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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in COSCO SHIPPING Ports Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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# COSCO SHIPPING Ports Limited

## 中遠海運港口有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1199)

## CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser**  
**to the Independent Board Committee and the Independent Shareholders**



信溢投資策劃有限公司

**CHALLENGE CAPITAL MANAGEMENT LIMITED**

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A letter from the Board is set out on pages 6 to 14 of this circular and a letter from the Independent Board Committee is set out on page 15 of this circular. A letter from Challenge Capital Management Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 34 of this circular.

A notice convening the SGM to be held at 47th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong at 2:30 p.m. on Friday, 28 December 2018 is set out on pages 42 to 43 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

**Shareholders who are entitled to vote at the SGM are those whose names appear as Shareholders on the register of members of the Company as at the close of business on Thursday, 27 December 2018. In order to be entitled to vote at the SGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company’s Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 27 December 2018.**

10 December 2018

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*This circular in both English and Chinese is available in printed form and published on the respective websites of the Company at “<http://ports.coscoshipping.com>” and Hong Kong Exchanges and Clearing Limited at “<http://www.hkexnews.hk>”. To the extent that there are any inconsistencies between the English version and the Chinese version of this circular, the English version shall prevail.*

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

|   |  |
|---|--|
| “2015 China COSCO Shipping Services and Terminal Services Master Agreement” | the agreement dated 28 October 2015 between COSCO Ports, PCT, CSH and COSCO SHIPPING Lines in relation to the provision of shipping and terminal related services (as amended by an amendment agreement entered into between the Company and those parties on 30 March 2016, pursuant to which the Company became a party in substitution of COSCO Ports and PCT), details of which are set out in the Company’s announcements dated 28 October 2015 and 30 March 2016 |
| “2015 COSCO Shipping Services and Terminal Services Master Agreement”       | the agreement dated 28 October 2015 between COSCO Ports, PCT and China Ocean Shipping in relation to the provision of shipping and terminal related services (as amended by an amendment agreement entered into between the Company and those parties on 30 March 2016, pursuant to which the Company became a party in substitution of COSCO Ports and PCT), details of which are set out in the Company’s announcements dated 28 October 2015 and 30 March 2016      |
| “2015 Nansha Diesel Oil Purchase Master Agreement”                          | the agreement dated 28 October 2015 between COSCO Ports, GZ South China and CM Supply in relation to the purchase of diesel oil, details of which are set out in the Company’s announcement dated 28 October 2015  |
| “2015 Xiamen Diesel Oil Purchase Master Agreement”                          | the agreement dated 28 October 2015 between COSCO Ports, Xiamen Ocean Gate and Chimbusco Fujian in relation to the purchase of diesel oil, details of which are set out in the Company’s announcement dated 28 October 2015  |
| “2018 China Shipping Sinopec Oil Products Master Agreement”                 | the agreement dated 8 May 2018 between the Company and China Shipping Sinopec in relation to the supply of oil products including but not limited to fuel oil, lubricating oil, hydraulic oil and transmission oil, details of which are set out in the Company’s announcement dated 8 May 2018  |
| “associate(s)”  | has the meaning ascribed thereto in the Listing Rules  |
| “Board”   | the board of Directors   |
| “Chimbusco Fujian”  | China Marine Bunker Supply Fujian Co., Ltd.* 中國船舶燃料供應福建有限公司, a company established in the PRC and is 50% owned by a non wholly-owned subsidiary of China Ocean Shipping  |

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## DEFINITIONS

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|---|--|
| “China Ocean Shipping”  | China Ocean Shipping Company Limited* 中國遠洋運輸有限公司, which is previously known as China Ocean Shipping (Group) Company* 中國遠洋運輸(集團)總公司 and a wholly-owned subsidiary of COSCO SHIPPING |
| “China Shipping Sinopec”  | China Shipping & Sinopec Suppliers Co., Ltd.* 中石化中海船舶燃料供應有限公司, a company established in the PRC and a subsidiary of COSCO SHIPPING   |
| “CM Supply”   | China Marine Bunker Guangzhou Co., Ltd* 中國船舶燃料廣州有限公司, a company established in the PRC and owned as to 50% by China Ocean Shipping   |
| “Company”   | COSCO SHIPPING Ports Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1199)         |
| “connected person(s)”   | has the meaning ascribed thereto in the Listing Rules  |
| “COSCO Ports”   | COSCO Ports (Holdings) Limited (中遠碼頭控股有限公司), a company established in the British Virgin Islands and was a wholly-owned subsidiary of the Company                                  |
| “COSCO SHIPPING”  | China COSCO Shipping Corporation Limited* 中國遠洋海運集團有限公司, the ultimate controlling Shareholder of the Company and a state-owned enterprise in the PRC                                |
| “COSCO SHIPPING Continuing Connected Transactions”                        | transactions to be conducted under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement   |
| “COSCO SHIPPING Group”  | COSCO SHIPPING, its subsidiaries and its associates, but which for purpose of this circular, exclude the Group   |
| “COSCO SHIPPING Lines”  | COSCO SHIPPING Lines Co., Ltd.* 中遠海運集裝箱運輸有限公司, a company established in the PRC and a wholly-owned subsidiary of CSH   |
| “COSCO SHIPPING Shipping Services and Terminal Services Master Agreement” | the agreement dated 22 November 2018 between the Company and COSCO SHIPPING in relation to the provision of shipping and terminal related services                                 |

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## DEFINITIONS

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|-------------------------------|--|
| “CSH”                         | COSCO SHIPPING Holdings Co., Ltd.* 中遠海運控股股份有限公司, a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1919) and the A shares of which are listed on the Shanghai Stock Exchange in the PRC (Stock Code: 601919), and an intermediate controlling Shareholder  |
| “CSH Group”                   | CSH and its subsidiaries, excluding the Group  |
| “Director(s)”                 | the director(s) of the Company   |
| “General Pricing Principles”  | the principles for pricing determination generally adopted by the Group: (i) State-prescribed prices such as those prescribed under the Measures of Port Charges and Calculations (《港口收費計費辦法》) promulgated by the Ministry of Transport and the National Development and Reform Commission of the PRC; (ii) where there is no State-prescribed price, with reference to the prevailing market prices by referring to two other contemporaneous transactions with independent third parties in respect of comparable types of products and/or services in the same or nearby area in the ordinary course of business; and (iii) where there is no relevant market price, according to the costs of the products plus an appropriate margin which would be determined with reference to, among others, the inflation rate and valuation conducted by independent valuer (where appropriate), and in any event would not be less favourable to the Group than that applied to similar transactions with independent third parties |
| “Group”                       | the Company and its subsidiaries   |
| “GZ South China”              | Guangzhou South China Oceangate Container Terminal Company Limited 廣州南沙海港集裝箱碼頭有限公司, a company established in the PRC and a non wholly-owned subsidiary of the Company  |
| “Hong Kong”                   | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee” | an independent committee of the Board comprising Dr. FAN HSU Lai Tai, Rita, Mr. Adrian David LI Man Kiu, Mr. FAN Ergang, Mr. LAM Yiu Kin and Prof. CHAN Ka Lok, being independent non-executive Directors  |

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## DEFINITIONS

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|---|---|
| “Independent Financial Adviser”<br>or “Challenge Capital” | Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the COSCO SHIPPING Continuing Connected Transactions requiring Independent Shareholders’ approval |
| “Independent Shareholders”                                | Shareholders who are not prohibited or required to abstain from voting under the Listing Rules to approve the relevant transaction(s) at a general meeting of the Company   |
| “Latest Practicable Date”                                 | 6 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein   |
| “Listing Rules”   | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “OCEAN Alliance”  | an alliance of shipping companies comprising COSCO SHIPPING Lines (a subsidiary of COSCO SHIPPING), CMA CGM S.A., Evergreen Line and Orient Overseas Container Line Limited   |
| “OOIL”  | Orient Overseas (International) Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 316)  |
| “PCT”   | Piraeus Container Terminal S.A., a company established in Greece and a wholly-owned subsidiary of the Company   |
| “percentage ratios”                                       | percentage ratios calculated by the Company pursuant to rule 14.07 of the Listing Rules   |
| “PRC”   | the People’s Republic of China, which for the purpose of this circular and unless the context suggests otherwise, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan   |
| “SFO”   | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |

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## DEFINITIONS

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|---------------------|--|
| “SGM”               | the special general meeting of the Company to be held for considering and approving, if appropriate, the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the transactions thereunder |
| “Shareholder(s)”    | shareholder(s) of the Company  |
| “Stock Exchange”    | The Stock Exchange of Hong Kong Limited  |
| “subsidiary(ies)”   | has the meaning ascribed thereto in the Listing Rules  |
| “Xiamen Ocean Gate” | Xiamen Ocean Gate Container Terminal Co., Ltd. 廈門遠海集裝箱碼頭有限公司, a company established in the PRC and a non wholly-owned subsidiary of the Company  |
| “HK\$”              | Hong Kong dollars, the lawful currency of Hong Kong  |
| “RMB”               | Renminbi, the lawful currency of the PRC   |
| “%”                 | percentage   |

*For the purposes of this circular, the exchange rate of RMB1 = HK\$1.198739 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amounts has been, could have been or may be exchanged at any particular rate on the date or dates in question or any other date.*

*For the purposes of this circular, the English name with an asterisk (\*) is an unofficial English transliteration or translation and is for identification purposes only.*

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## LETTER FROM THE BOARD

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# COSCO SHIPPING Ports Limited

# 中遠海運港口有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1199)

### Directors:

Mr. HUANG Xiaowen<sup>2</sup> (*Chairman*)  
Mr. ZHANG Wei (張為)<sup>1</sup> (*Vice Chairman & Managing Director*)  
Mr. FANG Meng<sup>1</sup>  
Mr. DENG Huangjun<sup>1</sup>  
Mr. FENG Boming<sup>2</sup>  
Mr. ZHANG Wei (張煒)<sup>2</sup>  
Mr. CHEN Dong<sup>2</sup>  
Mr. WANG Haimin<sup>2</sup>  
Dr. WONG Tin Yau, Kelvin<sup>1</sup>  
Dr. FAN HSU Lai Tai, Rita<sup>3</sup>  
Mr. Adrian David LI Man Kiu<sup>3</sup>  
Mr. FAN Ergang<sup>3</sup>  
Mr. LAM Yiu Kin<sup>3</sup>  
Prof. CHAN Ka Lok<sup>3</sup>

### Registered Office:

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Principal Place of Business:

49th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

### General Counsel & Company Secretary:

Ms. HUNG Man, Michelle

<sup>1</sup> Executive Director

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

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

10 December 2018

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### 1. INTRODUCTION

The Board refers to the announcement of the Company dated 22 November 2018 whereby it was announced that, among others, the Company entered into the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement on 22 November 2018 for a term of 3 years from 1 January 2019 to 31 December 2021 constituting continuing connected transactions of the Company which is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.



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## LETTER FROM THE BOARD

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The purposes of this circular are:

- (i) to provide you with further details of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, the COSCO SHIPPING Continuing Connected Transactions and the proposed annual caps;
- (ii) to provide you with the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement; and
- (iii) to give the Shareholders the notice convening the SGM at which an ordinary resolution will be proposed to consider and approve, if appropriate, the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, the COSCO SHIPPING Continuing Connected Transactions and the respective proposed annual caps.

### 2. THE COSCO SHIPPING CONTINUING CONNECTED TRANSACTIONS

The principal terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the COSCO SHIPPING Continuing Connected Transactions are summarised as follows:

|                               |  |
|-------------------------------|--|
| <b>Date:</b>                  | 22 November 2018   |
| <b>Parties:</b>               | The Company<br>COSCO SHIPPING  |
| <b>Term:</b>                  | 1 January 2019 to 31 December 2021   |
| <b>Condition precedent:</b>   | Conditional upon the approval of the Independent Shareholders being obtained on or before 31 December 2018.  |
| <b>Nature of transaction:</b> | (a) Provision of terminal services by the relevant members of the Group to members of the COSCO SHIPPING Group, 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. |

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## LETTER FROM THE BOARD

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- (b) Provision of shipping services by the relevant members of the COSCO SHIPPING Group to members of the Group, 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 relevant parties shall enter into a separate written contract in respect of the COSCO SHIPPING Continuing Connected Transactions in a form and on terms to be agreed between the relevant parties from time to time but on the basis that such contract shall always be subject to the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

**Pricing:**

The terms upon which the services to be provided by members of the COSCO SHIPPING Group to members of the Group shall be no less favourable to the Group than the terms obtained by the relevant members of the Group from independent third parties for similar types of services; and the terms upon which the services to be provided by members of the Group to members of the COSCO SHIPPING Group shall be no less favourable to the Group than the terms offered by members of the Group to independent third parties for similar types of services.

In particular, the fees charged shall be determined with reference to the prevailing market price, being the price offered to or charged by independent third parties in contemporaneous transactions in respect of similar types of services in the ordinary course of business in the same or nearby service area and subject to normal commercial terms, and in accordance with the principle of fairness and reasonableness.

## LETTER FROM THE BOARD

### Historical transaction amounts:

The transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement will be of a similar nature to those under the 2015 COSCO Shipping Services and Terminal Services Master Agreement, 2015 China COSCO Shipping Services and Terminal Services Master Agreement, 2015 Nansha Diesel Oil Purchase Master Agreement, 2015 Xiamen Diesel Oil Purchase Master Agreement and 2018 China Shipping Sinopec Oil Products Master Agreement. The historical amounts for such transactions were as follows:

|  | For the year ended<br>31 December 2016               | For the year ended<br>31 December 2017               | For the<br>nine months ended<br>30 September 2018      |
|--|--|--|--|
| (a) Aggregate amount received by the Group from the COSCO SHIPPING Group | RMB533,129,000<br>(approximately<br>HK\$639,083,000) | RMB697,642,000<br>(approximately<br>HK\$836,291,000) | RMB925,467,000<br>(approximately<br>HK\$1,109,394,000) |
| (b) Aggregate amount paid by the Group to the COSCO SHIPPING Group       | RMB20,814,000<br>(approximately<br>HK\$24,951,000)   | RMB27,022,000<br>(approximately<br>HK\$32,393,000)   | RMB36,395,000<br>(approximately<br>HK\$43,629,000)     |

### Proposed annual caps and basis of determination:

The proposed annual caps for the transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the basis of determination thereof are as follows:

|  | For the year ending 31 December                          |  |  |
|--|--|--|--|
|  | 2019   | 2020   | 2021   |
| (a) Aggregate amount receivable by the Group from the COSCO SHIPPING Group | RMB2,337,172,000<br>(approximately<br>HK\$2,801,660,000) | RMB3,369,639,000<br>(approximately<br>HK\$4,039,318,000) | RMB4,127,542,000<br>(approximately<br>HK4,947,846,000) |
| (b) Aggregate amount payable by the Group to the COSCO SHIPPING Group      | RMB163,097,000<br>(approximately<br>HK\$195,511,000)     | RMB238,172,000<br>(approximately<br>HK\$285,507,000)     | RMB358,201,000<br>(approximately<br>HK\$429,390,000)   |

The estimated annual caps for the aggregate amount receivable by the Group from the COSCO SHIPPING Group were determined with reference to the existing scale and operations of the businesses of the Group, the anticipated growth and development of such businesses and the anticipated demand for such services, including (i) the expanded scale and operations of the business of the Group taking into account the various acquisitions of new terminals completed in the past years; (ii) the new berths and newly developed terminals of the Group expected to come into operation over the next three years; (iii) the completion of potential acquisition of terminals by the Group over the next three years; (iv) the growth in fleet size and shipping capacity of the COSCO SHIPPING Group and also taking into account the acquisition of OOIL by CSH completed in 2018; and (v) the expected increase in the COSCO SHIPPING Group's fleet calling at the terminals of the Group as a result of the synergies continuing to be achieved with the COSCO SHIPPING Group and the OCEAN Alliance.

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## LETTER FROM THE BOARD

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Further, the operating capacity of the Group is expected to expand further as the Group plans to continue to extend its international footprint with an aim to build a balanced portfolio of terminals across an extensive network. The Group plans to focus on making investments in Southeast Asia, South Asia, West Asia, Latin America, and Africa so as to continue to extend its network of terminals and, at the same time, continue to explore investment opportunities provided by port consolidation in Mainland China by capitalising on the unique advantages of the COSCO SHIPPING Group. As the COSCO SHIPPING Group has the world's largest shipping fleet and third largest container fleet, the Group can enjoy a steady source of business and has a strong competitive edge in uncovering and bidding for investment opportunities. In particular, the Group is exploring the opportunity to acquire additional interest in existing joint-venture companies which, upon completion, will also become subsidiaries of the Group, to strengthen the control and management of its ports and terminals business. It is anticipated that there would be an increase in the calling by the shipping fleets of COSCO SHIPPING Group at those terminals that are going to be added to the terminal network of the Group, which would result in an increasing demand for the services contemplated under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

The estimated annual caps for the aggregate amount payable by the Group to the COSCO SHIPPING Group were determined with reference to the existing demand for such services and the anticipated increase in the demand for such services, taking into account the abovementioned factors including the anticipated growth and development of the scale and operations of the businesses of the Group.

Having considered the above, in particular, the growth in fleet size and shipping capacity of the COSCO SHIPPING Group and the forecasted steady growth in global container port demand, the Board is of the view that it is reasonable to anticipate (i) an increase in demand for terminal services contemplated under the COSCO SHIPPING Continuing Connected Transactions and (ii) an increase in the Group's demand for shipping services to cater for the expected increase in demand for terminal services contemplated under the COSCO SHIPPING Continuing Connected Transactions, taking into account the anticipated growth and development of the scale of operations of the business of the Group as mentioned above. Moreover, the Board is of the view that it would be in the interest of the Group to provide sufficient buffer when determining the annual caps, so as to cater for the development plans of the Group as mentioned above and the inherent volatility of the business in the shipping and container-related industry, where the magnitude of which cannot be ascertained at the moment. Given that the Group and the COSCO SHIPPING Group both have demonstrated significant growth in their business scale and that such scale is anticipated to expand further, the Board is of the view that the factors mentioned above could justify the progressive increases in the proposed annual caps.

### **Connected relationship:**

COSCO SHIPPING is the ultimate controlling Shareholder. Accordingly, members of the COSCO SHIPPING Group are connected persons of the Company.

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## LETTER FROM THE BOARD

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### **Listing Rules implications:**

Since one or more of the applicable percentage ratios in respect of the proposed annual caps for the transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement exceed 5%, the transactions constitute continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **3. REASONS FOR AND BENEFITS OF THE COSCO SHIPPING CONTINUING CONNECTED TRANSACTIONS**

The COSCO SHIPPING Continuing Connected Transactions are part of or related to the principal business activities of the Group. Although the Group itself is one of the leading terminal service providers, it also relies on the provision of shipping services by other prominent and experienced service providers to complement its operation. Accordingly, given (i) the COSCO SHIPPING Group is an experienced shipping service provider which the Group can fully exploit the unique competitive advantages arising from COSCO SHIPPING's container fleet and seizing significant market share within the OCEAN Alliance; and (ii) the business relationship between the Group and the COSCO SHIPPING Group has been well established, the COSCO SHIPPING Continuing Connected Transactions will and are expected to either increase the revenue of the Group, and/or provide the Group with overall business and operational convenience and synergy.

None of the Directors has any material interest in the COSCO SHIPPING Continuing Connected Transactions. Nonetheless, Mr. HUANG Xiaowen, the executive vice president and party committee member, and Mr. WANG Haimin, an employee director, of COSCO SHIPPING voluntarily abstained from the Board's discussion and voting on the relevant board resolution of the Company approving the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement with COSCO SHIPPING and the transactions thereunder and had not expressed their views thereon.

### **4. INTERNAL CONTROL PROCEDURES**

In addition to the annual review by the auditors and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, 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 the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, the Company will implement the following internal control arrangements:

- (i) The relevant business unit of each subsidiary of the Company will periodically observe the 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 nearby area in the ordinary course of business. In addition, before entering into any agreements pursuant to the respective continuing connected transaction master agreements (including the COSCO SHIPPING

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## LETTER FROM THE BOARD

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Shipping Services and Terminal Services Master Agreement), 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 organize 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 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 their procedures for dealing with continuing connected transactions. It 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 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 to it 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, such member shall inform the relevant personnel in 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 such member not to enter any further transactions which would cause the Designated Amount to be exceeded; (b) increase the Designated Amount allocated to such member by reducing the Designated Amount(s) allocated to other member(s); or (c) if the accumulative annual

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## LETTER FROM THE BOARD

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transaction amount of the Group will exceed 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 COSCO SHIPPING Continuing Connected Transactions 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.

### **5. INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee comprising Dr. FAN HSU Lai Tai, Rita, Mr. Adrian David LI Man Kiu, Mr. FAN Ergang, Mr. LAM Yiu Kin and Prof. CHAN Ka Lok, all being independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement are and will be on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser. Challenge Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **6. PRINCIPAL ACTIVITIES OF THE PARTIES**

The Group is principally engaged in the businesses of managing and operating terminals and related businesses.

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise wholly-owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The scope of business of COSCO SHIPPING and its subsidiaries includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

### **7. SGM**

In view of the interests of COSCO SHIPPING in the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, China COSCO (Hong Kong) Limited and COSCO Investments Limited, which together are interested in an aggregate of approximately 47.37% of the total issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolution to be proposed at the SGM to approve the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement. Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the COSCO SHIPPING Shipping Services and Terminal



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## LETTER FROM THE BOARD

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Services Master Agreement that is required to abstain from voting on the resolution to be proposed at the SGM to approve the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

A notice convening the SGM to be held at 2:30 p.m. on Friday, 28 December 2018, at 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong is set out on pages 42 to 43 of this circular.

Shareholders who are entitled to vote at the SGM are those whose names appear as Shareholders on the register of members of the Company as at the close of business on Thursday, 27 December 2018. In order to be entitled to vote at the SGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 27 December 2018.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM or any adjournment thereof, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

### 8. RECOMMENDATION

The Directors (including members of the Independent Board Committee whose recommendations are contained in the section headed "*Letter from the Independent Board Committee*" of this circular), save for Mr. HUANG Xiaowen and Mr. WANG Haimin, consider that the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement is and will be on normal commercial terms and that terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 9. ADDITIONAL INFORMATION

Your attention is drawn to:

- (a) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (b) the letter from Challenge Capital, the text of which is set out on pages 16 to 34 of this circular; and
- (c) the additional information set out in the appendix of this circular.

Yours faithfully,

For and on behalf of

**COSCO SHIPPING Ports Limited**

**ZHANG Wei (張為)**

*Vice Chairman & Managing Director*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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# COSCO SHIPPING Ports Limited

## 中遠海運港口有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1199)

10 December 2018

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

The Independent Board Committee has been established to advise you in connection with the COSCO SHIPPING Continuing Connected Transactions, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 10 December 2018 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, and the advice of Challenge Capital in relation thereto as set out on pages 16 to 34 of the Circular, we are of the opinion that the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the COSCO SHIPPING Continuing Connected Transactions are and will be on normal commercial terms and in the ordinary and usual course of business of the Group, their terms are fair and reasonable and they are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the transactions thereunder (including the proposed annual caps for the COSCO SHIPPING Continuing Connected Transactions for the period from 1 January 2019 to 31 December 2021).

Yours faithfully,

Independent Board Committee of  
**COSCO SHIPPING Ports Limited**

**FAN HSU Lai Tai, Rita    Adrian David LI Man Kiu    FAN Ergang**  
**LAM Yiu Kin    CHAN Ka Lok**

*Independent non-executive Directors*

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## LETTER FROM CHALLENGE CAPITAL

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*The following is the full text of a letter of advice from Challenge Capital Management Limited to the Independent Board Committee and the Independent Shareholders in respect of the COSCO SHIPPING Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.*



信溢投資策劃有限公司  
CHALLENGE CAPITAL MANAGEMENT LIMITED

3/F, Kailey Tower  
16 Stanley Street  
Central, Hong Kong

10 December 2018

*To: The Independent Board Committee and the Independent Shareholders of  
COSCO SHIPPING Ports Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the respective proposed annual caps thereunder for the years ending 31 December 2019, 2020, and 2021 (the “**Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 10 December 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 22 November 2018, the Company entered into the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement with COSCO SHIPPING for a term of three years commencing from 1 January 2019 and ending on 31 December 2021.

COSCO SHIPPING is the ultimate controlling Shareholder. Accordingly, members of the COSCO SHIPPING Group are connected persons of the Company under the Listing Rules. As such, the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the COSCO SHIPPING Continuing Connected Transactions exceed 5%, the COSCO SHIPPING Continuing Connected Transactions are subject to the reporting, announcement, Independent Shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM CHALLENGE CAPITAL

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In view of the interests of COSCO SHIPPING in the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, China COSCO (Hong Kong) Limited and COSCO Investments Limited, which together are interested in an aggregate of approximately 47.37% of the total issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolution to be proposed at the SGM to approve the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the COSCO SHIPPING Continuing Connected Transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser, in respect of such matters at the SGM. We, Challenge Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We have not acted as a financial adviser or independent financial adviser to the Company, COSCO SHIPPING or any of their respective associates within the last two years. We are independent from and not connected with the Company, COSCO SHIPPING, or any of their respective associates. Accordingly, we are considered eligible to give independent advice on the COSCO SHIPPING Continuing Connected Transactions. Apart from normal professional fees payable to us for our service to the Company in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company, COSCO SHIPPING or any of their respective associates.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided to us by the Company, and the opinions expressed by its management. We have assumed that all information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided by the Company, and the opinions expressed by its management, are true, accurate and complete in all material respects as at the date of the Circular and that they may be relied upon in formulating our opinion.

We have also assumed that all views, opinions and statements of intention provided by the Directors, advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information

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## LETTER FROM CHALLENGE CAPITAL

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provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Company and its management, nor have we conducted independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

All Directors jointly and severally accept full responsibility for the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the COSCO SHIPPING Continuing Connected Transactions, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS CONSIDERED**

In arriving at our opinion in respect of the terms of the COSCO SHIPPING Continuing Connected Transactions, we have considered the following principal factors and reasons:

#### **1. The background to, the reasons for, and benefits of the COSCO SHIPPING Continuing Connected Transactions**

##### **(i) *Information of the Group***

The Group is principally engaged in the business of managing and operating terminals and related businesses.

As stated in the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”), the Group completed its reorganisation in March 2016 and became a pure terminal operator with an enlarged global network. The reorganisation involved the acquisition of China Shipping Ports Development Co., Limited (“**CSPD**”) and the disposal of Florens Container Holdings Limited, the container leasing, management and sale business.

In line with its business development focus since the reorganisation, the Group adopted three core strategies to enhance its competitiveness and profitability which involves (i) developing a global terminals portfolio, actively seeking terminal assets on a global basis that offer good potential value and long-term returns, so as to develop a comprehensive, well-balanced global terminals network; (ii) bringing into full play the synergies with parent

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## LETTER FROM CHALLENGE CAPITAL

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company COSCO SHIPPING's container fleet and the OCEAN Alliance, fully exploiting the unique advantages arising from COSCO SHIPPING's container fleet and seizing significant market share within the OCEAN Alliance; and (iii) strengthening control and management of the ports and terminals business, further integrating existing terminal portfolio and increasing the value of these investments through building controlling stakes, increasing influence in entire ports through equity investments in port groups, and adopting a unified management and information system to integrate terminal operations.

Since the reorganisation, the Group has narrowed its business focus and moved forward with a clearer sense of direction. According to the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"), as at 31 December 2017, the Group operated and managed 35 ports worldwide with 179 container berths in operation with a total annual handling capacity of approximately 103 million TEU and 86 cargo berths in operation with a total annual handling capacity of approximately 263 million tons. The Group's terminal network covered the five major coastal port regions in China and extends to Southeast Asia and beyond to the Middle East, Europe and the Mediterranean. Supported by the steady recovery of the global economy, the growth by acquisitions and the synergies with OCEAN Alliance and its parent company, the Group achieved a total throughput of approximately 100 million TEU and an equity throughput of approximately 32 million TEU for the year ended 31 December 2017. According to the "Global Container Terminal Operators Annual Review and Forecast" published by Drewry Shipping Consultants Limited ("**Drewry**") in July 2018 (the "**2018 Drewry Report**"), the Group's total container throughput accounted for approximately 12.2% of the global market share, making it the world's largest container terminal operator by this measure.

### **(ii) Information of the COSCO SHIPPING Group**

COSCO SHIPPING is the ultimate controlling Shareholder and a company incorporated under the laws of the PRC and a state-owned enterprise wholly-owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The scope of business of COSCO SHIPPING and its subsidiaries includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering. According to the information set out in the official website of COSCO SHIPPING ([en.coscocs.com](http://en.coscocs.com)), as of 31 August 2018, the total fleet of COSCO SHIPPING Group comprise of 1,296 vessels with a capacity of approximately 101 million deadweight tonnages ("**DWT**"), ranking first in the world. Its container fleet capacity is approximately 3.0 million TEU, ranking third in the world. Its dry bulk fleet (425 vessels/38.6 million DWT), tanker fleet (185 vessels/23.7 million DWT) and general and specialized cargo fleet (155 vessels/4.1 million DWT) are all topping the world's list.

**(iii) *Background of the COSCO SHIPPING Continuing Connected Transactions***

In the course of its ordinary business, the Group has been from time to time conducting continuing connected transactions with connected persons of the Company. Indeed, the Group has been conducting continuing connected transactions of similar nature to the transactions contemplated under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement with members of the COSCO SHIPPING Group pursuant to the 2015 COSCO Shipping Services and Terminal Services Master Agreement, the 2015 China COSCO Shipping Services and Terminal Services Master Agreement, the 2015 Nansha Diesel Oil Purchase Master Agreement, the 2015 Xiamen Diesel Oil Purchase Master Agreement and the 2018 China Shipping Sinopec Oil Products Master Agreement (collectively, the “**Existing Master Agreements**”), details of which are disclosed in the announcements of the Company dated 28 October 2015, 30 March 2016, and 8 May 2018 and the circular of the Company dated 9 November 2015.

The Existing Master Agreements will expire on 31 December 2018 and it is expected that the Group will continue to enter into transactions of similar nature to the transactions under the Existing Master Agreements with members of the COSCO SHIPPING Group from time to time thereafter. Accordingly, as an extension of the Existing Master Agreements, the Company and COSCO SHIPPING entered into the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement on 22 November 2018 in relation to (a) the provision of terminal services by the relevant members of the Group to members of COSCO SHIPPING Group, 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 and (b) the provision of shipping services by the relevant members of the COSCO SHIPPING Group to members of the Group, 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, for a term of three years from 1 January 2019 to 31 December 2021.

**(iv) *Reasons for and benefits of the COSCO SHIPPING Continuing Connected Transactions***

As stated in the 2017 Annual Report, with the constant change of the operational environment in the global shipping market, the new landscape created by the strategic alliances of shipping enterprises and the continuous business growth of the alliances, terminal operators are required to have a more comprehensive and extensive global terminal network to meet the business needs of the major shipping alliances and act in concert with their development of routes in order to acquire the largest share of the market. Against this backdrop, the Group, following its reorganisation in 2016, has established the “The Ports for ALL” development concept, which presents three strategic directions for terminal business



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## LETTER FROM CHALLENGE CAPITAL

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development, namely to develop a global terminal network; to achieve synergies between its parent company, COSCO SHIPPING, and the OCEAN Alliance; and to strengthen the control and management of its ports and terminals business.

By the very nature of the Group's business activities, transactions with the connected persons are inevitable. The COSCO SHIPPING Continuing Connected Transactions are part of or related to the principal business activities of the Group and are expected to either increase the revenue of the Group and/or provide the Group with overall business and operational convenience and synergy. Indeed, the Group has entered into, and will continue to enter into, agreements with its connected persons in relation to different nature of transactions (including but not limited to the Existing Master Agreements). Furthermore, the Group enjoys competitive advantages from its parent, which has the world's largest fleet and third largest container fleet and is a member of the OCEAN Alliance. As discussed above, the COSCO SHIPPING Group is the largest shipping group in the world in terms of fleet capacity. CSH is a subsidiary of COSCO SHIPPING and an intermediate controlling Shareholder. The CSH Group (including the Group) is the listed platform of the COSCO SHIPPING Group specialising in the provision of container shipping services and terminal services. It provides container shipping services through COSCO SHIPPING Lines and its subsidiaries (the "**COSCO SHIPPING Lines Group**") and the terminal services through the Group. With respect to the container shipping related business segment, according to the annual report of CSH for the year ended 31 December 2017 (the "**2017 CSH Annual Report**"), the CSH Group, through the COSCO SHIPPING Lines Group, owned and operated 360 container vessels with a total capacity of approximately 1.8 million TEU as at 31 December 2017 and ranked fourth in the world in terms of container shipping capacity. The shipping routes operated by the CSH Group had anchors in 289 ports covering 90 countries and regions around the world as at the end of 2017. Furthermore, since July 2018, Orient Overseas (International) Limited (stock code: 316) (together with its subsidiaries, the "**OOIL Group**") had become a subsidiary of CSH and the CSH Group is now ranked third in the world in terms of container shipping capacity as at the Latest Practicable Date according to Alphaliner. In addition, COSCO SHIPPING Lines formed the OCEAN Alliance with Le Groupe CMA CGM of France, Evergreen Marine Corporation and Orient Overseas Container Line Limited. As stated in the 2017 Annual Report, with more than 41 shipping routes in Eastwest bound and Middle East Red Sea bound and 350 container vessels, the Ocean Alliance has a total fleet capacity of approximately 3.5 million TEU. Ever since it started operation in April 2017, the OCEAN Alliance has been increasing its calls to the terminals of the Group and has accounted for approximately 44% of the total throughput of the Group's subsidiaries for the year ended 31 December 2017. Given the relationship with the COSCO SHIPPING Group, the Group can enjoy a steady source of business and have a strong competitive edge in uncovering and bidding for investment opportunities. As such, the management of the Company is of the view that the entering into of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement can facilitate the long-term development of the Group's business and the implementation of the three core strategies of the Group.

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## LETTER FROM CHALLENGE CAPITAL

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We have enquired and were advised by the management of the Company that the COSCO SHIPPING Group is one of the key customers of the Group. We noted from the 2017 Annual Report that the Group recorded revenue of approximately US\$634.7 million for the year ended 31 December 2017, representing an increase of approximately 14.1% from approximately US\$556.4 million for the year ended 31 December 2016. As advised by the management of the Company, the COSCO SHIPPING Group accounted for approximately 15.7% and approximately 16.3% of the Group's total revenue for the year ended 31 December 2016 and 2017 respectively. As stated in the 2017 Annual Report, supported by the steady recovery of the global economy, the growth by acquisitions and the synergies with OCEAN Alliance and its parent company, the Group achieved a total throughput of approximately 100 million TEU and an equity throughput of approximately 32 million TEU for the year ended 31 December 2017. Given the fact that the COSCO SHIPPING Group is a key customer of the Group, the management of the Company considers that the entering into of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement with regard to the provision of terminal services by members of the Group to members of the COSCO SHIPPING Group is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Although the Group itself is one of the leading terminal service providers, it also relies on the provision of shipping services (including, but not limited to, manpower services, cargo handling services, logistics services, and supply of fuel and oil products) by other prominent and experienced service providers to complement its operation. Accordingly, the management of the Company takes the view that, given (i) the COSCO SHIPPING Group is an experienced shipping service provider; and (ii) the business relationship between the Group and the COSCO SHIPPING Group has been well established, the entering into of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement for the provision of shipping services by members of the COSCO SHIPPING Group to members of the Group is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

**(v) Conclusion**

In light of the above, we are of the view that the conducting of the COSCO SHIPPING Continuing Connected Transactions with the COSCO SHIPPING Group is in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.



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## LETTER FROM CHALLENGE CAPITAL

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### 2. Principal terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement

- Date:** 22 November 2018
- Parties:** The Company  
COSCO SHIPPING
- Duration:** 1 January 2019 to 31 December 2021
- Condition precedent:** Conditional upon the approval of the Independent Shareholders being obtained on or before 31 December 2018.
- Nature of transaction:**
- (a) Provision of terminal services by the relevant members of the Group to members of the COSCO SHIPPING Group, 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.
  - (b) Provision of shipping services by the relevant members of the COSCO SHIPPING Group to members of the Group, 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.
- Pricing:** The terms upon which the services to be provided by members of the COSCO SHIPPING Group to members of the Group shall be no less favourable to the Group than the terms obtained by the relevant members of the Group from independent third parties for similar types of services; and the terms upon which the services to be provided by members of the Group to members of the COSCO SHIPPING Group shall be no less favourable to the Group than the terms offered by members of the Group to independent third parties for similar types of services.

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## LETTER FROM CHALLENGE CAPITAL

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In particular, the fees charged shall be determined with reference to the prevailing market price, being the price offered to or charged by independent third parties in contemporaneous transactions in respect of similar types of services in the ordinary course of business in the same or nearby service area and subject to normal commercial terms, and in accordance with the principle of fairness and reasonableness.

In assessing the terms of the provision of terminal services by the Group to the COSCO SHIPPING Group, we have reviewed 10 sample transactions entered into between members of the Group and (i) members of the COSCO SHIPPING Group; and (ii) independent third party customers, respectively, in relation to the transactions under and during the term of the Existing Master Agreements and noted that the prices under those sample transactions entered into between members of the Group and the COSCO SHIPPING Group were no less favourable to the Group than that offered by the relevant members of the Group to other independent third party customers.

In respect of the provision of shipping services by the COSCO SHIPPING Group to the Group, we have reviewed 5 sample transactions entered into between members of the Group and members of the COSCO SHIPPING Group and corresponding quotations provided by independent third party providers in relation to the transactions under and during the term of the Existing Master Agreements and noted that the prices under those sample transactions entered into between members of the Group and the COSCO SHIPPING Group were no less favourable to the Group than that offered by other independent third party providers to the relevant members of the Group.

We also noted that the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement stipulates that the relevant parties shall enter into a separate written contract in respect of the COSCO SHIPPING Continuing Connected Transactions in a form and on terms to be agreed between the relevant parties from time to time but on the basis that such contract shall always be subject to the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

Additionally, in order to ensure that the transactions between the Group and its connected persons are conducted in accordance with the terms of the relevant continuing connected transaction master agreements, the Company will implement the following internal control arrangements:

- (i) The relevant business unit of each subsidiary of the Company will periodically observe the 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 nearby area in the ordinary course of business. In addition, before entering into any agreements pursuant to the respective continuing connected transaction master agreements (including the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement), 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

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## LETTER FROM CHALLENGE CAPITAL

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- 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 organize 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 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 their procedures for dealing with continuing connected transactions. It 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 such prices are in compliance with the pricing policies under the terms of their respective continuing connected transaction master agreements; and
  - (vi) Each relevant member of the Group shall monitor its own utilisation of the portion of the annual transaction cap amount allocated to it 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, such member shall inform the relevant personnel in 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 such member not to enter any further transactions which would cause the Designated Amount to be exceeded; (b) increase the Designated Amount allocated to such member by reducing the Designated Amount(s) allocated to other member(s); or (c) if the accumulative annual transaction amount of the Group will exceed 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.

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## LETTER FROM CHALLENGE CAPITAL

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We noted from the above that the Company has adopted a set of internal control procedures to obtain the prevailing market prices and assign specific responsibilities to various designated departments of the Group in performing regular review and cross-checking in order to make sure that the COSCO SHIPPING Continuing Connected Transactions will be conducted in accordance with the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and on terms no less favourable to the Group than terms available from/to independent third parties.

Furthermore, we have reviewed the confirmation letter from the independent non-executive Directors to the Board for each of the two years ended 31 December 2017 and noted that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions of the Group have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available from/to independent third parties; and (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interest of the Shareholders as a whole. We have also reviewed the unqualified letter prepared and issued by the auditor of the Company for each of the two years ended 31 December 2017 containing its findings and conclusions in accordance with Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions of the Group. As confirmed by the Company, the Company will continue to comply with the relevant annual review requirements under the Listing Rules on an on-going basis.

Having considered the above, we concur with the view of the Directors that the above procedures can ensure that the pricing and other contract terms for the COSCO SHIPPING Continuing Connected Transactions will be conducted in accordance with the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and on terms no less favourable to the Group than terms available from/to independent third parties.

As such, we are of the view that the terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### 3. Annual Caps

According to the Letter from the Board, the transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement will be of similar nature to those under the Existing Master Agreements. The historical amounts for such transactions for the two years ended 31 December 2017 and the nine months ended 30 September 2018 were as follows:

|   | For the year ended<br>31 December 2016 | For the year ended<br>31 December 2017 | For the<br>nine months ended<br>30 September 2018 |
|---|--|--|---|
| <i>(a) Terminal services</i>  |  |  |   |
| Aggregate amount received by the Group<br>from the COSCO SHIPPING Group | RMB533,129,000                         | RMB697,642,000                         | RMB925,467,000                                    |
| <i>(b) Shipping services</i>  |  |  |   |
| Aggregate amount paid by the Group to<br>the COSCO SHIPPING Group       | RMB20,814,000                          | RMB27,022,000                          | RMB36,395,000                                     |

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## LETTER FROM CHALLENGE CAPITAL

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The Annual Caps for the transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement for the three years ending 31 December 2021 and the basis of determination thereof are as follows:

|   | For the year ending 31 December |                  |                  |
|---|---------------------------------|------------------|------------------|
|   | 2019                            | 2020             | 2021             |
| <i>(a) Terminal services</i>  |                                 |                  |                  |
| Aggregate amount receivable by the Group<br>from the COSCO SHIPPING Group | RMB2,337,172,000                | RMB3,369,639,000 | RMB4,127,542,000 |
| <i>(b) Shipping services</i>  |                                 |                  |                  |
| Aggregate amount payable by the Group to<br>the COSCO SHIPPING Group      | RMB163,097,000                  | RMB238,172,000   | RMB358,201,000   |

According to the Letter from the Board, the estimated annual caps for the aggregate amount receivable by the Group from the COSCO SHIPPING Group were determined with reference to the existing scale and operations of the businesses of the Group, the anticipated growth and development of such businesses and the anticipated demand for such services, including (i) the expanded scale and operations of the business of the Group taking into account the various acquisitions of new terminals completed in the past years; (ii) the new berths and newly developed terminals of the Group expected to come into operation over the next three years; (iii) the completion of potential acquisition of terminals by the Group over the next three years; (iv) the growth in fleet size and shipping capacity of the COSCO SHIPPING Group, also taking into account the acquisition of OOIL by CSH completed in 2018; and (v) the expected increase in the COSCO SHIPPING Group's fleet calling at the terminals of the Group as a result of the synergies continuing to be achieved with the COSCO SHIPPING Group and the OCEAN Alliance. The estimated annual caps for the aggregate amount payable by the Group to the COSCO SHIPPING Group were determined with reference to the existing demand for such services and the anticipated increase in the demand for such services, taking into account the abovementioned factors including the anticipated growth and development of the scale and operations of the businesses of the Group.

As illustrated in the table above, the Annual Caps for the COSCO SHIPPING Continuing Connected Transactions for the years ending 31 December 2019, 2020, and 2021 in general are substantially higher than the historical transacted amounts for the two years ended 31 December 2017. As advised by the management of the Company, the historical transacted amounts for the two years ended 31 December 2017 were lower than expected mainly because there was no breakthrough development in the global economy and the shipping industry over the past few years, and the acquisition plans of the Group in relation to certain targets had not been proceeded during the relevant periods as originally planned. In determining the Annual Caps for the COSCO SHIPPING Continuing Connected Transactions, we understand that the Company has primarily taken into consideration factors including, among others, (i) the existing scale of operations of the Group; (ii) the expected increase in operating capacity as a result of the acquisition and development plans of the Group and projects under construction; and (iii) the anticipated increase

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## LETTER FROM CHALLENGE CAPITAL

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in demand for such relevant services contemplated under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement, after allowing a buffer for the inherent volatility of the business in the shipping and container-related services industry.

In order to assess the fairness and reasonableness of the Annual Caps, we have discussed with the management of the Company on the bases and assumptions underlying the determination of the Annual Caps and were given to understand that the management of the Company has taken into account the major factors as bases of determination of the said caps which details are set out as below:

**(i) Existing scale of operations and development plans of the Group**

As discussed in the previous section headed “1. The background to, the reasons for, and benefits of the COSCO SHIPPING Continuing Connected Transactions — (i) Information of the Group”, the Group underwent a reorganisation involving the acquisition of CSPD and the disposal of its container leasing, management and sale business to become a pure terminal operator with an enlarged global network, which was completed in March 2016. Through acquisition of a portfolio of assets, the Group expanded its terminal network and market share and advanced its leading position in Greater China and the global container industry from the fourth largest container terminal operator to become the largest container terminal operator in the world in terms of total container throughput.

We have discussed with the management of the Company regarding the operational strategies and development plans of the Group. As advised by the management of the Company, following the reorganisation, the Group continued to extend its international footprint with an aim to build a balanced portfolio of terminals across an extensive network and the operating capacity of the Group is expected to expand further as a result of the development plans of the Group and projects under construction. We have reviewed the previous annual reports and interim reports of the Company and have further discussed with the management of the Company in this regard and noted the following acquisitions, among others, and development plans made by the Group during the past two years:

1. On 28 September 2016, the Group entered into a concession agreement with Abu Dhabi Ports Company PJSC in relation to the establishment of a joint venture to construct, manage, and operate the Khalifa Port Container Terminal Phase II in Abu Dhabi (the “**Abu Dhabi Terminal**”). The construction of the Abu Dhabi Terminal officially began on 5 November 2017 and has 1,200 meters of quay length and three container berths with a designed annual handling capacity of 2.4 million TEU. The Abu Dhabi Terminal is expected to start trial operation by the end of 2018 and will officially commence operation in the first quarter of 2019. In addition, the Group also signed a lease agreement with Abu Dhabi Ports Company PJSC for the development of a 270,000 square meters container freight station in the Khalifa

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## LETTER FROM CHALLENGE CAPITAL

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Port. With the support from parent company and the OCEAN Alliance, the Abu Dhabi Terminal is set to be a new gateway for the parent company and the OCEAN Alliance in the Middle East;

2. On 22 September 2017, the Group completed its acquisition of 51% equity interest in Nantong Tonghai Terminal which officially commenced operation on 30 June 2018. The terminal has three container berths with an annual handling capacity of approximately 1.5 million TEU and one bulk berth with an annual handling capacity of approximately 5.4 million tons. In addition, the Nantong Municipal Government granted the Group with the right to use a 5,412 Mu (approximately 3,608,000 square meters) plot of land outside the Nantong Tonghai Terminal as a container operation area and logistics park site. The project has been undertaken with the cooperation of COSCO SHIPPING Lines to establish a transshipment hub in the lower reaches of the Yangtze River by building a new model for the integrated development and operation of terminal parks;
3. On 31 October 2017, the Group completed its acquisition of 51% equity interest in the NPH Group in Spain which operates two container terminals, namely, the Valencia Terminal and Bilbao Terminal, as well as two facilitative rail terminals, namely, the Conte-Rail Terminal and Zaragoza Rail Terminal. The Valencia Terminal and Bilbao Terminal have a total quay length of 3,465 metres and nine container berths with an annual handling capacity of approximately 4.6 million TEU and a planned future increase up to approximately 5.1 million TEU. As the Group became the controlling shareholder of the NPH Group, the two container terminals are expected to have further business support from the COSCO SHIPPING Group and the OCEAN Alliance. The two facilitative rail terminals and a newly established rail services company under NPH Group are also expected to provide extended services for COSCO SHIPPING Lines and other customers;
4. On 30 November 2017, the Group completed its acquisition of the remaining 76% equity interest in Zeebrugge Terminal in Belgium, which became a wholly-owned terminal of the Group. In August 2018, the Group completed its disposal of 15% equity interest in the Zeebrugge Terminal, which remained as a subsidiary of the Group as at the Latest Practicable Date. With a total quay length of 1,275 meters and three container berths, the terminal has a design annual handling capacity of 1 million TEU and a potential increase to 2 million TEU in the future. The Zeebrugge Port is the second largest port in Belgium. It is a natural deep-water port that can accommodate large vessels and it is located strategically to function as a transportation hub to all directions. Upon completion of the acquisition, the Zeebrugge Terminal will be an important gateway for the Group in the northwestern European region, contributing to the construction of a global strategic pivot.



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5. On 31 December 2017, the Group completed its acquisition of 70% equity interest in Wuhan Yangluo Terminal to operate the Wuhan Yangluo Terminal and the sea-rail combined transportation project. The Wuhan Yangluo sea-rail combined transportation project is a cooperation project of the Group and Wuhan Iron and Steel (Group) Corporation to develop a 700 Mu (approximately 466,667 square meters) transportation centre with full logistics services in Wuhan Yangluo. The Wuhan Yangluo Terminal will also utilise the proceeds from external financing or shareholders' loans for the technological transformation, development of logistics park and sea-rail combined transportation project with a total investment amount of approximately RMB1.5 billion. The Port of Yangluo currently has three operating areas (Phase III) with an annual handling capacity of approximately 2 million TEU. It is estimated that the transformation of Wuhan Yangluo Terminal will be completed at the end of 2019. Upon completion, the throughput capacity of the entire Port of Yangluo will reach approximately 2.8 million TEU, ranking the first in river ports in China; and
6. As advised by the management of the Company, it is expected that all the construction and installation of mechanical equipment of the western part of Pier 3 of PCT will be completed in the first half of 2019, which will increase the total annual handling capacity of the terminal to 6.2 million TEU.

Accordingly, we noted that the Group's scale of operations had significantly expanded over the past two years due to the acquisition of CSPD and other terminals in operation. In particular, the number of ports operated and managed by the Group increased from 22 ports as at 31 December 2015 to 35 ports as at 31 December 2017 while the total number of berths in operation increased from 128 berths as at 31 December 2015 to 269 berths as at 31 December 2017. The total annual handling capacity of the Group's container berths increased from approximately 68 million TEU as at 31 December 2015 to approximately 103 million TEU, representing an increase of approximately 51% while the total annual handling capacity of the Group's cargo berths increased by approximately 472% from approximately 46 million tons as at 31 December 2015 to approximately 263 million tons as at 31 December 2017. Furthermore, we noted from the 2017 Annual Report that the total number of berths is targeted to reach 294 to bring the total annual handling capacity of the container berths and cargo berths to approximately 116 million TEU and 274 million tons, respectively, representing an increase of approximately 13% and 4%, respectively, over that as at the end of 31 December 2017. The Group plans to focus on making investments in Southeast Asia, South Asia, West Asia, Latin America, and Africa so as to continue to extend its network of terminals and, at the same time, continue to explore investment opportunities provided by port consolidation in Mainland China by capitalising on the unique advantages of the COSCO SHIPPING Group. In particular, as advised by the management of the Company, the Group plans to acquire an additional interest in one of the Group's existing joint-venture terminal in the PRC which, upon completion, will also become a subsidiary of the Group. According to the Letter from the Board, it is anticipated that there would be an increase in the calling by the shipping fleets of COSCO SHIPPING Group at those terminals that are going to be added



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## LETTER FROM CHALLENGE CAPITAL

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to the terminal network of the Group, which would result in an increasing demand for the services contemplated under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement.

In addition, we also noted that the historical transaction amounts between the Group and the COSCO SHIPPING Group for transactions of similar nature to those under the Existing Master Agreements for the two years ended 31 December 2017 and for the nine months ended 30 September 2018 had been progressively increasing in line with the expanded scale of operations of the Group. The aggregate amounts received by the Group from the COSCO SHIPPING Group in relation to the provision of terminal services by the Group amounted to approximately RMB533 million for the year ended 31 December 2016, representing an increase of approximately 115% from approximately RMB248 million for the year ended 31 December 2015, and further increased by approximately 31% for the year ended 31 December 2017. The aggregate amounts received by the Group for the nine months ended 30 September 2018 amounted to approximately RMB925 million and, on an annualised basis, such amount would be approximately RMB1,234 million for the year ending 31 December 2018, representing an increase of approximately 77% over that for the year ended 31 December 2017. Meanwhile, the aggregate amounts paid by the Group to the COSCO SHIPPING Group in relation to the provision of shipping services by the COSCO SHIPPING Group amounted to approximately RMB21 million for the year ended 31 December 2016, representing an increase of approximately 133% from approximately RMB9 million for the year ended 31 December 2015, and further increased by approximately 29% for the year ended 31 December 2017. The aggregate amounts paid by the Group for the nine months ended 30 September 2018 amounted to approximately RMB36 million and, on an annualised basis, such amount would be approximately RMB49 million for the year ending 31 December 2018, representing an increase of approximately 81% over that for the year ended 31 December 2017.

**(ii) Demand for the COSCO SHIPPING Continuing Connected Transactions**

According to the 2017 Annual Report, backed by the increase in global trade and the steady recovery of the global economy, there was a turnaround in the global shipping market as the increase in demand over supply during 2017 helped alleviate the overcapacity in the industry. According to the management of the Company, challenges still remain in the second half of 2018 with various uncertainties including the Sino-US trade frictions. However, with a solid foundation laid, the Group remains cautiously positive about its prospects. As one of the world's leading ports operator, the Group is expected to continue to grow its capacity with the ongoing support from the OCEAN Alliance and the synergies with COSCO SHIPPING Group.

We understand from the management of the Company that the key economic and industry indicators relevant to the demand for container shipping and terminal services industry include the global economic growth, global trading growth, global container throughput, and freight rates. According to World Economic Outlook Database of the International Monetary Fund as at April 2018, the global economic growth reached approximately 3.8% in 2017, representing an increase of approximately 0.53 percentage

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## LETTER FROM CHALLENGE CAPITAL

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points over the growth in 2016, while global trade volume increased by approximately 4.9% in 2017, representing an increase of approximately 2.6 percentage points over the growth in the previous year. Regarding the global throughput, we noted from the 2018 Drewry Report published in July 2018 that the total throughput of the global container terminal industry increased from approximately 703 million TEU in 2016 to approximately 745 million TEU in 2017, representing an increase of approximately 6.0%. We further noted that Drewry forecasts steady growth in global container port demand through 2022 with the global container port throughput forecasted to exceed 980 million TEU by 2022 from approximately 745 million TEU in 2017, representing a compound annual growth rate (“CAGR”) of approximately 5.7%. With respect to the freight rates, according to 2017 CSH Annual Report, the average value of the China (Export) Containerized Freight Index (“CCFI”) was 820 points in 2017, representing an increase of approximately 15.4% as compared to that of previous year. The CCFI, which is sponsored by the Ministry of Transport of the PRC and formulated by the Shanghai Shipping Exchange, serves as the barometer of the container shipping market and is formulated to reflect the transport market in terms of costs and market rates to ship containers from China to major destinations around the world. We noted that the CCFI increased from its trough of approximately 632 as at 24 April 2016 and reached approximately 857 as at 30 November 2018.

As advised by the management of the Company, as result of the reorganisation exercise in 2016, China Ocean Shipping (Group) Company (now known as China Ocean Shipping Company Limited) and China SHIPPING (Group) Company were merged into COSCO SHIPPING which is now the largest shipping group in the world in terms of fleet capacity. Through this merger of two leading shipping companies in China, the container shipping related business segment of the CSH Group expanded significantly through the inclusion of the operation of container vessels from China Shipping Container Lines Company Limited (now known as COSCO SHIPPING Development Co., Ltd.). We noted from the previous annual reports of CSH that the number of owned and operating container vessels of the CSH Group had reached 360 as at 31 December 2017 from 178 as at 31 December 2015 while the total capacity reached approximately 1.8 million TEU from 0.9 million TEU, representing an increase of approximately 100%. During the same period, total container shipping volume of the CSH Group had increased by approximately 111% from approximately 9.9 million TEU for the year ended 31 December 2015 to approximately 20.9 million TEU for the year ended 31 December 2017. Additionally, since July 2018, the OOIL Group had become a subsidiary of CSH. According to the composite document issued to the shareholders of the OOIL Group dated 8 July 2018, following the acquisition of the OOIL Group, the number of container vessels of the CSH Group is expected to exceed 400 and the total capacity is expected to exceed approximately 2.9 million TEU, representing an increase of approximately 61% over that of 31 December 2017. According to Alphaliner, the CSH Group is now ranked third in the world in terms of container shipping capacity as at the Latest Practicable Date.

Having considered the above, in particular, the growth in fleet size and shipping capacity of the COSCO SHIPPING Group and the forecasted steady growth in global container port demand, we concur with the management of the Company that it is reasonable to anticipate an

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## LETTER FROM CHALLENGE CAPITAL

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increase in demand for the terminal services contemplated under the COSCO SHIPPING Continuing Connected Transactions. Consequently, we concur with the management of the Company that it is reasonable to expect an increase in the Group's demand for shipping services to cater for the expected increase in demand for terminal services contemplated under the Continuing Connected Transactions, taking into account the anticipated growth and development of the scale of operations of the business of the Group.

Moreover, the management of the Company considers that it would be in the interest of the Group to provide sufficient buffer when determining the Annual Cap amounts, so as to cater for the development plans of the Group and the inherent volatility of the business in the shipping and container-related industry, where the magnitude of which cannot be ascertained at the moment. Given that the Group and the COSCO SHIPPING Group both have demonstrated significant growth in their business scale and that such scale is anticipated to expand further, the management of the Company considers that it is possible that the Group may require and utilize a higher percentage of the Annual Caps.

### **(iii) Conclusion**

Having considered the above, in particular, (i) the reasons for and benefits of the COSCO SHIPPING Continuing Connected Transactions; (ii) the existing scale of operations and development plans of the Group; and (iii) the anticipated demand for the COSCO SHIPPING Continuing Connected Transactions, we concur with the Directors' view that the Annual Caps for the COSCO SHIPPING Continuing Connected Transactions and the major factors considered as the bases of determining the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

However, the Shareholders should note that as the Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 December 2021, they do not represent forecasts of revenue to be generated from the operations of the Group. Consequently, we express no opinion as to how closely the actual future transacted amounts of the COSCO SHIPPING Continuing Connected Transactions will correspond with the relevant Annual Caps.

### **RECOMMENDATIONS**

Having considered the above principal factors and reasons, we are of the opinion that the COSCO SHIPPING Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM CHALLENGE CAPITAL

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Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and the transactions thereunder (including the Annual Caps).

Yours faithfully,  
For and on behalf of  
**Challenge Capital Management Limited**  
**Jackson Woo**  
*Managing Director*

*Mr. Jackson Woo is a licensed person registered with the Securities and Futures Commission of Hong Kong to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS

- (a) As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be 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:

### (i) Long position in the shares of the Company

| <u>Name of Director</u>  | <u>Capacity</u>  | <u>Nature of interests</u> | <u>Number of Shares held as at the Latest Practicable Date</u> | <u>Percentage of total number of issued Shares as at the Latest Practicable Date</u> |
|--------------------------|------------------|----------------------------|--|--|
| Mr. ZHANG Wei (張為)       | Beneficial owner | Personal                   | 306,896  | 0.010%   |
| Mr. FANG Meng            | Beneficial owner | Personal                   | 153,448  | 0.005%   |
| Mr. DENG Huangjun        | Beneficial owner | Personal                   | 51,149   | 0.002%   |
| Mr. ZHANG Wei (張煒)       | Beneficial owner | Personal                   | 30,000   | 0.001%   |
| Dr. WONG Tin Yau, Kelvin | Beneficial owner | Personal                   | 582,557  | 0.019%   |

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

Options granted under the share option scheme approved by the Shareholders on 8 June 2018 (the “Share Option Scheme”):

| <u>Name of Director</u>  | <u>Exercise price (HK\$)</u> | <u>Number of share options outstanding as at the Latest Practicable Date</u> | <u>Percentage of total number of issued Shares as at the Latest Practicable Date</u> | <u>Exercisable period</u> | <u>Notes</u> |
|--------------------------|------------------------------|--|--|---------------------------|--------------|
| Mr. ZHANG Wei (張為)       | 7.27                         | 1,500,000  | 0.05%  | 19.06.2020 – 18.06.2023   | (1), (2)     |
| Mr. FANG Meng            | 7.27                         | 1,500,000  | 0.05%  | 19.06.2020 – 18.06.2023   | (1), (2)     |
| Mr. DENG Huangjun        | 7.27                         | 1,200,000  | 0.04%  | 19.06.2020 – 18.06.2023   | (1), (2)     |
| Dr. WONG Tin Yau, Kelvin | 7.27                         | 1,200,000  | 0.04%  | 19.06.2020 – 18.06.2023   | (1), (2)     |

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, options under each grant have a validity period of five years commencing from the date of grant and cannot be exercised during the two-year period commencing from the date of grant (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 respective share options will be vested on 19 June 2020; (b) 33.3% of the respective share options will be vested on 19 June 2021; and (c) 33.4% of the respective share options will be vested on 19 June 2022. The vesting conditions for the share options are more particularly set out in the 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.
- (2) These share options represent personal interest held by the relevant Director as beneficial owner.

## (iii) Long positions in the shares of associated corporations

| <u>Name of associated corporation</u>                | <u>Name of Director</u>        | <u>Capacity</u>     | <u>Nature of interest</u> | <u>Number of H shares held as at the Latest Practicable Date</u> | <u>Percentage of total number of issued H shares of the associated corporation as at the Latest Practicable Date</u> |
|--|--------------------------------|---------------------|---------------------------|--|--|
| CSH  | Dr. FAN HSU Lai<br>Tai, Rita   | Beneficial<br>Owner | Personal                  | 10,000   | 0.0004%  |
| COSCO SHIPPING<br>Energy Transportation<br>Co., Ltd. | Mr. Adrian David<br>LI Man Kiu | Beneficial<br>Owner | Personal                  | 508,000  | 0.04%  |

| <u>Name of associated corporation</u>      | <u>Name of Director</u> | <u>Capacity</u>       | <u>Nature of interest</u> | <u>Number of A shares held as at the Latest Practicable Date</u> | <u>Percentage of total number of issued A shares of the associated corporation as at the Latest Practicable Date</u> |
|--|-------------------------|-----------------------|---------------------------|--|--|
| COSCO SHIPPING<br>Development Co.,<br>Ltd. | Mr. DENG<br>Huangjun    | Interest of<br>Spouse | Family                    | 38,000   | 0.0005%  |
|  | Mr. FENG Boming         | Beneficial<br>Owner   | Personal                  | 29,100   | 0.0004%  |



- (b) As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors, no Director was a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

**COSCO SHIPPING**

| <b>Name of Director</b> | <b>Position</b>  |
|-------------------------|--|
| Mr. HUANG Xiaowen       | Executive vice president and party committee member                  |
| Mr. WANG Haimin         | Employee director  |
| Mr. FENG Boming         | General Manager of the strategic and corporate management department |
| Mr. ZHANG Wei (張煒)      | General manager of the operation and management department           |
| Mr. CHEN Dong           | General manager of the financial management department               |

**CSH**

| <b>Name of Director</b> | <b>Position</b>                               |
|-------------------------|---|
| Mr. HUANG Xiaowen       | Vice chairman and executive director          |
| Mr. ZHANG Wei (張為)      | Executive director and deputy general manager |
| Mr. FANG Meng           | Supervisor                                    |
| Mr. WANG Haimin         | Executive director and general manager        |
| Mr. FENG Boming         | Non-executive director                        |
| Mr. ZHANG Wei (張煒)      | Non-executive director                        |
| Mr. CHEN Dong           | Non-executive director                        |

*China COSCO (Hong Kong) Limited*

| <b>Name of Director</b> | <b>Position</b> |
|-------------------------|-----------------|
| Mr. DENG Huangjun       | Director        |

*COSCO Investments Limited*

| <b>Name of Director</b> | <b>Position</b> |
|-------------------------|-----------------|
| Mr. DENG Huangjun       | Director        |

- (c) Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, (i) none of the Directors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and (ii) none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, the Directors namely Mr. HUANG Xiaowen, Mr. ZHANG Wei (張為), Mr. FANG Meng, Mr. DENG Huangjun, Mr. FENG Boming, Mr. ZHANG Wei (張煒), Mr. CHEN Dong and Mr. WANG Haimin held directorships and/or senior management positions in COSCO SHIPPING and their respective associates and/or other companies which have interests in terminals operation and management business (the “**Terminal Interests**”).

The Board is of the view that the Group is capable of carrying on its businesses independently of the Terminals Interests. 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 interests 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.

#### 4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### 5. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

#### 6. DIRECTORS' INTERESTS IN SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

#### 7. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has been named in this circular and whose opinion or advice is contained in this circular:

| <b>Name</b>                          | <b>Qualification</b>  |
|--------------------------------------|---|
| Challenge Capital Management Limited | a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO |

- (b) As at the Latest Practicable Date, Challenge Capital was not beneficially interested in the share capital of any member of the Group, nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Challenge Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

- (d) Challenge Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 10 December 2018 (as set out on pages 16 to 34 of this circular) and references to its name in the form and context in which they respectively appear.

## **8. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement are available for inspection at the principal place of business of the Company at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday (other than public holidays) from the date of this circular up to and including the date of the SGM.

## **10. GENERAL**

- (a) The General Counsel & Company Secretary of the Company is Ms. HUNG Man, Michelle, a practising solicitor in Hong Kong. She is also qualified in England and Wales.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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## NOTICE OF THE SGM

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# COSCO SHIPPING Ports Limited

## 中遠海運港口有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1199)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of COSCO SHIPPING Ports Limited (the “**Company**”) will be held at 47th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong on Friday, 28 December 2018 at 2:30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications the following as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT:**

- (a) the entering into of the agreement dated 22 November 2018 (the “**COSCO SHIPPING Shipping Services and Terminal Services Master Agreement**”) between the Company and China COSCO Shipping Corporation Limited\* (中國遠洋海運集團有限公司) in relation to the provision of shipping and terminal related services for a term of three years from 1 January 2019 to 31 December 2021 as described in the circular of the Company dated 10 December 2018 (the “**Circular**”) (a copy of the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and a copy of the Circular have been produced to the meeting marked “A” and “B” respectively and initialed by the chairman of the meeting for identification purpose) and the transactions thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual cap amounts for the transactions under the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement for the three years ending 31 December 2021 as set out in the Circular be and are hereby approved; and
- (c) the director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and to do all such things as they may in their absolute discretion consider necessary, expedient or desirable to implement and/or to give effect to or otherwise in connection with the COSCO SHIPPING Shipping Services and Terminal Services Master Agreement and to be in the interests of the Company.”

By Order of the Board  
**COSCO SHIPPING Ports Limited**  
**HUNG Man, Michelle**  
*General Counsel & Company Secretary*

Hong Kong, 10 December 2018

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## NOTICE OF THE SGM

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### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Principal Place of Business**

49th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

#### *Notes:*

1. Shareholders of the Company who are entitled to vote at the meeting are those whose names appear as shareholders on the register of members of the Company as at the close of business on Thursday, 27 December 2018. In order to be entitled to vote at the meeting, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 27 December 2018.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more (if the relevant member holds more than one share) proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person to represent the member.
3. To be valid, the form of proxy together with power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be deposited at the Company's Hong Kong share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting or any adjourned meeting thereof if the shareholder of the Company so wish, and in such event, the form of proxy will be deemed to be revoked.
5. Where there are joint holders of any shares in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. For the purposes of this notice, any English name with an asterisk (\*) is an unofficial English transliteration or translation and is for identification purposes only.