of the share options will be vested on 29 March 2022; and (c) 33.4% of the share options will be vested on 29 March 2023.
- (8) 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) 33.3% of the share options will be vested on 23 May 2021; (b) 33.3% of the share options will be vested on 23 May 2022; and (c) 33.4% of the share options will be vested on 23 May 2023.
- (9) 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) 33.3% of the share options will be vested on 17 June 2021; (b) 33.3% of the share options will be vested on 17 June 2022; and (c) 33.4% of the share options will be vested on 17 June 2023.
- (10) As to whether various batches of share options to be vested in 2021 can be vested, the Board will review and consider if the relevant exercise conditions have been fulfilled.
- (11) No share options were granted or exercised under the Share Option Scheme during the year.

## EXPLANATION ON THE EXERCISE CONDITIONS AND FULFILLMENT OF EXERCISE CONDITIONS FOR THE FIRST EXERCISE PERIOD UNDER THE SHARE OPTION SCHEME

### (1) The first exercise period has commenced

In accordance with the Share Option Scheme, Participants may exercise their share options only after the expiry of the Restricted Period. The first exercise periods of the share options granted in 2018 under the Share Option Scheme commenced on 19 June 2020 and 29 November 2020 respectively. Participant entitled to exercise his/her share options in the first exercise period may exercise 33.3% of the share options granted to him/her during the exercise period between 19 June 2020 and 18 June 2023 (both dates inclusive) and from 29 November 2020 and 28 November 2023 (both dates inclusive) respectively.

### (2) Exercise conditions to be fulfilled for the first exercise period

1. Exercise conditions for the first exercise period in relation to the Company's business performance: (a) return on net assets (after extraordinary gains and losses) (the "ROE") in 2019 should not be lower than 6.0% and the average of the selected peer benchmark enterprises<sup>(note 1)</sup>; (b) growth rate of revenue in 2019 as compared to 2017 should not be lower than 15.0% and the average of the selected peer benchmark enterprises; and (c) the EVA indicator accomplished for 2019 has reached the assessment target set by COSCO SHIPPING;
2. Events<sup>(note 2)</sup> described in article 2 under Chapter 10 of the Share Option Scheme did not happen to the Company; and
3. Subject to the fulfillment of conditions relating to the Company's business performance, personal exercise conditions precedent in relation to the Participants are as follows: (a) events<sup>(note 3)</sup> described in articles 3 and 4 under Chapter 9 of the Share Option Scheme did not happen to the participants during the valid period of the Share Option Scheme prior to the commencement of the current exercise period; and (b) the Participant had achieved average or above at his/her annual performance appraisal in 2019.

### (3) Exercise conditions for the first exercise period have been fulfilled

1. The Company's business performance condition for the first exercised period: according to the audited 2019 financial statements approved at the annual general meeting of the Company held on 21 May 2020, and excluding the financial impact of investments on the construction of new terminal projects which have not commenced operations in accordance with the Share Option Scheme, ROE of the Company in 2019 was 6.17%, which was not lower than 6.0% and the average of the selected peer benchmark enterprises of 4.05%; the growth rate of revenue in 2019 as compared to 2017 was 61.91%, which was not lower than 15.0% and the average of the selected peer benchmark enterprises of 13.14%. Meanwhile, the EVA accomplished by the Company in 2019 was RMB65.86 million and has reached the assessment target set by COSCO SHIPPING;
2. Events described in article 2 under Chapter 10 of the Share Option Scheme did not happen; and
3. Events described in articles 3 or 4 under Chapter 9 of the Share Option Scheme did not happen to the Participant and Participant has achieved average or above at his/her annual performance appraisal in 2019.

## Report of the Directors

### (4) How non-fulfilled share options were dealt with

In accordance with the Share Option Scheme, those share options not qualified to be exercised or not yet exercised after the expiry of the exercise period will lapse with immediate effect and will be forfeited and cancelled by the Company without compensation. Details on the cancellation of share options during the year were set out in the above table and notes regarding the movement of share options.

Notes:

1. There was a change of peer benchmark enterprises for the Share Option Scheme, details of which have been set out in section headed "Share Option Scheme" in the 2020 interim report of the Company.
2. Events described in article 2 under Chapter 10 of the Share Option Scheme include:
  - (i) failure to engage an accounting firm to carry out audit work in accordance with the established procedures and requirements;
  - (ii) issue of an auditors' report with qualified or negative opinion or which indicates the inability to give opinion by a certified public accountant with respect to the annual financial accountant's report of the Company;
  - (iii) the bodies performing the contributor's functions or the audit department raising significant objections to the business performance or the annual financial accountant's report of the listed company; and
  - (iv) imposition of penalties by security supervisory authority or other relevant authorities due to the occurrence of material non-compliance of the Company.
3. Events described in articles 3 and 4 under Chapter 9 of the Share Option Scheme include:
  - (i) results of accountability audit indicate failure in performing duties effectively or gross negligence of duty or malfeasance;
  - (ii) violation of applicable domestic or foreign laws and regulations or provisions of the Bye-laws of the Company;
  - (iii) possession of sufficient evidence by the Company proving that the holder of such share options, during his/her employment, due to offering or accepting bribes, corruption, theft, leaking commercial and technological secrets of the listed company, conducting connected transactions which impaired the interests and reputation of the listed company, and other illegal behaviors which have material adverse impact on the image of the Company, has caused the Company to suffer losses;
  - (iv) unauthorised transfer, sale, exchange, pledge, guarantee, charge or settlement of debts by using the share options;
  - (v) using the share options held in fraud, extortion, etc.;
  - (vi) violation of the law and conviction of any criminal liability;
  - (vii) other circumstances stipulated under applicable domestic or foreign laws and regulations; and
  - (viii) failure in the performance appraisal.

In light of the above, after a review of the actual conditions of the Company against the conditions required to be fulfilled for the first exercise period under the Share Option Scheme, the Board has considered and confirmed that the conditions for the exercise for the first exercise period of the Company, including the requirement of performance appraisal, were fulfilled.



## Report of the Directors

The independent non-executive directors of the Company have reviewed and studied the documents and explanations regarding the fulfillment of the exercise conditions of the share options and issued the following independent opinions:

1. according to the requirements of the Share Option Scheme, the share options granted on 19 June 2018 and 29 November 2018 were vested on 19 June 2020 and 29 November 2020 respectively, and the exercise conditions for the first exercise period have been fulfilled;
2. the Participants for these exercise periods have fulfilled the requirements under the “Guidelines for the Implementation of Equity Incentives of Listed Companies Controlled by Central Enterprises” (中央企業控股上市公司實施股權激勵工作指引) issued by the State-owned Assets Supervision and Administration Commission (SASAC) and other relevant laws, regulations and normative documents, passed the annual appraisals and fulfilled the exercise conditions as specified in the Share Option Scheme and hence, become lawful and competent Participants under the Share Option Scheme of the Company; and
3. except for those who were no longer eligible Participants due to resignation, retirement, etc. and hence, no longer fulfilled the exercise conditions for the first exercise period, the list of participants for the first exercise period of the share options granted in 2018 were in line with the one set out in the announcements of the Company dated 19 June 2018 and 29 November 2018 respectively.

## ARRANGEMENTS FOR EXERCISE OF SHARE OPTIONS FOR THE FIRST EXERCISE PERIOD UNDER THE SHARE OPTION SCHEME

### (1) Source of underlying shares of the Share Option Scheme

Source of the underlying shares for the exercise of share options in the first exercise period under the Share Option Scheme shall be ordinary shares to be allotted to the Participants.

### (2) Participants entitled to exercise their share options and number of share options exercisable in the first exercise period under the Share Option Scheme

1. As certain Participants were no longer eligible as Participants due to resignation, retirement, etc., there were 223 Participants in the first exercise period under the Share Option Scheme;
2. Pursuant to the Share Option Scheme, Participants shall attain his/her personal performance condition at the time of determining the number of share options to be vested: the percentage of the relevant batch of share options to be vested will be determined with reference to the results of his/her personal performance appraisal in the preceding financial year:

Personal performance appraisal grade	Distinction	Merit	Average	Unsatisfactory
Vesting percentage of the share options	100%	100%	80%	0

Results of the personal performance appraisal in 2019 for the 223 Participants in the first exercise period were as follows:

Personal performance targets	Distinction/ Merit	Average	Unsatisfactory
Vesting percentage of the share options	100%	80%	0
Number of Participants (the share options granted on 19 June 2018)	203	17	0
Number of Participants (the share options granted on 29 November 2018)	2	1	0

## Report of the Directors

For the 18 Participants with personal performance appraisal grade of "Average", amongst the total of 988,647 share options granted, 790,918 share options (being 80% of 988,647 share options) were exercisable and the remaining 197,729 share options were not qualified to be exercised. Such share options were lapsed, forfeited and cancelled by the Company without compensation.

After the adjustments, Participants entitled to exercise their share options and the number of share options exercisable in the first exercise period under the Share Option Scheme are as follows:

<b>Position</b>	<b>Name</b>	<b>Number of share options exercisable in the first exercise period</b> <sup>Note</sup>
Executive Director and Managing Director	ZHANG Dayu	399,600
Executive Director and Deputy Managing Director	DENG Huangjun	399,600
Executive Director and Deputy Managing Director	WONG Tin Yau, Kelvin	399,600
General Counsel and Company Secretary	HUNG Man	399,600
Other Participants	219 Participants	14,841,493
<b>Total</b>		<b>16,439,893</b>

Note: In the first exercise period, Participants are entitled to exercise 33.3% of the share options granted, rounded down to the nearest unit.

Funds required for the exercise of share options by the Participants and the payment of personal income tax shall be financed by the Participants. The Company undertakes not to provide loans or financial assistance in any other forms to the Participants for their exercise of share options under the Share Option Scheme, including provision of guarantee for loans.

### (3) Exercise price

Pursuant to the Share Option Scheme, the exercise price for share options granted on 19 June 2018 and 29 November 2018 under the Share Option Scheme are HK\$7.27 per Share and HK\$8.02 per Share respectively. In the event of capitalisation issue, bonus issue, subdivision of Shares, consolidation of Shares, rights issue or open offer during the exercise period, the exercise price will be adjusted accordingly. During the year ended 31 December 2020, there was no event resulting in the adjustment of exercise price.

### (4) Exercise period

The first exercise period for share options granted on 19 June 2018 and 29 November 2018 respectively under the Share Option Scheme shall be from 19 June 2020 to 18 June 2023 (both dates inclusive) and 29 November 2020 to 28 November 2023 (both dates inclusive) respectively.

## Report of the Directors

**EFFECT OF THE EXERCISE ON THE FINANCIAL CONDITIONS AND RESULTS OF OPERATION OF THE COMPANY FOR THE RELEVANT YEAR**

In accordance with the “Hong Kong Financial Reporting Standard 2 – Share-based Payments”, services rendered by the Participants are included in relevant costs at the fair value of the share options on the date of grant and the share options reserve is credited accordingly, based on the best estimated number of exercisable share options. During the exercise period of the share options, the Company will not adjust recognised costs. The Company will recognise monetary funds received and the increase in share capital and share premium according to the actual situation of exercising. The share options shall be exercised by the Participants on a voluntary basis. The Company adopted the Black-Scholes valuation model for share options to determine the fair value of the share options on the date of grant. As at 31 December 2020, based on the best estimated number of exercisable options, the fair value of share options granted in 2018 was US\$7,560,000, while the share option expenses recognised in 2018 and 2019 amounted to US\$1,185,000 and US\$2,203,000, respectively. The share option expenses estimated for 2020, 2021, 2022 and 2023 amounted to US\$1,847,000, US\$1,399,000, US\$725,000 and US\$201,000, respectively.

**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 2020 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**

<b>Name of director</b>	<b>Capacity</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>% of total number of issued Shares</b>
Mr. FENG Boming	Beneficial owner	Personal	32,379	0.001%
Mr. ZHANG Dayu	Beneficial owner	Personal	120,000	0.004%
Mr. DENG Huangjun	Beneficial owner	Personal	53,154	0.002%
Mr. ZHANG Wei	Beneficial owner	Personal	30,000	0.001%
Dr. WONG Tin Yau, Kelvin	Beneficial owner	Personal	1,380,865	0.042%

**(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 Option Scheme” of this report.

## Report of the Directors

**(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%

**(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)	Numbers of share options	% of total number of issued shares of the relevant class of the relevant associated corporation	Notes
COSCO SHIPPING Holdings Co., Ltd.	Mr. FENG Boming	Interest of spouse	Family	4.10	530,000	0.005%	(1), (3)
		Beneficial owner	Personal	3.50	936,000	0.010%	(2), (3)
	Mr. ZHANG Wei	Beneficial owner	Personal	3.50	754,000	0.008%	(2), (3)

Notes:

- Such share options were granted on 3 June 2019 pursuant to the A-shares share option incentive scheme of COSCO SHIPPING Holdings Co., Ltd. ("COSCO SHIPPING Holdings") adopted on 30 May 2019 (the "CSH Share Option Scheme") and can be exercised during the period from 3 June 2021 to 2 June 2026.
- Such share options were granted on 29 May 2020 pursuant to the CSH Share Option Scheme (as amended pursuant to the amendments approved by the shareholders of COSCO SHIPPING Holdings on 18 May 2020) and can be exercised during the period from 30 May 2022 to 28 May 2027.
- Such share options will be vested after 24 months from the date of grant (the "Vesting Period"). Subject to the fulfilment of the relevant vesting conditions, such share options will be vested in three batches after the Vesting Period, i.e. (a) 33% of the share options can be exercised during the first trading day after 24 months from the date of grant to the last trading day within 36 months from the date of grant; (b) 33% of the share options can be exercised during the first trading day after 36 months from the date of grant to the last trading day within 48 months from the date of grant; and (c) 34% of the share options can be exercised during the first trading day after 48 months from the date of grant to the last trading day within 84 months from the date of grant.

## Report of the Directors

**DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at 31 December 2020, the directors, namely Mr. FENG Boming, Mr. DENG Huangjun, Mr. ZHANG Wei and Mr. CHEN Dong held directorships or senior management positions 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.

**SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY**

So far as is known to any directors or chief executive of the Company, 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, as at 31 December 2020, were as follows:

Name	Capacity	Nature of interests	Number of Shares/Percentage of total number of issued Shares as at 31 December 2020				Notes
			Long positions	%	Short positions	%	
COSCO Investments Limited	Beneficial owner	Beneficial interest	223,548,369	6.74	-	-	(1), (2)
China COSCO (Hong Kong) Limited	Beneficial owner and interest of controlled corporation	Beneficial interest and corporate interest	1,623,313,935	48.96	-	-	(1), (2)
COSCO SHIPPING Holdings Co., Ltd.	Interest of controlled corporation	Corporate interest	1,623,313,935	48.96	-	-	(1), (2)
China Ocean Shipping Co., Ltd.	Interest of controlled corporation	Corporate interest	1,623,313,935	48.96	-	-	(1), (2)
China COSCO SHIPPING Corporation Limited	Interest of controlled corporation	Corporate interest	1,623,313,935	48.96	-	-	(1), (2)
Silchester International Investors LLP	Investment manager	Other interest	389,710,368	11.76	-	-	(1)

Notes:

- (1) The percentage was compiled based on the total number of issued Shares as at 31 December 2020 (i.e. 3,315,296,374 Shares).
- (2) The 1,623,313,935 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 223,548,369 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 1,399,765,566 Shares beneficially. Accordingly, China COSCO (HK)'s interest in relation to the 1,623,313,935 Shares is also recorded as COSCO SHIPPING Holdings' interest in the Company. China Ocean Shipping Co., Ltd. ("COSCO Group") held 37.89% equity interest in COSCO SHIPPING Holdings as at 31 December 2020, and accordingly, COSCO Group is deemed to have the interest of 1,623,313,935 Shares held by China COSCO (HK). COSCO Group is a wholly owned subsidiary of China COSCO SHIPPING Corporation Limited ("COSCO SHIPPING"). Accordingly, COSCO Group's interest in relation to the 1,623,313,935 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 1,665,229,935 Shares (representing 50.23% of the total number of issued Shares) as at 31 December 2020, of which 223,548,369 Shares (representing 6.74% of the total number of issued Shares) were held by COSCO Investments.

## Report of the Directors

Save as disclosed above, as at 31 December 2020, 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.

### 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 2020.

### 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	16%
Percentage of purchases attributable to the Group's five largest suppliers	59%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer	21%
Percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers	66%

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 2020, COSCO SHIPPING, a controlling Shareholder, has equity interest in (1) one of the five largest suppliers of the Group which contributed 15% of the purchases made by the Group; and (2) the largest customer 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 Listing Rules throughout the year ended 31 December 2020.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 52 to 93 of this annual report.

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTION TRANSACTIONS

During the year, the Group conducted certain continuing related party transactions, as disclosed in note 38 (Related party transactions) of the audited consolidated financial statements of the Company for the year ended 31 December 2020, 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 "2017 Tenancy Agreement") in respect of the leasing of Unit Nos. 4901, 4902A, 4902B and 4903 situated at the 49th Floor of COSCO Tower, 183 Queen's Road Central, Hong Kong (the "49F Properties") 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 under the 2017 Tenancy Agreement was HK\$87,248 (subject to revision by the management company of the building of which the 49F Properties form part from time to time). During the subsistence of the 2017 Tenancy Agreement, the maximum aggregate annual value of the rental and the management fees for the two years ending 31 December 2018 and 2019 and for the period from 1 January 2020 to 28 November 2020 were HK\$15,740,000, HK\$15,840,000 and HK\$14,540,000 respectively. The rental and management fees paid by COSCO SHIPPING Ports Management under the 2017 Tenancy Agreement for the period from 1 January 2020 to 28 November 2020 was HK\$14,432,000.

On 27 November 2020, COSCO SHIPPING Ports Management as the tenant entered into a new tenancy agreement with Wing Thye as the landlord (the "49F Tenancy Agreement") in respect of the leasing of the 49F Properties for a term of three years commencing from 29 November 2020 at a monthly rental of HK\$1,404,480 exclusive of government rent, rates, management fees and other outgoings. The monthly management fees payable to Wing Thye under the 49F Tenancy Agreement is HK\$95,760 (subject to revision by the incorporated owners and the management company of the building of which the 49F Properties form part from time to time). The (i) rental and (ii) management fees and other outgoings paid by COSCO SHIPPING Ports Management under the 49F Tenancy Agreement for the period from 29 November 2020 to 31 December 2020 were HK\$1,498,112 and HK\$95,760 respectively.

## Report of the Directors

Apart from the 49F Tenancy Agreement, COSCO SHIPPING Ports Management as the tenant also entered into a tenancy agreement with Malayan Corporations Limited (“Malayan Corporations”) as the landlord (the “42F Tenancy Agreement”, together with the 49F Tenancy Agreement, the “Tenancy Agreements”) in respect of Unit No. 4206 situated at the 42nd Floor of COSCO Tower, 183 Queen’s Road Central, Hong Kong (the “42F Property”) on 27 November 2020. Pursuant to the 42F Tenancy Agreement, COSCO SHIPPING Ports Management agreed to rent from Malayan Corporations the 42F Property for a term of two years nine months and twelve days commencing from 15 February 2021 at a monthly rental of HK\$325,512 exclusive of government rent, rates, management fees and other outgoings. The monthly management fees payable to Malayan Corporations under the 42F Tenancy Agreement is HK\$22,194 (subject to revision by the incorporated owners and the management company of the building of which the 42F Property forms part from time to time). No rental, management fees or other outgoings has been paid by COSCO SHIPPING Ports Management under the 42F Tenancy Agreement in 2020.

The payments to be made by the Group contemplated under the Tenancy Agreements comprise different components and hence different accounting treatments will apply. Pursuant to HKFRS 16, the monthly rentals of the 42F Property and the 49F Properties leased under the Tenancy Agreements will be recognised as right-of-use assets with the estimated aggregate consideration of approximately HK\$58,291,000. The right-of-use assets represent the Company’s right to use the underlying leased assets over the lease term and the lease liabilities represent its obligation to make lease payments (i.e. the rent). The assets and the liabilities arising from the leases are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Tenancy Agreements, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated financial statements of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use assets, and (ii) interest on the lease liabilities over the lease term.

Accordingly, the Group will recognise the monthly rentals as acquisitions of right-of-use assets taking into account the aggregate discounted amount of the monthly rentals in accordance with HKFRS 16. Such acquisitions of right-of-use assets will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules. The management fees and other outgoings under the Tenancy Agreements (the “Other Charges”) will be recognised as expenses in the Group’s profit and loss accounts in the periods in which they are incurred, and the payment of such expenses will be regarded as continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Company intended to continue to occupy the 49F Properties 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 addition, the Company considered it necessary and appropriate to rent the 42F Property, which has the advantage of close proximity to the Company’s head office at 49th floor of the same building, to cater for the operation and growth of the Group. In negotiating the rental under the Tenancy Agreements, the directors of the Company had made reference to the professional opinion given by Cushman & Wakefield Limited, an independent professional valuer. The monthly rental agreed for the 49F Properties and the 42F Property as provided in the Tenancy Agreements were at market levels and were fair and reasonable.

Both Wing Thye and Malayan Corporations are wholly-owned subsidiaries 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, each of Wing Thye and Malayan Corporations is a connected person of the Company. The payment of the rentals under the Tenancy Agreements is regarded as acquisitions of assets by the Group and constitutes connected transactions of the Company; and the payment of the Other Charges constitutes continuing connected transactions of the Company under the Listing Rules.



## Report of the Directors

**(2) FINANCIAL SERVICES MASTER AGREEMENT**

On 30 October 2019, the Company entered into a financial services master agreement (the “Financial Services Master Agreement”) with COSCO SHIPPING. Under the Financial Services Master Agreement, COSCO SHIPPING will procure COSCO SHIPPING Finance Co., Ltd. (“COSCO SHIPPING Finance”) 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 SHIPPING Finance may offer from time to time (the “Further Financial Services”) (collectively, the “Transactions”) to the Group for the period from 1 January 2020 to 31 December 2022 (both dates inclusive).

In respect of the Deposit Transactions, the rate of interest which will accrue on any deposit placed by the Group with COSCO SHIPPING 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 providing the same type of deposit services on normal commercial terms in their ordinary course of business in the same or nearby service area, and in accordance with the principle of fairness and reasonableness; and (b) the interest rates offered by COSCO SHIPPING 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 maximum aggregate amount of deposits placed by the Group with COSCO SHIPPING Finance (including the amount of any interest accrued thereon) for each of the three years ending 31 December 2020, 2021 and 2022 are RMB3,000,000,000. The maximum daily aggregate amount of deposits for the year ended 31 December 2020 was RMB2,519,700,000.

As no Further Financial Services were requested by the Group from COSCO SHIPPING Finance for the year ended 31 December 2020, no such fee was charged by COSCO SHIPPING Finance for such services.

The deposit interest rates offered by COSCO SHIPPING Finance to the Group will be no less 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 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.

For the Loan Transactions and the Clearing Transactions which are fully exempt from the requirements under Chapter 14A of the Listing Rules including annual reporting requirements, shareholders may refer to the announcement of the Company dated 30 October 2019 for their details if interested.

## 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 2020 was RMB1,857,341,000.
  - (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 2020 was RMB82,802,000.

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 2020 was RMB582,263,000.

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 2020 was RMB28,550,000.

## Report of the Directors

- (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 2020 was RMB35,133,000.

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 2020 was RMB18,292,000.

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.

## Report of the Directors

- (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 2020 was RMB6,837,000.
  - (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 2020 was RMB2,282,000.

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.

## Report of the Directors

- (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.
  - (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.

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.

The Company disposed of all its equity interest in Yangzhou Yuanyang on 10 February 2020. For the period from 1 January 2020 to 10 February 2020, (i) Yangzhou Port Group did not provide any terminal related services to Yangzhou Yuanyang; and (ii) the total amount received by Yangzhou Yuanyang for terminal related services provided to members of Yangzhou Port Group was RMB3,591,000.

## Report of the Directors

- (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.

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.

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.

The Company disposed of all its equity interest in Zhangjiagang Win Hanverky on 10 February 2020. The total amount of the aforementioned transactions for the period from 1 January 2020 to 10 February 2020 was RMB983,000.

- (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 2020 was RMB47,305,000.

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- (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 2020 was RMB480,000.

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.

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, a subsidiary of the Company, and accordingly, Xiamen Haicang Holding is a substantial shareholder of a subsidiary 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.



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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 (4) 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 (5) to (8) did not constitute continuing connected transactions of the Company for the year ended 31 December 2020, since members of the Xiamen Haicang Group, 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.

#### **(4) CONCESSION AGREEMENT**

On 25 November 2008, Piraeus Container Terminal Single Member 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.

## Report of the Directors

### 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" 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.

## Report of the Directors

- (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, Prof. CHAN Ka Lok and Mr. YANG Liang Yee Philip, 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, 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 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 2020 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “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.

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**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 2020 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	US\$'000
Non-current assets	2,029,949
Current assets	277,431
Current liabilities	(100,187)
Non-current liabilities	(1,862,200)
Net assets	344,993
Share capital	22,141
Reserves	282,342
Non-controlling interest	40,510
Capital and reserves	344,993

As at 31 December 2020, interests in such affiliated companies attributable to the Group amounted to US\$411,495,000.

**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

**FENG Boming**

*Chairman*

Hong Kong, 30 March 2021