中遠海運國際(香港)有限公司

COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.

Stock Code : 00517

ANNUAL REPORT 2016

Improve Through Management Upgrading and Industrial Integration

CORPORATE PROFILE

COSCO SHIPPING International is a company listed on the Main Board of the Stock Exchange (stock code 00517). The Company is a subsidiary of COSCO SHIPPING (Hong Kong), which is a wholly-owned subsidiary of COSCO SHIPPING.

COSCO SHIPPING International has aimed to establish the shipping services industrial cluster as its strategic development direction. The Group has initially laid an integrated shipping services platform comprising ship trading agency, marine insurance brokerage, supply of marine equipment and spare parts, production and sale of coatings as well as trading and supply of marine fuel and related products, offering diversified and specialised shipping related services and products to customers such as shipping companies, shipyards, container manufacturers, etc. Its business network covers China Mainland, Hong Kong, Singapore, Japan, Germany and the United States, etc.

VISION

COSCO SHIPPING International's vision is to provide specialised products and technical services as well as one-stop solutions for its customers through the establishment of a comprehensive, safe, reliable and highly efficient shipping services industrial cluster, so as to establish itself as a global leading one-stop integrated shipping services provider.

MISSION

By virtue of the support of the parent company and leveraging on the capital raising platform of a Hong Kong listed company, and by securing trustworthy and win-win collaboration and relationship with customers, investors and business partners, COSCO SHIPPING International will accomplish its vision and sustainable development, so as to provide customers with better services, offer staff with a better career prospects, increase shareholders' return, and make more contribution to the community.

CONTENTS

DEFINITIONS AND GLOSSARY

In this annual report, the following expressions have the following meanings unless the context requires otherwise:

"associates"	the meaning ascribed to it in the Listing Rules;
"Board"	the board of Directors;
"CITC"	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*) (formerly known as 中遠國際貿易有限公司 (COSCO International Trading Company Limited*)), a wholly-owned subsidiary of the Company;
"connected person(s)"	the meaning ascribed to it in the Listing Rules;
"COSCO"	中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company*), a company established in the PRC and the intermediate holding company of the Company;
"COSCO (Beijing) Marine Electronic"	中遠(北京)海上電子設備有限公司 (COSCO (Beijing) Marine Electronic Equipment Limited*), a wholly-owned subsidiary of the Company;
"COSCO Group"	COSCO and its subsidiaries (other than the Group);
"COSCO Insurance Brokers"	HK COSCO Insurance Brokers and SZ COSCO Insurance Brokers collectively;
"COSCO Kansai Companies"	COSCO Kansai (Tianjin), COSCO Kansai (Shanghai), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai) collectively;
"COSCO Kansai Paint (Shanghai)"	中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Shanghai)"	中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*), a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Tianjin)"	COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd., a non-wholly owned subsidiary of the Company;
"COSCO Kansai (Zhuhai)"	COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd., a non-wholly owned subsidiary of the Company;
"COSCO SHIPPING"	中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), a company established in the PRC and the holding company of COSCO SHIPPING (Hong Kong) and the ultimate holding company of the Company;
"COSCO SHIPPING Group"	COSCO SHIPPING, COSCO SHIPPING (Hong Kong) and their respective subsidiaries;
"COSCO SHIPPING (Hong Kong)"	COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited), a company incorporated in Hong Kong with limited liability and the holding company of the Company and a wholly-owned subsidiary of COSCO SHIPPING;
"COSCO SHIPPING (Hong Kong) Ship Trading"	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited (formerly known as COSCO International Ship Trading Company Limited), a wholly-owned subsidiary of the Company;
"COSCO SHIPPING International" or "Company"	COSCO SHIPPING International (Hong Kong) Co., Ltd. (formerly known as COSCO International Holdings Limited), the shares of which are listed on the Stock Exchange;
"COSCO Yuantong Operation Headquarters"	composed of Yuantong and its subsidiaries (including Shin Chung Lin, Xing Yuan, Hanyuan, Shanghai Yuantong, COSCO (Beijing) Marine Electronic and Yuan Hua);

DEFINITIONS AND GLOSSARY

"CSHT Marine"	CSHT Marine Machinery Suppliers Limited, a wholly-owned subsidiary of the Company;
"dead weight tonnage"	the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, bunkers, water, stores, spares, crew, etc. at a specified draft;
"Director(s)"	the director(s) of the Company;
"Double Rich"	Double Rich Limited, an associate of the Company;
"Group"	the Company and its subsidiaries;
"Hanyuan"	Hanyuan Technical Service Center GmbH, a wholly-owned subsidiary of the Company;
"HK COSCO Insurance Brokers"	COSCO (Hong Kong) Insurance Brokers Limited, a wholly-owned subsidiary of the Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Jotun COSCO"	Jotun COSCO Marine Coatings (HK) Limited, a joint venture of the Company;
"Jotun COSCO (Qingdao)"	Jotun COSCO Marine Coatings (Qingdao) Co., Ltd., a wholly-owned subsidiary of Jotun COSCO;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"PRC"	the People's Republic of China;
"Shanghai Yuantong"	遠通海務貿易(上海)有限公司 (Yuantong Marine Trade (Shanghai) Co., Ltd.*), a wholly-owned subsidiary of the Company;
"Share(s)"	the share(s) of HK$0.10 each in the capital of the Company;
"Shareholders"	the holders of the Share(s) of the Company;
"Shin Chung Lin"	新中鈴株式會社 (Shin Chung Lin Corporation*), a wholly-owned subsidiary of the Company;
"Sinfeng"	Sinfeng Marine Services Pte. Ltd., a wholly-owned subsidiary of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder(s)"	the meaning ascribed to it in the Listing Rules;
"SZ COSCO Insurance Brokers"	深圳中遠保險經紀有限公司 (Shenzhen COSCO Insurance Brokers Limited*), a non-wholly owned subsidiary of the Company;
"United States"	the United States of America;
"Xing Yuan"	Xing Yuan (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company;
"Yuantong"	Yuantong Marine Service Co. Limited, a wholly-owned subsidiary of the Company; and
"Yuan Hua"	Yuan Hua Technical & Supply Corporation, a non-wholly owned subsidiary of the Company.

* *for identification purposes only*

COMPANY INFORMATION

DIRECTORS

Executive Directors

Mr. Ye Weilong *(Chairman)*
Mr. Zhu Jianhui *(Vice Chairman)*
Mr. Liu Gang *(Managing Director)*
Mr. Liu Xianghao

Non-executive Director

Mr. Wang Wei

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton

COMPANY SECRETARY

Ms. Chiu Shui Suet

AUDIT COMMITTEE

Mr. Alexander Reid Hamilton *(committee chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.

REMUNERATION COMMITTEE

Mr. Jiang, Simon X. *(committee chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Alexander Reid Hamilton
Mr. Liu Gang

NOMINATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(committee chairman)*
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton
Mr. Liu Gang

CORPORATE GOVERNANCE COMMITTEE

Mr. Liu Gang *(committee chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton

STRATEGIC DEVELOPMENT COMMITTEE

Mr. Zhu Jianhui *(committee chairman)*
Mr. Liu Gang
Mr. Liu Xianghao
Mr. Wang Wei

RISK MANAGEMENT COMMITTEE

Mr. Zhu Jianhui *(committee chairman)*
Mr. Liu Gang
Mr. Liu Xianghao
Mr. Wang Wei

INDEPENDENT AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

Linklaters
Sit, Fung, Kwong & Shum
Conyers Dill & Pearman

COMPANY INFORMATION

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Guangfa Bank Company Limited
China Merchants Bank Company Limited
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank Company Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
(formerly known as Codan Services Limited)
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary share (Stock code: 00517)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

47th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

INVESTOR RELATIONS

Telephone	: (852) 2809 7888
Facsimile	: (852) 8169 0678
Website	: www.coscointl.com
E-mail	: info@coscointl.com

FINANCIAL CALENDAR

2016 Annual General Meeting	: 31st May 2016
Announcement of 2016 Interim Results	: 18th August 2016
Announcement of 2016 Annual Results	: 23rd March 2017
2017 Annual General Meeting	: 29th May 2017

DIVIDENDS

2016 Interim Dividend	: 4 HK cents per share
Proposed 2016 Final Dividend	: 5.5 HK cents per share
Proposed 2016 Special Dividend	: 5 HK cents per share
Total Dividends for 2016	: 14.5 HK cents per share

CORPORATE STRUCTURE

SHIPPING SERVICES:

Ship Trading Agency Services	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited (formerly known as COSCO International Ship Trading Company Limited) 100%
Marine Insurance Brokerage Services	COSCO (Hong Kong) Insurance Brokers Limited 100%
Supply of Marine Equipment and Spare Parts	Yuantong Marine Service Co. Limited 100% CSHT Marine Machinery Suppliers Limited^ 100%
Production and Sale of Coatings	中遠關西塗料化工 (珠海) 有限公司 COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. 64.71% 中遠關西塗料化工 (天津) 有限公司 COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. 63.07% 中遠關西塗料化工 (上海) 有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) 63.07% 中遠關西塗料 (上海) 有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) 63.07% Jotun COSCO Marine Coatings (HK) Limited 50%
Trading and Supply of Marine Fuel and Related Products	Sinfeng Marine Services Pte. Ltd. 100% Double Rich Limited 18%

^ Upon the completion of the acquisition of the entire issued share capital of CSHT Marine Machinery Suppliers Limited on 1st January 2017, CSHT Marine Machinery Suppliers Limited became the wholly-owned subsidiary of the Company.

GENERAL TRADING:

General Trading	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*) (formerly known as 中遠國際貿易有限公司 (COSCO International Trading Company Limited*)) 100%

Note 1
COSCO SHIPPING is the ultimate holding company of COSCO SHIPPING International.

Note 2
COSCO SHIPPING International is a subsidiary of COSCO SHIPPING (Hong Kong).

Note 3
To the best of the knowledge and belief of the Directors, COSCO SHIPPING (Hong Kong) through its wholly-owned subsidiary held 66.12% issued share capital of the Company as at 31st December 2016.

** for identification purposes only*

CORPORATE STRUCTURE

MAXIMISE OUR STRENGTH FOR SUSTAINABLE DEVELOPMENT

INHERITANCE AND EXPANSION

The Group has been focusing on its strategic development positioning in "shipping services", with establishing itself as a global leading one-stop integrated shipping services provider as its development vision. It provides specialised products and technical services for its customers through the establishment of a comprehensive, safe, reliable and highly efficient shipping services industrial cluster. The Group continues to enhance its profitability and maintains its capability for sustainable development, thus contributing to our shareholders and society.

FINANCIAL HIGHLIGHTS

	2016 HK$'000	2015 HK$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**7,430,297**	5,999,646	+24%
Gross profit	**544,246**	690,722	–21%
Operating profit	**113,412**	194,708	–42%
Profit before income tax	**300,090**	427,824	–30%
Profit attributable to equity holders	**237,205**	335,763	–29%
Basic earnings per share (HK cents)	**15.47**	21.91	–29%
Dividends per share (HK cents)	**14.50**	16.00	–9%
Dividend payout ratio* (%)	**61**	73	–12pts

	2016 HK$'000	2015 HK$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31st December			
Total assets	**9,388,144**	9,467,315	–1%
Total liabilities	**1,342,403**	1,367,691	–2%
Net assets attributable to shareholders	**7,702,161**	7,729,155	–0.3%
Net cash	**6,654,941**	6,224,668	+7%
Net assets per share (HK$)	**5.02**	5.04	–0.3%
Net cash per share (HK$)	**4.34**	4.06	+7%
Return on total assets (%)	**2.52**	3.51	–0.99pts
Return on shareholders' equity (%)	**3.07**	4.34	–1.27pts

	2016	2015
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**7.3%**	11.5%
Interest coverage	**69.9 times**	115.3 times
Current ratio	**6.4 times**	6.1 times
Liquidity ratio	**6.2 times**	5.9 times
Total liabilities/total assets	**14.3%**	14.4%
Total borrowings/total assets	**0.7%**	0.4%

* excluding special dividend

FINANCIAL HIGHLIGHTS

	2016 HK$'000	2015 HK$'000	Change
SEGMENT REVENUE*			
For the year ended 31st December			
Shipping Services			
Coatings	**637,033**	1,109,466	–43%
Marine equipment and spare parts	**1,064,999**	1,096,698	–3%
Ship trading agency	**98,921**	84,983	+16%
Insurance brokerage	**94,411**	91,889	+3%
Marine fuel and other products	**4,766,546**	2,779,986	+71%
	6,661,910	5,163,022	+29%
General Trading	**768,387**	836,624	–8%
Total	**7,430,297**	5,999,646	+24%

* external customers only

	2016 HK$'000	2015 HK$'000	Change
SEGMENT PROFIT BEFORE INCOME TAX			
For the year ended 31st December			
Shipping Services			
Coatings	**72,635**	184,807	–61%
Marine equipment and spare parts	**51,808**	46,561	+11%
Ship trading agency	**69,632**	61,610	+13%
Insurance brokerage	**69,112**	67,291	+3%
Marine fuel and other products	**12,048**	12,131	–1%
	275,235	372,400	–26%
General Trading	**4,530**	23,143	–80%
Corporate and Others	**20,325**	32,281	–37%
Total	**300,090**	427,824	–30%

HIGHLIGHTS OF THE YEAR 2016

MARCH

18th
Mr. Ye Weilong was appointed as Executive Director and Chairman of the Board of the Company and Mr. Liu Xianghao was appointed as Executive Director and Managing Director of the Company. On the same day, Mr. Sun Jiakang resigned as Executive Director and the Chairman of the Board of the Company due to change of work designation and Mr. Xu Zhengjun resigned as Executive Director and Managing Director of the Company due to his retirement.

23rd
A press conference and an analyst meeting for 2015 annual results of the Company were held in Hong Kong.

APRIL

6th
COSCO Kansai Paint (Shanghai) received the Safe Production Permit for the plant construction project from Shanghai Administration of Work Safety, which indicated the official commencement of operation of the new plant in Jinshan Shanghai.

MAY

31st
2016 Annual General Meeting of the Company was held in Hong Kong.

AUGUST

16th
Mr. Zhu Jianhui was appointed as Executive Director and Vice Chairman of the Board of the Company. On the same day, Mr. Zhang Liang and Mr. Wu Shuxiong resigned as Executive Director and Vice Chairman of the Board of the Company and Non-executive Director of the Company respectively due to their retirement, and Mr. Feng Jinhua resigned as Executive Director of the Company due to change of work designation.

18th
A press conference and an analyst meeting for 2016 interim results of the Company were held in Hong Kong.

SEPTEMBER

27th
Mr. Liu Gang was appointed as Executive Director and Managing Director of the Company. On the same day, Mr. Liu Xianghao resigned from his position of Managing Director due to change of work designation but remains as Executive Director of the Company.

NOVEMBER

8th
A special general meeting of the Company was held in Hong Kong. Resolutions in relation to the change of company name and re-election of directors were approved by the Shareholders.

9th
COSCO SHIPPING, the controlling shareholder of the Company, through its wholly-owned subsidiary, True Smart International Limited, purchased off-exchange a total of 28,697,200 ordinary shares of the Company at an average price of HK$3.58 per share on 9th November 2016. Its stake in the Company was increased from 64.25% to 66.12%.

15th
Various existing master agreements in relation to continuing connected transactions would expire on 31st December 2016, therefore the Company entered into the New Master Supply Agreement, the New Master Purchase Agreement, the New Fuel Oil Master Agreement, the New Financial Services Master Agreement, the New Management Services Master Agreement and the New Master Tenancy Agreement on 15th November 2016.

16th
The change of English name of the Company from "COSCO International Holdings Limited" to "COSCO SHIPPING International (Hong Kong) Co., Ltd." and the adoption of "中遠海運國際(香港)有限公司" as the secondary name of the Company to replace the Chinese name "中遠國際控股有限公司" took effect on 16th November 2016.

28th
The Company entered into the share purchase agreement with COSCO SHIPPING Financial Holdings Co., Limited, a subsidiary of COSCO SHIPPING, and China Merchants Hoi Tung Trading Company Limited, to acquire the entire issued share capital of CSHT Marine at a total consideration of HK$118,400,000.

DECEMBER

30th
Special general meetings of the Company were held in Hong Kong. Resolutions in relation to the acquisition of the entire issued share capital of CSHT Marine and various master agreements of continuing connected transactions and their proposed annual caps for the years 2017 to 2019 were approved by Independent Shareholders.

AWARDS AND RECOGNITIONS

Annual Report 2015 won Honor Award in the "Financial Data: Shipping Services" category in the 30th International ARC Awards.

Annual Report 2015 won the "Citation for Environmental, Social and Governance Disclosure" and "Excellence Award for H Share & Red Chip Entries" in the Hong Kong Management Association's 2016 Best Annual Reports Awards.

COSCO Kansai Companies were awarded the 2015 Hua Cai Award of Anti-Corrosion Coating Brand by HC Coating Network.

Awarded "5 Years Plus Caring Company Logo" by The Hong Kong Council of Social Service in recognition of the Company's contribution and commitment to caring for its employees, the community and the environment more than five consecutive years.

Honored with Gold Award in the Asset Corporate Awards 2016 by the Asset magazine.

Awarded the Gold Award of Corporate Participation Award in the Sowers Action Challenging 12 Hours 2016 by Sowers Action.

Awarded a Certificate of Commendation by Sham Shui Po District Elderly Community Centre of the Neighbourhood Advice-Action Council in recognition of the Company's active participation in volunteer services and its contribution in 2016.

CHAIRMAN'S STATEMENT

In 2016, amidst the continuous in-depth adjustment of the global economy, the growth of international trade remained weak and the international shipping market was still faced with an imbalance between supply and demand. The Baltic Dry Index (BDI), the Shanghai Containerised Freight Index (SCFI) and the China Containerised Freight Index (CCFI) dropped to a historical low in 2016 respectively. The underperformed shipping market directly dragged down the performance of the Company's shipping services segment. During the year, the Company speeded up the establishment of "shipping services industrial cluster" under its overall working principle of "securing steady growth, ensuring profitability and enhancing quality and efficiency". In terms of business expansion, the Company completed the acquisition of CSHT Marine at the beginning of January 2017. The acquisition will on one hand expand the size of the existing relevant business, and on the other hand facilitate synergy creation through economies of scale and cost reduction, bringing more benefits for the Group.

Mr. YE Weilong
Chairman

CHAIRMAN'S STATEMENT

Profit attributable to equity holders of the Company amounted to HK$237,205,000 for the year, representing a decrease of 29% as compared with 2015. Basic earnings per share was 15.47 HK cents. The Group's total revenue for the year was HK$7,430,297,000. In order to give better returns to our shareholders for their support over the past years, the Board proposed a final dividend of 5.5 HK cents per share for 2016. Together with the interim dividend of 4 HK cents per share, total dividends per share are 9.5 HK cents. Meanwhile, in order to celebrate the 20th anniversary of the Company's being a listed subsidiary of COSCO SHIPPING (Hong Kong), the Board recommended the payment of a special dividend of 5 HK cents per share, total dividends per share for the year 2016 are 14.5 HK cents.

CORPORATE OPERATION

In 2016, the Group has kept focusing on its strategic development of "shipping services", with the vision of developing itself as "a shipping services industrial cluster". Meanwhile, the Group strived for the development of "shipping services industrial cluster" in accordance with the direction of "specialisation and scale". In addition, the Group provided customers with quality products and solutions through its increasing presence all over the world. The Group endeavored to increase its core competence and to expand the scope of its existing businesses, as well as to develop its businesses along the industry value chain, so as to continuously enhance the Group's profitability.

For cash management, the Company secured higher deposit rate on its strong liquid fund through proactive negotiation with various banks. Return rate on cash for the year was 1.4%, representing 40 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of 2016. Meanwhile, each of the operating unit proactively controlled its operating costs and reduced controllable expenses, contributing to a decrease of 17% for selling, administrative and general expenses in 2016 as compared with 2015. In respect of receivables collection, the Group reinforced its receivables management with various measures and successfully collected certain overdue receivables. As at the end of 2016, the balance of outstanding trade receivables decreased by 16% as compared to the end of 2015. Net cash generated from operating activities for the year amounted to HK$400,963,000, which demonstrated the continued and effective efforts of its liquidity management and safeguarded the Group's interests and earnings.

SUSTAINABLE DEVELOPMENT

To enhance corporate sustainability, the Group has been committed to maintaining a high standard of corporate governance and improving its corporate governance system in strict compliance with relevant laws and regulations. In response to the changes in market and business environment, the Group continued to enhance management and improve its corporate systems. It focused on the operating risk prevention, and endeavoured to strengthen internal audit, which put an emphasis on both supervision and management. Meanwhile, the Group also strived to enhance corporate transparency, so as to keep Shareholders fully informed and balance the interests of its stakeholders. It insisted on pursuing high-quality investor communication to improve the management of investor relations.

The Group has always placed great emphasis on safe production and environmental protection as well as the enhancement of its employees' knowledge and awareness on Health, Safety and Environment ("HSE"), so as to nurture a positive HSE corporate culture. The Group carried out regular hidden hazards examination and rectification in order to enhance the emergency and contingency ability. Furthermore, the HSE management work of each subsidiary was comprehensively regulated and managed, resulting in a good and sustainable management mechanism. The Group spared no effort in ensuring safe and stable overall production environment and achieving the goal of "zero accident, zero injury and zero pollution". The Group has constantly been committed to pushing forward the concept of green shipping. During the year, the coating manufacturing joint ventures of the Company proactively promoted the high performance antifouling coatings and Hull Performance Solutions and successfully conducted testing on high solid epoxy coatings and water-based container coatings, leading the industry in pursuit of green and environmentally-friendly development.

COSCO SHIPPING International always pays attention to and concerns the well-being of the community where it operates. During the year, the Company sponsored and supported diversified social charitable activities in accordance with its established policy on charitable donations, especially focusing on education, environmental conservation and helping the underprivileged. Meanwhile, the Company actively organised the volunteer team, with the spirit of "Our Passion to Serve", to visit senior citizens who live alone and help low-income families to understand Hong Kong and integrate into the community so as to contribute to the society and fulfill its corporate citizen responsibility. In the past year, there were a total of 76 volunteers of the Group in Hong Kong, who participated in community services, serving up to 376 hours. With the concerted efforts of all staff, COSCO SHIPPING International was again awarded "5 Years Plus Caring Company Logo" by The Hong Kong Council of Social Service, in recognition of the Company's contribution and commitment to caring for its employees, the environment and the community over nine consecutive years.

OUTLOOK AND PROSPECTS

Looking forward to 2017, according to the forecast of several global authorities, the global economic growth will be higher than that in 2016. The escalation of the economic growth will provide better support and boost for the growth of demand in shipping market. In the meantime, although the imbalance between supply and demand has still existed within the industry, the increasingly rational shipping market will be able to see the structural recovery of the industry. In particular, the further implementation of China’s “Go Global” strategy and “One Belt and One Road” initiative will present enormous opportunities for Chinese shipping enterprises to develop new markets.

Adhering to the “industrial clusters” development strategy of COSCO SHIPPING Group, COSCO SHIPPING International will accelerate the development of the platform of “shipping services industrial clusters”. It will take the responsibility of the integration of shipping service assets under COSCO SHIPPING Group and make use of the opportunity of asset restructuring to explore the new business sector of shipping services and expand the coverage of shipping service business, with an aim to extend and improve the industrial chain of shipping services and further optimise the service boundary and scope of the Group. In the meantime, the Group will make efforts to expand third party businesses, while injecting potential projects, which are outside COSCO SHIPPING Group and are relevant to the existing business, in due course, so as to endeavour to expand the business footprint of the Group and improve the profit basis of each business unit. All the business units of the Group will also proactively respond to market changes while being committed to pursuing business diversification. Through continuous efforts, the Group will make progress while maintaining stability, and maximise the value of the enterprise and the return for shareholders.

With full support from the parent company and the endeavor and pioneering spirit of the management and all employees, I am fully confident of the future development of COSCO SHIPPING International. I would like to take this opportunity to express my sincere respect to our shareholders and business partners for their continued support and my heartfelt gratitude to all members of the Board and employees for their diligent services.

YE Weilong
Chairman

Hong Kong, 23rd March 2017

OVERALL ANALYSIS OF RESULTS

In 2016, there was a downturn in the market of international shipping industry and the industry continued to wallow in the doldrums. Also weighing on the market were the lingering oversupply. Facing such severe business environment, the Group leveraged on its advantages in terms of professionalism and scale and proactively edged up its marketing effort. Nevertheless, the financial results of the Company weakened, due to adjustment of fleet structure, continued slowdown in transactions of new build vessels, ongoing downward pressure on vessel prices, and depressed prices of container coatings as a result of fierce market competition. In 2016, profit attributable to equity holders of the Company was HK$237,205,000 (2015: HK$335,763,000), representing a decrease of 29% as compared to 2015. The basic earnings per share was 15.47 HK cents (2015: 21.91 HK cents), representing a decrease of 29% as compared to 2015.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2016 increased by 24% to HK$7,430,297,000 (2015: HK$5,999,646,000) as compared to 2015. Revenue from the core shipping services business increased by 29% to HK$6,661,910,000 (2015: HK$5,163,022,000) and accounted for 90% (2015: 86%) of the Group's revenue. Segment revenues of ship trading agency, insurance brokerage and marine fuel and other products increased by 16%, 3% and 71% respectively as compared to 2015. Revenue of general trading segment decreased by 8% to HK$768,387,000 (2015: HK$836,624,000) and accounted for 10% (2015: 14%) of the Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year decreased by 21% to HK$544,246,000 (2015: HK$690,722,000) while overall average gross profit margin dropped to 7.3% (2015: 11.5%). The decrease in overall gross profit was mainly attributable to the decrease in price and volume of container coatings as well as the increase in revenue from the low-gross-profit-margin marine fuel and other products.

Other Income and Gains

The Group recorded other income and gains of HK$34,646,000 (2015: HK$85,933,000). Other income and gains included fair value gains on investment properties of HK$7,524,000 (2015: HK$4,585,000) and net reversal of provision for impairment of trade receivables of HK$6,702,000. Other income and gains for 2015 primarily included net reversal of provision for impairment of other receivables of HK$18,574,000 and government subsidy income of HK$50,471,000 recognised in respect of a specific subsidy granted by the Shanghai Municipal Government and the Baoshan District Government. Such subsidy was a compensation for the relevant costs and expenses incurred by COSCO Kansai (Shanghai) in relocating the plant and settling the impacted staff.

Selling, Administrative and General Expenses

In 2016, selling, administrative and general expenses decreased by 17% to HK$447,434,000 (2015: HK$537,489,000). The decrease in selling expenses was mainly attributable to the significant decline in the sales volume of coating as compared to 2015, while the decrease in administrative and general expenses was attributable to the continuous and enhanced effort on cost control imposed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

CORE BUSINESS COVERAGE

		Ship Trading Agency Services	Marine Insurance Brokerage Services	Supply of Marine Equipment and Spare Parts	Production and Sale of Coatings	Trading and Supply of Marine Fuel and Related Products
1	Beijing	✓		✓		
2	Tianjin				✓	
3	Dalian				✓	
4	Qingdao				✓	
5	Shanghai			✓	✓	
6	Guangzhou				✓	
7	Shenzhen		✓			
8	Hong Kong	✓	✓	✓	✓	✓
9	Zhuhai				✓	
10	Singapore			✓		✓
11	Japan			✓		
12	Germany			✓		
13	the United States			✓		


ASIA
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Major sales office or plant

MANAGEMENT DISCUSSION AND ANALYSIS

Other Expenses and Losses

The Group recorded other expenses and losses of HK$18,046,000 (2015: HK$44,458,000). Other expenses and losses primarily included net provision for impairment of inventories of HK$10,312,000 and net exchange losses of HK$7,434,000 (2015: HK$41,818,000). Other expenses and losses for 2015 also included net provision for impairment of trade receivables of HK$2,189,000.

Operating Profit

Due to the factors stated above, the Group's operating profit decreased by 42% to HK$113,412,000 (2015: HK$194,708,000).

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, decreased by 21% to HK$90,960,000 (2015: HK$115,163,000) as a result of the decrease in interest rate of cash deposit as compared to 2015.

Finance Cost

Finance cost, which mainly represented interest expenses on short-term borrowings and other financial charges, increased by 16% to HK$4,414,000 (2015: HK$3,795,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures decreased by 18% to HK$89,930,000 (2015: HK$110,171,000). This item primarily represented the share of profit of Jotun COSCO of HK$88,236,000 (2015: HK$107,333,000) which was included in the coatings segment.

Share of Profits of Associates

The Group's share of profits of associates decreased by 12% to HK$10,202,000 (2015: HK$11,577,000). This item primarily comprised the share of profit of Double Rich of HK$9,094,000 (2015: HK$10,237,000) which was included in the marine fuel and other products segment.

Income Tax Expenses

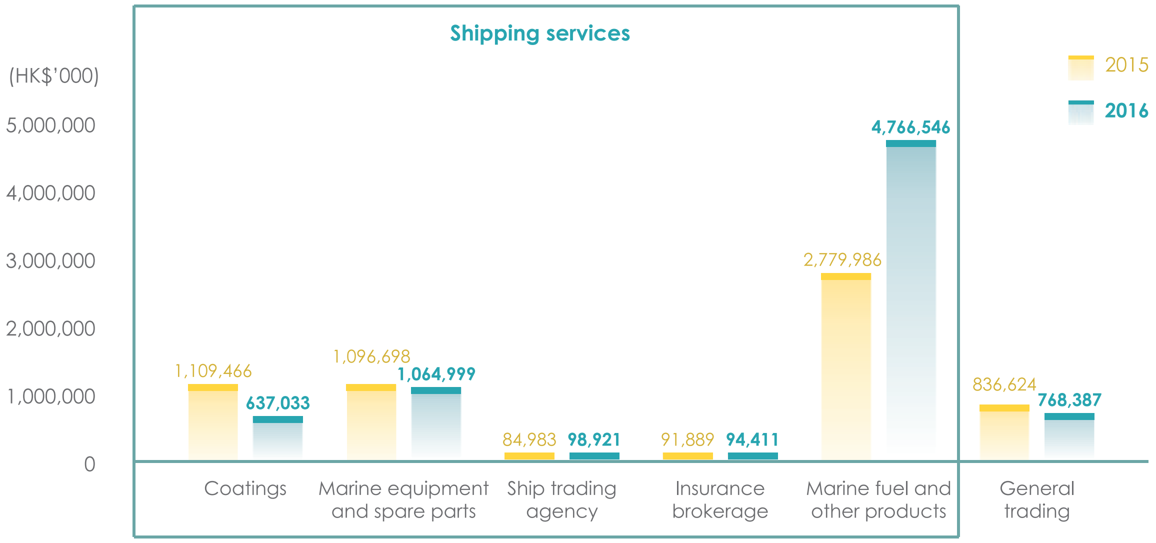
The Group's income tax expenses for the year decreased to HK$63,590,000 (2015: HK$65,760,000). The ratio of income tax expenses to profit before income tax, excluding the share of profits of joint ventures and associates, however increased from 21% in 2015 to 32% as a result of increase in withholding tax.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company during the year decreased by 29% to HK$237,205,000 (2015: HK$335,763,000).

FINANCIAL RESULTS

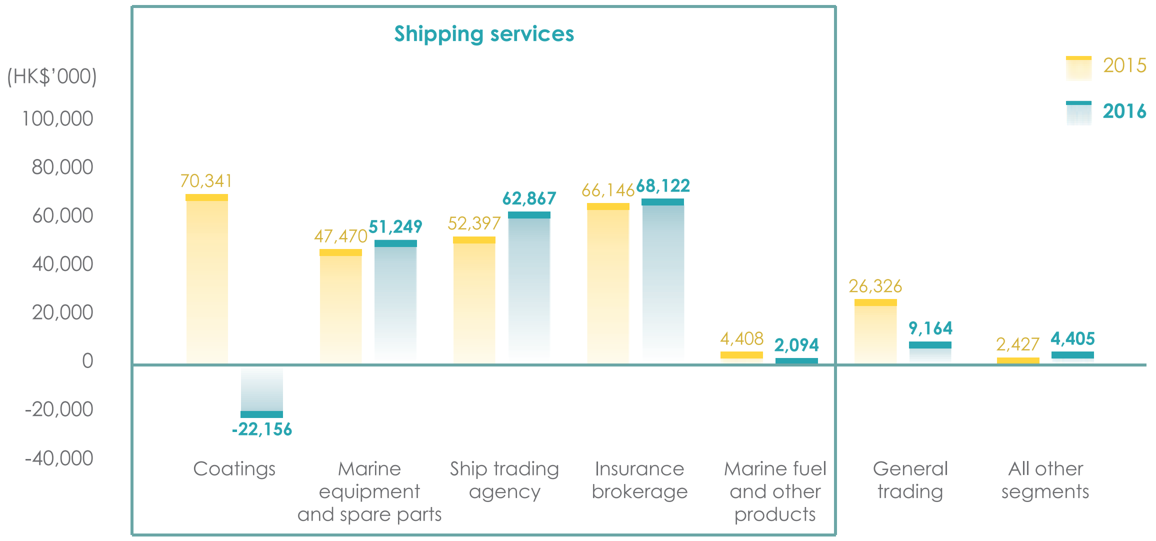
SEGMENT REVENUE*



* external customers only

Revenue from the core shipping services businesses increased by 29% to HK$6,661,910,000 (2015: HK$5,163,022,000) and accounted for 90% (2015: 86%) of the Group's revenue, with the major increases coming from the marine fuel and other products, ship trading agency and insurance brokerage segments.

SEGMENT OPERATING PROFIT/LOSS



Segment operating profit from shipping services was HK$162,176,000 (2015: HK$240,762,000), representing a decrease of 33% as compared to 2015. It was mainly due to decreases in operating profit from coatings and marine fuel and other products as compared to 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS (Continued)

For the year ended 31st December	2016 HK$'000	2015 HK$'000	Change HK$'000	%	Remark
Shipping services	**162,176**	240,762	(78,586)	(33)	It was mainly attributable to the decreases in price and volume of container coatings as well as the decline in gross profit margin of marine fuel and other products as compared to 2015.
General trading	**9,164**	26,326	(17,162)	(65)	It was mainly attributable to the reversal of provision for impairment of other receivables of HK$18,662,000 due to successful collection of other receivables in default in 2015.
All other segments	**4,405**	2,427	1,978	81	
Corporate expenses, net of income	**(62,195)**	(74,696)	12,501	(17)	
Elimination of segment income from corporate headquarters	**(138)**	(111)	(27)	24	
Operating profit	**113,412**	194,708	(81,296)	(42)	
Finance income-net	**86,546**	111,368	(24,822)	(22)	It was mainly attributable to lower cash deposit interest rates as compared to 2015.
Share of profits of joint ventures	**89,930**	110,171	(20,241)	(18)	As a result of decline in sale volume of marine coatings, the profit contribution from Jotun COSCO decreased by 18% when compared to 2015.
Share of profits of associates	**10,202**	11,577	(1,375)	(12)	Represented mainly share of profit of Double Rich.
Profit before income tax	**300,090**	427,824	(127,734)	(30)	
Income tax expenses	**(63,590)**	(65,760)	2,170	(3)	The ratio of income tax expenses to profit before income tax, excluding the share of profits of joint ventures and associates, increased from 21% in 2015 to 32% as a result of increase in withholding tax.
Profit for the year	**236,500**	362,064	(125,564)	(35)	

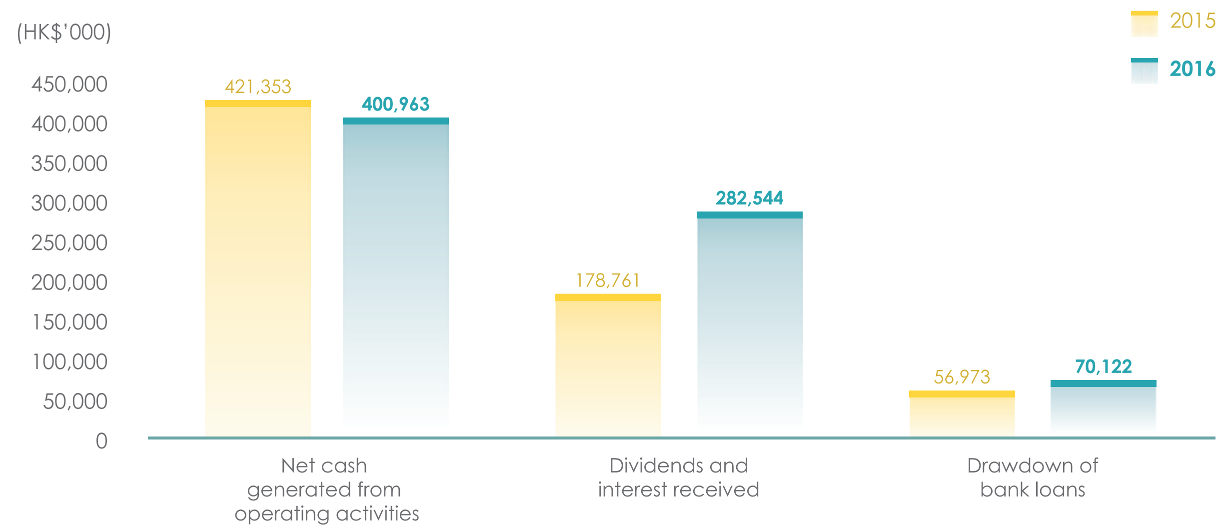
FINANCIAL RESULTS (Continued)

As at 31st December	2016 HK$'000	2015 HK$'000	Change HK$'000	%	Remark
Intangible assets	**101,951**	103,185	(1,234)	(1)	
Property, plant and equipment, prepaid premium for land leases and investment properties	**431,004**	474,808	(43,804)	(9)	
Investments in joint ventures	**417,617**	525,343	(107,726)	(21)	
Investments in associates	**117,564**	107,615	9,949	9	
Other non-current assets	**116,815**	107,999	8,816	8	
Inventories	**243,360**	347,241	(103,881)	(30)	
Trade receivables — net	**646,337**	769,366	(123,029)	(16)	All business units refocused on internal management, intensified their efforts to manage working capital and control costs.
Other receivables	**550,460**	740,629	(190,169)	(26)	
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents)	**6,722,017**	6,260,730	461,287	7	(a), (b)
Other current assets	**41,019**	30,399	10,620	35	
Total assets	**9,388,144**	9,467,315	(79,171)	(1)	
Deferred income tax liabilities	**69,349**	44,655	24,694	55	
Trade and other payables	**1,186,822**	1,278,279	(91,457)	(7)	
Current income tax liabilities	**19,156**	8,695	10,461	120	
Short-term borrowings	**67,076**	36,062	31,014	86	
Non-controlling interests	**343,580**	370,469	(26,889)	(7)	
Total liabilities and non-controlling interests	**1,685,983**	1,738,160	(52,177)	(3)	
Net assets attributable to equity holders	**7,702,161**	7,729,155	(26,994)	—	

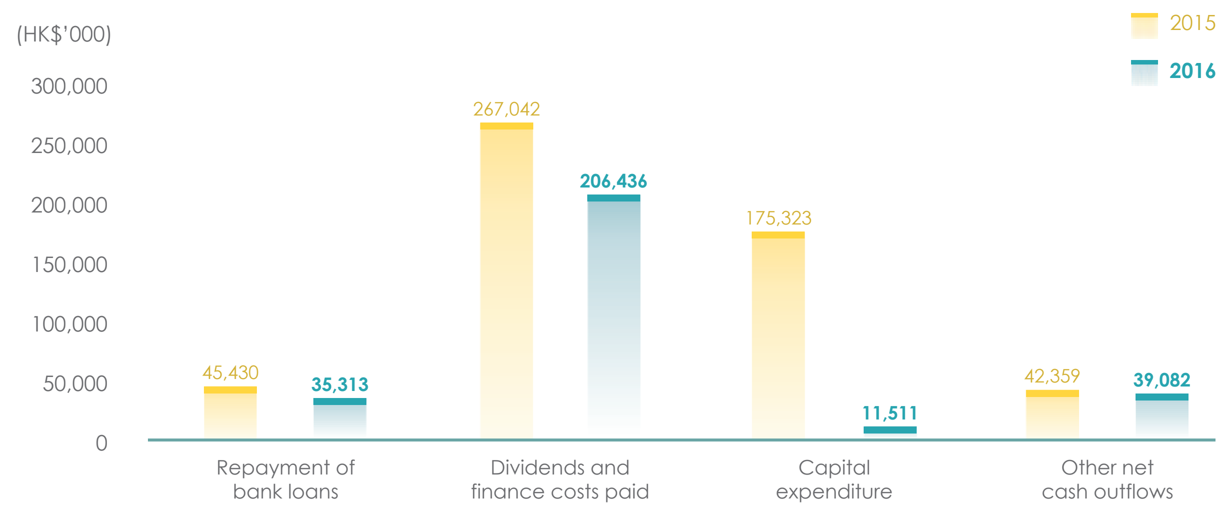
MANAGEMENT DISCUSSION AND ANALYSIS

(a) MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



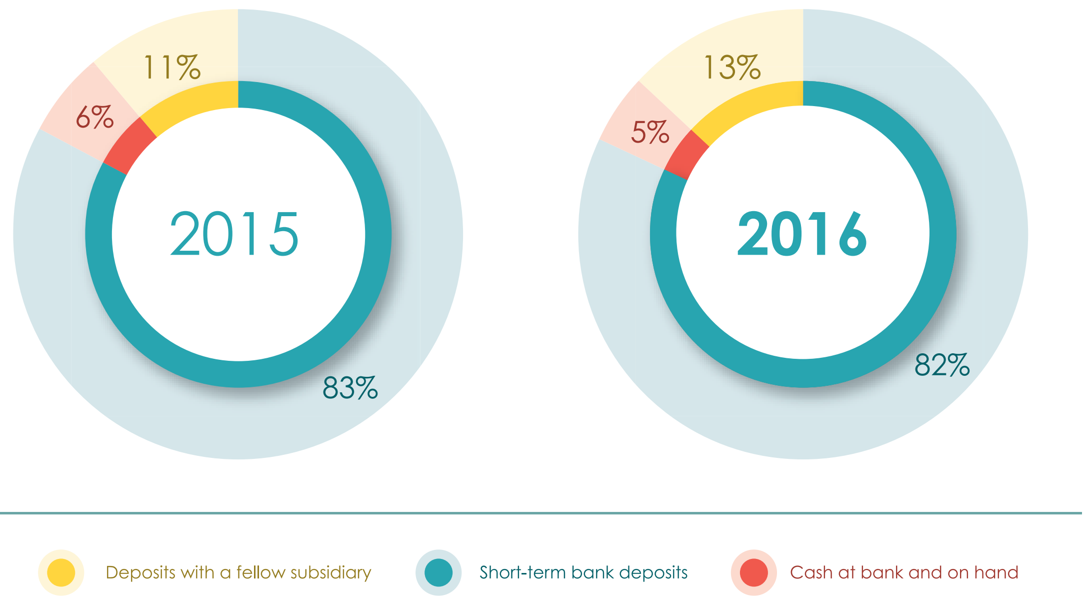
CASH OUTFLOWS



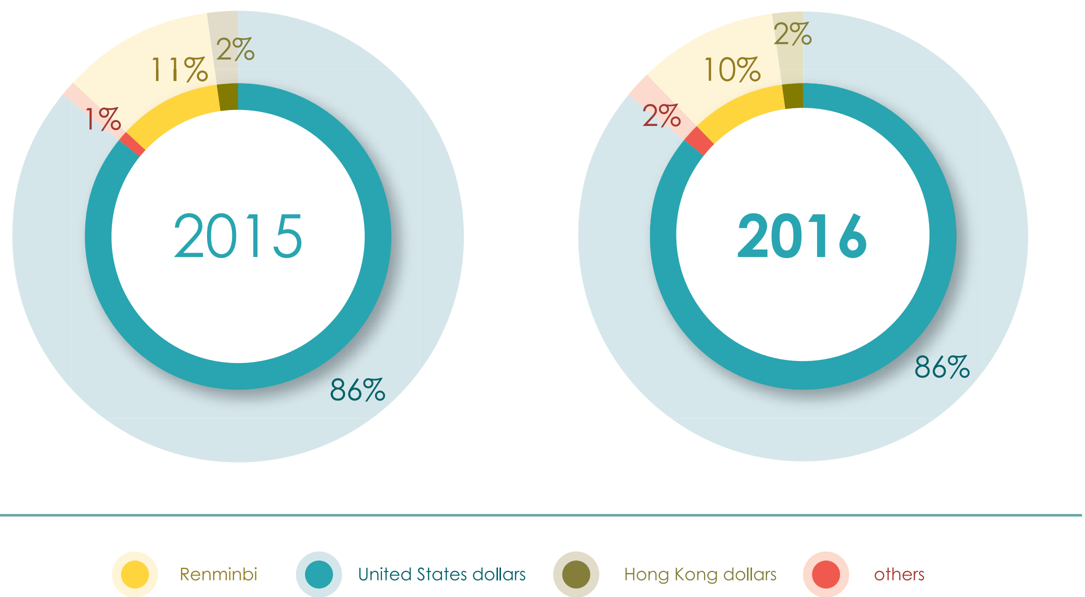
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents) increased by HK$461,287,000 in aggregate during the year. Sources of cash principally included net cash generated from operating activities of HK$400,963,000, dividends and interest received of HK$282,544,000 and drawdown of bank loans of HK$70,122,000. Use of cash principally included repayment of bank loans of HK$35,313,000, payment of dividends and finance costs totalling HK$206,436,000, capital expenditure of HK$11,511,000 and other net cash outflows of HK$39,082,000.

(b) ANALYSIS OF CASH

CLASSIFIED BY NATURE



CLASSIFIED BY CURRENCY



CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent but flexible approach towards financial management which aims at maintaining a healthy balance sheet, a relatively low level of borrowings and adequate liquidity. The Board believes this approach ensures sufficient financial resources available for merger and acquisition opportunities that fit in well with the Group's strategic direction, therefore is in line with the Group's long term development.

The Group's main sources of liquidity comprised cash, bank balances and non-committed unutilised banking facilities. The liquidity is primarily for financing of general working capital requirements, dividend payments and future capital expenditure. As at 31st December 2016, deposits and cash and cash equivalents held by the Group accounted for 82% (2015: 77%) of the Group's total current assets.

As at 31st December 2016, the Group's total assets decreased by 0.8% to HK$9,388,144,000 (2015: HK$9,467,315,000). Total liabilities decreased by 2% to HK$1,342,403,000 (2015: HK$1,367,691,000). The Group remained cautious about potential credit risks that surrounded the shipping services industry. All business units focused on internal management, intensified their efforts on receivables management, working capital management and costs control, and attained remarkable results. As a result, the Group recorded net operating cash inflow in recent years, and the net cash generated from operating activities for the year reached HK$400,963,000, out of which HK$270,093,000 was attributable to the decrease of trade receivables and other receivables. The Group's selling, administrative and general expenses decreased by 17% as compared to 2015.

Net asset value attributable to shareholders was HK$7,702,161,000 (2015: HK$7,729,155,000). Net assets value per share was HK$5.02 (2015: HK$5.04), slightly decreased by 0.4% as compared to the end of 2015.

As at 31st December 2016, the Group's total bank borrowings increased to HK$67,076,000 (2015: HK$36,062,000), which was mainly for the purpose of working capital requirement for general trading business. For the maturity profile, please refer to the table below. The Group's total cash on hand and non-committed unutilised standby banking facilities increased by 7% to HK$6,722,017,000 (2015: HK$6,260,730,000) and increased by 4% to HK$1,256,418,000 (2015: HK$1,211,191,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0.7% (2015: 0.4%).

Debt Analysis

	31st December 2016		31st December 2015	
	HK$'000	**%**	HK$'000	%
Classified by maturity: — repayable within one year	**67,076**	**100**	36,062	100
Classified by type of loan: — unsecured	**67,076**	**100**	36,062	100
Classified by currency: — Renminbi	**67,076**	**100**	36,062	100

Both the bank borrowings and the gearing ratio remained low since the end of 2015. While the corporate headquarters provided funds to the operating units, the use of more costly bank borrowings to support working capital requirement was reduced. Furthermore, the Group continued its efforts in securing higher yields through exploring channels of deposits with major financial institutions.

The Group had restricted bank deposits of HK$559,000 (2015: HK$597,000) as security for bank credit facilities and other purposes.

In considering the Group's current level of cash and bank balances, funds generated internally from operations, the unutilised banking facilities available and a relatively low debt level, the Board is confident that the Group will have sufficient resources to meet its foreseeable capital expenditures and debt repayment requirements.

TREASURY POLICY

The Group operates principally in Hong Kong, China Mainland and Singapore, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Renminbi. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group managed its foreign exchange exposure through matching its operating costs and borrowings against its receivables on sales. Nevertheless, the Group is still exposed to relevant foreign exchange risk in respect of Renminbi and United States dollars exchange rate fluctuations such that the Group's profit margin might be impacted accordingly.

The Group continued to monitor and adjust its debt portfolio from time to time in light of market conditions, the objective of which is to reduce potential interest rate risk exposure, improve debt structure and lower interest expenses. The Group also maintained the policy of financial supports to major business units to reduce the level of external borrowings.

As at 31st December 2016, borrowings of the Group carried interests at rates calculated with reference to the benchmark interest rates announced by the People's Bank of China. The Group had used forward foreign exchange contracts to hedge its foreign currency exposure in 2016.

As for cash management, the Group selects suitable cash investment instruments based on the balance among security, return and liquidity to ensure sufficient funds are available and an appropriate level of liquidity is maintained to meet all its obligations during different stages of the shipping cycle.

The Group maintained a healthy cash position. As at 31st December 2016, the Group had net cash, which represented total cash and deposits net of short-term borrowings, of HK$6,654,941,000 (2015: HK$6,224,668,000). To enhance the Group's profitability and to maintain availability of cash at appropriate times to meet the Group's commitments and needs, the Group, on the basis of balancing risk, return and liquidity, invested in suitable and low-risk deposit products, including overnight deposits, term deposits and offshore fixed deposits. Cash and deposits of the Group were placed with highly reputable financial institutions both in Hong Kong, China Mainland, Singapore, Japan, Germany and the United States. During the year, the Group strengthened its funds management and had actively negotiated with banks to strive for higher deposit yields for the huge sum of liquid funds on hand. The Group achieved a 1.4% rate of return on the Group's cash for the year, representing 40 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of 2016. The Group had no financial instruments for interest rate hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2016, sales to the largest customer and aggregate sales to the five largest customers accounted for 39% and 67% respectively (2015: 39% and 47% respectively) of the total revenue of the Group, while purchases from the largest supplier and aggregate purchases from the five largest suppliers accounted for 68% and 74% respectively (2015: 64% and 75% respectively) of the total cost of sales of the Group.

None of the Directors or their associates had interests in any of the five largest customers and suppliers.

Save as disclosed above, to the knowledge of the Directors, none of the shareholders of the Company (the “Shareholders”) owning more than 5% of the Company’s shares had interests in the five largest customers and suppliers.

EMPLOYEES

As at 31st December 2016, excluding joint ventures and associates, the Group had 829 (2015: 969) employees, of which 100 (2015: 102) were Hong Kong employees. During the year, total employee benefit expenses, including directors’ emoluments and provident funds, were HK$292,999,000 (2015: HK$304,082,000). Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to market conditions and individual performance. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme or recognised occupational retirement scheme. No share option scheme is in operation and no share options of the Company are outstanding.

REVIEW OF BUSINESS OPERATIONS

In 2016, amidst the continuous in-depth adjustment of the global economy, the economic recovery was sluggish. The growth of international trade remained weak, together with the frequent occurrence of black swan events and the rising protectionism in trade, leading to an increasingly fragile global economy. The economy of the PRC was overall in the path of steady and slow growth, and was expected to improve gradually. However, there were conflicts between the overcapacity and the upgrading in demand structure and the endogenous dynamics of economic growth was still insufficient. In the respect of the shipping industry, the international shipping market still faced with an imbalance between supply and demand. The Baltic Dry Index (BDI), the Shanghai Containerised Freight Index (SCFI) and the China Containerised Freight Index (CCFI) dropped to a historical low in 2016 respectively.

During the year, the Company's overall working principle was "securing steady growth, ensuring profitability and enhancing quality and efficiency". It actively coped with market changes, spared no effort to improve marketing services and safety management, increased income and reduced expenditure, continued to strengthen and optimise the existing businesses, enhanced service awareness and endeavoured to maximise its profit. At the same time, it further pushed forward the project development of the Company, expanded the influence of its existing businesses, speeded up the establishment of "shipping services industrial cluster". In terms of business expansion, with an aim to further integrate the Group's marine equipment and spare parts business, the Company completed the acquisition of CSHT Marine at the beginning of January 2017. The acquisition will on one hand expand the size of the existing relevant business, and on the other hand facilitate synergy creation through economies of scale and cost reduction, bringing more benefits for the Group.

1. Core Business — Shipping Services

The Group's shipping services mainly include ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and trading and supply of marine fuel and related products.

During the year, with the delay of vessel delivery schedule by some shipowners, the increase in vessel scrapping volume reduced the need of replacement of marine equipment and spare parts. And the sales volume and prices of container coatings declined due to fierce price competition among suppliers in view of the decrease in output of new containers in China amid sluggish global trade demand. During the year, revenue from the Group's shipping services was HK$6,661,910,000 (2015: HK$5,163,022,000), representing an increase of 29% as compared to 2015. The increase was mainly due to the increase in revenue from marine fuel and other products. Profit before income tax from shipping services was HK$275,235,000 (2015: HK$372,400,000), representing a decrease of 26% as compared to 2015, mainly attributable to the marked decrease in profit before income tax from coatings segment as compared to 2015.

SHIP TRADING AGENCY SERVICES

1.1 Ship Trading Agency Services

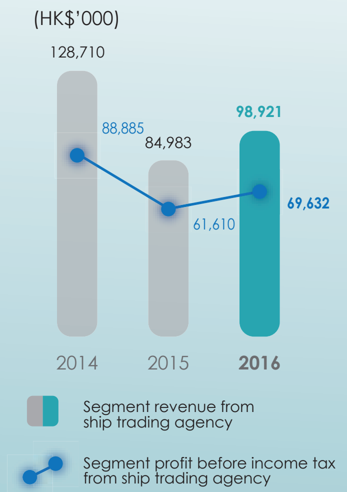
COSCO SHIPPING (Hong Kong) Ship Trading is principally engaged in the provision of agency services relating to ship building, ship trading and chartering for the fleet of COSCO SHIPPING Group. COSCO SHIPPING (Hong Kong) Ship Trading also provides similar services for shipowners and shipping enterprises outside COSCO SHIPPING Group. COSCO SHIPPING (Hong Kong) Ship Trading mainly derives its revenue from agency services. In the case of new build vessels, commissions are paid by shipbuilders according to the work progress specified in the relevant contracts. For the trading of second-hand vessels, commissions are paid to COSCO SHIPPING (Hong Kong) Ship Trading according to the contracts after the vendors have delivered the vessels to the buyers.

During the year, some shipping companies delayed delivery of dry bulk vessels under construction due to the depressed shipping market, especially in the downturn of dry bulk shipping market. Number of delivery of new build vessels ordered through COSCO SHIPPING (Hong Kong) Ship Trading was 22 (2015:17), aggregating 1,686,000 dead weight tonnages (2015: 2,428,000 dead weight tonnages). Facing the tough business environment, COSCO SHIPPING (Hong Kong) Ship Trading actively increased marketing efforts, and paid several visits to internal and external customers of COSCO SHIPPING Group to strengthen exchanges and communication. Such measures have achieved positive results. A total of 17 (2015: 30) new build vessels ordered through COSCO SHIPPING (Hong Kong) Ship Trading were recorded during the year, aggregating 4,138,000 dead weight tonnages (2015: 3,793,000 dead weight tonnages). For second-hand vessels, the sale and purchase of a total of 48 (2015: 45) second-hand vessels through COSCO SHIPPING (Hong Kong) Ship Trading were recorded, aggregating 2,822,000 dead weight tonnages (2015: 3,710,000 dead weight tonnages).

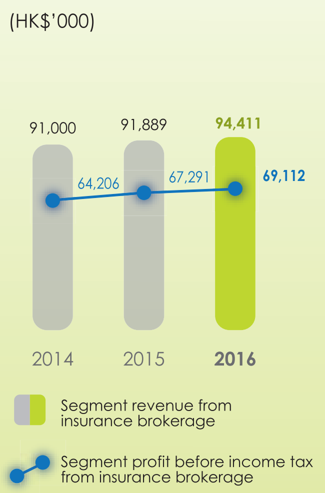
As of 31st December 2016, the amount of new build vessels ordered through COSCO SHIPPING (Hong Kong) Ship Trading and pending delivery reached 12,360,000 dead weight tonnages, which were scheduled for delivery in the coming two to three years.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, revenue from the ship trading agency segment increased by 16% to HK$98,921,000 (2015: HK$84,983,000) as compared to 2015. Segment profit before income tax was HK$69,632,000 (2015: HK$61,610,000), representing an increase of 13% as compared to 2015. The increase in segment profit before income tax was mainly due to the increases in new build vessel commission income and second-hand vessel commission income during the year as compared to 2015.



MARINE INSURANCE BROKERAGE SERVICES



1.2 Marine Insurance Brokerage Services

COSCO Insurance Brokers are primarily engaged in the provision of insurance intermediary services including risk assessment, designing insurance programmes, placing insurance coverage, loss prevention and claims handling for the insured (including their various vessels) worldwide for service commissions.

During the year, COSCO Insurance Brokers completed renewal of the hull and machinery insurance, increased value insurance, war risks insurance and protection and indemnity insurance for the fleet, and actively explored other non-marine insurance brokerage business, including credit insurance, directors' liabilities insurance, terminal related insurance and group medical insurance, achieving satisfactory results. In respect of marketing services, COSCO Insurance Brokers actively explored new customers and successfully renewed the hull and machinery insurance and protection and indemnity insurance with a number of large state-owned enterprises. Moreover, it provided professional insurance advices for the existing customers based on the customers' business situation and needs. In addition, COSCO Insurance Brokers also maintained a WeChat public account to publish timely updates on important insurance information, which helped keep in touch with the customers and further improved brand image of the Company.

During the year, revenue from insurance brokerage segment was HK$94,411,000 (2015: HK$91,889,000), up by 3% as compared to 2015. Segment profit before income tax was HK$69,112,000 (2015: HK$67,291,000), representing an increase of 3% as compared to 2015.

SUPPLY OF MARINE EQUIPMENT AND SPARE PARTS

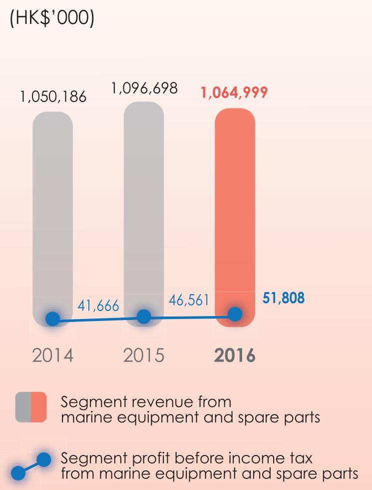
1.3 Supply of Marine Equipment and Spare Parts

COSCO Yuantong Operation Headquarters (CSHT Marine also became one of the members of COSCO Yuantong Operation Headquarters upon acquisition completed at the beginning of January 2017) are principally engaged in the sale and installation of marine equipment and spare parts for existing and new build vessels, as well as equipment of radio communications systems, satellite communications and navigation systems for ships, offshore facilities, coastal stations and land users; marine materials supply and voyage repairs. Its existing business network covers cities such as Hong Kong, Shanghai and Beijing, etc. and countries such as Japan, Singapore, Germany and the United States, etc.

During the year, each shipping company made strenuous effort to save cost in a weak shipping market. Coupled with the fact that the increase in vessel scrapping volume reduced the demand for marine spare parts and maintenance, the sales volume of COSCO Yuantong Operation Headquarters was directly affected. Facing the fierce market competition, COSCO Yuantong Operation Headquarters continued to enhance its marketing services. By formulating customised service standards, adjusting key customer service improvement programs and actively visiting customers, it provided one-on-one professional services to its customers. Meanwhile, COSCO Yuantong Operation Headquarters actively intensified effort to develop business outside COSCO SHIPPING Group and successfully acquired new customers outside COSCO SHIPPING Group, achieving fast growth in such external business. In addition, COSCO Yuantong Operation Headquarters explored additional non-traditional services, such as vessel inspection services and overseas repairing services etc., in response to market changes and customers' needs. These services not only satisfied customers' needs but also created new profit drivers for the Group. In order to further strengthen the materials supply business, a distribution center of marine materials established in Singapore had been officially put into operation based on its regional positioning and geographical advantage.

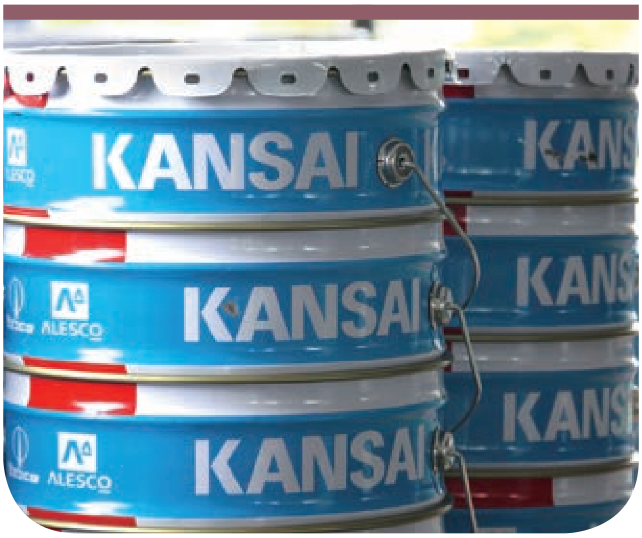
During the year, revenue from marine equipment and spare parts segment was HK$1,064,999,000 (2015: HK$1,096,698,000), representing a decrease of 3% as compared to 2015. Segment profit before income tax was HK$51,808,000 (2015: HK$46,561,000), representing an increase of 11% as compared to 2015, which was mainly attributable to the continuous and enhanced effort on cost control and the reversal of provision for impairment of trade receivables of HK$1,761,000 (2015: provision for impairment of trade receivables of HK$4,059,000) during the year.

MANAGEMENT DISCUSSION AND ANALYSIS



PRODUCTION AND SALE OF COATINGS

1.4 Production and Sale of Coatings

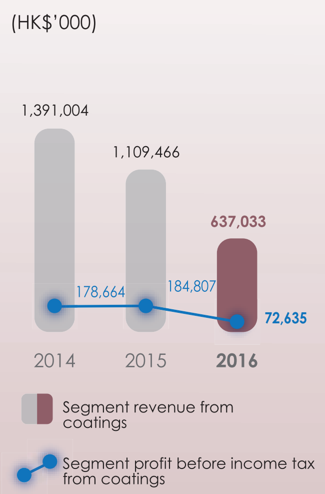


The coating business of the Company primarily includes the production and sale of container coatings, industrial heavy-duty anti-corrosion coatings and marine coatings. COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai) are principally engaged in the production and sale of container coatings and industrial heavy-duty anti-corrosion coatings, while COSCO Kansai (Shanghai) is primarily engaged in the sale of container coatings and industrial heavy-duty anti-corrosion coatings. Jotun COSCO, a 50/50 joint venture formed by the Company and Jotun A/S, Norway, an international coating manufacturer, is principally engaged in the production and sale of marine coatings.

For container coatings, as a result of the continued sluggish shipping market during the year, market demand for new build containers and the prices of new containers dropped. The operating results of COSCO Kansai Companies were significantly affected despite the fact that they successfully developed new customers by providing differential services. For marine coatings, Jotun COSCO put greater effort into marketing and customer care, which helped to maintain its leading position in China's marine coating market.

During the year, revenue from coatings segment was HK$637,033,000 (2015: HK$1,109,466,000), representing a significant decrease of 43% as compared to 2015. The decrease was mainly due to the decline in sales volume and price of container coatings as compared to 2015. Segment profit before income tax was HK$72,635,000 (2015: HK$184,807,000), representing a decrease of 61% as compared to 2015, which included the decrease in the Group's share of profit from Jotun COSCO.

MANAGEMENT DISCUSSION AND ANALYSIS



1.4.1 Container Coatings and Industrial Heavy-duty Anti-corrosion Coatings

COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai) and COSCO Kansai Paint (Shanghai) have coating plants in Tianjin, Zhuhai and Shanghai respectively. These coating plants are respectively located in the Pan-Bohai Rim, the Pearl River Delta and the Yangtze River Delta, the three most economically developed regions of China.

Facing the tough market condition, COSCO Kansai Companies, during the year, actively strived for every order by segmenting their target customers, enhancing communication by visiting customers and improving their marketing services, consolidated their strategic cooperation relationships with container manufacturing enterprises and endeavoured to promote and publicise their water-based coatings, all such initiatives achieved promising results. COSCO Kansai Companies also actively expanded into the special container market and offered quality services to major container manufacturers and container owners, thereby gaining the support and trust from key customers. However, the sales volume of container coatings decreased by 57% from 38,099 tonnes in 2015 to 16,237 tonnes during the year, mainly due to the decrease in the output of new containers in China and fierce market competition as compared to 2015.

COSCO Kansai Companies continued to vigorously develop the business of industrial heavy-duty anti-corrosion coatings, actively formulated sales and marketing strategies for each business sector, established a regional sales network, optimised organisational structure, focused on key customers and key projects, and increased market development effort. While consolidating the market share of existing businesses, COSCO Kansai Companies also strived to develop new areas of business and have made achievement in developing the integrated industrial and construction machinery sector. A series of products in relation to protective coatings for nuclear power plants developed by COSCO Kansai Companies have been granted the authentication by the Science and Technology Product Identification Conference (科學技術產品鑑定會) organised by the China Nuclear Energy Association, thereby further consolidating the leading position of COSCO Kansai Companies in the said industry. During the year, the sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 16,654 tonnes (2015: 16,081 tonnes), representing an increase of 4% as compared to 2015.

COSCO Kansai Companies were awarded "The Top 10 Anti-Corrosion Coating Brands Awards of China" by 慧聰塗料網 (HC Coating Network) for the seventh straight year.

MANAGEMENT DISCUSSION AND ANALYSIS

1.4.2 Marine Coatings

Jotun COSCO is principally engaged in the production and sale of marine coatings in the region of China including China Mainland, Hong Kong and Macau Special Administrative Regions.

During the year, a significant decrease in the number of new build vessel orders received by Chinese shipyards and ships in need of dock repair were recorded. In line with the increasing industrial competition under the rigorous market conditions, Jotun COSCO increased customer visits so as to proactively maintain and reinforce the customer relationship with major domestic shipyards and shipowners and segmented the market and its target customers based on the market trend and demand of marketing services so as to gradually establish a service system with differentiated products, services and marketing. In addition, it strived to obtain coating orders with better terms for new build vessels through selective market development and spared no effort to strengthen coatings for repair and maintenance business in order to maintain its market share. Meanwhile, Jotun COSCO strived for product enhancement, facilitated energy saving and emission reduction of vessels while focusing on the promotion of HPS (Hull Performance Solution) as well as the combination of vessel maintenance concept with maintenance coating products. Jotun COSCO offered solutions to its customers according to their business needs so as to maintain its leading position in China's marine coating market. Furthermore, Jotun COSCO formulated a strategy of exploiting the potentials of its customers while maintaining the ship repairing projects from major and quality customers, with a view to deepening the development of other potential markets. During the year, sales volume of Jotun COSCO's

coatings for new build vessels amounted to 52,082,000 litres, representing a decrease of 17% as compared to 2015. Sales volume of coatings for repair and maintenance was 16,671,000 litres, representing a decrease of 19% as compared to 2015. The sales volume of Jotun COSCO's marine coatings amounted to 68,753,000 litres (equivalent to approximately 92,814 tonnes) (2015: 83,436,000 litres (equivalent to approximately 112,639 tonnes)), representing a decrease of 18% as compared to 2015. During the year, the Group's share of profit from Jotun COSCO was HK$88,236,000 (2015: HK$107,333,000), representing a decrease of 18% as compared to 2015, which was mainly attributable to the decrease in sale volume of marine coatings.

As at 31st December 2016, Jotun COSCO had coating contracts on hand for new build vessels amounting to 34,690,000 dead weight tonnages pending delivery. The coatings were scheduled to be delivered in the coming three years, which guaranteed steady development of Jotun COSCO's business.

TRADING AND SUPPLY OF MARINE FUEL AND RELATED PRODUCTS

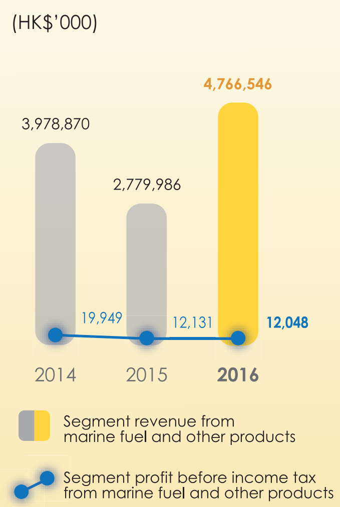
1.5 Trading and Supply of Marine Fuel and Related Products

Sinfeng is primarily engaged in the supply of marine fuel, trading and brokerage services of marine fuel and related products. Currently, its business network primarily covers major oil ports such as Singapore and Malaysia. During the year, Sinfeng adopted prudent business strategies by conducting business with reputable customers in order to establish stable and long-term business cooperation in response to the complex market environment. During the year, total sales volume of marine fuel products was 2,114,548 tonnes, increased by 84% as compared with 1,146,911 tonnes in 2015.

Revenue from the marine fuel and other products segment was HK$4,766,546,000, significantly increased by 71% as compared with HK$2,779,986,000 in 2015, which was mainly attributable to the increase in sales volume during the year as compared to 2015.

Double Rich, in which the Group owns 18% equity interest, is principally engaged in the trading of fuel and oil products and marine fuel supply services in Hong Kong and also in sourcing products such as light diesels and fuel oil. Its major customers are shipowners and ship operators. During the year, the Group's share of profit from Double Rich was HK$9,094,000 (2015: HK$10,237,000), down by 11% as compared to 2015, which was mainly due to the decline in investment gain during the year.

Profit before income tax from marine fuel and other products segment was HK$12,048,000 (2015: HK$12,131,000), representing a slight decrease of 1% as compared to 2015, which was mainly attributable to the decrease in share of profit of an associate.



2. General Trading

CITC is principally engaged in the trading of asphalt and other comprehensive trading.

During the year, faced with the sluggish domestic macro economy, tight funding for infrastructure, the continuously fluctuating crude oil market and the market condition under increasingly fierce competition, CITC endeavored to maintain its market shares in areas where it has obtained advantages in bidding and tendering, including Guangxi, Yunnan, Guizhou, Hunan, etc., and focused on exploring new markets, such as Anhui, Jiangsu and Inner Mongolia, etc. CITC made use of the advantages of resources and logistics and successfully bidded the asphalt supply project for the expressway within the Anhui Province and therefore has tapped into the market of such area. In respect of the non-tender business, CITC continued to vigorously develop end customers, and gradually participated in urban infrastructure and asphalt retail areas while ensuring the risk control so as to expand business scope and seek new profit drivers. By leveraging such strategies, CITC had achieved remarkable success in exploring retail business in the Eastern China region market. In addition, CITC also has gradually set up a relatively stable supply system of imported and domestic asphalt by enhancing the cooperative relationships with the well-known domestic and foreign resource suppliers, thereby further enhanced its ability in the integration of resource allocation and contributed to the development of asphalt supply business. During the year, the sales volume of asphalt of CITC amounted to 181,177 tonnes, representing an increase of 5% as compared to 173,061 tonnes in 2015.

During the year, revenue from general trading segment was HK$768,387,000 (2015: HK$836,624,000), down by 8% as compared to 2015, which was mainly due to lower selling prices of asphalt which offset the increase of sales volume. Segment profit before income tax was HK$4,530,000 (2015: HK$23,143,000), representing a significant decrease of 80% as compared to 2015. It was mainly attributable to the reversal of provision for impairment of other receivables of HK$18,662,000 resulted from successful collection of other receivables in default in 2015.

SUBSEQUENT EVENT

On 28th November 2016, the Company entered into a share purchase agreement with COSCO SHIPPING Financial Holdings Co., Limited and China Merchants Hoi Tung Trading Company Limited in relation to the acquisition of 100% equity interest of CSHT Marine at a cash consideration of HK$118,400,000 (the "Acquisition"). Details of the Acquisition were set out in the Company's announcement dated 28th November 2016 and the circular dated 12th December 2016. The Acquisition was approved by independent shareholders at the special general meeting of the Company held on 30th December 2016, and was completed on 1st January 2017.

EXPLORE NEW MARKETS, FOR MORE DEVELOPMENT OPPORTUNITIES

INNOVATION AND DEVELOPMENT

The Group will be committed to building a "shipping services industrial cluster" by fully capitalising on its own strengths, further refining the business coverage of shipping services and optimising its services boundary and scope. The Group will facilitate the expansion and development of the products and services, aiming to develop itself as a global leading one stop shipping services provider and create value for the Shareholders.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Ye Weilong
(Chairman)

aged 54, has been the Executive Director and Chairman of the Board of the Company since March 2016. He is also executive vice president of China COSCO Shipping Corporation Limited, the chairman of COSCO West Asia FZE and non-executive director of Piraeus Port Authority S.A. (listed on Athens Stock Exchange). Mr. Ye was the executive director and chairman of the Board of the Company for the period from February 2012 to September 2013. Mr. Ye had been the assistant to general manager, deputy general manager and general manager of Shanghai International Freight Forwarding Company, the general manager of COSCO Shanghai International Freight Co., Ltd. and COSCO International Freight Co., Ltd., the managing director of COSCO Logistic Co., Ltd., the deputy general manager and chairman of COSCO Container Lines Co., Ltd., the chairman of COSCO Shipping Co., Ltd. (listed in the PRC), the chairman of China COSCO Bulk Shipping (Group) Co., Ltd., the deputy general manager of China COSCO Holdings Company Limited and 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and the director of COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited) (listed in Hong Kong and the PRC) until his resignation in December 2016. Mr. Ye has over 20 years of experience in shipping industry and over 10 years of experience in logistics management and also has extensive experience in corporate operational management, strategic operation and management of international cargo transportation and modern logistics. He obtained a Master's degree in Business Administration from the MBA program jointly organised by Shanghai Maritime College and Maastricht School of Management in the Netherlands and a Doctoral degree in Transportation Planning and Management from Dalian Maritime University, and is a senior economist.

Mr. Zhu Jianhui
(Vice Chairman)

aged 54, has been the Executive Director and Vice Chairman of the Board of the Company since August 2016 and is chairman of Strategic Development Committee and Risk Management Committee of the Company. Mr. Zhu is director of two subsidiaries of the Company. He is also director and president of COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited) and non-executive director of Piraeus Port Authority S.A. (listed on Athens Stock Exchange). He had been the manager of China Ocean Shipping Agency Nantong (Penavico Nantong), the deputy general manager of China Ocean Shipping Agency (Shanghai), the deputy general manager of China Ocean Shipping Agency head office, the deputy general manager of COSCO Logistics Co., Ltd., the general manager of China Ocean Shipping Tally Company and the general manager of Dalian Ocean Shipping Company. Mr. Zhu possesses extensive professional knowledge in ocean shipping and logistics management and also has rich experience in corporate operation and management. Mr. Zhu was graduated from Shanghai Maritime College (now known as Shanghai Maritime University) and obtained a Master's degree. He is a senior economist.

Mr. Liu Gang
(Managing Director)

aged 57, has been the Executive Director and Managing Director of the Company since September 2016 and is chairman of Corporate Governance Committee and member of Remuneration Committee, Nomination Committee, Strategic Development Committee and Risk Management Committee of the Company. Mr. Liu leads overall management and operation, human resources management, strategic development, corporate governance, legal and financial management of the Company. He is director of subsidiaries of the Company, vice president of COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited) and director of True Smart International Limited. Mr. Liu was the deputy general manager of COSCO Tianjin Freight Co., the general manager of COSCO Tianjin International Freight Co., Ltd., the general manager of COSCO International Freight Co., Ltd. and the general manager of COSCO Africa (Pty) Ltd.. Mr. Liu has over 30 years of experience in logistics management and shipping industry and also has extensive experience in corporate operational management, strategic operation and management of international cargo transportation and modern logistics. He obtained a Master's degree in Naval and Ocean Engineering from Tianjin University, and is a senior engineer.

Mr. Liu Xianghao

aged 44, has been the Executive Director of the Company since March 2016 and had been the Managing Director of the Company from March to September 2016. Mr. Liu is member of Strategic Development Committee and Risk Management Committee of the Company and director of a subsidiary of the Company. He is vice president, financial controller and chief legal consultant of COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited) and director of True Smart International Limited. Mr. Liu had been the deputy manager of Secretariat of Executive Division, the deputy manager of Secretarial Office of Executive Division, the deputy director and director of Executive Division, the director of Office of Board of Directors/General Manager's Office of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy director and director of General Manager's Office, the director of Office of Board of Directors/General Manager's Office of China COSCO Holdings Company Limited. Mr. Liu is familiar with the operation of listed companies and has extensive experience in auditing and corporate management. Mr. Liu obtained a Bachelor's degree in Economics from Nankai University and a Master's degree in Business Administration from China Europe International Business School, and is an accountant.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Wei

aged 45, has been the Non-executive Director of the Company since April 2012 and is member of Strategic Development Committee and Risk Management Committee of the Company. He is vice president of COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited). Mr. Wang had been the deputy manager of Executives Management Department of Organisation Division/Human Resources Division, the manager of Executives Management Department of Organisation Division/Human Resources Division and the deputy general manager of Organisation Division/Human Resources Division of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company), the deputy general manager of Organisation Division/Human Resources Division, general manager of Organisation Division/Human Resources Division of China COSCO Holdings Company Limited, the director of COSCO (Hong Kong) Group Limited, the director of COSCO Shipping Co., Ltd. (listed in the PRC) until his resignation in August 2016 and the non-executive director of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) (listed in Hong Kong) until his resignation in October 2016. Mr. Wang is familiar with the operation of listed companies and has extensive experience in human resources management. Mr. Wang graduated from Renmin University of China, majoring in Human Resources Management.

Mr. Tsui Yiu Wa, Alec

aged 67, has been the Independent Non-executive Director of the Company since February 2004 and is chairman of Nomination Committee, member of Audit Committee, Remuneration Committee and Corporate Governance Committee of the Company. Mr. Tsui is director of Industrial and Commercial Bank of China (Asia) Limited and also independent non-executive director of a number of listed companies in Hong Kong, namely, Pacific Online Limited, Summit Ascent Holdings Limited, Kangda International Environmental Company Limited, DTXS Silk Road Investment Holdings Company Limited as well as independent director of certain companies listed overseas including ATA Inc. (listed on NASDAQ), Melco Crown Entertainment Limited (listed on NASDAQ) and Melco Crown (Philippines) Resorts Corporation (listed in the Republic of Philippines). Mr. Tsui graduated from the University of Tennessee, the United States and was awarded a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering and had completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University, the United States. He was the chairman of Hong Kong Securities Institute from 2001 to 2004 and the chief operating officer of Hong Kong Exchanges and Clearing Limited in 2000 and the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology and human resources management. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited and previously served as the independent non-executive director of the listed companies in Hong Kong, namely, China Oilfield Services Limited until his retirement in June 2015 and China Power International Development Limited until his resignation in December 2016.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang, Simon X.

aged 63, has been the Independent Non-executive Director of the Company since April 2007 and is chairman of Remuneration Committee, member of Audit Committee, Nomination Committee and Corporate Governance Committee of the Company. He is chairman of Cyber City International Limited and independent non-executive director of China Petroleum & Chemical Corporation (listed in Hong Kong and the PRC). Mr. Jiang is also a director of China Foundation for Disabled Persons and a senior associate at the Judge Business School of Cambridge University of England. He is currently a member of the National Committee of the Chinese People's Political Consultative Conference and the United Nations Investments Committee. Mr. Jiang received his Bachelor's degree from Beijing Foreign Studies University, Master's degree from Australian National University and Doctorate's degree in Economics from Cambridge University of England. Mr. Jiang was the deputy chief of United Nations Joint Staff Pension Fund Investment Management Service, a trustee of Cambridge China Development Trust, a director of Zi Corporation, the advisory board member of Capital International Inc. of United States and Rothschild Investment Bank of England, the independent non-executive director of Greenland Hong Kong Holdings Limited (listed in Hong Kong) until his retirement in June 2014 and Nokia Corporation (listed on Nasdaq Helsinki and New York Stock Exchange) until his retirement in June 2016. He has experience in fund management.

Mr. Alexander Reid Hamilton

aged 75, has been the Independent Non-executive Director of the Company since June 2011 and is chairman of Audit Committee, member of Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. Mr. Hamilton is also independent non-executive director of Esprit Holdings Limited (listed in Hong Kong) and Shangri-La Asia Limited (listed in Hong Kong). He previously served as the independent non-executive director of CITIC Limited until his retirement in June 2015 and JPMorgan China Region Fund, Inc. (a USA registered closed end fund quoted on the New York Stock Exchange) until his retirement in July 2016. Mr. Hamilton is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Institute of Certified Public Accountants and Institute of Directors. He was a partner of Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' interests in shares and underlying shares of the Company and its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2016 are disclosed in the section headed "Directors' Interests in Securities" of the Directors' Report.

Mr. Zhu Jianhui is director and president of COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited) ("COSCO SHIPPING (Hong Kong)"). Mr. Liu Gang is vice president of COSCO SHIPPING (Hong Kong) and director of True Smart International Limited ("True Smart"), Mr. Liu Xianghao is vice president, financial controller and chief legal consultant of COSCO SHIPPING (Hong Kong) and director of True Smart, and Mr. Wang Wei is vice president of COSCO SHIPPING (Hong Kong). True Smart, the substantial shareholder of the Company, is the wholly-owned subsidiary of COSCO SHIPPING (Hong Kong). As such True Smart has, and COSCO SHIPPING (Hong Kong) is deemed to have, an interest in the 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 respectively, details of which are disclosed in the section headed "Substantial Shareholders" of the Directors' Report.

Save as disclosed in the Directors' respective biographical details under "Profile of Directors and Senior Management" and other part in this annual report, the Directors (a) have not held any directorships in other listed public companies whether in Hong Kong or overseas in the past three years; (b) do not hold any other positions in the Company and its subsidiaries; and (c) do not have any other relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company as at 23rd March 2017.

Each of the Directors referred to under "Profile of Directors and Senior Management" has entered into a letter of appointment with the Company, details of which are disclosed under section headed "Directors' Service Contracts" of the Directors' Report.

The Directors referred to under "Profile of Directors and Senior Management" (except (i) Non-executive Director and (ii) Mr. Ye Weilong being Executive Director) received the Directors' emoluments for the year 2016 which will be determined with reference to the prevailing market conditions, director's experience, qualifications and responsibilities involved in the Company. The details of the emoluments of the Directors for the year ended 31st December 2016 on a named basis are disclosed in note 27(a) to the financial statements.

SENIOR MANAGEMENT

Mr. Lin Wenjin

aged 57, has been the Deputy General Manager of the Company since March 2006. He is also the director of various subsidiaries of the Company. Mr. Lin is in charge of company strategy, investment planning, project development and corporate management, business of marine equipment and spare parts of the Company. Mr. Lin has a Bachelor's degree in Engineering from Shanghai Maritime University of the PRC and the marine chief engineer certificate, senior engineer qualification awarded by the Ministry of Communications of the PRC. He had worked in 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company) and had been the assistant manager of Technical Department, the chief of New Building Section in Japan, the manager of Development Department of Ocean Tramping Company, Limited, the deputy general manager of Development Division and Strategic Planning Division, the managing director of Executive Division of COSCO (Hong Kong) Group Limited and the executive director of the Company. He had participated in the acquisitions and financing activities of listed companies. Mr. Lin has extensive experience in shipping management, new shipbuilding, corporate management and planning and capital market operations.

Mr. Chan Wai Chuen, Ricky

aged 47, has been the Chief Financial Officer of the Company since March 2016. He is supervisor of various subsidiaries of the Company. Mr. Chan graduated from The City University of Hong Kong in 1993 and was awarded a Bachelor's honour degree in Accountancy. He obtained a Master's degree in Corporate Finance and a Doctoral degree in Business Administration from The Hong Kong Polytechnic University in 2002 and 2015 respectively. He is a fellow of the Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has more than 20 years of experience in financial control, capital market, corporate finance and mergers and acquisitions. Since his graduation in 1993, he has worked for Ernst & Young and PricewaterhouseCoopers as an auditing and advisory professional for about six years. He then started to work for investment banks in the United Kingdom and in Hong Kong. Prior to joining the Group, he had served as the chief financial officer and company secretary in three Hong Kong main board listed companies for more than 15 years during which he has actively participated in IPO, equity and capital market fund raising, mergers and acquisitions, privatisation and corporate restructuring. Mr. Chan is currently the Visiting Lecturer in the School of Accounting and Finance at The Hong Kong Polytechnic University by invitation.

Ms. Chiu Shui Suet

aged 50, has been the Company Secretary of the Company since October 2005. She is also the secretary of six Board Committees of the Company and the company secretary of various subsidiaries of the Company. Ms. Chiu is in charge of corporate governance, legal, company secretarial, investor relations and related matters of the Company. Ms. Chiu obtained a Bachelor of Laws degree from the University of Wolverhampton in 1996 and completed her Postgraduate Certificate in Laws at the City University of Hong Kong in 1998. Ms. Chiu was admitted as a solicitor in Hong Kong in 2000. Besides being a member of the Law Society of Hong Kong, she is also a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Ms. Chiu had worked for various entities including accounting firms, legal firm and listed companies. She is well conversant with business law and company law and has extensive experience and solid knowledge in dealing with the company secretarial, corporate governance and legal matters for private and listed companies.

Mr. Xu Baoqi

aged 57, joined the Company in May 2012. He is the Assistant to Managing Director of the Company and the director of various subsidiaries of the Company. Mr. Xu graduated from Dalian Maritime University and obtained his Master's degree of Business Administration from the Chinese University of Hong Kong. Mr. Xu joined COSCO Group in 1980 and served as a ship radio operator of COSCO Group, deputy manager of Communications and Navigation Department, deputy director of General Office, deputy manager of Research & Development Department of Technology Centre and manager of Labour and Onshore Safety Management Office of Safety and Technology Supervision Department of 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company). Mr. Xu was a member of Communications and Navigation Committee of the China Institute of Navigation. He has senior engineer qualification in marine technology/safety management. Mr. Xu has worked in ship technology management and corporate safety management, and he has extensive experience in corporate management.

Mr. Li Jingshi

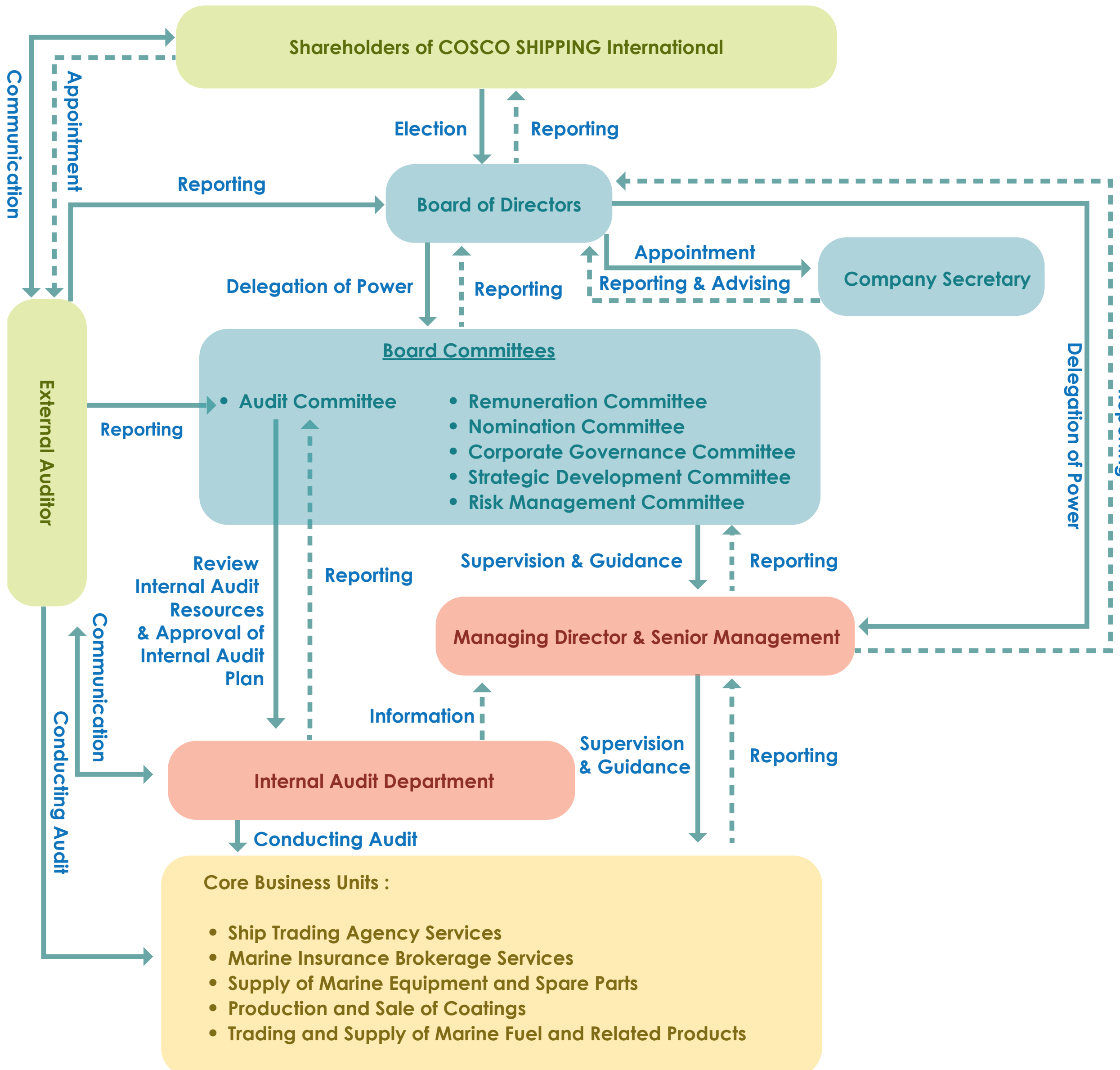
aged 44, joined the Company in July 2014. He is the Assistant to Managing Director, the General Manager of Administration and Human Resources Department of the Company and the director of various subsidiaries of the Company. Mr. Li obtained a Bachelor degree of Shipbuilding Engineering and a Master's degree of Design & Shipbuilding and Offshore Structure both from Tianjin University. Mr. Li joined COSCO Group in 1997, and had worked in the Planning Division, Strategic Development Division, Executive Division of COSCO, and Executive Division of China COSCO Holdings Company Limited. Mr. Li is familiar with the operation of listed companies, and has rich experience in corporate governance, investment management, human resources management and administration.

CORPORATE GOVERNANCE REPORT

THE COMMITMENT AND COMPLIANCE OF THE COMPANY

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a good framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standard of accountability and protect the Shareholders' interest in general.

Set out below is the current corporate governance framework of the Group:



Comprehensive guidelines, policies and procedures including the corporate governance statement of policy, code of conduct regarding securities transactions of directors and employees, whistleblowing policy, information management policy, director appointment policy, the terms of reference for board committees, board diversity policy and shareholders communication policy have been formulated by the Board to support the Group's corporate governance framework. These policies and procedures enable the Company to follow and apply the principles of the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "CG Code"). These documents are reviewed regularly by the Board and the relevant board committees and are updated in line with the revised applicable legislations and rules as well as the current market practices.

The Company also maintains an employee handbook providing guidance to employees on matters such as ethical standards, business conduct, employees conduct and reporting any misconduct within the Group. The employee handbook applies to all employees of the Group who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the management and appropriate appraisal mechanisms, the Company has been able to align the interests of the management and all the staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, formulated and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group. In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in light of local and international best practices. The Company had applied the principles and complied with the CG Code throughout the year ended 31st December 2016 except that Mr. Wu Shuxiong, the then Non-executive Director, was unable to attend the annual general meeting of the Company held on 31st May 2016 due to other engagement, and Mr. Alexander Reid Hamilton, the Independent Non-executive Director, was unable to attend the two special general meetings of the Company held on 30th December 2016 due to urgent personal matter, a deviation from the code provision A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings of the company.

THE BOARD

The Board currently comprises eight Directors, namely, Mr. Ye Weilong (Chairman), Mr. Zhu Jianhui (Vice Chairman), Mr. Liu Gang (Managing Director) and Mr. Liu Xianghao as Executive Directors; Mr. Wang Wei as Non-executive Director; and Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton as Independent Non-executive Directors, whose biographical details are set out in the "Profile of Directors and Senior Management" of this annual report and also available on the Company's website. An updated list of the Directors by category identifying their roles and functions is available on the websites of the Stock Exchange and the Company.

The positions of the Chairman, the Vice Chairman and the Managing Director are currently held by Mr. Ye Weilong, Mr. Zhu Jianhui and Mr. Liu Gang respectively. In order to reinforce their respective independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are definitely separated from that of the Managing Director. The Chairman and the Vice Chairman are responsible for formulating the overall strategies and policies of the Company while the Managing Director is responsible for the day-to-day operation and management of the Company in accordance with the objectives and directions, and internal control policies and procedures laid down by the Board. Division of responsibilities between the Chairman, the Vice Chairman and the Managing Director is clearly defined and set out in writing. Executive Directors are mainly responsible for the daily operation and management of the Company. Non-executive Directors (including Independent Non-executive Directors) are well aware of their functions and have been actively performing their functions including but not limited to bringing an independent judgment at the Board meetings, taking the lead where potential conflicts of interests arise and scrutinising the Company's performance. Non-executive Directors and Independent Non-executive Directors have from time to time contributed to the Board their constructive and valuable advice in the development of the Company's strategy, in particular the internal controls of the Company. Besides, Independent Non-executive Directors serve as member of Board Committee(s), details of which are set out in the sub-section of "Board Committees" under the section headed "The Board" of this report. Annual written confirmation from each of Independent Non-executive Directors confirming his independence in accordance with Rule 3.13 of the Listing Rules was received by the Company. The Company has assessed their independence and considers that all the Independent Non-executive Directors are independent based on the independence criteria in accordance with the requirements of the Listing Rules set out in the confirmation letter, the non-involvement of Independent Non-executive Directors in the daily operation and management of the Group and the absence of any relationship which would interfere with the exercise of their independent judgment.

During the year, a meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without presence of the Executive Directors was held in March 2016. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed.

In order to discharge the duties, all Directors are entitled to seek independent professional advice, if necessary, at the Company's expense and Directors and Officers Liability Insurance cover was arranged and subject to annual review.

The overall management of the Company's business is vested in the Board. The Board is responsible for overseeing all major matters of the Company which include formulating and approving the Company's operational strategies, management policies, internal control and risk management systems, reviewing the Company's policies and practices on corporate governance, setting the objectives and targets with a view to enhance the Shareholders' value for the management, monitoring performance of the management and providing guidance to the management. The Directors have to make decisions objectively in the interests of the Company. The Board is accountable to the Shareholders, in a responsible and effective manner leading the Group.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company which include evaluating businesses and operational performance, ensuring effective implementation of the Board's decisions, ensuring adequate funding and monitoring performance of the management of the Group. The segregation of duties and responsibilities between the Board and the management is clearly defined in the internal guidelines of the Company. The senior management of the Company is being closely monitored by the Board through the Managing Director and is accountable for the performance of the Company as measured against the business targets and management directions set by the Board. The Managing Director and the management of relevant subsidiaries and departments of the Company met together on regular basis to review and discuss on operational and financial matters in order to enhance and strengthen internal communications and cooperation within the Group. The delegated functions and work tasks were periodically reviewed.

Board Meetings

The Board met regularly and held four regular meetings in 2016. Notice of meeting was given to the Directors at least 14 days prior to each regular Board meeting. The Directors were invited to include any matters which they thought appropriate in the agenda. Agenda and board papers with adequate information were sent to all Directors at least 3 days before the meeting in order to ensure that they had sufficient time to review the board papers and prepare for the meeting. At each regular Board meeting, the Directors were properly briefed on the Company's current situation and issues arising at such meeting. Executive Director(s) and/or chairman of Board Committees and/or the senior management of the Company reported to the Board on various aspects, including the business performance, financial performance, corporate governance, risk management and internal control, etc.. Queries raised by the Directors were responded promptly by the senior management of the Company. Directors were encouraged to make an active contribution to the Board's affairs and express their views and concerns. Sufficient time was allowed for the Directors to discuss matters about which they were concerned. For Director who was unable to attend the regular Board meeting, he was properly briefed the matters to be discussed in advance and his view expressed prior to the meeting was reported to the Board.

Minutes of the Board meetings and the Board Committee meetings were recorded in sufficient detail the matters discussed and the decisions reached. Draft minutes were sent to the Directors and Board Committee members respectively for their review and comment within a reasonable time (generally within 7 days) after each meeting. Final version of minutes of respective meetings had been sent to the Directors or relevant Board Committee members.

Directors play active role in the Company's meetings through contribution of their opinions and active participating in discussion. The attendance record of each of the Directors for the Board meetings, the Board Committees meetings and the general meeting(s) held during the year is listed as follows:

	General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Strategic Development Committee	Risk Management Committee
Executive Directors								
Mr. Ye Weilong(1)	4/4	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhu Jianhui(2)	1/3	2/2	N/A	N/A	N/A	N/A	2/2	1/1
Mr. Liu Gang(3)	3/3	1/1	N/A	1/1	2/2	0/0	2/2	1/1
Mr. Liu Xianghao(4)	4/4	4/4	N/A	3/3	2/2	1/1	2/2	1/1
Non-executive Director								
Mr. Wang Wei(5)	4/4	4/4	N/A	N/A	NA	N/A	2/2	1/1
Independent Non-executive Directors								
Mr. Tsui Yiu Wa, Alec	4/4	4/4	3/3	5/5	5/5	2/2	N/A	N/A
Mr. Jiang, Simon X.	4/4	4/4	3/3	5/5	5/5	2/2	N/A	N/A
Mr. Alexander Reid Hamilton	2/4	4/4	3/3	5/5	5/5	2/2	N/A	N/A
Ex-Directors								
Mr. Sun Jiakang(6)	0/0	0/0	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhang Liang(7)	1/1	2/2	N/A	N/A	N/A	N/A	0/0	0/0
Mr. Wu Shuxiong(8)	0/1	1/2	N/A	N/A	N/A	N/A	N/A	0/0
Mr. Feng Jinhua(9)	1/1	2/2	N/A	N/A	N/A	N/A	0/0	0/0
Mr. Xu Zhengjun(10)	0/0	0/0	N/A	0/1	0/1	1/1	0/0	0/0

Notes:

(1) Mr. Ye Weilong was appointed as Executive Director and Chairman on 18th March 2016.

(2) Mr. Zhu Jianhui was appointed as Executive Director and Vice Chairman on 16th August 2016. On the same day, he was appointed as committee chairman of each of Strategic Development Committee and Risk Management Committee.

(3) Mr. Liu Gang was appointed as Executive Director and Managing Director on 27th September 2016. On the same day, he was appointed as committee chairman of Corporate Governance Committee and committee member of each of Remuneration Committee, Nomination Committee, Strategic Development Committee and Risk Management Committee.

(4) Mr. Liu Xianghao was appointed as Executive Director and Managing Director on 18th March 2016. On the same day, he was appointed as committee chairman of Corporate Governance Committee and committee member of each of Remuneration Committee, Nomination Committee, Strategic Development Committee and Risk Management Committee. On 27th September 2016, Mr. Liu Xianghao resigned as Managing Director and remained to act as Executive Director. On the same day, he resigned as chairman of Corporate Governance Committee and member of each of Remuneration Committee and Nomination Committee.

(5) Mr. Wang Wei, the Non-executive Director, was appointed as committee member of each of Strategic Development Committee and Risk Management Committee on 16th August 2016.

(6) Mr. Sun Jiakang resigned as Executive Director and Chairman on 18th March 2016.

(7) Mr. Zhang Liang resigned as Executive Director and Vice Chairman on 16th August 2016 and accordingly ceased to be the committee chairman of each of Strategic Development Committee and Risk Management Committee.

(8) Mr. Wu Shuxiong resigned as Non-executive Director on 16th August 2016 and accordingly ceased to be committee member of Risk Management Committee.

(9) Mr. Feng Jinhua resigned as Executive Director on 16th August 2016 and accordingly ceased to be committee member of each of Strategic Development Committee and Risk Management Committee.

(10) Mr. Xu Zhengjun resigned as Executive Director and Managing Director on 18th March 2016 and accordingly ceased to be committee chairman of Corporate Governance Committee and committee member of each of Remuneration Committee, Nomination Committee, Strategic Development Committee and Risk Management Committee.

Board Committees

The Board delegates its power and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expert. The Board currently has six Board Committees, namely, Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee, Strategic Development Committee and Risk Management Committee with respective terms of reference which clearly defined its authorities and duties. The terms of reference of Audit Committee, Remuneration Committee and Nomination Committee are available on the website of each of the Stock Exchange and the Company and the terms of reference of Corporate Governance Committee, Strategic Development Committee and Risk Management Committee are available on the website of the Company. The chairmen of the Board Committees report regularly to the Board of their work, findings and recommendations. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties and may have access to external professional advice, if necessary, at the Company's expense.

(a) Audit Committee

Members	Three Independent Non-executive Directors, namely, Mr. Alexander Reid Hamilton (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Jiang, Simon X..
Major responsibilities	— reviewing the accounting policies and supervising the Company's financial reporting process; — monitoring the performance of both the internal and external auditors; — monitoring the effectiveness of the financial reporting, risk management and internal control systems; — ensuring compliance with applicable statutory accounting and reporting requirements; — reviewing the financial information of the Company; and — acting as the key representative body responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.
Major work performed during the year 2016	— reviewing and making recommendations for the Board's approval on 2015 annual results announcement, the audited consolidated financial statements for the year ended 31st December 2015, 2016 interim results announcement, interim report 2016 and the unaudited condensed consolidated financial statements for the six months ended 30th June 2016; — reviewing the report of external auditor; — reviewing the effectiveness of the internal control system; — reviewing the continuing connected transactions of the Group for the year ended 31st December 2015 and the period ended 30th June 2016 respectively; — making recommendations to the Board, subject to the Shareholders' approval at the 2016 annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company; — reviewing the internal audit planning for the year 2017 and external audit planning for the year ending 31st December 2016; and — reviewing the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting function, and their training programmes and budget.

The Company adopted a Whistleblowing Policy (available on the Company's website) under which employees of the Group have been provided a channel and guidelines to report any misconduct, malpractice or impropriety concerns within the Group. The policy includes the establishment of an electronic reporting mailbox and a hotline. All reporting is treated as confidential and in a sensitive manner. The chairman of Audit Committee would review the complaint and decide how the investigation should proceed. During the year, no complaint from the employees of the Group was received.

(b) Remuneration Committee

Members	Current members: Three Independent Non-executive Directors, namely, Mr. Jiang, Simon X. (committee chairman), Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Liu Gang.
Major responsibilities	— making recommendations to the Board on the policy for the remuneration of the Directors and senior management of the Company; — ensuring the remuneration offered to the Directors and senior management of the Company is appropriate for the duties and in line with market practice; — determining the remuneration packages of individual Executive Directors and senior management of the Company with delegated responsibility by the Board; and — making recommendations to the Board on the remuneration of Non-executive Directors.
Major work performed during the year 2016	— reviewing and making recommendations to the Board on the Directors' fees of Independent Non-executive Directors for the year of 2016; — reviewing the remuneration report of the Group including determining the salary package for Executive Directors and senior management of the Company; — approving the terms of letters of appointment of Mr. Ye Weilong, Mr. Zhu Jianhui, Mr. Liu Xianghao and Mr. Liu Gang, the newly appointed Executive Directors and the current Directors, Mr. Wang Wei, Mr. Tsui Yiu Wa, Alec, Mr. Jiang Simon, X. and Mr. Alexander Reid Hamilton; and — approving the annual salary of the newly appointed Vice Chairman and Managing Director.

(c) Nomination Committee

Members	Current members: Three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec (committee chairman), Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton; and an Executive Director, namely, Mr. Liu Gang.
Major responsibilities	— reviewing the structure, size and composition of the Board; — making recommendations to the Board on the appointment and succession planning for the Directors; — assessing the independence of Independent Non-executive Directors; — monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Non-executive Directors; and — monitoring and reviewing the implementation of the Board Diversity Policy.
Major work performed during the year 2016	— recommending the nomination of Mr. Ye Weilong as Executive Director and Chairman, Mr. Zhu Jianhui as Executive Director and Vice Chairman, Mr. Liu Xianghao as Executive Director and the then Managing Director and Mr. Liu Gang as Executive Director and Managing Director; — recommending the re-election of newly appointed Directors at the special general meeting; and — conducting a review of the Board diversity, assessing the independence of Independent Non-executive Directors and the contributions of the Board members and recommending the submission of the proposal on Directors' re-election at the annual general meeting of 2017.

CORPORATE GOVERNANCE REPORT

(d) Corporate Governance Committee

Members	Current members: An Executive Director, namely Mr. Liu Gang (committee chairman); and three Independent Non-executive Directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton.
Major responsibilities	— formulating and reviewing the Company's policies and practices on corporate governance; — reviewing and monitoring the training and continuous professional development of Directors and/or senior management of the Company; and — reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the annual report.
Major work performed during the year 2016	— reviewing the continuous professional development of Directors, the Company's compliance status of the CG Code for the year ended 31st December 2015 and the disclosure of the corporate governance report in the annual report of 2015; and — reviewing the Company's compliance status of the CG Code for the six months ended 30th June 2016.

(e) Strategic Development Committee

Members	Current members: Three Executive Directors, namely, Mr. Zhu Jianhui (committee chairman), Mr. Liu Gang and Mr. Liu Xianghao; and a Non-executive Director, namely Mr. Wang Wei.
Major responsibilities	— reviewing the annual strategic development plan of the Company and monitoring the implementation of strategies; — reviewing the major investment projects and financing proposals; — reviewing the major capital deployment and project on operation of assets; — reviewing the strategic direction of the Company's business and operational management; and — reviewing and evaluating the project evaluation systems.
Major work performed during the year 2016	— reviewing and discussing the report on the implementation of strategic development plan for the year 2015 and the strategic development plan for 2016; and — recommending to the Board for the approval of the acquisition of entire issued capital of CSHT Marine.

(f) Risk Management Committee

Members	Current members: Three Executive Directors, namely, Mr. Zhu Jianhui (committee chairman), Mr. Liu Gang and Mr. Liu Xianghao; and a Non-executive Director, namely, Mr. Wang Wei.
Major responsibilities	— monitoring the risk management framework to identify and deal with risks faced by the Group (including operational, regulatory and financial risks etc.); — reviewing and assessing the effectiveness of the Group's risk management framework; and — monitoring the implementation of risk control.
Major work performed during the year 2016	— discussing the risk management report for 2016 in relation to the analysis on product quality risk, procurement risk, production safety risk, foreign exchange risk and credit and receivables risk, and the risk management plan for 2017.

REMUNERATION OF DIRECTORS

The Company's Administration and Human Resources Department assists Remuneration Committee to discharge its duties by providing relevant remuneration data and market conditions for Remuneration Committee's consideration. The remuneration of Executive Directors and senior management of the Company is determined with reference to the Company's performance as well as remuneration benchmarks in the industry and the prevailing market conditions. Emoluments paid to each Director and the senior management of the Company by band for the year are disclosed in notes 26 to 27 to the financial statements of this annual report.

NOMINATION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

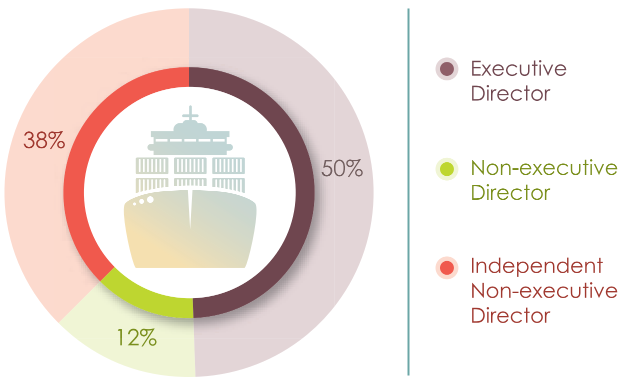
The Company adopted the Director Appointment Policy (available on the Company's website) which provides framework and standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. The Nomination Committee is responsible for identifying and nominating suitable candidates for the Board's consideration. Pursuant to the bye-laws of the Company, any Director appointed to fill vacancy shall hold office until the next following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting, and every Director is subject to retirement by rotation at least once every three years and shall be eligible for re-election at such annual general meeting of the Company. Any further re-appointment of an independent non-executive director, who has served the Board for more than nine years, will be subject to separate resolution to be approved by the Shareholders. In addition, Nomination Committee recommended the proposal of Directors' re-election in the 2017 annual general meeting of the Company. Mr. Wang Wei, being the Non-executive Director, has entered into a letter of appointment with the Company on 31st May 2016 for a term commencing from 31st May 2016 to the conclusion of the 2018 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 31st May 2016 for a term commencing from 31st May 2016 to the conclusion of the 2018 annual general meeting of the Company. Each of the above letters of appointment is subject to termination by either party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties. In addition to the Independent Non-executive Directors and the Non-executive Director, all Executive Directors were appointed for a specific term and letters of appointment setting out the key terms and conditions of appointment were entered into between the Company and each of the Directors, details of which are set out in the "Directors' Report" of this annual report.

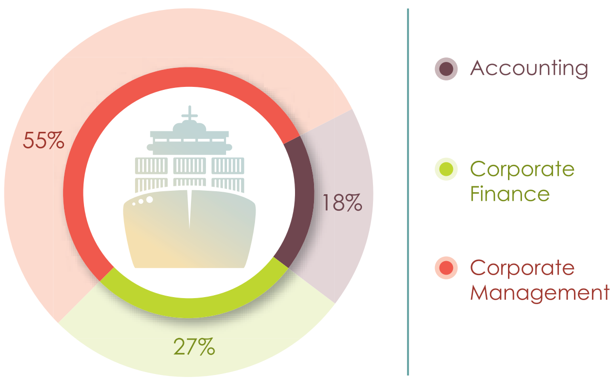
CORPORATE GOVERNANCE REPORT

Board Diversity

The Company adopted the Board Diversity Policy in August 2013 setting out the approach to achieve diversity on the Board. The Company believes that a diversity of perspectives can be achieved through consideration of a number of aspects, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. Board appointments will be made on merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board. There is no financial, business, family or other material/relevant relationships between Board members and in particular, between the Chairman and the Managing Director. The Nomination Committee is responsible for monitoring and reviewing the implementation of the Board Diversity Policy to ensure its effectiveness and recommending any revisions of the policy to the Board for consideration and approval.

The Board composition and the professional experience of Directors





Induction and Continuous Professional Development

Every newly appointed director will receive a comprehensive information package containing an introduction to the operations and businesses of the Group, a guide on directors' duties, outlines on disclosure of interest in securities, policies on dealings in the Company's securities, guidelines on disclosure of inside information and disclosure obligations of a listed company under the Listing Rules, etc.. The Company Secretary updates directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties. Messrs. Ye Weilong, Zhu Jianhui, Liu Gang, Liu Xianghao, Wang Wei, Tsui Yiu Wa, Alec, Jiang, Simon X. and Alexander Reid Hamilton, being the Directors have participated in the continuous professional development by way of attending workshops and/or seminars and/or reading materials and/or making visits to management of the Company and/or its subsidiaries.

Directors' Responsibilities for Financial Reporting and Disclosures

Management of the Company was required to provide detailed report(s) and explanation to enable the Board to make an informed assessment of the financial and other information put forward for its approval.

Management of the Company provided all members of the Board with monthly reports giving updated and understandable information of the Company's business operating performance, status and progress of project, work done in investor relations and details of share price to enable each Director to discharge his duties.

The Directors acknowledged their responsibilities for preparing the financial statements of the Group. The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The Company aimed to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements of the Group prepared to give a true and fair view of the financial status of the Group. Audited financial statements are published in accordance with the disclosure requirements under the Listing Rules.

The reporting responsibilities of the Directors and the external auditor are further set out in the "Independent Auditor's Report" of this annual report. For other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with the Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the "Directors' Report" of this annual report.

SECURITIES TRANSACTIONS OF DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") (available on the Company's website) no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. In order to ensure Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee comprising the Chairman, the Vice Chairman, the Managing Director and a Director was set up to deal with such transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year of 2016, all Directors confirmed that they had complied with the required standards as set out in the Model Code and the Securities Code during the year.

INTERNAL CONTROL AND RISK MANAGEMENT

Responsibility

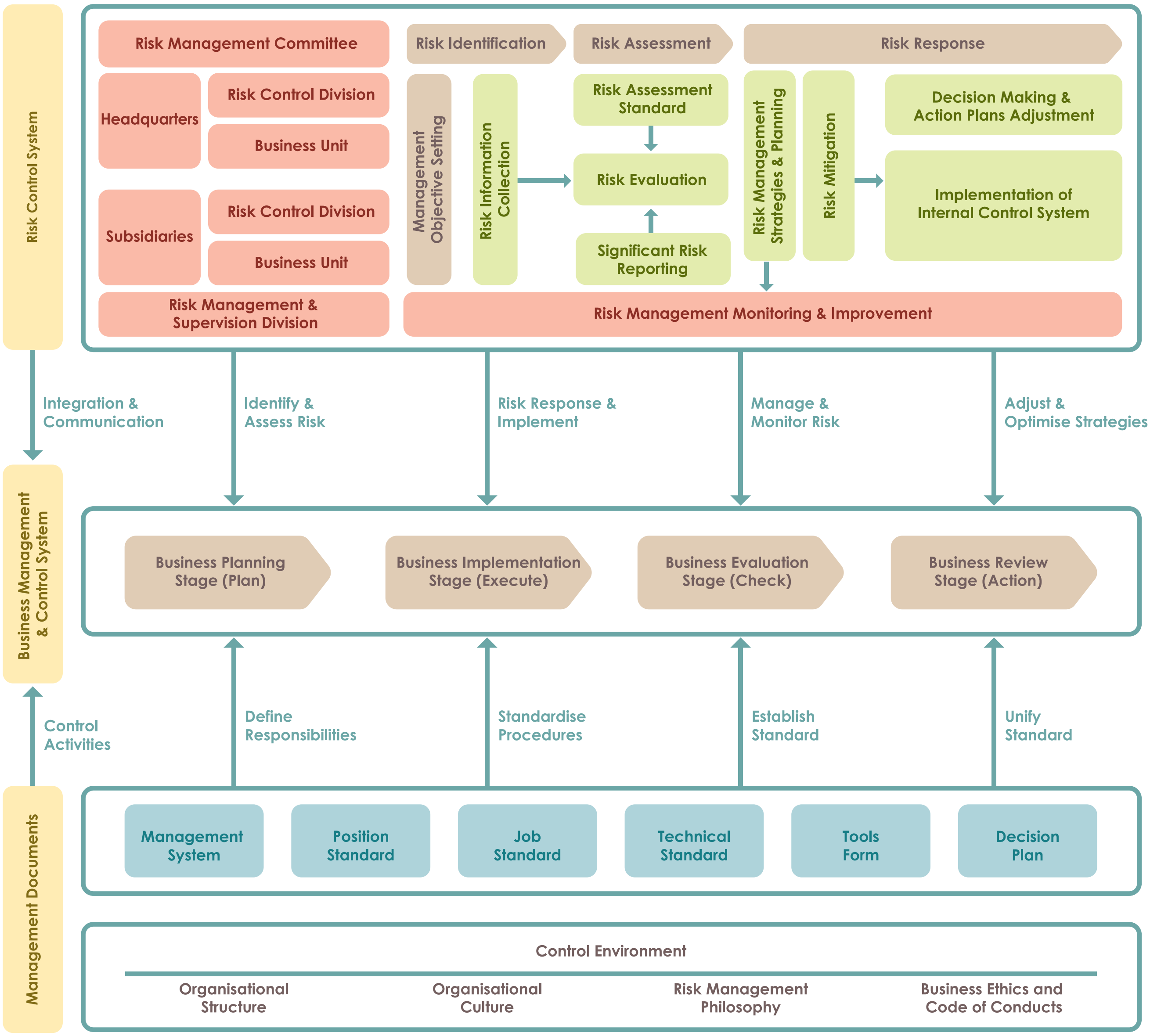
The Board has overall responsibility for ensuring an effective system of risk management and internal control be maintained and for reviewing its effectiveness to safeguard the Company's assets and the Shareholders' interests. The Board always regards risk management as an important task and believes that effective corporate risk management is an essential element of good corporate governance. The Risk Management Committee and Audit Committee have been established under the Board, which are responsible for monitoring and reviewing the risk management and internal control systems of the Group.

Framework and Approach

The Group had adopted the risk management framework formulated by the Committee of Sponsoring Organisations of the Treadway Commission in the United States as recommended by the Hong Kong Institute of Certified Public Accountants. The purpose of the Company's risk management process is to identify and manage risks in such a way that the Company is able to meet its strategic and financial targets. The Group formulated risk management procedures by taking into account adequately the eight elements of this risk management framework: control environment, objective setting, risk identification, risk assessment, risk response, control activities, information and communication, and also monitoring and improvement.

CORPORATE GOVERNANCE REPORT

Risk Management Framework of the Group



Control Environment

The Group believes that risk management is the responsibility of everyone within the Group. It aims to develop risk awareness and control responsibility as our culture and the foundation of our internal controls system. The internal controls system applies to the Group's critical business processes including strategy development, business planning, investment decisions, capital allocation and day-to-day operations. The Group also believes that corporate governance is often associated with business ethics. In order to ensure the Company's reputation be enhanced by the honest, loyal and ethical behaviours of staff, the Group has formulated a formal Staff Code and Whistleblowing Policy. Furthermore, the Group has from time to time arranged different levels of staff, ranging from top management to front-line staff, to participate in a series of business ethics seminars conducted by the Independent Commission Against Corruption, reputed speakers or internal audit functions of the Company and COSCO SHIPPING Group in order to enhance the staff's recognition and commitment to the Staff Code. Management has also conducted annual self-check to see whether the rules and guidelines specified in the Staff Code have been properly adhered to, and the respective written declarations have been documented and reported to the Audit Committee.

Control Activities

In the Group's core shipping services business units, control activities have been built on regular top-level reviews, segregation of duties and physical controls. Currently, the key features of the internal controls system include:

— the design of an organisational structure with defined lines of responsibility and delegation of authority;
— the setup and adherence of authorisation and approval limits of the Company and each business unit;
— the establishment of policies and procedures to support deployment of management's directives;
— the systems and procedures to identify and mitigate risks on an ongoing basis; and
— the application of enterprise resource planning (ERP) systems and other relevant information technology in business processes to strengthen internal controls and promote internal efficiency. The Information Management Policy regulates the information management of the Company and ensures inside information being properly disseminated and timely disclosed.

Risk Management Process

The Group seeks to have risk management features embedded in the day-to-day operations. At the beginning of each year, the Group conducts a risk assessment on the existing or potential risks that may impact the achievement of business objectives over the course of business operation. The assessment includes potential likelihood and impact of the identified risks. For the risks identified, the Group determines the action plans and management targets. The management of each business unit of the Group is responsible for managing their respective day-to-day operating risks, and implementing measures to mitigate such risks.

Internal Audit Department monitors the implementation of risk management, and continuously reviews and assesses the efficiency and adequacy of action plans in regular basis. Such assessment results will be regularly communicated and reported to Risk Management Committee and the Board.

Major operational risk factors and measures

Product quality is the key factor for a company to gain the trust from customers. Good product quality helps maintain corporate image and customers are confident to purchase products from the company. It also brings the company a value-added intangible asset.

The Group has already implemented a series of measures for product quality risk in coating manufacturing enterprises. First, to build up a responsible corporate image for product quality and brand, coating manufacturing enterprises proactively undertook the corporate responsibility for customers and society. The Group focused on quality control in production and inspection process and also made contribution to society to gain goodwill for the company brand image. Also, regular self-evaluation in the area of product quality was implemented so as to reduce the possibility of product quality problem. The Group also evaluated the product and gained understanding about quality problem through regular market survey/investigation. In addition, quality guarantee system was set up for implementing product quality regulation to keep track of production process and strengthen the accountability for product quality. Last but not least, product quality education to staff and the management was strengthened to improve staff awareness of product quality.

Procurement risk is mainly reflected in the purchase operations of COSCO Kansai Companies, CITC and COSCO Yuantong Operation Headquarters, especially in COSCO Kansai Companies where a number of types of raw materials are involved with significant dollar amount. Affected by uncontrollable factors in internal and external environment, there is procurement risk in purchasing cycle. The control on procurement risk is a key management area of COSCO Kansai Companies.

In order to regulate the procurement operations, COSCO Kansai Companies implemented various measures to minimise the procurement risk and consistently regulate the purchasing function. Procurement department keeps expanding the types of raw materials purchasing online through electronic procurement platform. As of December 2016, online bidding purchasing has been applied to all solvents except particular special solvents. Meanwhile, COSCO Kansai Companies optimised price quotation system and SAP interface function. Online price quotation has been applied to 28 types of raw materials including zinc oxide, special epoxy resin and hardener. Through optimising procurement regulation and purchasing operation, purchasing approval authority and procurement cycle are well-defined. A bidding work group was set up to participate in procurement process and increase the transparency of purchasing function. It can also help to control the production cost.

Production safety of the Group's four coating manufacturing enterprises operated in the PRC is the main source of risk. As the coating production and storage process involve flammable, explosive and toxic chemical materials, safety risk management/control is critical and therefore be a key attention area of the Group.

On the basis of continuously improving safety management, each subsidiary of the Group reduced safety risk by the following ways: (i) implement different management systems including safety management standard system, safety self-evaluation system and dangerous goods safety control system so as to enhance safeguards for safety issue; (ii) strengthen awareness on "Safety Red Line" and "Absolute Safety with Three Zeros"; (iii) implement field inspection and assessment for finding hidden safety issues; (iv) implement "5 Reinforcements" and "4 Executions". "5 Reinforcements" include strengthening system implementation, training, accident prevention, management and responsibility accountability. "4 Executions" include implementing safety standard, implementing safety management accountability, implementing site inspection monitoring and implementing rectification on hidden safety issue; (v) strengthen seasonal and holiday safety work.

Credit risk on accounts receivable refers to the risk that customer fails to make required payments according to the sales contracts and invoices. It is primarily reflected in subsidiaries involving credit sales, particularly in COSCO Kansai Companies, CITC and COSCO Yuantong Operation Headquarters. This risk may deteriorate in the event of an economic downturn.

Each subsidiary of the Group implemented a series of measures to strengthen the credit control management and continue to focus on the long-term overdue customers. The main measures to minimise and control the risk of trade receivable include (i) establishing the trade receivable management team, strengthening the collection responsibility for the implementation of each department and specific personnel and continuous monitoring the trade receivable activities; (ii) holding regular trade receivable conferences, with the parties to communicate specific situation and follow up procedures; (iii) setting up visiting plan, discussing with customers face to face to understand the payment schedule and plan; and (iv) strengthening credit approval process for new customers, formulating a clear line of credit standards and regulations.

In addition, Internal Audit Department focuses on the internal control and risk management processes on trade receivable activities, whereas Finance Department carries out monthly analysis on the trade receivable balance of each subsidiary of the Company and identifies if there is any recoverability issue.

Internal Audit and Control Effectiveness

Internal Audit Department performs regular reviews of the Company's internal controls based on the annual audit plan approved by the Audit Committee.

The annual audit plan is prepared by using a risk-based approach to determine the priorities of the internal audit activities. The Audit Committee has the final authority to approve the annual audit plan. Special reviews may also be performed on areas of concern identified by the Audit Committee or the management from time to time. The Audit Committee assesses the effectiveness of the internal control system by reviewing the work of Internal Audit Department and its findings. A follow-up review will be performed by Internal Audit Department approximately three to six months after the date of the audit response to determine if the audit recommendations have been implemented. Follow-up works will continue until all recommendations have been appropriately addressed.

The management of the business units is responsible for ensuring the agreed-upon action plans be implemented within an appropriate timeframe. The management must also confirm annually to Internal Audit Department that business units under their control have taken or are in the process of taking the appropriate actions to deal with all significant recommendations made by external auditor of the Company in management letters or by regulators following regulatory inspections, if any.

During the year, Internal Audit Department had performed reviews on all major aspects of the Company's operations in Hong Kong, the PRC and overseas according to the approved internal audit plan. The work of Internal Audit Department covered all major financial, operational and compliance controls. Findings and recommendations on internal control deficiencies were well communicated with the management such that action plans were developed by the management to address the issues identified. Post-audit reviews were scheduled to ensure the action plans were executed as designed. Key findings of each internal control review assignment were reported to and reviewed by the Audit Committee.

The Audit Committee reviews the internal audit work conducted by the Internal Audit Department which includes the review of effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls every year. During the year, such exercise has been conducted. The Audit Committee was satisfied with the results of the self-evaluation of the Group and considered that the risk management and internal control systems of the Group were effective and adequate and its opinion was endorsed by the Board. In addition, the chairman of Audit Committee would report to the Board on any key findings at least two times a year. During the year, no significant areas of concern which might affect the Shareholders were identified.

EXTERNAL AUDITOR

During the year, the remuneration paid or payable to the Company's external auditor, PricewaterhouseCoopers, in respect of audit and non-audit services provided to the Group were approximately HK$3,800,000 and HK$1,957,000 respectively. These amounts excluded remuneration paid or payable to other external auditors of subsidiaries of the Company which were included in Auditors' remuneration disclosed in note 25 to the financial statements.

The above non-audit services included professional advisory on taxation, professional services in relation to the Company's announcements, interim results and continuing connected transactions.

COMPANY SECRETARY

Ms. Chiu Shui Suet, the Company Secretary, plays an important role in supporting the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed. The Company Secretary assists the Chairman to prepare the agenda of the regular Board meetings. Board members can access to the services of the Company Secretary, who is responsible for advising the Board on governance matters and assisting the induction and professional development of Directors by providing a tailored induction package and updating Directors on the latest developments and changes to the Listing Rules and the applicable regulatory requirements.

During the year, the Company Secretary has attended no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

In order to ensure the Shareholders are provided with comprehensive, equal and timely access to balanced and understandable information about the Company, the Shareholders Communication Policy (available on the Company's website) was adopted and the Board is responsible to review the policy on a regular basis in order to ensure its effectiveness.

The Board believes that the general meetings provide an opportunity for communication between the Shareholders and the Board members. During the year, an annual general meeting of the Company was held on 31st May 2016 (the "2016 AGM"), a special general meeting of the Company was held on 8th November 2016 and two special general meetings of the Company were held on 30th December 2016 (collectively called the "2016 SGMs"). Shareholders were given at least 20 clear business days' notice of the 2016 AGM and at least 10 clear business days' notice of the 2016 SGMs. The Chairman of the Board and the chairmen of relevant committees attended the

2016 AGM. The representative from PricewaterhouseCoopers, the external auditor of the Company attended the 2016 AGM to answer questions if necessary about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. Q&A sessions had been provided to the Shareholders to raise their concern at the 2016 AGM and the 2016 SGMs. The chairman of the 2016 AGM and the 2016 SGMs explained the detailed procedures for conducting a poll at such meetings. At the 2016 AGM and the 2016 SGMs, separate resolution for each substantially separate issue was proposed in order to avoid bundling resolutions. The poll voting results of the 2016 AGM and the 2016 SGMs were published on the websites of the Stock Exchange and the Company on the same day after the respective meetings.

Shareholders' Rights

Procedures for Shareholders to convene a special general meeting ("SGM")

In accordance with the Company's bye-laws and the Companies Act 1981 of Bermuda ("Companies Act"), the Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company can deposit a written request at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (the "Registered Office of the Company") and 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong (the "Principal Office of the Company") to require a SGM to be convened by the Board for the transaction of any business specified in such requisition and the Board shall proceed to convene such meeting within 21 days after the deposit of such requisition. Such written requisition must state the purposes of the general meeting, signed by the Shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders may also direct questions or requests for information through the Company's website or by contacting the representatives of Company Secretarial and Investor Relations Department.

Procedures for Shareholders to make proposals at general meeting

In accordance with the Companies Act, Shareholders holding (i) not less than one-twentieth of the total voting rights of all Shareholders having the right to vote at the general meeting; or (ii) not less than 100 Shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting. Such written request/statement must be signed by the Shareholder(s) concerned and deposited at the Registered Office of the Company and the Principal Office of the Company not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the Company Secretary will ask the Board (i) to include the resolution in the agenda for the annual general meeting; or (ii) to circulate the statement for the general meeting, provided that the Shareholder(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the Shareholder(s) concerned in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid or the Shareholder(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Shareholder(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the annual general meeting; or the statement will not be circulated for the general meeting.

Procedures for a Shareholder to propose a person for election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Corporate Governance section of the Company's website.

CONSTITUTIONAL DOCUMENTS

There was no change to the memorandum of association and bye-laws of the Company during the year ended 31st December 2016.

INFORMATION DISCLOSURE

The Company adheres to high standards with respect to the disclosure of its financial statements. To foster regular and contribute two-way communications amongst the Company, its shareholders and potential investors, Company Secretarial and Investor Relations Department is designated to respond to enquiries from the Shareholders and the public. Press conference and analyst meeting are to be held subsequent to the annual results announcement of which the Executive Directors and senior management of the Company are available to answer the questions relating to the Group's operational and financial performance. In addition, the Company is committed to maximising the use of its website as a channel to provide updated information in a timely manner and strengthen the communications with both the public and the Shareholders.

By order of the Board

CHIU Shui Suet
Company Secretary

Hong Kong, 23rd March 2017

PROSPECTS

According to the International Monetary Fund, the global economic growth in 2017 is forecast to be 3.4%, which is higher than that of 2016. The escalation of the global economic growth will provide better support and boost for the growth of demand in shipping market. China's economic growth may be slightly slower but it will still operate within an appropriate range. Although the overall imbalance between the supply and demand in the shipping sector still exists, it will be relieved somehow. The shipping market is on the rise, it will become more and more rational, and the structural recovery of the industry will further enhance market confidence. In particular, the further implementation of China's "Go Global" strategy and "One Belt and One Road" initiative will present enormous opportunities for China shipping enterprises to develop new markets. Adhering to the "shipping services industrial clusters" strategic guidance, COSCO SHIPPING International remains committed to optimising the industrial chain of shipping services and improving the service level of shipping related industries, in accordance with the overall strategy of COSCO SHIPPING Group. Through continuous effort, it will push forward the transformation and upgrading, make progress while maintaining stability to maximise the value of the enterprise.

On one hand, the Group will be committed to establishing the "shipping services industrial cluster" in line with the development strategy of COSCO SHIPPING. The Group will fully capitalise on its strength, further refine the business coverage of shipping services and optimise its services boundary and scope. It will also make use of the assets consolidation opportunity of COSCO SHIPPING Group to consolidate assets of other shipping service businesses within the Group. The Group will facilitate the expansion and development of the products and services in order to explore new business sectors of shipping services. In the meantime, the Group will make efforts to expand business outside the Group and inject potential projects, which are outside COSCO SHIPPING Group and are relevant to the existing business, in due course, so as to expand the business footprint of the Group.

On the other hand, all the business units of COSCO SHIPPING International will proactively respond to market changes while being committed to expanding business chains according to their own circumstances, so as to improve the profitability of each segment.

For the ship trading agency services, COSCO SHIPPING (Hong Kong) Ship Trading will strengthen its market research, endeavour to co-ordinate with the shipyards and shipowners and keep improving its services to ensure smooth delivery of new build vessels amidst sluggish global economy and the downtrend of ship building market. Meanwhile, it will widen its horizons, actively explore business outside COSCO SHIPPING Group and further diversify its businesses by expanding into the business areas throughout the whole life cycle of vessels, such as consultation on ship technology, consultation on ship trading and supervision of shipbuilding progress, with a view to laying a solid foundation for the future development of COSCO SHIPPING (Hong Kong) Ship Trading.

For the marine insurance brokerage services, given the challenging business environment, COSCO Insurance Brokers will put more effort into developing third-party business and further expand its business channels and scope.

For the supply of marine equipment and spare parts, due to the continuing cost control of shipping companies and generally young vessel age as a result of replacement of old vessels with the new ones, COSCO Yuantong Operation Headquarters will focus on marketing service, enhance its technical services, and carry out business consolidation to orderly push forwards the centralised procurement within COSCO SHIPPING Group. It will consummate the management of suppliers further, expand its business scope outside COSCO SHIPPING Group and domestic spare parts business, optimise the operation process, reduce overall procurement costs and boost the overall effectiveness.

PROSPECTS

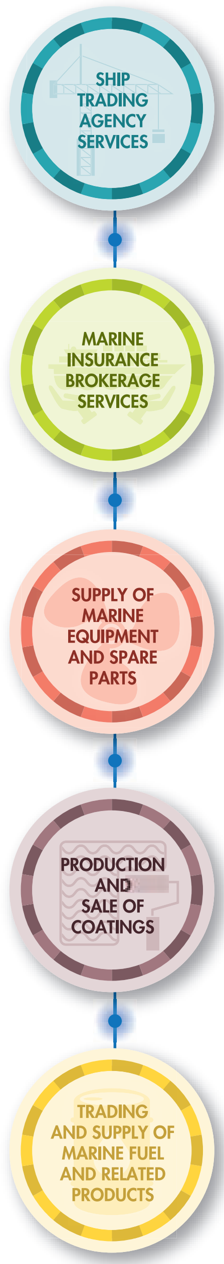
For container coatings, although the number of new build containers in 2017 is expected to slightly increase compared to that in 2016, the business environment of the container coatings companies is still challenging with the rising price of raw materials and intense competition of the environment-friendly coating products. COSCO Kansai Companies will actively push forward the application and upgrading of the products of water-based coatings and environment-friendly coatings and devote to marketing and service in order to increase their market share. Meanwhile, COSCO Kansai Companies will dedicate themselves to obtaining recognitions and orders from the customers of Europe and the United States, in an effort to expand their container coatings business into these regions, and they will make full effort to explore the reefer container and special container market to tap into market potential. For industrial heavy-duty anti-corrosion coatings, growth in the industry is expected to remain slow and moderate. COSCO Kansai Companies will focus on certain economic belts in China to explore new industries such as infrastructure (including landmarks, petrochemical and electrical maintenance etc.) and new customers. Moreover, they will put more effort in the development and follow-up work of key customers and projects in order to increase the success rate of projects.

For marine coatings, facing intensifying market competition, Jotun COSCO will continue to apply the HPS (Hull Performance Solution) promotion strategy to attract and retain customers and fully utilise the product advantage to selectively expand markets and secure shipbuilding orders with better terms. Whilst maintaining its leading position in marine coating market, Jotun COSCO will dedicate to enhance its share in repair and maintenance coating market.

For the trading and supply of marine fuel and related products, in response to the operating pressure and risks faced by shipping enterprises, Sinfeng will continue to control risk, adopt prudent business strategy, and solicit business from new customers prudently and cautiously while retaining its existing quality customers, and strived to expand its business under the premise of strict risk control.

For general trading, CITC will endeavour to fulfill the tasks in respect of the successfully tendered projects, while keeping on track with key projects in 2017 in key regions. It will continue to strengthen the establishment of the marketing network in order to secure project orders.

Looking forward, the Group will fully seize the opportunity presented by the business reorganisation of COSCO SHIPPING, and develop the “shipping services industrial cluster” into an industrial cluster which can offer strong supporting services for shipping with independent profit drivers aiming to become a world class and leading shipping services company in China.



INVESTOR RELATIONS

INVESTOR RELATIONS MANAGEMENT STRATEGY

COSCO SHIPPING International's investor relations management strategy is to maintain good communications and active interaction with Shareholders, investors and analysts through timely, complete, accurate and truthful disclosure of the Company's valuable information. Our strategy aims to ensure that they understand the strategic positioning, operating conditions, results and development prospects of the Company, to fortify and boost Shareholders and investors' confidence in the Company, as well as to bring the recommendations and advice from Shareholders and investors to the Board and the management of the Company timely. Therefore, it can enhance corporate governance and improve the Company's value, and ultimately maximise the Shareholders' value.

PERSEVERANCE IN GOOD INVESTOR COMMUNICATIONS UNDER THE SEVERE MARKET CONDITION

In 2016, the global economy was undergoing a fragile rebalancing process and the shipping market experienced a year of shocks. The depression in the market reduced investors' attention on stocks of shipping and related industries. Under the severe market condition, COSCO SHIPPING International strived to pick out its own characteristics and actively promoted its investment value to investors by pointing out the Company's highlights, including the driving factors of existing business profitability, its dividend policy and high level of cash on hand, while emphasising on the good fundamentals and strong defensiveness of COSCO SHIPPING International, so as to enable investors to further understand and pay more attention to the Company. These efforts have effectively retained its existing Shareholders and institutional investors, and successfully attracted new institutional investors.

INCREASE IN SHAREHOLDING BY THE TOP 10 INSTITUTIONAL SHAREHOLDERS

According to the Bloomberg Terminal, as at the end of 2016, the top 10 institutional shareholders' shareholding in COSCO SHIPPING International accounted for 9.22% of the total issued share capital of the Company, significantly increased by 5.44 percentage points as compared with 3.78% as at the end of 2015. These institutional shareholders are based in Hong Kong, the United States, the United Kingdom, Norway and the PRC. Most of them focus on long-term value investing and they are among the global largest investment institutions with high reputation in the industry.

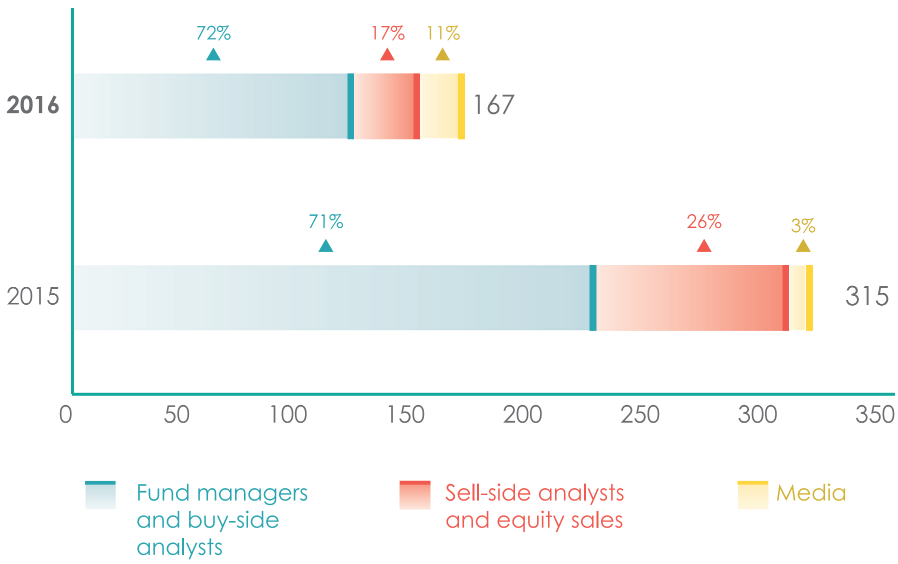
DIVERSIFIED COMMUNICATION CHANNELS OF INVESTOR RELATIONS

Company website www.coscointl.com **Investor relations home** www.coscointl.com/en_ir_ho.asp ● Announcements and circulars ● Financial reports ● Presentations ● Investor calendar ● FAQ ● Historical financial data ● Dividends history	**Press conferences and analysts meetings for results announcement** ● Results presentation and its transcript are posted on the Company's website immediately after the meetings ● Webcast of the meeting is posted on the Company's website within 6 hours afterwards, so as to allow access by investors around the globe ● Press release of the results is disseminated to all major financial media worldwide immediately following the meeting **Shareholder general meetings** ● Arranging direct communication for Shareholders with the directors and the management of the Company **Attending investors conferences, roadshows and luncheons held by brokerage firms** **Company visits, emails, WeChat and conference calls**

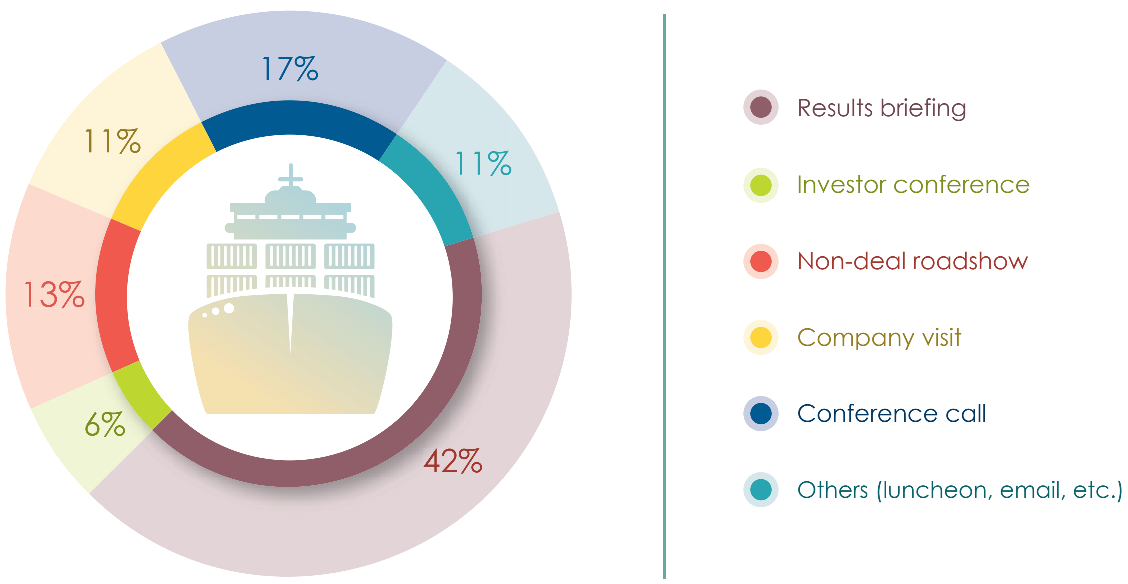
In 2016, the Company communicated timely, widely and thoroughly with institutional investors, sell-side analysts and the media for 120 attendances, 28 attendances and 19 attendances, respectively, amounting to a total of 167 attendances (2015: 315 attendances) through diversified communication channels and methods.

INVESTOR RELATIONS

BREAKDOWN OF FREQUENCY OF COMMUNICATION WITH INSTITUTIONAL INVESTORS, SELL-SIDE ANALYSTS AND THE MEDIA



BREAKDOWN OF METHODS FOR COMMUNICATION WITH INSTITUTIONAL INVESTORS, ANALYSTS AND THE MEDIA IN 2016



A Glance at Investor Relations Activities Attended and Held by COSCO SHIPPING International In 2016

Date	Organiser	Activity	Location
March	COSCO SHIPPING International	Press Conference and Analyst Meeting for 2015 Annual Results	Hong Kong
	DBS Vickers	Non-deal Roadshow for 2015 Annual Results	Hong Kong
April	HSBC	The 10th Annual Shipping & Aviation Conference	Hong Kong
May	HSBC	2016 China Conference	Shenzhen
	COSCO SHIPPING International	2016 Annual General Meeting	Hong Kong
August	COSCO SHIPPING International	Press Conference and Analyst Meeting for 2016 Interim Results	Hong Kong
	DBS Vickers	Non-deal Roadshow for 2016 Interim Results	Hong Kong
November	COSCO SHIPPING International	Special General Meeting	Hong Kong
December	COSCO SHIPPING International	Special General Meeting	Hong Kong

KEY CONCERNS BY SHAREHOLDERS AND INVESTORS IN 2016

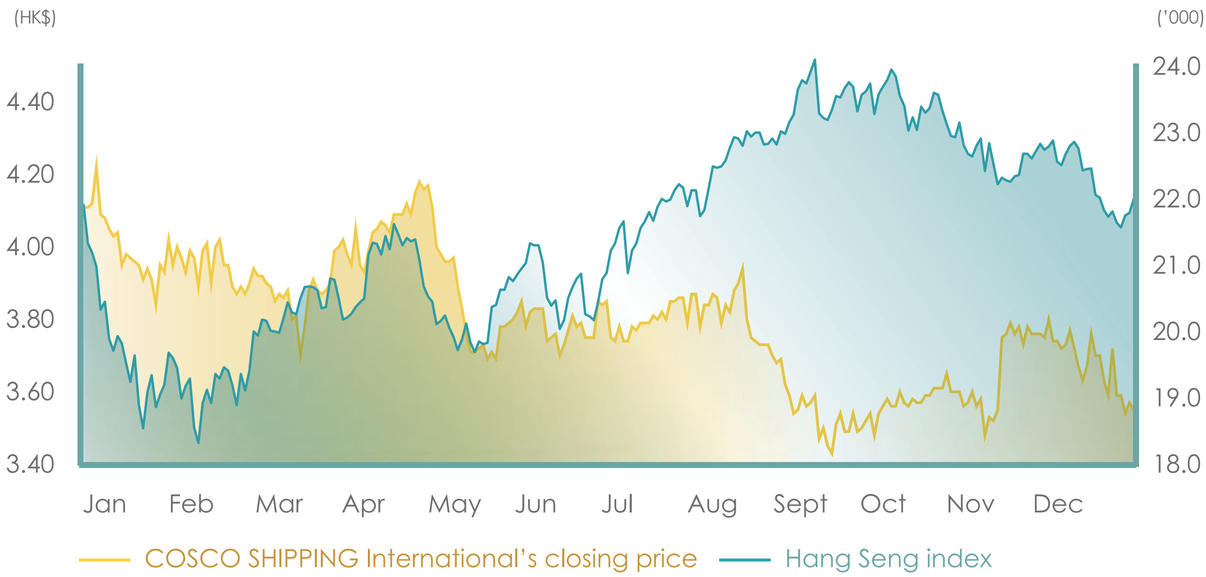
- The Company's positioning and development opportunities following the establishment of COSCO SHIPPING
- Potential acquisition opportunities and its time schedule in the future
- The timeline for the launch of share incentive scheme
- Plans on the use of cash
- Future dividend distribution plan

INVESTOR RELATIONS

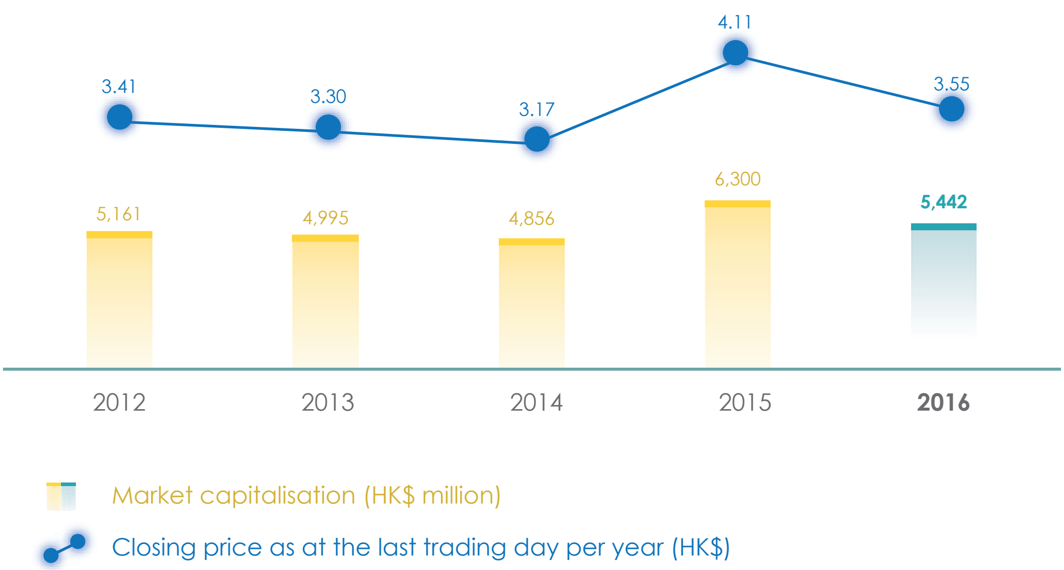
SHARE PRICE PERFORMANCE

On the last trading day of 2016, the closing share price of COSCO SHIPPING International was HK$3.55 (2015: HK$4.11) per share, which represented a decrease of 14% year-on-year. The number of shares in issue of COSCO SHIPPING International was 1,532,955,429 shares (2015: 1,532,955,429 shares). The market capitalisation of the Company was HK$5,441,992,000 (2015: HK$6,300,447,000). During the year, the highest share price was HK$4.24 and the lowest share price was HK$3.38. The average share price was HK$3.68 (2015: HK$4.54). The daily average trading volume and daily average trading turnover were 463,651 shares (2015: 1,798,538 shares) and HK$1,760,117 (2015: HK$7,111,000) respectively.

COSCO SHIPPING INTERNATIONAL'S SHARE PRICE PERFORMANCE VS. HANG SENG INDEX IN 2016



PERFORMANCE OF SHARE PRICE AND MARKET CAPITALISATION FOR THE PAST FIVE FINANCIAL YEARS



DIVIDEND POLICY

COSCO SHIPPING International's annual dividend payout ratio is not less than 50% of net profit prior to obtaining practical progress in major investment projects in the future. In case, the Company publishes major transaction announcement in relation to investment project, the annual dividend payout ratio of the Company will maintain at the level of not less than 25% of net profit subject to the results, availability of distributable reserves and cash flow position of the Company at that time.

EARNINGS PER SHARE AND DIVIDENDS PER SHARE

The basic earnings per share of the Company for 2016 was 15.47 HK cents (2015: 21.91 HK cents). The Board proposed the 2016 final dividend of 5.5 HK cents (2015: 9.0 HK cents) per share, together with the interim dividend of 4.0 HK cents (2015: 7.0 HK cents) per share paid, total dividends per share are 9.5 HK cents. Meanwhile, to celebrate the 20th anniversary of the Company's being a listed subsidiary of COSCO SHIPPING (Hong Kong), the Board recommended the payment of a special dividend of 5 HK cents per share. Annual dividends per share for 2016 are 14.5 HK cents (2015: 16.0 HK cents).

The dividend payout ratio of 2016 was 61% (2015: 73%), excluding special dividend.

INVESTOR RELATIONS

BASIC EARNINGS PER SHARE, DIVIDENDS PER SHARE AND DIVIDEND PAYOUT RATIO FOR THE PAST FIVE FINANCIAL YEARS

	2012	2013	2014	2015	**2016**
Basic earnings per share (HK cents)	23.98	15.96	23.70	21.91	**15.47**
Total annual dividends per share (HK cents)	8.00	5.50	13.00	16.00	**14.50**
Dividend payout ratio[Note 2] (%)	33	34	55	73	**61**

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2012	2013	2014	2015	**2016**
Total number of shares issued (million)	1,514	1,514	1,532	1,533	**1,533**
Closing price[Note 1] (HK$)	3.41	3.30	3.17	4.11	**3.55**
Market capitalisation[Note 1] (HK$ million)	5,161	4,995	4,856	6,300	**5,442**
Basic earnings per share (HK cents)	23.98	15.96	23.70	21.91	**15.47**
Price/earnings ratio[Note 1] (times)	14.22	20.68	13.38	18.76	**22.95**
Dividends per share (HK cents)	8.0	5.5	13.0	16.0	**14.5**
Dividend payout ratio[Note 2] (%)	33%	34%	55%	73%	**61%**
Net assets value per share (HK$)	4.85	4.94	5.05	5.04	**5.02**
Return on total assets (%)	3.8%	2.5%	3.8%	3.5%	**2.5%**
Return on shareholders' equity (%)	5.0%	3.3%	4.7%	4.3%	**3.1%**
Net cash-to-shareholders' equity ratio (%)	81%	84%	79%	80%	**86%**
Current ratio (times)	4.30	5.19	5.58	6.13	**6.43**
Liquidity ratio (times)	4.05	4.91	5.34	5.87	**6.24**
Interest coverage (times)	123.4	83.0	161.6	115.3	**69.9**

Notes: 1. As at the last trading day per year
2. Excluding special dividend

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COSCO SHIPPING International practises the philosophy of corporate social responsibility of COSCO SHIPPING Group, abides by the scientific development of people-orientation and pursues comprehensive, coordinative and sustainable development. COSCO SHIPPING International takes its responsibilities with respect to workplace quality, environmental protection, operating practices and community involvement as an integral part of the Company's development strategies, operations and management. The existing internal policies, rules and regulations of COSCO SHIPPING International, such as Staff Code of Conduct (the "Staff Code") and Whistleblowing Policy provide guidances on our operations.

REPORTING FRAMEWORK AND SCOPE

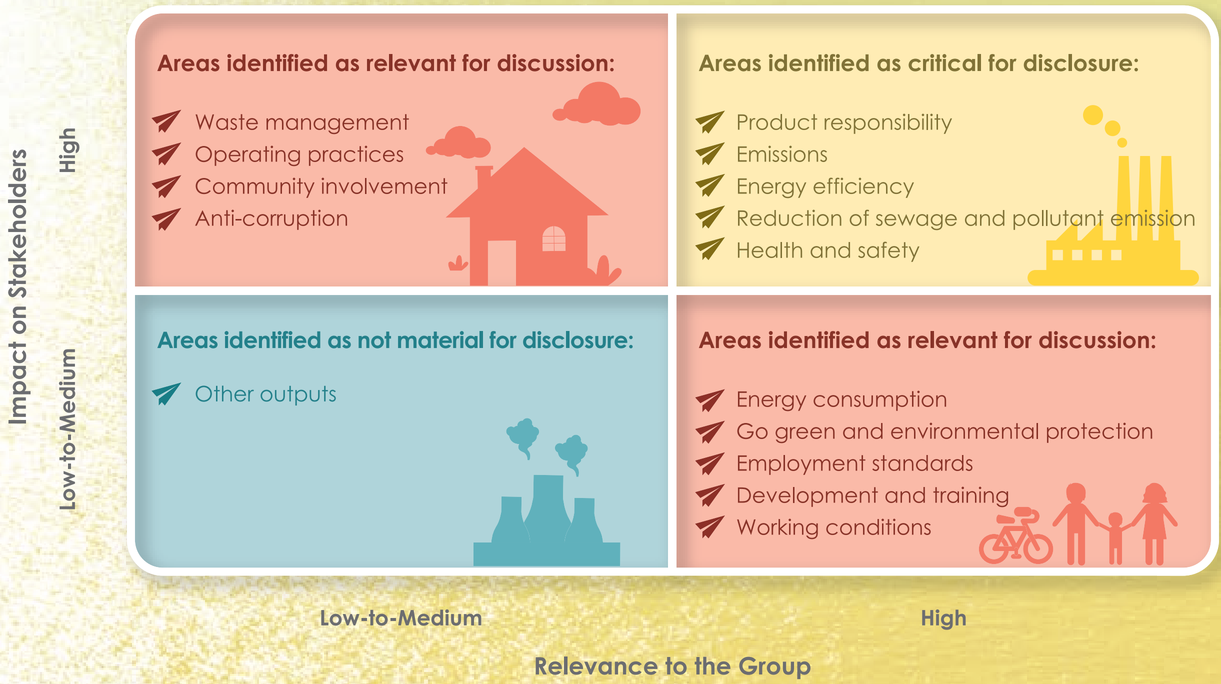
This report aims to review the performance and achievements of COSCO SHIPPING International's implementation of social responsibility strategies in 2016 and is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules (the "Guide"). This Report has complied with the "comply or explain" provisions and reported on all recommended disclosures of the Guide.

The scope of this report covers workplace quality, environmental protection, operating practices and community involvement that enhance our job fulfillment, reduce our environmental impact, reinforce our class-leading safety culture and mitigate safety and environmental risks and promote responsible engagement in the community where we operate. For the governance aspect, please refer to the Corporate Governance Report in this annual report. Among the segments of shipping services of COSCO SHIPPING International, certain key performance indicators from the coatings segment are relatively important. In this report, we focus on reporting the operations of head office and the business units of the core business of shipping services, especially the coating manufacturing enterprises.

MATERIALITY ASSESSMENT

The determination of the content of this report is based on a materiality assessment and a review of stakeholders' concerns which includes the processes of a) identifying the sustainability issues and stakeholders; b) determining and prioritising the reporting issues; c) preparing the reporting issues and validating the report; and d) reviewing and addressing stakeholders' expectation.

Materiality Matrix



Stakeholder Engagement

The stakeholders of COSCO SHIPPING International include Shareholders, institutional investors, customers, employees, regulators/government bodies, suppliers, business partners, bankers and industry practitioners.

COSCO SHIPPING International strives for mutual-benefits and joint development with customers, employees, Shareholders and other stakeholders, and tries to benefit the community with our development achievements. Therefore, stakeholder engagement is an integral part of the Company's business development and commitment to corporate social responsibility.

Recognising the necessity to build trust and productive relationships with our stakeholders, we interact regularly and irregularly with them through various communication channels. During the year, Q&A session had been provided to the Shareholders to raise their concern at the 2016 annual general meeting and three special general meetings of the Company. Besides, the Company maintained two-way communication with Shareholders, potential investors and sell-side analysts by holding results announcement press conferences, analyst meetings, post-results roadshows, general meetings, and organising or participating in investors' conferences or industry forums held by securities firms, one-on-one meetings and responding to email inquiries, so as to enable Shareholders and investors to understand the latest developments and future direction of the Company. In addition to day-to-day contact with customers, we arranged regular visits to key customers who provide valuable opinions about the Group's operations and ways we can improve. Internally, employees raised their concerns through two-way appraisal.

WORKPLACE QUALITY

Working Conditions

COSCO SHIPPING International believes that quality talents are important assets of an enterprise and also the cornerstone for sustaining corporate development. We are committed to providing a fair and competitive compensation package to attract and retain quality talents, in the form of a basic salary, incentives bonus, mandatory provident fund, and other fringe benefits, such as healthcare benefits, education and training allowances. In order to encourage employees feedback and free expression of ideas on different aspects of workplace, such as employee benefits and communication channels, COSCO SHIPPING International has conducted survey to collect employees' opinions that are therefore taken into consideration when management formulates employee caring programmes.

The Group strictly complies with the rules and regulations of the Company, such as Staff Code, and the labour legislations and the relevant guidelines in different areas where the businesses situated. In Hong Kong, we complied with all applicable rules and regulations such as the "Minimum Wage Ordinance", the "Sex Discrimination Ordinance", the "Race Discrimination Ordinance" and the "Disability Discrimination Ordinance" etc.. In the PRC, we complied with all applicable rules and regulations such as the "Labour Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China" and "Law of the People's Republic of China on the Protection of Disabled Persons" etc.. During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group.

As at 31st December 2016, the Group had a total of 829 (2015: 969) employees, all of them are permanent full-time employees.

Details of workforce of the Group are as follows:

	As at 31st December	
	2016	2015
TOTAL NUMBER OF EMPLOYEES	**829**	969
By gender		
Male	**646**	784
Female	**183**	185
By region		
Hong Kong	**100**	102
The PRC	**692**	829
Outside Hong Kong and The PRC (Note)	**37**	38
By age group		
Below 30	**175**	200
30 to 50	**579**	684
Over 50	**75**	85
EMPLOYEE TURNOVER RATE (%)	**17%**	8%
By gender		
Male	**17%**	7%
Female	**15%**	15%
By region		
Hong Kong	**7%**	22%
The PRC	**18%**	6%
Outside Hong Kong and the PRC (Note)	**19%**	24%
By age group		
Below 30	**6%**	10%
30 to 50	**22%**	8%
Over 50	**7%**	4%

Note: The figures refer to employees stationed in Japan, Singapore, Germany and the United States.

Health and Safety

COSCO SHIPPING International is an investment holding company and the nature of our daily operations means that we have a relatively low safety risk profile. The Company has equipped its office with suitable fire-fighting facilities like fire extinguishers. Designated staff would conduct inspection from time to time so as to ensure the exit passageways clear and unblocked. In addition, we organise fire drills regularly and irregularly. COSCO Kansai Companies, being non-wholly owned subsidiaries of the Company, and Jotun COSCO, being a joint venture of the Company, engaging in the production of inflammable and explosive coating chemical products in China Mainland, COSCO SHIPPING International strongly believes that ensuring stable and safety production is the important social responsibility to its shareholders, employees and the community where it situates. Therefore, the Group has always regarded ensuring safety and stable production as one of the priorities in corporate management. Each coating enterprise has set up its own safety management system, and strictly adhered to the relevant rules such as the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases", the "Law of the People's Republic of China on Work Safety" and the "Fire Protection Law of the People's Republic of China".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Safety Committee of the Company was set up in 2006, with the mission of "Safety First, and Precaution is Crucial with Comprehensive Management". It performs unified guidance, inspection, assessment, supervision, education and promotion of safety production of the subsidiaries in accordance with the "Law of the People's Republic of China on Work Safety", relevant laws and regulations of the local governments of the PRC, industry standards and the relevant safety management regulations of Hong Kong. The safety management work of each subsidiary is comprehensively regulated and managed, and the employees of all levels gain heightened awareness in occupational safety and health through the establishment of a normalised and standardised management system as well as the construction of a corporate culture of Health, Safety and Environment (HSE). During the year, the Company was not aware of any non-compliance of relevant standards, rules and regulations that have a significant impact on the Group.

COSCO SHIPPING International firmly adheres to "Absolute Safety with Three Zeros" as the general objective of the safety management. "Absolute Safety" refers to the safety of overall production environment be ensured and "Three Zeros" refers to zero number of reports in accident, injury and pollution be ensured. The coating manufacturing subsidiaries of COSCO SHIPPING International had obtained Quality Management System Certification (ISO9001), Occupational Health and Safety Assessment Series Certification (OHSAS18001) and Environmental Management System Certification (ISO14001) formulated by the International Organisation for Standardisation ("ISO") and they were certified, thus effectively guaranteeing the establishment of a healthy, safe and stable work environment. Daily operations are inspected by relevant departments, according to the occupational health and safety requirements of the respective company. Any non-compliance will also be identified and rectified on a timely basis.

In 2016, there was no work-related fatalities (2015: nil) nor work injury cases (2015: nil). During the year, the Group did not record any significant incident in relation to production safety so that safe and stable production was ensured.

During 2016, the Group adopted various safety and health measures as follows:

	Safety measures adopted	Work implemented and monitored in 2016
1	Full-range hidden hazards rectification in various forms on multi-levels by means of "Three Inspections": - self inspection - wide inspection - supervisory inspection	- To take precautions at an early stage, the Group carried out safety inspections of each operating unit regularly and irregularly so as to track the hidden hazards and make rectifications accordingly. - COSCO Kansai Companies launched three activities, namely "Safety Self-assessment Campaign", "I Am Safety Supervisor Campaign" and "Dangerous Experience and Hidden Hazard Report Campaign". During the year, COSCO Kansai Companies implemented various safety checks for 72 times (2015: 171 times), found 528 (2015: 1,183) hidden hazards, all of which have been rectified.
2	Increased the number of unannounced emergency drills and raised the number of examination and renewal of the contingency equipment	- Safety Committee conducted a total of 37 (2015: 22) on-site safety inspections in the Group. - Coating manufacturing subsidiaries of COSCO SHIPPING International held a total of 32 (2015: 20) large-scale comprehensive and special emergency drills with 1,617 attendances (2015: 914 attendances).
3	Promotion and education on occupational safety and health	- Set different safety and health training goals for different safety management tasks and organised a variety of training activities.

In addition, COSCO Kansai Companies have enhanced their management in work sites and adopted new technologies and processes to reduce the use of materials hazardous to occupational health. Jotun COSCO has adopted fundamental measures on occupational health and safety. For engineering control, it has taken considerations of and implemented production facilities with relatively high level of occupational health protection at the stage of plant design. For individual protection, it has equipped its employees with labour protection appliances of relevant level based on exposure hazards of different jobs. Safety Committee also conducted 2 (2015: 2) on-site safety inspections in the plant of Jotun COSCO during the year.

Development and Training

COSCO SHIPPING International places strong emphasis on the career development of individual employees. Employees are encouraged to keep abreast of the changing world and pursue continuing education, so as to cope with the rapidly changing society and meet the evolving corporate development needs. The Group encourages and subsidises its employees to participate in individual continuing education programs which are related to their job duties, with a view to strengthening the professional career training of its staff teams, promoting professional expertise of management teams and stimulating the potential abilities of employees. In addition, in order to enable new staff to fit into the Company and comprehend the company policy and corporate culture as soon as possible, the Group provides basic orientation training for all the new staff. Relevant subsidiary of the Company organised induction trainings for new employees to introduce the human resources management policy, financial management policy, development strategic plans and logistics management regulation of the Company, etc. Meanwhile, the Group innovatively combines practices into induction trainings and will arrange new employees to be guided by specific person of relevant department, which effectively enables the new employees to quickly acquire the skills needed for their jobs. Furthermore, the newly amended management policies will be communicated to relevant staff by departments in charge so that employees can be informed of the relevant new policies and rules timely.

During the year, the Company also organised working seminars or meetings in relation to business development, thus increasing the opportunities for the different levels of staff and professionals from different regions to exchange and explore issues through active discussion of and expression of views, thereby achieving a better result for exchange and learning from each other during trainings. In addition, the Group's employees also attended seminars held by professional bodies from time to time to enrich their business knowledge. Frontline sales staff would also enhance their skills through sales technique training. In future, the Company will continue to enhance the quality of the management staff and provide more advancement opportunities through systematic training to motivate each employee to grow together with COSCO SHIPPING International.

Training records of the employees of the Group are as follows:

	For the year ended 31st December	
	2016	2015
TOTAL NO. OF TRAINING HOURS RECEIVED	**15,648 hours**	18,621 hours
Average no. of training hours per employee/rate of employees trained by employee category		
Senior	**26 hours/84%**	24 hours/82%
Middle-level	**28 hours/84%**	28 hours/84%
General	**15 hours/79%**	15 hours/64%
Average no. of training hours per employee/rate of employees trained by gender category		
Male	**13 hours/80%**	13 hours/64%
Female	**33 hours/80%**	35 hours/82%

EMPLOYMENT STANDARDS

The Company has a set of comprehensive human resources management policy set out in rules and regulations of the Company to support everything we do in regard to human resources. The policies include recruitment, appraisal, training and benefits, such as subsidy of annual subscription fee for professional bodies to which the employees belong. In addition, our subsidiaries also have their respective entry administrative regulations. The Group has always strictly observed the relevant legislations of different regions regarding the equal employment opportunities, child labour and forced labour.

COSCO SHIPPING International abides by the employment regulations, relevant policies and guidances of the relevant jurisdictions where it operates, including the "Employment Ordinance", the "Employees' Compensation Ordinance" and the "Occupational Safety and Health Ordinance", etc. in Hong Kong; and the "Labour Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China" and the "Law of the People's Republic of China on the Protection of Disabled Persons" etc. in the PRC. As such, the Company can ensure the employees' enjoyment of human rights and the effective prevention of the phenomenon of child labour or forced labour.

The Company has its internal procedure to report employees' information regularly in order to review employment practices so as to avoid any non-compliance. Furthermore, the Group strictly complies with the internal recruitment process during recruitment to ensure no employment of child labour and forced labour in any form. During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations regarding operations and activities, labour practices, including but not limited to compensation and remuneration, recruitment, working hours, equal opportunity, health and safety, child labour and forced labour that have a significant impact on the Group.

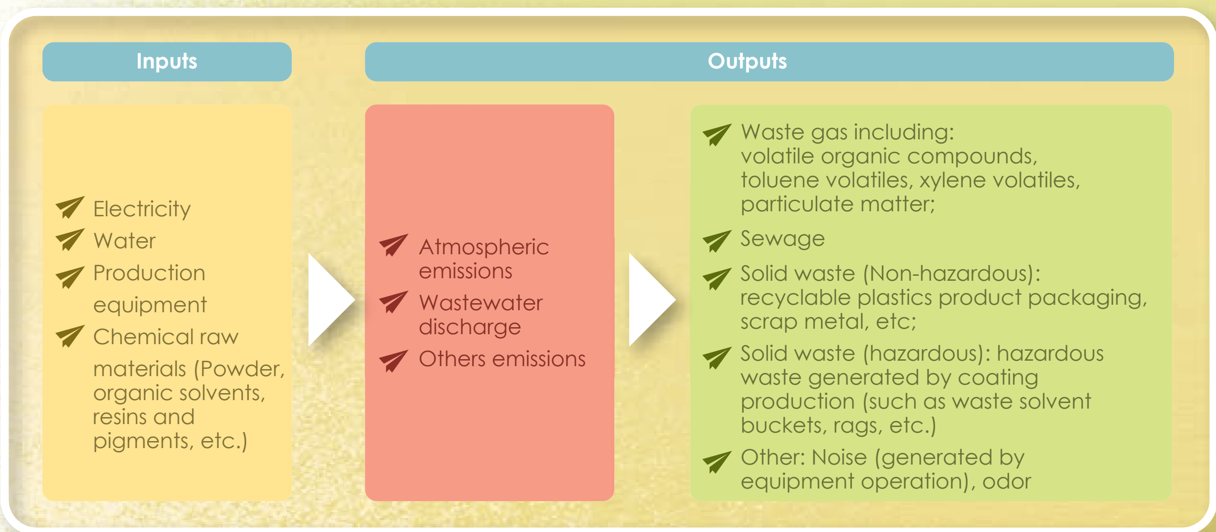
ENVIRONMENTAL PROTECTION

The Group is committed to promoting green operation and actively implementing energy saving, emission reduction and recycling. Especially, the coating manufacturing subsidiaries of the Company have strictly implemented the various systems and management measures stated in the Environmental Management System Certification formulated by ISO, and developed new technologies and skills for the promotion of energy saving and emission reduction, in order to minimise the environmental damage caused during the production process. Internally, we encourage our employees to adopt environmentally responsible behaviour and continue to improve our environmental management practices and measures to reduce the use of other resources, minimise wastage and increase recycling.

The coating manufacturing subsidiaries of the Company strictly comply with the laws and regulations in the PRC, including but not limited to the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution", the "Law of the People's Republic of China on the Prevention and Control of Water Pollution", the "Environmental Protection Law of the People's Republic of China" and the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste", as well as different local rules and standards in the PRC in respect of prevention and control of environment pollution by discarded dangerous chemicals, standard of air pollutants and integrated wastewater discharge standard. During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group.

Emissions

The coating manufacturing subsidiaries of the Company require the following input items in the operation and production of coatings, the output items that have an impact on the environment are listed below:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Types of emissions and respective emissions data of coating manufacturing subsidiaries of the Company

	Unit	2016	2015
Sewage	metric tons	**17,611**	43,873
Waste gas:	metric tons	**17.71**[note]	1.63
Volatile Organic Compounds ("VOCs") and Benzene	metric tons	**11.55**	0.18
Toluene	metric tons	**3.17**	0.18
Xylene	metric tons	**1.63**	0.26
Particulate matter	metric tons	**1.36**	1.01
Solid waste (Hazardous)	metric tons	**1,026**	1,165
Solid waste (Non-hazardous)	metric tons	**134.3**	101

note: Due to the cessation of production of the coating plant in Baoshan, Shanghai in 2015 and the full production of the coating plant in Jinshan, Shanghai in 2016, the waste gas emission was increased in 2016 as compared to 2015.

Greenhouse gas ("GHG") emissions data[note 1] of the Group

	2016	2015
Total GHG emissions (Scope 1 and 2) (metric tons)	**4,349**	4,098
Total GHG emissions (Scope 1 and 2) per floor area (metric tons/m^2)	**0.15**	0.14
Total GHG emissions (Scope 1 and 2) per employee (metric tons/employee)	**5.25**	4.23
Total GHG emissions (Scope 1, 2 and 3) (metric tons)	**4,719**	4,447
Total GHG emissions (Scope 1, 2 and 3) per floor area (metric tons/m^2)	**0.16**	0.15
Total GHG emissions (Scope 1, 2 and 3) per employee (metric tons/employee)	**5.69**	4.59
Direct emissions (Scope 1) (metric tons)		
Petrol [note 2]	**384.17**	220.29
Diesel [note 2]	**206.70**	230.95
Indirect emissions (Scope 2) (metric tons)		
Electricity [note 3]	**3,758**	3,647
Indirect emissions (Scope 3) (metric tons)		
Business travel [note 4]	**205.09**	188.54
Paper consumption	**165.11**	160.02

notes:

1. GHG emissions data is presented in carbon dioxide equivalent.
2. Emissions data relating to petrol and diesel are arising from company vehicles.
3. As disclosed in note 2. under the section headed "Energy Consumption" of this report, emission data relating to electricity excludes COSCOSHIP Beijing Company Limited.
4. Business travel refers to business travel by air. Emission data relating to air travel was largely based on the International Civil Aviation Organisation Carbon Emissions Calculator. Such emission data relating to business travel in 2015 excludes COSCO Kansai Companies but includes COSCO Kansai Companies (except the management nominated by Japanese shareholder) in 2016.
5. The intensity is calculated based on the total floor area (plants and offices) and total number of employees of the Group.

During the year, total packaging materials used for coatings by COSCO Kansai Companies were approximately 3,905 tonnes (2015: approximately 3,869 tonnes).

Reduction of Sewage and Pollutant Emission

During the year, the environmental management measures on emission reduction and sewage reduction implemented by coating manufacturing subsidiaries of the Company were as follows:

- Cleaned the environmentally friendly sewage treatment sedimentation tank on a regular basis, inspected the condition of water pump and aeration tank and made corresponding records, and enhanced the management on sewage treatment in order to meet the sewage discharge requirements of environmental protection department.
- Used pipelines, central ventilation system and dust filtration equipment to reduce waste.
- Promoted proactively the replacement of solvent coatings by water based coatings to reduce the emission of VOCs.
- Carried out energy saving and emission reduction measures to reduce the consumption of energy, water and electricity in order to avoid resources wastage.
- Strengthened the management and supervision of on-site operation to reduce wastes.
- Adopted measures to increase the utilisation of wastes and packing materials, including replacing the small packages by large packages.
- Engaged new hazardous waste treatment services provider.
- Produced supports for turning the material bucket upside-down to avoid material left in the bucket so as to maximise the savings of materials.
- Recycled use of the wooden pallets.

Waste Management

The Group is dedicated to managing waste in a responsible way and strives to optimise the use of resources. Hazardous wastes like discharge from waste and waste gas treatment facilities and waste equipment cleaning solvents as well as wastes from workshops and research and development laboratories, etc., are delivered to qualified units for processing. Non-hazardous wastes like some waste bags, clips, papers, etc., are recycled by qualified units for reuse. General garbage is cleaned by the sanitation department regularly.

During the year, the coating manufacturing subsidiaries of the Company adopted the following waste reduction initiatives:

- Strengthened staff's awareness and knowledge about hazardous wastes and treatment of hazardous wastes through training workshops.
- Enhanced hazardous wastes collection and storage management.
- Advanced production operations management, to ensure smooth production and reduce the generation of hazardous wastes.

During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group and had no significant incident record of environmental pollution.

Energy Efficiency

The Company considers that "Energy" is one of the sustainability priorities, and improvement of the energy efficiency of operations will not only ensure improved environmental outcomes, but also reduce cost and improve operational efficiency in the long-term.

The Group held diversified trainings and educational activities through cooperation with different environmental protection organisations to raise its employees' awareness of environmental conservation, enhance the application and knowledge of energy saving and emission reduction, energy efficiency, thereby further establishing a corporate culture of low-carbon office. COSCO SHIPPING International launched environment-friendly campaign of "Saving a drop of water, a kilowatt of power and a piece of paper" by encouraging staff to reduce office consumables such as printing papers; to save energy by turning off the computers or electrical appliances and equipment when not in use, using energy efficient bulbs, and adjusting the air conditioning temperature to 25°C at office, so as to build up conservation awareness among all staff and save energy.

In addition, COSCO Kansai Companies adopted the following energy saving measures in daily operation during the year:

- Launched Total Productive Maintenance ("TPM") campaign for all staff, organising regular TPM training for staff in workshops to enhance staff's awareness on regulated operation of equipment so as to reduce equipment failure and impairment, improve operation efficiency and ensure the safe operation of equipment.
- Replaced old lighting with highly energy efficient light-emitting diode ("LED") lights. This measure not only increases the brightness but also reduces electricity consumption and saves energy. On average, one LED light can save up to 150 kWh per year.
- Through the promotion activities of energy savings by the channels of network, billboards, television in canteens, employees can better understand the significance of energy saving. In addition, a number of energy conservation promotional banners and posters were posted up in various places to remind workers. Through catchy slogan and posters, everyone paid high attention to environmental protection and resources conservation.
- Strengthened energy conservation training and education. During the off season, the companies organised trainings on the knowledge of energy conservation and hazardous wastes, to improve the awareness of energy conservation and the waste disposal specification.
- Utilised new technology to reduce energy consumption.
- Carried out energy saving and emission reduction measures to reduce the consumption of energy, water and electricity in order to avoid resources wastage; further reinforced publicity and education through posting small stickers about saving electricity beside the switches of the meeting rooms and office etc.; regulated the temperature of air-conditions to be not lower than 26°C in summer and not higher than 20°C in winter; carried out patrol inspection by the logistics department to further ensure that the electrical equipment in public area are powered off on a timely basis; upgraded the water heating system in bathroom with time-to-temperature linkage function, which sets up the time of heating according to the user number and water consumption and heats up automatically during the electricity slack hours at night; and further specified the work schedule of production equipment in workshop like sanders and sanding blenders as per our standard production accessions.

Energy Consumption

The following is energy consumption of the Group by type:

	2016	2015
Total water consumption (metric tons) note 1	**78,375**	95,936
Total water consumption per floor area (metric tons/m^2) note 1	**3.29**	4.03
Total electricity consumption (kilowatt hour) note 2	**4,337,874**	3,973,025
Total electricity consumption per floor area (kilowatt hour/m^2) note 2	**148.38**	135.90
Total electricity consumption per employee (kilowatt hour/employee) note 2	**5,355.40**	4,195.38

notes:

1. As the water supply of the members of the Group (except for COSCO Kansai Companies and SZ COSCO Insurance Brokers) is controlled by the respective property management office or landlord of the office premises and provision of sub-meters for the units occupied by them are not available, thus the amount of water consumed by the Group other than COSCO Kansai Companies and SZ COSCO Insurance Brokers is not available. Therefore, the intensity for water consumption is calculated based on the floor area (plants and offices) of those members of the Group having water consumption data.

2. As the electricity supply of COSCOSHIP Beijing Company Limited, a subsidiary of the Company, is controlled by the property management office or landlord of the office premises and provision of sub-meter for the unit occupied by COSCOSHIP Beijing Company Limited is not available, thus the amount of electricity consumed by COSCOSHIP Beijing Company Limited is not available. Therefore, the intensity for electricity consumption is calculated based on the floor area (plants and offices) and number of employees of those members of the Group having electricity consumption data.

Go Green and Environmental Protection

Development and Promotion of Green Coating Products

In respect of the promotion of green coating, COSCO Kansai Companies and Jotun COSCO have made great efforts in the research and development and promotion of green coatings for years. In 2016, COSCO Kansai Companies focused on promoting the application of green coating products. The China Container Industry Association and various local regulators introduced policies to promote the application of water-based container coatings and relevant technical standards in 2016. COSCO Kansai Companies actively participated in the formulation of such standards to push forward the advancement and development of the industry and actively promote the application of water-based container coatings in the container coating industry by dedicating to research and develop water-based container coating product series applicable to various work environment. During the year, COSCO Kansai Companies developed water-based zinc-rich coatings, water-based inorganic zinc coatings and solvent-free epoxy coatings applying to large tanks and vessels; and also completed the development of CAP series coatings applying to the third generation of nuclear power plants (also known as clean energy), which passed the expert review and was put into sales. Moreover, it finished the development of protective coatings applying to the solar panels project of solar vessels initiated by the Ministry of Industry of Information Technology.

In 2016, Jotun COSCO continued to enhance the promotion of Hull Performance Solution and the high performance antifouling coating, Sea Quantum X200. As such product can lessen the roughness of the vessel body, enhancing saving energy and accelerating the speed. Theoretically, it can save up to 13.2% fuel consumption, as compared with market average level, which greatly reduces the fuel cost of shipowners and reduces emission of greenhouse gases. During the year, the Sea Quantum X200 anti-fouling coatings were successfully applied in over 20 large vessels. Hull Performance Solution of Jotun COSCO has gained increasing recognition from the industry.

Promotion and Implementation of Green Coating Standards

Green coating is an important component in the development of green shipping. The Company actively promotes the development of green coating in an effort to protect the global climate. With its professional experiences and techniques in developing and using green coatings over the years, and the promulgation of the international standard, namely “ISO 19030: Measurement of changes in hull and propeller performance” led by Jotun COSCO which allows both purchasers and sellers to clearly understand the fuel-saving techniques and solutions, the operating efficiency and environmental effectiveness within the overall industry will indeed be enhanced and it is expected to save up to US$30 billion fuel cost for the shipping industry each year. Jotun COSCO has actively developed products with high solid content and low VOCs in order to reduce VOCs emissions. Such efforts of Jotun COSCO can support the effective and sustainable development of shipping enterprises.

OPERATING PRACTICES

Being a responsible enterprise, COSCO SHIPPING International seeks to understand the customers and their businesses and adheres to trading practices that comply fully with local and international law. Staff are required to observe internal and external codes of conduct prohibiting bribery, fraud, competitive behavior and corruption. As the reputation of the Company and the quality of products are extremely important, the Group therefore emphasises that purchases must be made from suppliers after going through internal selection.

Supply Chain Management

Suppliers management measures govern the engagement of suppliers. The Group implements supplier management in accordance with internal guidance. Suppliers are chosen according to screening and evaluation procedures among the suppliers, based on the quality as well as price. In addition, to ensure supplier capability in quality assurance, safety and other aspects of environmental management, field investigation will be conducted on their production capacity, technology level, quality assurance capabilities, supply capacity, safety and environment management qualifications if needed. Only the highly qualified suppliers complied with regulatory requirements are eligible for the selection by the Group.

The Group strictly implements supplier management. All suppliers will be assessed with criteria specified by the Company for this purpose, through which we will evaluate new suppliers' overall capabilities, assets position, nature of business, reputation in the industry, quality of products, goods delivery and compliance with law and discipline. The information and relevant qualification documents in relation to the suppliers are updated annually.

Number of suppliers of the Group by geographical region are as follows:

Year	China Mainland	Hong Kong	Other Countries
2016	**826**	**118**	**726**
2015	791	122	765

Product Responsibility

The Group is committed to providing quality, health and safety products and services to its customers in accordance with the applicable local and international laws. COSCO Kansai Companies were registered as dangerous chemical production enterprises pursuant to the relevant rules and regulations of the PRC. Unified classification and format of product safety technical manual and safety label according to the relevant requirements of State Administration of Work Safety are used. In addition, COSCO Kansai Companies strictly comply with the notice of "Implementation Plan For Reducing Lead Content in Coating of Container Industry" (集裝箱行業降低油漆鉛含量實施方案) issued by China Container Industry Association, GB30000 series "Rules for Classification and Labelling of Chemicals" of the People's Republic of China, and the "Product Quality Law of the People's Republic of China". During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group.

The Group continuously strives to provide customers with quality products and services, high attention is paid to complaints about products and services. Procedures for handling complaints are in place to deal with complaints in relation to the services and products. Specific person(s) is (are) responsible to investigate and take certain corrective measures to avoid such complaints in the future. During the year, the Group has received 10 (2015: 12) products and services related complaints and the companies concerned have made adjustment on the production methods and products and replacement of goods. All complaints have been properly handled and settled.

To ensure the product safety and quality, quality assurance process and recall procedures were established. In the production process, sampling and laboratory testing would be conducted regularly. Any product that fails to meet the standards would be classified as inferior-quality product for further investigation. Recalled products would be tested and in case the products meet with the standards, they would become stock, otherwise adjustments would be made. If the products fail to meet with the standard after adjustment, they would be destroyed. During the year, no product manufactured by the Group sold was subject to recalls for safety and health reasons (2015: nil).

The Company attaches great importance to intellectual property. COSCO Kansai Companies have specialised departments responsible for maintenance and management of intellectual property. Intellectual property rights are applied for based on requirements of protecting product development and products in established markets and can cover not only coatings itself but also the coating process, equipment and devices as well as functions and features of coatings, etc. Validity of a patent protection is determined by the sales cycle of a product. Intellectual property rights structure will be managed regularly.

In the daily operations in Hong Kong, personal data from the stakeholders of the Company is collected from time to time for different purposes. Personal data is collected only for lawful and relevant purposes and in accordance with "Personal Data (Privacy) Ordinance" of Hong Kong. We ensure that personal and business information of our stakeholders is used in the proper context and exclusively for authorised business purpose, being accessible only to those staff who need to know. For the operations in the PRC, customer management measures are adopted and specific personnel is responsible for the maintenance of customer data in order to strictly protect consumers' data and privacy, which are traced in the customer satisfaction surveys.

Anti-corruption

In order to ensure the Company's reputation be enhanced by the honest, loyal and ethical behaviours of staff, the Group has in place a formal Staff Code and Whistleblowing Policy. Staff Code serves as a clear and complete guideline to monitor the code of conduct of the employees of the Group during daily operations. Every year, the Group reviews the implementation status of the Staff Code within the Group through a self-inspection process by the Company and each of its subsidiaries, in order to ensure that the Staff Code had been thoroughly applied throughout the actual operations and management practices, so as to balance and safeguard the interests of the Group and the stakeholders and build up a long-term partnership. Whistleblowing Policy provides a channel and guidelines to report any misconduct, malpractice or impropriety concerns within the Group. Employee who has a malpractice concern can inform the relevant designated superiors or take the complaint directly to the chairman of the Audit Committee. Electronic reporting mailbox and a hotline were established, all reporting is treated as confidential and in a sensitive manner. The chairman of Audit Committee would review the complaint and decide how the investigation should proceed. In addition, the subsidiaries of the Company in China Mainland also developed relevant systems to prohibit commercial bribery, and strictly complied with relevant laws including the "Criminal Law of the People's Republic of China", the "Anti-Unfair Competition Law of the People's Republic of China" and the "Bidding Law of the People's Republic of China". Each subsidiary attached importance to contract and strictly obliged the terms and strictly complied with relevant laws and requirements during the operating activities. Meanwhile, great importance was attached to the construction of prevention and punishment systems. In addition, the Group continued to advance its comprehensive risk management. On precautions, the Group focused on enhancing incorruptibility education, refining the procurement tender system and improving the system of selection and appointment of key staff, as well as implementing the key personnel rotation system. For the channel of whistleblowing, the reports were mainly delivered to the general manager's mailbox and the Internal Audit Department. On monitoring methods, there was routine audit by external professional institutions and internal special audit as well as daily review on systems. During the year, the Company was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group. Furthermore, there was no legal case regarding corrupt practices brought against COSCO SHIPPING International or its employees during 2016 (2015: nil).

Furthermore, the Group promotes corruption-free business and has from time to time arranged different levels of staff, ranging from top management to front-line staff, to participate in a series of business ethics seminars conducted by the Company and/or COSCO SHIPPING (Hong Kong), with the aim of further enhancing the professional conduct and integrity management of its management team, promoting a management culture with high values of business ethics and incorruptibility and enhancing the staff's recognition and commitment to the Staff Code.

COMMUNITY INVOLVEMENT

Community Investment

COSCO SHIPPING International is committed to creating sustainable prosperity that brings long-term social and economic benefits for all stakeholders. Under the philosophy of "giving back to the community with what they get from the community", COSCO SHIPPING International does not only endeavour to fulfill its obligations as a corporate citizen and proactively give back to the society, but also motivates its employees to participate in various social charitable activities, so that it can contribute to the country and the community, and provide more assistance to the people in need.

Formulating Charitable Donation Policy

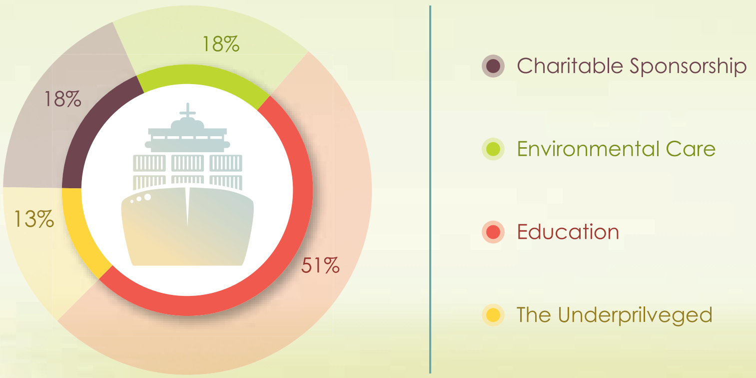
In 2014, COSCO SHIPPING International has formulated a Charitable Donation Policy. The donation policy is intended to provide a guideline for the Group in allocating the fund to the non-governmental organisations and other charitable bodies. It formalises the manner in which its philanthropic efforts are handled and to ensure its commitment to building partnerships in the communities in which the Company and its subsidiaries operate. In accordance with the policy, the Company would, in principle, set the charitable donation budget as about 0.1% of the profit attributable to the shareholders of the previous financial year for all direct donations and indirect expenses to all charitable events and related community services for the year. The actual amount of the charitable donation may be adjusted appropriately in line with the profit performance, and the charitable donation budget plan has to be submitted to the senior management for final approval every year. In 2016, the charitable donation and related expenses of COSCO SHIPPING International amounted to HK$272,000. (2015: HK$270,000)

Offering Volunteer Holiday

To show our care for the underprivileged and our commitment to contribute to society, COSCO SHIPPING International has launched volunteer services since 2011. In the past few years, the Company has stepped up various efforts to improve volunteer services work by formation of a volunteer team in Hong Kong with a team slogan of "Our Passion to Serve", and offering volunteer holiday to encourage and attract more staff to participate in volunteer services. All Hong Kong staff who has participated in volunteer services organised or referred by the Company for over 8 hours in a year will be entitled to a half-day paid leave.

In 2016, the Group's involvement in the community continued focusing on the areas of education, environmental care and volunteer services for the underprivileged.

Breakdown of Allocation of Charitable Donations in 2016



Education

Continuous Support to Education in Mountainous Areas in China Mainland

COSCO SHIPPING International has continuously made donations to the students in mountainous areas to support their continuous studies and change their lives with knowledge. Since 2008, COSCO SHIPPING International has sponsored an annual large-scale fund-raising walk activity, namely "Sowers Action Challenging 12 Hours Charity Marathon", organised by Sowers Action, a non-profit making charitable organisation, and subsidised its staff to participate in the charitable hiking activity to raise fund.

In 2016, COSCO SHIPPING International sent 60 employees and their family members, totaling 18 teams, to participate in the fund raising activity of "Sowers Action Challenging 12 Hours Charity Marathon 2016". This was the ninth consecutive year that COSCO SHIPPING International supported the event. All participating teams completed the 12km race of run for education within the designated time, in which two Open Teams won the 4th and the 10th place respectively. COSCO SHIPPING International received Gold Award of "Corporate Participation Award" in the Sowers Action Challenging 12 Hours Charity Marathon 2016 by Sowers Action for appreciation of active participation.

Environmental Care

Supporting Marine Conservation

As a corporate member of WWF-Hong Kong, COSCO SHIPPING International always supports its conservation work for protecting the environment. In 2016, COSCO SHIPPING International, with its headquarters in Hong Kong, supported the WWF-Hong Kong's annual eco-event, "Earth Hour", to discharge our responsibility to save the planet by turning off all non-essential lights to minimise carbon emission.

To follow COSCO SHIPPING's commitment on marine conservation of banning the transport of shark fin on its vessels, the Company showed support to WWF-Hong Kong's philosophy of "Say No to Shark Fin" by ceasing the consumption of shark fins in the menu of large-scale corporate dinners, and minimising the consumption of known endangered marine species so as to protect the marine ecology.

The Company supported green printing. During the year, the Company adopted printing paper accredited by a non-profit green body namely Forest Stewardship Council (known as FSC) in the Company's annual reports and other promotional collaterals with bulk printing. This helped reduce the damage to the nature caused by large number of deforestation, showcasing the commitment of the Company's sustainability operating philosophy which undertakes environmental responsibility and benefits the society.

To educate its staff to know the importance of marine conservation, the Company arranged its staff to participate in environmental protection activities organised by WWF-Hong Kong. During the year, COSCO SHIPPING International joined the "Mai Po and Ting Kok Wetland Discovery Programme". Guided by the instructor of WWF-Hong Kong, the Company's staff and their family members visited Mai Po Marshes and Ting Kok Wetland in Tai Po. They learnt protecting the marine resources, cultivating the awareness of conserving marine ecology and sustainable living.

Promoting Recycling

Every year, the Company partnered with Christian Action to organise "Green Collection Day" programme, which aimed to encourage the employees to reduce waste by donating recycled items for the people in need. In 2016, a total of 139 kilograms of clothes, toys and books were donated. The donated items were sent to those families newly migrated to Hong Kong, ethnic minorities, and the orphans and disabled children in Qinghai province, China, or sold for charity to finance various charitable services of Christian Action.

Caring for the Underprivileged

Showing Concern to the Elderly Living Alone

COSCO SHIPPING International volunteer team's service targets are mainly the underprivileged including the elderly living alone or in poverty, and the low-income families. Every year, the Company collaborated with a non-profit organisation, Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council by sending its volunteer team during the festive seasons and the winter to visit the elderly living alone, and sponsored the gift bags. In 2016, a number of 73 elderly persons who live alone and who live together were visited. The volunteers gave their regards to the elderly and asked about their recent condition to revert their needs to the social workers for follow up. COSCO SHIPPING International was awarded a certificate of commendation by Neighbourhood Advice-Action Council in recognition of its active participation in volunteer services.

Giving Assistance to Low Income Families

To provide more opportunity for the underprivileged including the new arrivals and low income families to adapt to the society, COSCO SHIPPING International organised activities such as outdoors visits or farm workshop from time to time, with the accompany of the Company's volunteers. During the year, COSCO SHIPPING International co-operated with Christian Action to organise the "Ngong Ping Cultural Educational Tour". Led by the volunteers, a total of 24 children from the low income families went to the Lantau Island to take the Ngong Ping 360 Cable Cars and visited the Buddha and the Wisdom Path. The activity helped the children to learn more about the traditional culture of Buddhism and importance of protecting the environment.

In 2016, the number of volunteers participating in volunteer services amounted to 76 attendances while 376 volunteer hours were recorded. A total of 97 persons benefited from the above activities, reflecting that COSCO SHIPPING International's spirit of social responsibility in active community services and caring for the underprivileged.

	Year ended 31st December	
	2016	2015
Community Investment		
Corporate charitable donations & sponsorships (HK$)	**272,000**	270,000
Volunteer Participation		
Number of attendance	**76**	69
Service hours	**376**	344
Beneficiaries		
Number of beneficiaries	**97**	104

DIRECTORS' REPORT

The board of directors of the Company (the "Director(s)" or the "Board") presents this Directors' Report (the "Report") together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2016.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The principal activities of the Group include shipping services and general trading. The activities of the principal subsidiaries are set out in note 38 to the financial statements. An analysis of the revenue and segment information of the Group for the year is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2016 are set out in the consolidated income statement on page 126 of this annual report. The Board has recommended the payment of a final dividend of 5.5 HK cents (2015: 9 HK cents) per share for the year ended 31st December 2016. Meanwhile, in order to celebrate the 20th anniversary of the Company's being a listed subsidiary of COSCO SHIPPING (Hong Kong) Co., Limited, the Board recommended the payment of special dividend of 5 HK cents per share (2015: Nil). Subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting of the Company to be held on 29th May 2017 (the "2017 AGM"), approximately HK$160,961,000 will be payable on 28th June 2017 to the Shareholders whose names appear on the register of members of the Company on 9th June 2017. The proposed final dividend and special dividend together with the interim dividend of 4 HK cents per share, total dividends per share for the year 2016 are 14.5 HK cents (2015: 16 HK cents).

BUSINESS REVIEW

The Group is principally engaged in the provision of shipping services and general trading. The shipping services business, the core business of the Group which includes ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sale of coatings, and trading and supply of marine fuel and related products. The Group is committed to promoting green operation and actively implementing energy saving, emission reduction and recycling by implementing practices such as turning off all non-essential lights and donating recycled items to the people in need on continuous basis. In addition, the Group's coating business reflects the significant environmental impacts among other businesses and therefore the coating manufacturing subsidiaries of the Company in China Mainland strictly comply with the relevant laws and regulations in the People's Republic of China. Being people-oriented, the Group ensures that all staff is reasonably remunerated and maintains a good relationship with its customers and suppliers.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622), including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, an indication of likely future development in the Group's business, an analysis using financial key performance indicators, a discussion on the Group's environmental policies and performance and the compliance with the relevant laws and regulations that have a significant impact on the Group, and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends, are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Prospects", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Five-Year Financial Summary" of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 3 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2016 calculated under Companies Act of Bermuda amounted to HK$7,001,899,000 (2015: HK$5,372,322,000).

BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 23 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 20 to the financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year, save for the share options granted in prior years, details of which are set out in note 20 to the financial statements contained in the Report.

DONATIONS

Donations made by the Group during the year amounted to approximately HK$272,000 (2015: HK$270,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 207 to 208.

DIRECTORS

The Directors during the year and up to the date of the Report were:

Executive Directors

Mr. Ye Weilong *(Chairman)*
(appointed on 18th March 2016)
Mr. Zhu Jianhui *(Vice Chairman)*
(appointed on 16th August 2016)
Mr. Liu Gang *(Managing Director)*
(appointed on 27th September 2016)
Mr. Liu Xianghao
(appointed as Executive Director and Managing Director on 18th March 2016 and resigned as Managing Director on 27th September 2016)
Mr. Sun Jiakang
(resigned on 18th March 2016)
Mr. Zhang Liang
(resigned on 16th August 2016)
Mr. Feng Jinhua
(resigned on 16th August 2016)
Mr. Xu Zhengjun
(resigned on 18th March 2016)

Non-executive Directors

Mr. Wang Wei
Mr. Wu Shuxiong
(resigned on 16th August 2016)

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Jiang, Simon X.
Mr. Alexander Reid Hamilton

In accordance with bye-law 99 of the Company's bye-laws, every Director shall be subject to retirement by rotation at least once every three years and a retiring Director shall be eligible for re-election at such annual general meeting of the Company. Pursuant to bye-law 99 of the Company's bye-laws, Mr. Tsui Yiu Wa, Alec and Mr. Alexander Reid Hamilton shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

Mr. Sun Jiakang resigned as Executive Director and Chairman on 18th March 2016 due to change of work designation. Mr. Xu Zhengjun resigned as Executive Director and Managing Director on 18th March 2016 due to his retirement. Mr. Zhang Liang resigned as Executive Director and Vice Chairman on 16th August 2016 due to his retirement. On 16th August 2016, Mr. Wu Shuxiong resigned as Non-executive Director and Mr. Feng Jinhua resigned as Executive Director due to his retirement and change of work designation respectively. Each of Mr. Sun Jiakang, Mr. Zhang Liang, Mr. Wu Shuxiong, Mr. Feng Jinhua and Mr. Xu Zhengjun confirmed that there was no disagreement with the Board needed to be brought to the attention of the Shareholders.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ye Weilong and Mr. Liu Xianghao, being the Executive Director, has entered into a letter of appointment with the Company on 18th March 2016 for a term commencing from 18th March 2016 to the conclusion of the 2018 annual general meeting of the Company. Mr. Zhu Jianhui, being the Executive Director, has entered into a letter of appointment with the Company on 16th August 2016 for a term commencing from 16th August 2016 to the conclusion of the 2018 annual general meeting of the Company. Mr. Liu Gang, being the Executive Director, has entered into a letter of appointment with the Company on 27th September 2016 for a term commencing from 27th September 2016 to the conclusion of the 2018 annual general meeting of the Company. Mr. Wang Wei, being the Non-executive Director, has entered into a letter of appointment with the Company on 31st May 2016 for a term commencing from 31st May 2016 to the conclusion of the 2018 annual general meeting of the Company. Each of Mr. Tsui Yiu Wa, Alec, Mr. Jiang, Simon X. and Mr. Alexander Reid Hamilton, being the Independent Non-executive Director, has entered into a letter of appointment with the Company on 31st May 2016 for a term commencing from 31st May 2016 to the conclusion of the 2018 annual general meeting of the Company.

Each of the above letters of appointment is subject to termination by either party giving one month's prior notice in writing or such other shorter notice period as may be agreed by both parties.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with any member of the Group which is not determinable within one year by respective member of the Group without the payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Subject to the applicable laws, Directors for the time being shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices pursuant to the Company's bye-laws. In addition, the Company has maintained appropriate directors and officers liability insurance coverage for the directors of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section headed "Directors' Interests in Securities", at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of the Report, the following Directors were considered to have interests in businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out below:

Name of Directors	Name of the entities which were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entities which were considered to compete or likely to compete with the businesses of the Group	Nature of Director's interest in the entities
Mr. Ye Weilong	Companies controlled by 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*) ("COSCO SHIPPING")	Shipping services	director
Mr. Zhu Jianhui	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Liu Gang	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Liu Xianghao	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Wang Wei	Companies controlled by COSCO SHIPPING	Shipping services	director
Ex-Directors			
Mr. Sun Jiakang#	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Zhang Liang^	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Wu Shuxiong†	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Feng Jinhua†	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Xu Zhengjun@	Companies controlled by COSCO SHIPPING	Shipping services	director

Mr. Sun Jiakang resigned as Executive Director and Chairman on 18th March 2016.

^ Mr. Zhang Liang resigned as Executive Director and Vice Chairman on 16th August 2016.

† Mr. Wu Shuxiong and Mr. Feng Jinhua resigned as Non-executive Director and Executive Director respectively on 16th August 2016.

@ Mr. Xu Zhengjun resigned as Executive Director and Managing Director on 18th March 2016.

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Directors controls the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these companies.

* *for identification purposes only*

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions and/or continuing connected transactions of the Group are required to be disclosed in this annual report:

A. Continuing Connected Transactions

1. (a) *Supply Continuing Connected Transactions*

A master supply agreement was entered into between the Company and COSCO (Hong Kong) Group Limited (now known as COSCO SHIPPING (Hong Kong) Co., Limited), a holding company of the Company ("COSCO SHIPPING (Hong Kong)") on 13th November 2013 in relation to (1) provision of marine and general insurance brokerage services and other services by the Group to 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company*), the then ultimate holding company of the Company ("COSCO") and its subsidiaries and associates (other than the Group), being connected persons of the Company (collectively "COSCO Group"); and (2) provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the Group to COSCO Group, including without limitation: (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea/on land and ports, (ii) radio communication, satellite communication, navigation equipment and other materials, and (iii) construction materials and facilities, chemicals and information management systems; and (c) the sale of coatings (collectively the "Supply Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Master Supply Agreement"). Pursuant to the Master Supply Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Supply Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Supply Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Supply Caps").

(b) *Purchase Continuing Connected Transactions*

A master purchase agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 13th November 2013 in relation to provision of shipping and other services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by COSCO Group to the Group, including without limitation: (a) the provision of agency services, technical services and ancillary services, including the collection of market information, technical advisory, promotion and marketing, coordination with suppliers and customers, purchase of raw materials and products from suppliers, the provision of assistance in collecting sale proceeds and the procurement or provision of certain after-sale services; (b) the provision of logistics and transportation services; (c) the sale of other materials and products including construction materials and chemicals; and (d) the solicitation and referral of businesses by COSCO Group to the Group, including recommending products manufactured by the Group to the customers and manufacturers of COSCO Group (collectively the "Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Master Purchase Agreement"). Pursuant to the Master Purchase Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Purchase Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Purchase Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Purchase Caps").

* *for identification purposes only*

(c) *Financial Services Continuing Connected Transactions*

A financial services master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 13th November 2013 in relation to provision of a range of financial services, including the deposit services, loan services, settlement services, remittance services and entrusted loan services (as lending agent in entrusted loan arrangements among the members of the Group) by 中遠財務有限責任公司 (COSCO Finance Co., Limited*), a subsidiary of COSCO, being connected person of the Company ("COSCO Finance") to the Group (collectively the "Financial Services Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Financial Services Master Agreement"). Pursuant to the Financial Services Master Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Financial Services Continuing Connected Transactions be conducted on normal commercial terms and at such fee no less favourable than those available to or from (as appropriate) independent third parties. The amount of daily cash balance(s) of all cash deposit accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services and entrusted loan services) payable by the Group to COSCO Finance in connection with the Financial Services Continuing Connected Transactions (except transactions in connection with the provision of loan services) for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Deposit Caps"). The amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO Finance in connection with the loan transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Loan Caps") (the Deposit Caps and the Loan Caps are collectively called the "Financial Services Caps").

(d) *Fuel Oil Continuing Connected Transactions*

A fuel oil master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 13th November 2013 in relation to trading and supply of fuel oil and/or related products and services between the Group and COSCO Group, including without limitation: (a) purchase or sale of fuel oil and/or related products by the Group from or to COSCO Group (the "Fuel Oil Transactions"); and (b) provision of services by COSCO Group to the Group to carry out arrangements at the instruction of and for and on behalf of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its business of providing fuel oil and/or related products and services including marine bunker supplies, trading of fuel oil and related products and broker services (the "Fuel Oil Financial Services") (collectively the "Fuel Oil Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Fuel Oil Master Agreement"). Pursuant to the Fuel Oil Master Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Fuel Oil Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration for the sale or purchase of fuel oil and/or related products no less favourable than those available to or from (as appropriate) independent third parties. In respect of the Fuel Oil Financial Services, it is intended that (i) the relevant member(s) of COSCO Group will not charge member(s) of the Group any service fee in relation to the provision of the Fuel Oil Financial Services; (ii) member(s) of the Group shall only be responsible for all amounts payable to independent third parties (together with the related handling fees and other charges charged by such independent third parties) by relevant member(s) of COSCO Group for and on behalf of member(s) of the Group under the fuel oil and/or related products swap contracts and/or derivatives. The aggregate amount of the Fuel Oil Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Fuel Oil Caps").

* *for identification purposes only*

(e) Management Services Continuing Connected Transactions

A management services master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 13th November 2013 in relation to provision of administrative services including information technology and fixed line network support, business management and manpower resources (including without limitation manpower resources with expertise and experience in the business carried on by the Group from time to time and management of human resources), technical support and other administrative and ancillary support (including without limitation sharing of office equipment, network and communication system, information technology, other technical support, system management, financial system and maintenance) by COSCO Group to the Group and sharing of office premises by the Group (the "Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Management Services Master Agreement"). Pursuant to the Management Services Master Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Management Services Continuing Connected Transactions be conducted on normal commercial terms. The aggregate amount of the Management Services Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Management Services Caps").

(f) Tenancy Continuing Connected Transactions

A master tenancy agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 13th November 2013 in relation to leasing or sub-leasing of any of the properties owned by or leased to COSCO Group from time to time by COSCO Group to the Group (the "Tenancy Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Master Tenancy Agreement"). Pursuant to the Master Tenancy Agreement, COSCO SHIPPING (Hong Kong) agreed and would procure the Tenancy Continuing Connected Transactions be conducted on normal commercial terms. The aggregate amount of the Tenancy Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with COSCO Group" (the "Tenancy Caps").

The Management Services Master Agreement, the Master Tenancy Agreement, the Management Services Caps and the Tenancy Caps were exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 13th November 2013. The Master Supply Agreement, the Master Purchase Agreement, the Financial Services Master Agreement, the Fuel Oil Master Agreement, the Supply Caps, the Purchase Caps, the Financial Services Caps and the Fuel Oil Caps were approved by the independent shareholders at the special general meeting of the Company held on 23rd December 2013, details of which were disclosed in the announcement and circular of the Company dated 13th November 2013 and 3rd December 2013 respectively.

Caps with COSCO Group

	Caps for the year ending 31st December 2014	Caps for the year ending 31st December 2015	**Caps for the year ending 31st December 2016**
Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$1,400,000,000	HK$1,525,000,000	**HK$1,660,000,000**
Aggregate amount payable by the Group for the transactions contemplated under the Master Purchase Agreement	HK$325,000,000	HK$438,000,000	**HK$565,000,000**
Amount of daily cash balance(s) of all cash deposit accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services and entrusted loan services) payable by the Group to COSCO Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the Financial Services Master Agreement	RMB900,000,000	RMB900,000,000	**RMB900,000,000**
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO Finance for loan transactions contemplated under the Financial Services Master Agreement	RMB310,000,000	RMB310,000,000	**RMB310,000,000**
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$900,000,000	US$900,000,000	**US$900,000,000**
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Management Services Master Agreement	HK$28,500,000	HK$29,500,000	**HK$30,500,000**
Aggregate amount payable by the Group to COSCO Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO) for transactions contemplated under the Master Tenancy Agreement	HK$43,000,000	HK$44,000,000	**HK$45,000,000**

The amount of the Supply Continuing Connected Transactions, the Purchase Continuing Connected Transactions, the Financial Services Continuing Connected Transactions, the Fuel Oil Continuing Connected Transactions, the Management Services Continuing Connected Transactions and the Tenancy Continuing Connected Transactions (collectively called the "COSCO Continuing Connected Transactions") for the financial year ended 31st December 2016 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$1,008,857,372
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$111,875,500
Amount of daily cash balance(s) of all cash deposit accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services and entrusted loan services) payable by the Group to COSCO Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the Financial Services Master Agreement	Not exceeded RMB900,000,000
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO Finance for loan transactions contemplated under the Financial Services Master Agreement	Not exceeded RMB310,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$6,787,144
Aggregate amount payable by the Group to COSCO Group for transactions contemplated under the Management Services Master Agreement	HK$10,055,149
Aggregate amount payable by the Group to COSCO Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO Group) for transactions contemplated under the Master Tenancy Agreement	HK$25,854,272

The price and the terms of the COSCO Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 13th November 2013 and the circular of the Company dated 3rd December 2013. As set out in notes 35(a)(i), 35(a)(ii), 35(a)(iii), 35(a)(iv), 35(a)(v), 35(a)(vi), 35(a)(vii), 35(b)(i), 35(b)(ii), 35(b)(iii), 35(b)(iv), 35(b)(vi), 35(b)(vii), 35(b)(ix) and 35(b)(x) to the financial statements, certain related party transactions of the Group also constituted continuing connected transactions of the Group as disclosed above.

DIRECTORS' REPORT

2. (a) ***Kansai Technology Transfer Continuing Connected Transactions***

(i) On 15th June 2010, each of COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd. ("COSCO Kansai (Tianjin)") and COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd. ("COSCO Kansai (Zhuhai)"), all being non-wholly owned subsidiaries of the Company entered into a technology transfer agreement with Kansai Paint Co., Ltd. (關西塗料株式會社), a substantial shareholder of certain subsidiaries of the Company, being a connected person of the Company ("Japan Kansai"), whereby Japan Kansai has agreed, inter alia, to provide necessary technology and know-how in relation to the production of container coatings, marine coatings and heavy-duty anti-corrosion coatings to COSCO Kansai (Tianjin), and to provide necessary technology and know-how in relation to the production of container coatings and heavy-duty anti-corrosion coatings to COSCO Kansai (Zhuhai) in return for fees to be paid by the respective COSCO Kansai (Tianjin) and COSCO Kansai (Zhuhai) (collectively called the "Tianjin and Zhuhai Technology Transfer Agreements"). The Tianjin and Zhuhai Technology Transfer Agreements will remain in effect until the expiry of the joint venture contracts for COSCO Kansai (Tianjin) and COSCO Kansai (Zhuhai) respectively.

(ii) On 26th June 2015, 中遠關西塗料(上海)有限公司 (COSCO Kansai Paint (Shanghai) Co., Ltd.*) ("COSCO Kansai Paint (Shanghai)"), being a non-wholly owned subsidiary of the Company) entered into a technology transfer agreement with Japan Kansai, whereby Japan Kansai has agreed, inter alia, to provide necessary technology and know-how in relation to the production of container coatings, marine coatings and heavy-duty anti-corrosion coatings to COSCO Kansai Paint (Shanghai) in return for fees to be paid by COSCO Kansai Paint (Shanghai) (the "Jinshan Shanghai Technology Transfer Agreement"). The Jinshan Shanghai Technology Transfer Agreement will remain in effect until the expiry of the joint venture contract for COSCO Kansai Paint (Shanghai). In addition, the Existing Technology Transfer Caps (as defined in the announcement of the Company dated 26th June 2015) will be applicable to the continuing connected transactions contemplated under the Technology Transfers Agreements (as defined hereinbelow). Details of which were disclosed in the announcement of the Company dated 26th June 2015.

(iii) On 15th June 2010, 中遠關西塗料化工(上海)有限公司 (COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.*) ("COSCO Kansai (Shanghai)"), being a non-wholly owned subsidiary of the Company entered into a technology transfer agreement with Japan Kansai, whereby Japan Kansai has agreed, inter alia, to provide necessary technology and know-how in relation to the production of container coatings, marine coatings and heavy-duty anti-corrosion coatings to COSCO Kansai (Shanghai) in return for fees to be paid by COSCO Kansai (Shanghai) (the "Shanghai Technology Transfer Agreement"). As the term of equity joint venture contract of COSCO Kansai (Shanghai) would expire on 21st December 2015, COSCO Kansai (Shanghai) had applied for the extension of term of equity joint venture contract to 21st December 2035 which was approved by Shanghai Administration of Industry and Commerce of the People's Republic of China. As the arrangements under the Shanghai Technology Transfer Agreement will remain in effect until the expiry of the equity joint venture contract of COSCO Kansai (Shanghai), the duration of the Shanghai Technology Transfer Agreement has also been automatically extended to 21st December 2035 as a result of the extension of the term of the aforesaid equity joint venture contract. As there are no changes to the terms and conditions of the Shanghai Technology Transfer Agreement except the duration, the Existing Technology Transfer Caps (as defined in the announcement of the Company dated 26th June 2015) will remain applicable to the continuing connected transactions contemplated under the Technology Transfer Agreements (as defined hereinbelow). Details of which were disclosed in the announcement of the Company dated 5th November 2015.

* *for identification purposes only*

(COSCO Kansai (Tianjin), COSCO Kansai (Zhuhai), COSCO Kansai Paint (Shanghai) and COSCO Kansai (Shanghai) are collectively called the "COSCO Kansai Companies". The Tianjin and Zhuhai Technology Transfer Agreements, the Jinshan Shanghai Technology Transfer Agreement and the Shanghai Technology Transfer Agreement set out in item (i), (ii) and (iii) above are collectively called the "Technology Transfer Agreements" and the transactions contemplated under the Technology Transfer Agreements are collectively called the "Kansai Technology Transfer Continuing Connected Transactions").

The aggregate amount of the Kansai Technology Transfer Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with Japan Kansai Group" (the "Kansai Technology Caps").

(b) Kansai Supply Continuing Connected Transactions

A master supply agreement was entered into between the Company and Japan Kansai on 17th December 2013 in relation to sale of coating related products, semi-finished products and materials and provision of services by the Group to Japan Kansai and its subsidiaries and associates (collectively the "Japan Kansai Group") (collectively the "Kansai Supply Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Master Kansai Supply Agreement"). Pursuant to the Master Kansai Supply Agreement, Japan Kansai agreed and would procure the Kansai Supply Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. As the Group would further explore the decorative coating business and the original annual cap for the financial year ending 31st December 2016 may be insufficient, a supplemental agreement was entered into between the Company and Japan Kansai on 26th June 2015, pursuant to which the annual cap of the Master Kansai Supply Agreement for the financial year ending 31st December 2016 was revised from RMB11,000,000 to RMB20,000,000. Details of which were disclosed in the announcement of the Company dated 26th June 2015. The aggregate amount of the Kansai Supply Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with Japan Kansai Group" (the "Kansai Supply Caps").

(c) Kansai Purchase Continuing Connected Transactions

A master purchase agreement was entered into between the Company and Japan Kansai on 17th December 2013 in relation to sale of coating related and other materials and products and provision of services by Japan Kansai Group to the Group, including without limitation: (a) the sale of raw materials, semi-finished products and products; and (b) the introduction of businesses (collectively the "Kansai Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2016 (the "Master Kansai Purchase Agreement"). Pursuant to the Master Kansai Purchase Agreement, Japan Kansai agreed and would procure the Kansai Purchase Continuing Connected Transactions be conducted on normal commercial terms and at such fee and consideration no less favourable than those available to or from (as appropriate) independent third parties. The aggregate amount of the Kansai Purchase Continuing Connected Transactions for each of the financial years ending 31st December 2014, 2015 and 2016 would not exceed the relevant cap amounts set out in the table headed "Caps with Japan Kansai Group" (the "Kansai Purchase Caps").

The Technology Transfer Agreements, the Master Kansai Supply Agreement, the Master Kansai Purchase Agreement, the Kansai Technology Caps, the Kansai Supply Caps and the Kansai Purchase Caps were exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules, details of which were disclosed in the announcements of the Company dated 17th December 2013, 26th June 2015 and 5th November 2015.

Caps with Japan Kansai Group

	Caps for the year ending 31st December 2014 RMB	Caps for the year ending 31st December 2015 RMB	**Caps for the year ending 31st December 2016 RMB**
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the Technology Transfer Agreements	18,000,000	18,000,000	**18,000,000**
Aggregate amount receivable by the Group for transactions contemplated under the Master Kansai Supply Agreement	10,000,000	10,000,000	**20,000,000**
Aggregate amount payable by the Group for transactions contemplated under the Master Kansai Purchase Agreement	19,000,000	30,000,000	**41,000,000**

The amount of the Kansai Technology Transfer Continuing Connected Transactions, the Kansai Supply Continuing Connected Transactions and the Kansai Purchase Continuing Connected Transactions (collectively called the "Japan Kansai Continuing Connected Transactions") for the financial year ended 31st December 2016 were as follows:

	RMB
Aggregate amount payable by COSCO Kansai Companies for transactions contemplated under the Technology Transfer Agreements	1,872,761
Aggregate amount receivable by the Group for transactions contemplated under the Master Kansai Supply Agreement	1,125,734
Aggregate amount payable by the Group for transactions contemplated under the Master Kansai Purchase Agreement	1,221,224

The price and the terms of the Japan Kansai Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcements of the Company dated 17th December 2013 and 26th June 2015 respectively. As set out in notes 35(a)(i), 35(b)(ii), 35(b)(v) and 35(b)(viii) to the financial statements, certain related party transactions of the Group also constituted continuing connected transactions of the Group as disclosed above.

The Independent Non-executive Directors had reviewed (1) the Supply Continuing Connected Transactions; (2) the Purchase Continuing Connected Transactions; (3) the Financial Services Continuing Connected Transactions; (4) the Fuel Oil Continuing Connected Transactions; (5) the Management Services Continuing Connected Transactions; (6) the Tenancy Continuing Connected Transactions; (7) the Kansai Technology Transfer Continuing Connected Transactions; (8) the Kansai Supply Continuing Connected Transactions; and (9) the Kansai Purchase Continuing Connected Transactions (collectively the "Group's Continuing Connected Transactions") and were of the opinion that the Group's Continuing Connected Transactions for the financial year ended 31st December 2016 had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

For the purposes of Rule 14A.56 of the Listing Rules in relation to the Group's Continuing Connected Transactions, the Board engaged the auditor of the Company to report on the Group's Continuing Connected Transactions for the year ended 31st December 2016 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the Group's Continuing Connected Transactions for the year ended 31st December 2016 in accordance with Rule 14A.56 of the Listing Rules. A copy of aforesaid auditor's letter has been provided by the Company to the Stock Exchange.

B. Renewal of the Existing Continuing Connected Transactions

1. The Master Supply Agreement, the Master Purchase Agreement, the Fuel Oil Master Agreement, the Financial Services Master Agreement, the Management Services Master Agreement and the Master Tenancy Agreement would expire on 31st December 2016 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. Therefore, in view of the above and in order to accommodate certain new businesses between certain parties, on 15th November 2016, the New Master Supply Agreement, the New Master Purchase Agreement, the New Fuel Oil Master Agreement, the New Management Services Master Agreement and the New Master Tenancy Agreement were entered into between the Company and COSCO SHIPPING (Hong Kong) and the New Financial Services Master Agreement was entered into between the Company and COSCO Finance.

   (a) A new master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 15th November 2016 in relation to (1) provision of marine and general insurance brokerage services and other services by the relevant member(s) of the Group to the relevant member(s) of 中國遠洋海運集團有限公司 (China COSCO Shipping Corporation Limited*), the ultimate holding company of the Company ("COSCO SHIPPING") and its subsidiaries and associates (other than the Group), being connected persons of the Company ("COSCO SHIPPING Group"); and (2) provision of shipping services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of the Group to the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) the provision of ship agency services in relation to shipbuilding, ship trading, chartering businesses and the sale and purchase of marine equipment and other related services; (b) the provision of supply and installation, repair, logistics and agency services in relation to (i) ship facilities and accessories, which include equipment, materials, spare parts for vessels, oil drills, projects at sea/on land and ports, (ii) radio communications, satellite communications, navigation equipment and other materials, and (iii) construction materials and facilities,

* *for identification purposes only*

chemicals and information management systems; and (c) the sale of coatings (collectively the "New Supply Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Master Supply Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that the transactions contemplated under the New Master Supply Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission, brokerage income and the consideration for the sale of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. The amount of service fees payable by COSCO SHIPPING Group under the New Master Supply Agreement would be mainly determined by pre-determined formulae adopted by the Group (for example, insurance brokerage services and shipping agency services will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services). The prices offered to the COSCO SHIPPING Group for services provided by the Group and the sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to independent third party customers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. For the purpose of determining the market rates for services fees and the prices for sale of materials and products, the Group will consider the certain fixed percentages of the value of the subject matter and prices offered to independent third party customers of comparable services and similar materials and products (based on similar amount and similar specifications) respectively and compare to those offered to COSCO SHIPPING Group. In particular, the relevant sales department of the related companies within the Group will compare the services fees and selling price offered to different customers (both COSCO SHIPPING Group and the independent third party customers) in respect of comparable service and a similar type of materials or products (based on similar amount and similar specifications) respectively. The aggregate amount of the New Supply Continuing Connected Transactions for each of the financial years ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Supply Caps").

(b) A new master purchase agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 15th November 2016 in relation to the provision of shipping and other services, sale of shipping related materials and products and sale of other materials and products in connection with the general trading business of the Group by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group, including without limitation: (a) the provision of agency services, technical services and ancillary services, including the collection of market information, technical advisory, promotion and marketing, coordination with suppliers and customers, purchase of raw materials and products from suppliers, the provision of assistance in collecting sale proceeds and the procurement or provision of certain after-sale services; (b) the provision of logistics and transportation services; (c) the sale of other materials and products including construction materials and chemicals; and (d) the solicitation and referral of businesses by COSCO SHIPPING Group to the Group, including recommending products manufactured by the Group to the customers and manufacturers of COSCO SHIPPING Group (collectively the "New Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Master Purchase Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that the transactions contemplated under the New Master Purchase Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees, commission and the consideration for the purchase of materials and products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. Part of the services provided by COSCO SHIPPING Group will be charged by adopting pre-determined formulae (for example, provision of agency services, technical services and ancillary services and solicitation and referral of businesses will be charged at certain fixed percentages of the value of the subject matter with reference to market price of comparable services) and the remaining services will be charged by COSCO SHIPPING Group at fixed per unit consideration (for example, provision of logistics and transportation services will be charged at a fixed per unit price based on the quantity of the subject matter involved and the distance of the destination). The prices offered by COSCO SHIPPING Group for services provided to the Group and sale of other materials and products including construction materials and chemicals to the Group shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available from independent third party suppliers for comparable services and similar materials and products (based on similar amount and similar specifications) respectively. In particular, the relevant purchasing department of the related companies within the Group will obtain quotations from different suppliers (both COSCO SHIPPING Group and independent third party suppliers) in respect of comparable services and a similar type of materials or products (based on similar amount and similar specifications) respectively for comparison. The aggregate amount of the New Purchase Continuing Connected Transactions for each of the financial years ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Purchase Caps").

(c) A new fuel oil master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 15th November 2016 in relation to trading and supply of fuel oil and/or related products and services between the relevant member(s) of the Group and the relevant member(s) of COSCO SHIPPING Group, including without limitation: (a) purchase or sale of fuel oil and/or related products by the relevant member(s) of the Group from or to the relevant member(s) of COSCO SHIPPING Group (the "New Fuel Oil Transactions"); and (b) provision of services by the relevant member(s) of COSCO SHIPPING Group to relevant member(s) of the Group to carry out arrangements at the instruction of and for and on behalf of the relevant member(s) of the Group from time to time to enter into fuel oil and/or related products swap contracts and/or derivatives with independent third parties to facilitate the relevant member(s) of the Group to hedge against the risk of fuel oil and/or related products price fluctuation under the fuel oil and/or related products transactions of its business of providing fuel oil and/or related products and services including marine bunker supplies, trading of fuel oil and related products and broker services (the "New Fuel Oil Financial Services") (collectively the "New Fuel Oil Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Fuel Oil Master Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that a) the transactions contemplated under the New Fuel Oil Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the service fees and the consideration for the sale or purchase of fuel oil and/or related products shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and for this purpose, the following pricing policies will be followed (aa) fixed per unit consideration would be payable by or to the Group (as appropriate); (bb) in determining the market rates for sale or purchase of fuel oil and/or related products, the parties would refer to the mean price of fuel oil traded through Singapore as published by S&P Global Platts or market price of fuel oil as published by the government authority or other recognised organisations of supply ports in the pricing month or at the time of quotation as reference; (cc) the Group would also consider the prices offered to or by the independent third parties (based on similar quantity of fuel oil and/or related products) and compare to those offered to or by COSCO SHIPPING Group. In particular, the relevant sales and purchasing department (as appropriate) of the related companies within the Group will compare the selling price offered to or by different parties (both COSCO SHIPPING Group and the independent third parties) in respect of a similar quantity of fuel oil and/or related products for comparison; and b) the relevant member(s) of COSCO SHIPPING Group would not charge member(s) of the Group any service fee in relation to the provision of the New Fuel Oil Financial Services; member(s) of the Group shall only be responsible for all amounts payable to independent third parties (together with the related handling fees and other charges charged by such independent third parties) by relevant member(s) of COSCO SHIPPING Group for and on behalf of member(s) of the Group under the fuel oil and/or related products swap contracts and/or derivatives. The aggregate amount of the New Fuel Oil Continuing Connected Transactions for each of the financial years ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Fuel Oil Caps").

(d) A new financial services master agreement was entered into between the Company and COSCO Finance on 15th November 2016 in relation to the provision of a range of financial services, including the deposits services, loan services, settlement services, remittance services, entrusted loan services (as lending agent in entrusted loan arrangements among members of the Group) and acceptance bill services by COSCO Finance to the Group (collectively the "New Financial Services Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Financial Services Master Agreement"). The transactions contemplated under the New Financial Services Master Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the terms of the transactions (including the interest receivable by the Group and the fees (including the service fees and handling charges) payable under the financial services to COSCO Finance) shall be at market rates or rates no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties. It was agreed that the interest payable to or receivable by the Group (as appropriate) or service fees payable by the Group for the services are (a) the interest rate for the deposit services shall be no lower than: (i) the floor rate for the same category of deposit services stipulated by the People's Bank of China from time to time; and (ii) the rate for the same category of deposit services offered by independent commercial banks in the PRC; (b) the interest rate for the loan and entrusted loan services shall be no higher than: (i) the cap rate for the same category of loan services stipulated by the People's Bank of China from time to time; and (ii) the rate for the same category of loan services charged by independent commercial banks in the PRC; (c) service fees of other services approved by China Banking Regulatory Commission shall be determined in accordance with the following pricing principles: (i) the price to be complied with the fee standards prescribed by the People's Bank of China or China Banking Regulatory Commission; (ii) no higher than those charged by independent commercial banks in the PRC for services of similar nature; and (iii) no higher than those charged by COSCO Finance to other member company(ies) of COSCO SHIPPING Group for services of similar nature. The aggregate amount of the New Financial Services Continuing Connected Transactions for each of the financial year ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Financial Services Caps").

(e) A new management services master agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 15th November 2016 in relation to the provision of administrative services including information technology and fixed line network support, business management and manpower resources (including without limitation manpower resources with expertise and experience in the business carried on by the Group from time to time and management of human resources), technical support and other administrative and ancillary support (including without limitation sharing of office premises, office equipment, network and communication system, information technology, other technical support, system management, financial system and maintenance) by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group and sharing of office premises by the relevant member(s) of the Group (collectively the "New Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Management Services Master Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that the transactions contemplated under the New Management Services Master Agreement shall be conducted on normal commercial terms. The management fee shall be calculated based on either (aa) the Group's prorated share of the common administrative costs which shall be determined based on the statistics of time-sharing of the workload of staff members shared by the Group and COSCO SHIPPING Group or the utilisation rate of the office support functions and network systems (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group; or (bb) fixed per unit consideration. This shall take into account the historical usage of administrative services by the Group provided by COSCO SHIPPING Group in the past two to three years with reference to the statistics of time-sharing of the workload of staff members shared by the Group and the utilisation rate of the office support functions and network systems and sharing of office premises (depending on the type of management services which are provided) and the actual costs, expenses and disbursements incurred by COSCO SHIPPING Group in the course of its provision of the administrative services to the Group. The fixed per unit consideration (subject to annual adjustment by inflation rate depending on the type of management services which are provided) will then be used to determine the annual services fees to be paid by the Group. The Group will consider the fees offered to be charged by independent third parties of similar services and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different service providers (both COSCO SHIPPING Group and independent third parties) in respect of similar services for comparison. The aggregate amount of the New Management Services Continuing Connected Transactions for each of the financial year ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Management Services Caps").

(f) A new master tenancy agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) on 15th November 2016 in relation to the leasing or sub-leasing of any of the properties owned by or leased to COSCO SHIPPING Group from time to time by the relevant member(s) of COSCO SHIPPING Group to the relevant member(s) of the Group (collectively the "New Tenancy Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "New Master Tenancy Agreement"). COSCO SHIPPING (Hong Kong) agrees and will procure COSCO SHIPPING Group to agree with the Group that the transactions contemplated under the New Master Tenancy Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis and the rent and other fees and charges payable by the Group to COSCO SHIPPING Group would be determined based on fixed per unit consideration and the the Group would consider the rental offered to be charged by independent third parties of similar properties (based on similar location and similar area) and compare to those offered by COSCO SHIPPING Group. In particular, the relevant department of the related companies within the Group will obtain quotations from different parties (both COSCO SHIPPING Group and independent third parties) in respect of similar properties (based on similar location and similar area) for comparison. The aggregate amount of the New Tenancy Continuing Connected Transactions for each of the financial years ending 31st December 2017, 2018 and 2019 would not exceed the relevant cap amounts set out in the table headed "New Caps with COSCO SHIPPING Group" (the "New Tenancy Caps").

The New Management Services Master Agreement, the New Master Tenancy Agreement, the New Management Services Caps and the New Tenancy Caps were exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 15th November 2016. The New Master Supply Agreement, the New Master Purchase Agreement, the New Fuel Oil Master Agreement, the New Financial Services Master Agreement, the New Supply Caps, the New Purchase Caps, the New Fuel Oil Caps and the New Financial Services Caps were approved by the independent shareholders at the special general meeting of the Company held on 30th December 2016, details of which were disclosed in the announcement and circular of the Company dated 15th November 2016 and 6th December 2016 respectively.

New Caps with COSCO SHIPPING Group

	Caps for the year ending 31st December 2017	Caps for the year ending 31st December 2018	Caps for the year ending 31st December 2019
Aggregate amount receivable by the Group for transactions contemplated under the New Master Supply Agreement	HK$1,800,000,000	HK$2,025,000,000	HK$2,040,000,000
Aggregate amount payable by the Group for transactions contemplated under the New Master Purchase Agreement	HK$349,000,000	HK$349,000,000	HK$368,000,000
Aggregate amount payable and receivable by the Group for transactions contemplated under the New Fuel Oil Master Agreement	US$50,000,000	US$50,000,000	US$50,000,000
Amount of daily cash balance(s) of all cash deposits accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all fees (including service fees and handling charges for the settlement services, remittance services, entrusted loan services and acceptance bill services) payable by the Group to COSCO Finance for transactions (except transactions in connection with the provision of loan services) contemplated under the New Financial Services Master Agreement	RMB1,180,000,000	RMB1,180,000,000	RMB1,180,000,000
Amount of daily outstanding balance(s) of all loan accounts of the member(s) of the Group maintained with COSCO Finance (together with interests accrued thereon) and all service fees and handling charges for the loan services payable by the Group to COSCO Finance for loan transactions contemplated under the New Financial Services Master Agreement*	RMB400,000,000	RMB500,000,000	RMB500,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the New Management Services Master Agreement	HK$20,000,000	HK$20,000,000	HK$20,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group (being the annual aggregate maximum amount of rent and other fees and charges payable by the Group to COSCO SHIPPING Group) for transactions contemplated under the New Master Tenancy Agreement	HK$34,000,000	HK$35,000,000	HK$36,000,000

* As the loan transactions under the New Financial Services Master Agreement will be conducted on normal commercial terms or terms better to the Group and they would not be secured by the assets of the Group, pursuant to Rule 14A.90 of the Listing Rules, the loan transactions contemplated under the New Financial Services Master Agreement are exempt from shareholders' approval and annual review requirements.

C. Connected Transaction

Acquisition of the entire issued share capital of CSHT Marine Machinery Suppliers Limited ("CSHT Marine")

On 28th November 2016, the Company entered into the share purchase agreement with COSCO SHIPPING Financial Holdings Co., Limited ("COSCO SHIPPING Financial") and China Merchants Hoi Tung Trading Company Limited ("China Merchants Hoi Tung") pursuant to which (i) the Company conditionally agreed to acquire, and COSCO SHIPPING Financial conditionally agreed to sell, 5,000,000 issued ordinary shares of CSHT Marine, representing 50% of the issued share capital of CSHT Marine ("COSCO SHIPPING Financial Shares") at the consideration of HK$59,200,000; and (ii) the Company conditionally agreed to acquire, and China Merchants Hoi Tung conditionally agreed to sell, 5,000,000 issued ordinary shares of CSHT Marine, representing 50% of the issued share capital of CSHT Marine ("China Merchants Hoi Tung Shares") at the consideration of HK$59,200,000 (the "Acquisition"). COSCO SHIPPING Financial is a subsidiary of COSCO SHIPPING, the ultimate holding company of the Company. Therefore, COSCO SHIPPING Financial is an associate of COSCO SHIPPING and also a connected person of the Company under the Listing Rules. The acquisition of the COSCO SHIPPING Financial Shares from COSCO SHIPPING Financial constitutes a connected transaction of the Company under the Listing Rules. In addition, COSCO SHIPPING, the holding company of COSCO SHIPPING Financial, is a controlling shareholder of the Company and hence a controller of the Company. Therefore, the acquisition of the China Merchants Hoi Tung Shares from China Merchants Hoi Tung, an independent third party, constitutes a connected transaction of the Company under the Listing Rules. Details of the Acquisition were disclosed in the announcement of the Company dated 28th November 2016 and the circular of the Company dated 12th December 2016. The Acquisition was approved by the independent shareholders of the Company at the special general meeting held on 30th December 2016 and was completed on 1st January 2017.

RELATED PARTY TRANSACTIONS

Material related party transactions of the Group are set out in note 35 to the financial statements. In relation to those related party transactions that also constituted connected transactions or continuing connected transactions of the Group as defined in the Listing Rules, the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules had been complied with.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2016, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) 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 and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

1. Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Nature of interest	Total number of ordinary shares of associated corporation held	Approximate percentage of the relevant class of total issued shares of associated corporation
Mr. Zhu Jianhui	China COSCO Holdings Company Limited ("China COSCO")*	Interest of spouse	Family	20,000 (A shares)	0.0003%
	China Shipping Container Lines Company Limited#	Interest of spouse	Family	10,000 (A shares)	0.0001%
Mr. Liu Gang	China COSCO*	Beneficial owner	Personal	10,900 (H shares)	0.0004%

* China COSCO is now known as COSCO SHIPPING Holdings Co., Ltd.

China Shipping Container Lines Company Limited is now known as COSCO SHIPPING Development Co., Ltd.

2. Long positions in the underlying shares of equity derivatives of associated corporation

Share appreciation rights

Name of Director	Name of associated corporation	Exercise price (HK$)	Outstanding as at 1st January 2016	Units granted during the year	Units exercised during the year	Units lapsed during the year	Outstanding as at 31st December 2016	Approximate percentage of total number of issued H shares of associated corporation	Notes
Mr. Ye Weilong[&]	China COSCO*	9.540	480,000[&]	–	–	–	480,000	0.019%	(2), (3)
Mr. Wang Wei	China COSCO*	3.588	65,000	–	–	65,000	–	N/A	(1), (3)
		9.540	60,000	–	–	–	60,000	0.002%	(2), (3)
Ex-Directors									
Mr. Sun Jiakang[^]	China COSCO*	3.588	500,000	–	–	–	N/A	N/A	(1), (3)
		9.540	480,000	–	–	–	N/A	N/A	(2), (3)
Mr. Zhang Liang[$]	China COSCO*	9.540	580,000	–	–	–	N/A	N/A	(2), (3)
Mr. Wu Shuxiong[~]	China COSCO*	3.588	500,000	–	–	–	N/A	N/A	(1), (3)
		9.540	480,000	–	–	–	N/A	N/A	(2), (3)
Mr. Feng Jinhua[@]	China COSCO*	3.588	90,000	–	–	–	N/A	N/A	(1), (3)
		9.540	85,000	–	–	–	N/A	N/A	(2), (3)
Mr. Xu Zhengjun[#]	China COSCO*	3.588	280,000	–	–	–	N/A	N/A	(1), (3)
		9.540	260,000	–	–	–	N/A	N/A	(2), (3)

* China COSCO is now known as COSCO SHIPPING Holdings Co., Ltd.

& Mr. Ye Weilong was appointed as Executive Director and Chairman on 18th March 2016. At the time of his appointment, he already held such share appreciation rights.

^ Mr. Sun Jiakang resigned as Executive Director and Chairman on 18th March 2016. As at 18th March 2016, he had 500,000 and 480,000 share appreciation rights of China COSCO at exercise price of HK$3.588 per unit and HK$9.540 per unit respectively.

$ Mr. Zhang Liang resigned as Executive Director and Vice Chairman on 16th August 2016. As at 16th August 2016, he had 580,000 share appreciation rights of China COSCO at exercise price of HK$9.540 per unit.

~ Mr. Wu Shuxiong resigned as Non-executive Director on 16th August 2016. As at 16th August 2016, he had 500,000 and 480,000 share appreciation rights of China COSCO at exercise price of HK$3.588 per unit and HK$9.540 per unit respectively.

@ Mr. Feng Jinhua resigned as Executive Director on 16th August 2016. As at 16th August 2016, he had 90,000 and 85,000 share appreciation rights of China COSCO at exercise price of HK$3.588 per unit and HK$9.540 per unit respectively.

\# Mr. Xu Zhengjun resigned as Executive Director and Managing Director on 18th March 2016. As at 18th March 2016, he had 280,000 and 260,000 share appreciation rights of China COSCO at exercise price of HK$3.588 per unit and HK$9.540 per unit respectively.

Notes:

(1) These share appreciation rights ("Share Appreciation Rights") were granted by China COSCO in units with each unit representing one H share of China COSCO on 5th October 2006 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$3.588 per unit according to its terms between 5th October 2008 and 4th October 2016.

(2) These Share Appreciation Rights were granted in units with each unit representing one H share of China COSCO on 4th June 2007 pursuant to the Plan. Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$9.540 per unit according to its terms between 4th June 2009 and 3rd June 2017.

(3) These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owner. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the Share Appreciation Rights.

Save as disclosed above, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) 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 and short positions which the Director was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange as at 31st December 2016.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2016, the following persons and entities, other than Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Capacity	Nature of interest	Total number of ordinary shares of the Company held (Long positions)	Approximate percentage of total issued shares of the Company
COSCO SHIPPING	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
COSCO	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
COSCO SHIPPING (Hong Kong)	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
True Smart International Limited ("True Smart")	Beneficial Owner	Beneficial interest	1,013,641,486	66.12%

Note: True Smart has beneficial interest in 1,013,641,486 shares of the Company. Since True Smart is a wholly-owned subsidiary of COSCO SHIPPING (Hong Kong) which is a wholly-owned subsidiary of COSCO which is in turn a wholly-owned subsidiary of COSCO SHIPPING, the interests of True Smart are deemed to be the interests of COSCO SHIPPING (Hong Kong) and in turn the interests of COSCO SHIPPING (Hong Kong) are deemed to be the interests of COSCO and in turn the interests of COSCO which are deemed to be the interests of COSCO SHIPPING under the SFO.

Save as disclosed above, as at 31st December 2016, the Company has not been notified by any person or entity who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

As at the date of the Report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

INDEPENDENT AUDITOR

The financial statements for the year have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment at the 2017 AGM.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2016.

CORPORATE GOVERNANCE

Maintaining high standards of corporate governance has always been one of the Company's priorities. This is achieved through an effective, timely disclosure of information by the Board and a proactive investor relations programme. The Company will continue to implement measures in order to further strengthen its corporate governance and overall risk management.

The Board believed that the Company has complied with the code provisions of Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules during the year ended 31st December 2016 except that Mr. Wu Shuxiong, the then Non-executive Director, was unable to attend the annual general meeting of the Company held on 31st May 2016 due to other engagement, and Mr. Alexander Reid Hamilton, the Independent Non-executive Director, was unable to attend the two special general meetings of the Company held on 30th December 2016 due to urgent personal matter, a deviation from the code provision A.6.7 of the CG Code which provides that independent non-executive directors and other non-executive directors should attend general meetings of the Company.

DIRECTORS' REPORT

The audit committee of the Company (the "Audit Committee") consists of three Independent Non-executive Directors and the chairman of which is a certified public accountant. The main duties of Audit Committee include reviewing the accounting policies and the Company's financial reporting; monitoring the performance of both the internal and external auditors; reviewing and examining the effectiveness of the financial reporting, the risk management and internal control systems; ensuring compliance with applicable statutory accounting and reporting requirements. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited consolidated financial statements of the Group for the year ended 31st December 2016.

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code. In order to ensure the Directors' dealings in the securities of the Company are conducted in accordance with the Model Code and the Securities Code, a committee currently comprising the Chairman, the Vice Chairman, the Managing Director and a Director was set up to deal with such transactions.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year ended 31st December 2016, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Securities Code during the year.

All references above to other sections, reports or notes to the financial statements in this annual report form part of the Report.

On behalf of the Board

LIU Gang
Managing Director

Hong Kong, 23rd March 2017

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD. (FORMERLY KNOWN AS COSCO INTERNATIONAL HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of COSCO SHIPPING International (Hong Kong) Co., Ltd. (the "Company") (formerly known as COSCO International Holdings Limited) and its subsidiaries (the "Group") set out on pages 125 to 205, which comprise:

- the consolidated statement of financial position as at 31st December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is on recoverability assessment of trade receivables as follows:

Key audit matter	How our audit addressed the key audit matter
Recoverability assessment of trade receivables *Refer to note 17 to the consolidated financial statements*	
The Group has a net trade receivables of HK$646,337,000 after providing for impairment of HK$28,870,000 as at 31st December 2016. Trade receivables of the Group comprise mainly receivables in relation to the Group's (i) trading business regarding the sale of coatings, marine equipment and spare parts, asphalt, marine fuel and other products, and (ii) services rendered for ship trading agency and insurance brokerage. The increasing challenges over the economy and operating environment in the shipping industry during the year have increased the risks of default on receivables from the Group's customers. In particular, in the event of insolvency of customers, the Group is exposed to potential risk of financial loss when the customers fail to meet their contractual obligations in accordance with the requirements of the agreements. The recoverable amount was estimated by management based on their specific recoverability assessment on individual debtor with reference to the aging profile, historical payment pattern and the past record of default of the customer. Management would make specific provision against individual balances with reference to the recoverable amount. For the purpose of impairment assessment, significant judgements and assumptions, including the credit risks of customers, the timing and amount of realisation of these receivables, are required for the identification of impairment events and the determination of the impairment charge.	We have performed the following procedures in relation to the recoverability of trade receivables: • Tested the accuracy of aging of trade receivables at year end on a sample basis; • Obtained a list of outstanding receivables and identified any debtors with financial difficulty through discussion with management as well as conducting market research on the industry; • Assessed the recoverability of the unsettled receivables on a sample basis through our evaluation of management's assessment with reference to the credit profile of the customers, historical payment pattern of customers, publicly available information and latest correspondence with customers and to consider if any additional provision should be made; and • Tested subsequent settlement of trade receivables after the balance sheet date on a sample basis, if any. We found the key judgements and assumptions used by management in the recoverability assessment of trade receivables to be supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lo Pui Shan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December 2016

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	**101,951**	103,185
Property, plant and equipment	7	**343,912**	392,516
Prepaid premium for land leases	8	**30,138**	32,876
Investment properties	9	**56,954**	49,416
Investments in joint ventures	10	**417,617**	525,343
Investments in associates	11	**117,564**	107,615
Available-for-sale financial assets	13	**63,091**	58,754
Deferred income tax assets	15(a)	**53,724**	49,245
Non-current deposits	19	**11,179**	35,805
		1,196,130	1,354,755
Current assets			
Inventories	16	**243,360**	347,241
Trade and other receivables	17	**1,196,797**	1,509,995
Available-for-sale financial assets	13	**33,386**	25,455
Derivative financial instruments	14	**1,645**	—
Financial assets at fair value through profit or loss	18	**886**	909
Current income tax recoverable		**5,102**	4,035
Restricted bank deposits	19	**559**	597
Current deposits and cash and cash equivalents	19	**6,710,279**	6,224,328
		8,192,014	8,112,560
Total assets		**9,388,144**	9,467,315
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	**153,296**	153,296
Reserves	21	**7,548,865**	7,575,859
		7,702,161	7,729,155
Non-controlling interests		**343,580**	370,469
Total equity		**8,045,741**	8,099,624
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	15(b)	**69,349**	44,655
Current liabilities			
Trade and other payables	22	**1,186,822**	1,278,279
Current income tax liabilities		**19,156**	8,695
Short-term borrowings	23	**67,076**	36,062
		1,273,054	1,323,036
Total liabilities		**1,342,403**	1,367,691
Total equity and liabilities		**9,388,144**	9,467,315

Liu Gang
Director

Liu Xianghao
Director

The notes on pages 131 to 205 form an integral part of these audited consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	**7,430,297**	5,999,646
Cost of sales	25	**(6,886,051)**	(5,308,924)
Gross profit		**544,246**	690,722
Other income and gains	24	**34,646**	85,933
Selling, administrative and general expenses	25	**(447,434)**	(537,489)
Other expenses and losses	25	**(18,046)**	(44,458)
Operating profit		**113,412**	194,708
Finance income	28	**90,960**	115,163
Finance costs	28	**(4,414)**	(3,795)
Finance income – net	28	**86,546**	111,368
Share of profits of joint ventures	10	**89,930**	110,171
Share of profits of associates	11	**10,202**	11,577
Profit before income tax		**300,090**	427,824
Income tax expenses	29	**(63,590)**	(65,760)
Profit for the year		**236,500**	362,064
Profit/(loss) attributable to:			
Equity holders of the Company		**237,205**	335,763
Non-controlling interests		**(705)**	26,301
		236,500	362,064
Earnings per share attributable to equity holders of the Company during the year			
— basic, HK cents	30(a)	**15.47**	21.91
— diluted, HK cents	30(b)	**15.47**	21.81

The notes on pages 131 to 205 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2016

	2016 HK$'000	2015 HK$'000
Profit for the year	**236,500**	362,064
Other comprehensive income/(losses)		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(93,630)**	(93,643)
Share of currency translation differences of:		
— a joint venture	**(16,128)**	(14,878)
— an associate	**(200)**	(1,353)
Share of cash flow hedges of an associate, net of tax	**9,329**	16,087
Fair value gains/(losses) on available-for-sale financial assets, net	**12,268**	(15,285)
Other comprehensive losses for the year	**(88,361)**	(109,072)
Total comprehensive income for the year	**148,139**	252,992
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	**172,290**	249,329
Non-controlling interests	**(24,151)**	3,663
	148,139	252,992

The notes on pages 131 to 205 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1st January 2016		153,296	1,075,002	6,500,857	7,729,155	370,469	8,099,624
Profit/(loss) for the year		—	—	237,205	237,205	(705)	236,500
Other comprehensive income/(losses)							
Currency differences on translation of:							
— subsidiaries	21	—	(68,571)	—	(68,571)	—	(68,571)
— joint ventures	21	—	(1,088)	—	(1,088)	—	(1,088)
— associates	21	—	(525)	—	(525)	—	(525)
— non-controlling interests		—	—	—	—	(23,446)	(23,446)
Share of currency translation differences of:							
— a joint venture	21	—	(16,128)	—	(16,128)	—	(16,128)
— an associate	21	—	(200)	—	(200)	—	(200)
Share of cash flow hedges of an associate, net of tax	21	—	9,329	—	9,329	—	9,329
Fair value gains on available-for-sale financial assets, net	21	—	12,268	—	12,268	—	12,268
Total comprehensive (losses)/ income for the year ended 31st December 2016		—	(64,915)	237,205	172,290	(24,151)	148,139
Transactions with owners							
Transfer between reserves	21	—	5,588	(5,588)	—	—	—
Dividends paid	21	—	—	(199,284)	(199,284)	(2,738)	(202,022)
Total transactions with owners		—	5,588	(204,872)	(199,284)	(2,738)	(202,022)
Balance at 31st December 2016		153,296	1,015,675	6,533,190	7,702,161	343,580	8,045,741

The notes on pages 131 to 205 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

		Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Note	Share capital HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1st January 2015		153,181	1,198,923	6,386,933	7,739,037	369,451	8,108,488
Profit for the year		—	—	335,763	335,763	26,301	362,064
Other comprehensive income/(losses)							
Currency differences on translation of:							
— subsidiaries	21	—	(69,353)	—	(69,353)	—	(69,353)
— joint ventures	21	—	(1,047)	—	(1,047)	—	(1,047)
— associates	21	—	(605)	—	(605)	—	(605)
— non-controlling interests		—	—	—	—	(22,638)	(22,638)
Share of currency translation differences of:							
— a joint venture	21	—	(14,878)	—	(14,878)	—	(14,878)
— an associate	21	—	(1,353)	—	(1,353)	—	(1,353)
Share of cash flow hedges of an associate, net of tax	21	—	16,087	—	16,087	—	16,087
Fair value losses on available-for-sale financial assets, net	21	—	(15,285)	—	(15,285)	—	(15,285)
Total comprehensive (losses)/income for the year ended 31st December 2015		—	(86,434)	335,763	249,329	3,663	252,992
Transactions with owners							
Proceeds from shares issued upon exercise of share options	20(a), 21	115	1,276	—	1,391	—	1,391
Transfer between reserves	21	—	(38,763)	38,763	—	—	—
Dividends paid	21	—	—	(260,602)	(260,602)	(2,645)	(263,247)
Total transactions with owners		115	(37,487)	(221,839)	(259,211)	(2,645)	(261,856)
Balance at 31st December 2015		153,296	1,075,002	6,500,857	7,729,155	370,469	8,099,624

The notes on pages 131 to 205 form an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Cash generated from operations	32	**434,241**	469,416
Income tax paid		**(33,278)**	(48,063)
Net cash generated from operating activities		**400,963**	421,353
Cash flows from investing activities			
Increase in cash deposits with maturity over three months		**(310,499)**	(209,735)
Decrease in restricted bank deposits		**–**	13,240
Interest received		**90,827**	113,536
Dividends received from investments		**2,420**	2,604
Dividends received from joint ventures		**180,440**	62,010
Dividends received from an associate		**8,857**	611
Net proceeds from sale of property, plant and equipment		**229**	3,411
Purchases of intangible assets		**(1,285)**	(1,092)
Purchases of property, plant and equipment		**(10,226)**	(173,332)
Purchase of leasehold land		**–**	(899)
Net cash used in investing activities		**(39,237)**	(189,646)
Cash flows from financing activities			
Drawdown of bank loans		**70,122**	56,973
Repayment of bank loans		**(35,313)**	(45,430)
Proceeds from shares issued upon exercise of share options	20(a)	**–**	1,391
Finance costs paid		**(4,414)**	(3,795)
Dividends paid to the Company's equity holders		**(199,284)**	(260,602)
Dividends paid to non-controlling interests		**(2,738)**	(2,645)
Net cash used in financing activities		**(171,627)**	(254,108)
Net increase/(decrease) in cash and cash equivalents		**190,099**	(22,401)
Cash and cash equivalents at the beginning of the year		**1,115,152**	1,164,713
Exchange losses on cash and cash equivalents		**(23,368)**	(27,160)
Cash and cash equivalents at the end of the year	19(f)	**1,281,883**	1,115,152

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

COSCO SHIPPING International (Hong Kong) Co., Ltd. (formerly known as COSCO International Holdings Limited) (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the provision of shipping services and general trading.

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its principal place of business is 47th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong.

The ultimate holding company of the Company was China Ocean Shipping (Group) Company ("COSCO"), a state-owned enterprise established in the People's Republic of China (the "PRC"). On 4th May 2016, the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") transferred its entire equity interests in COSCO to China COSCO Shipping Corporation Limited ("COSCO SHIPPING"), a state-owned enterprise wholly-owned by SASAC in the PRC, thereafter, COSCO SHIPPING becomes the ultimate holding company of the Company.

On 16th November 2016, the English name of the Company was changed from COSCO International Holdings Limited to COSCO SHIPPING International (Hong Kong) Co., Ltd. and 中遠海運國際(香港)有限公司 was adopted as the secondary name of the Company to replace the Chinese name 中遠國際控股有限公司 which was previously used by the Company for identification purposes only.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors on 23rd March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) Adoption of amendments to published standards and new interpretation

In 2016, the Group has adopted the following amendments to published standards and new interpretation issued by the HKICPA, which are relevant to its operations:

		Effective for accounting periods beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2012–2014 Cycle	1st January 2016
Amendments to HKAS 1	Disclosure Initiative	1st January 2016
Amendments to HKAS 27	Equity method in separate financial statements	1st January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1st January 2016

The adoption of the above amendments and new interpretation did not result in any substantial changes to the Group's accounting policies and had no material financial impact on the consolidated financial statements.

(ii) New standards and amendments to published standards that are not yet effective

The following new standards and amendments to existing standards have been published by the HKICPA and are relevant to the Group's operations. They are not yet effective for accounting periods beginning on 1st January 2016 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKFRS 9 (2014)	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HKFRS 16	Leases	1st January 2019
Amendments to HKAS 7	Statement of cash flows	1st January 2017
Amendments to HKAS 12	Income taxes	1st January 2017
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the related impact of adopting the above new standards and amendments to published standards, but it is not yet in a position to state whether they will have a significant impact on its results of operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The excess of the consideration transferred and the fair value of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired and liabilities assumed is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary amounts reported by subsidiaries have been adjusted to conform with the policies adopted by the Group.

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement.

(c) Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations that each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they are joint ventures. Investments in joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, investment in joint venture is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition. The Group's investments in joint ventures include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Joint arrangements (Continued)

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investments in joint ventures are stated at cost less provision for impairment losses, if any. The results of joint ventures are accounted for by the Company on the basis of dividend received and receivable.

Gains or losses on dilution of equity interest in joint ventures are recognised in the consolidated income statement.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, investment in associate is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in associates equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, joint ventures and associates and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates/joint ventures is included in investments in associates/joint ventures and is tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which goodwill arose and identified according to operating segment. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives from three to five years on a straight-line basis.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software costs recognised as assets are amortised over their estimated useful lives from 3 to 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Properties

(i) *Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property is measured initially at cost, including related transaction cost and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the consolidated income statement.

If an owner-occupied property becomes an investment property that will be carried at fair value, the Group depreciates the property and recognises any impairment losses that have occurred up to the date of change in use. The Group treats any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation of property, plant and equipment.

Any resulting decrease in the carrying amount of the property is recognised in the consolidated income statement. However, to the extent that an amount is included in property revaluation reserve for that property, the decrease is charged against that revaluation reserve.

Any resulting increase in the carrying amount is recognised in the consolidated income statement to the extent that the increase reverses a previous impairment loss for that property. The amount recognised in the consolidated income statement does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. Any remaining part of the increase is credited directly to equity in property revaluation reserve. On subsequent disposal of the investment property, the revaluation reserve is transferred to retained earnings without going through the consolidated income statement.

(ii) *Prepaid premium for land leases*

Prepaid premium for land leases are up-front payments to acquire long-term interests in leasehold land which is not classified as finance leases. The premiums are stated at cost and are amortised on a straight line basis over the lease period of 50 years to the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Properties comprise factory buildings, freehold land and buildings, and leasehold land classified as finance leases. Property, plant and equipment is stated at historical cost less accumulated depreciation, amortisation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets are calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Leasehold land classified as finance lease	Remaining lease terms
Buildings	30 years or remaining lease terms (whichever is shorter)
Machinery	5–10 years
Equipment and motor vehicles	3–5 years
Leasehold improvement	3–5 years
Furniture and fixtures	3–5 years

No depreciation or amortisation is provided for construction in progress and freehold land.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

All direct and indirect costs relating to the construction of property, plant and equipment, including financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as costs of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of investments in subsidiaries, joint ventures, associates and non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of investments in subsidiaries, joint ventures or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost of finished goods and work in progress comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Cost of inventories includes the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of inventories.

(j) Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purposes for which the investments are acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months, otherwise they are classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not intended for trading. They are included in current assets, except for those with maturity greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted bank deposits" and "deposits and cash and cash equivalents" in the consolidated statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other income and gains/other expenses and losses" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (i) above. In the case of equity investments classified as available- for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Movement on the hedging reserve in shareholders' equity are shown in note 21. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cash flow swaps hedging variable price purchases is recognised in the consolidated income statement within "cost of sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of inventory. The deferred amounts are ultimately recognised in cost of inventory sold.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

Derivative financial instruments that do not qualify for hedge accounting are categorised as derivatives at fair value through profit or loss and changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "Other income and gains". The fair values of the derivative instruments held for trading are disclosed in note 14.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Operating leases

Leases in which a significant portion of the risks and rewards of ownership of assets is retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the consolidated income statement on a straight-line basis over the lease term.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits with banks and a fellow subsidiary and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and deposits with maturity less than three months from the date of placement.

(p) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(s) Current and deferred income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company, its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Current and deferred income tax (Continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on deductible temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liabilities where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and presentation currency. The directors consider that presentation of the consolidated financial statements in Hong Kong dollars will facilitate analysis of the financial information of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualified cash flow hedges.

Foreign exchange gains and losses are presented in the consolidated income statement within "other income and gains/other expenses and losses".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(iii) Group companies

On consolidation, the results and financial position of all of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity before 1st January 2005 are treated as assets and liabilities of the investor which acquired that foreign entity and expressed in the investor's functional currency. They are reported using the exchange rate at the date of acquisition. For goodwill and fair value adjustments arising on the acquisition of a foreign entity after 1st January 2005, they are treated as assets and liabilities of the foreign entity and translated at closing rate at the reporting date of the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(v) Employee benefits

(i) Pensions and retirement benefits

Following the adoption of the Mandatory Provident Fund Scheme ("MPF Scheme") in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,500. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

(ii) Share-based compensation

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Employee benefits (Continued)

(ii) Share-based compensation (Continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(w) Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and income recognition (Continued)

(i) Sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products

Income from sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.

(ii) Commission income

(1) Agency commission income

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

(2) Insurance brokerage commission income

Insurance brokerage commission income is recognised when insurance premium becomes due.

(iii) Rental income

Rental income from investment properties is recognised on a straight-line basis over the terms of the respective leases.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(v) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(y) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors when appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. During the year, the Group had entered into derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the management under policies approved by the board of directors. The management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board of directors provides written policies covering specific areas, such as foreign currency risk and interest rate risk.

(i) Market risk

(1) Foreign currency risk

The Group operates in Hong Kong, the PRC and overseas and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States ("US") dollars. Foreign exchange risk arises mainly from future commercial transactions, recognised assets and liabilities denominated in US dollars for operations in Hong Kong and the PRC.

Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using foreign exchange forward contracts when the need arises.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) *Market risk (Continued)*

(1) *Foreign currency risk (Continued)*

Foreign currency risk arising from operations whose functional currency is Hong Kong dollars

At 31st December 2016, if Hong Kong dollars had weakened/strengthened by 1% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$45,187,000 (2015: HK$42,846,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables.

Foreign currency risk arising from operations whose functional currency is Renminbi

At 31st December 2016, if Renminbi had weakened/strengthened by 5% against the US dollars with all other variables held constant, post-tax profit for the year would have been HK$2,000,000 (2015: HK$6,552,000) lower/higher, mainly as a result of foreign exchange losses/ gains on translation of US dollars-denominated trade and other receivables, deposits and cash and cash equivalents and foreign exchange losses/gains on translation of US dollars-denominated trade and other payables and short-term borrowings.

(2) *Interest rate risk*

Other than deposits and cash and cash equivalents (collectively the "Interest Bearing Assets"), the Group has no other significant interest bearing assets.

The Group's interest rate risk also arises from borrowings (the "Interest Bearing Liabilities"). In 2015, Interest Bearing Liabilities are primarily issued at variable rates which therefore expose the Group to cash flow interest rate risk.

With all other variables held constant, if the interest rate had increased/decreased by 50 basis-point, the corresponding increase/decrease in net finance income (representing interest income on the Interest Bearing Assets less interest expenses on Interest Bearing Liabilities) will result in a net increase/decrease in the Group's post-tax profit by HK$32,033,000 (2015: HK$29,988,000).

(3) *Price risk*

The Group's fuel oil trading business is conducted on an indent basis where the purchase and selling prices of majority of the transactions are fixed in advance and thus the Group's exposure to fuel oil price risk is not significant. Management manages its exposure by entering into derivative contracts to hedge against the price fluctuation when the need arises. As at 31st December 2016 and 2015, there were no outstanding derivative financial instruments entered into by the Group.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(3) Price risk (Continued)

The Group is exposed to equity securities price risk because certain of the Group's investments are classified as available-for-sale financial assets and financial assets at fair value through profit or loss, which are required to be stated at their fair values (see fair value estimation below). To manage the price risk arising from equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The Group's equity investments in equity of other entities are publicly traded. The table below summarises the impact of increases/decreases of the market price of the Group's equity investments by 5%:

	Increase/decrease in post-tax profit		Increase/decrease in investment revaluation reserve	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% increase/decrease in market price	**44**	45	**4,736**	4,122

(ii) Credit risk

Credit risk mainly arises from trade and other receivables, balances due from group and related companies and deposits with financial institutions. The Group has limited its credit exposure from bank balances and deposits by restricting its selection of financial institutions with acceptable credit rating, as rated by external credit agencies, and over 87% of the Group's bank balances as at 31st December 2016 were placed with state-owned and listed banks. Management considers these balances are subject to low credit risk. New customers are assessed and rated based on the credit quality of the customers, taking into account their financial position, past experience and other factors before standard payment and delivery terms and conditions are offered. The utilisation of credit limits granted to existing customers is regularly monitored and individual risk limits are revised accordingly.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

The Group adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000
Group	
At 31st December 2016	
Trade and other payables	**1,186,822**
Short-term borrowings	**68,371**
At 31st December 2015	
Trade and other payables	1,278,279
Short-term borrowings	36,594

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders.

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the Group's total borrowings divided by total assets. The Group's strategy, which was unchanged from 2015, is to maintain a low gearing ratio. The gearing ratios at 31st December 2016 and 2015 were as follows:

	2016 HK$'000	2015 HK$'000
Total borrowings	**67,076**	36,062
Total assets	**9,388,144**	9,467,315
Gearing ratio	**0.7%**	0.4%

(c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets that are measured at fair value at 31st December 2016.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— equity securities	**94,718**	**—**	**1,759**	**96,477**
Derivative financial instruments	**—**	**1,645**	**—**	**1,645**
Financial assets at fair value through profit or loss				
— trading securities	**886**	**—**	**—**	**886**
Total assets	**95,604**	**1,645**	**1,759**	**99,008**

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31st December 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— equity securities	82,450	—	1,759	84,209
Financial assets at fair value through profit or loss				
— trading securities	909	—	—	909
Total assets	83,359	—	1,759	85,118

There were no transfers among Levels 1, 2 and 3 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily equity investments classified as available-for-sale financial assets or trading securities.

(d) Valuation techniques used to derive Level 2 fair values

Level 2 comprises other observable inputs which are not included within Level 1 of the fair value hierarchy or market-corroborated inputs based on or supported by observable market data.

There were no level 2 financial assets in 2015.

(e) Fair value measurements using significant unobservable inputs (Level 3)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Management has taken reference to the net asset value of the investment to determine its fair value as at the reporting date.

(f) Valuation process

The Group's finance department manages the valuations of financial assets and financial liabilities required for financial reporting purposes, including Level 3 fair values and presents the results of valuations to the management for review and approval on a half-yearly basis. Changes in Levels 2 and 3 fair values are analysed when appropriate and reported with reasons for the fair value movements to the management.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates, assumptions and judgements in applying the Group's accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

(b) Allowances for inventory

The management of the Group reviews the ageing analysis at each reporting date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each reporting date and makes allowance for obsolete items.

(c) Income taxes

The Group is subject to income taxes in Hong Kong, the PRC, Singapore, Japan, Germany and the United States. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5 REVENUE AND SEGMENT INFORMATION

Turnover, representing revenue, recognised during the year is as follows:

	2016	2015
	HK$'000	HK$'000
Sale of coatings	**637,033**	1,109,466
Sale of marine equipment and spare parts	**1,064,999**	1,096,698
Commission income from ship trading agency	**98,921**	84,983
Commission income from insurance brokerage	**94,411**	91,889
Sale of marine fuel and other products	**4,766,546**	2,779,986
Sale of asphalt and other products	**768,387**	836,624
	7,430,297	5,999,646

The chief operating decision-maker has been identified as the executive directors. The executive directors review the Group's internal reports in order to make decisions about resources to be allocated to the segment and assess its performance. Management considers the business from a product perspective and has identified the following reportable segments on the basis of these reports:

Reportable segments	**Business activities**
Coatings	production and sale of coatings, and holding of investment in a joint venture, Jotun COSCO Marine Coatings (HK) Limited ("Jotun COSCO")
Marine equipment and spare parts	trading of marine equipment and spare parts, and holding of investments in joint ventures
Ship trading agency	provision of agency services relating to shipbuilding, ship trading and bareboat charter business, and holding of investments in a joint venture and an associate
Insurance brokerage	provision of insurance brokerage services
Marine fuel and other products	trading of marine fuel and other related products, and holding of investment in an associate, Double Rich Limited ("Double Rich")
General trading	trading of asphalt and other products, and holding of investments in associates

Other segments mainly comprise the Group's listed available-for-sale financial assets, financial assets at fair value through profit or loss and derivative financial instruments.

Management assesses the performance of the operating segments based on a measure of profit before income tax.

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31st December 2016									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit and loss items:										
Segment revenue	637,033	1,066,482	99,175	94,836	4,816,883	6,714,409	788,227	–	(72,339)	7,430,297
Inter-segment revenue	–	(1,483)	(254)	(425)	(50,337)	(52,499)	(19,840)	–	72,339	–
Revenue from external customers	637,033	1,064,999	98,921	94,411	4,766,546	6,661,910	768,387	–	–	7,430,297
Segment operating (loss)/profit	(22,156)	51,249	62,867	68,122	2,094	162,176	9,164	4,405	–	175,745
Finance income	6,746	803	6,158	1,172	939	15,818	1,566	–	(4,292)	13,092
Finance costs	(191)	(1,387)	(16)	(182)	(79)	(1,855)	(7,236)	–	4,292	(4,799)
Share of profits of joint ventures	88,236	1,143	551	–	–	89,930	–	–	–	89,930
Share of profits of associates	–	–	72	–	9,094	9,166	1,036	–	–	10,202
Segment profit before income tax	72,635	51,808	69,632	69,112	12,048	275,235	4,530	4,405	–	284,170
Income tax credit/(expenses)	303	(7,652)	(17,345)	(12,175)	(231)	(37,100)	(2,002)	–	–	(39,102)
Segment profit after income tax	72,938	44,156	52,287	56,937	11,817	238,135	2,528	4,405	–	245,068
Balance sheet items:										
Total segment assets	1,650,279	914,552	394,163	192,048	296,687	3,447,729	796,072	97,249	(235,396)	4,105,654
Total segment assets include:										
– Joint ventures	400,996	12,570	4,051	–	–	417,617	–	–	–	417,617
– Associates	–	–	1,973	–	109,409	111,382	6,182	–	–	117,564
Total segment liabilities	357,661	311,424	154,083	77,618	121,792	1,022,578	580,251	–	(235,396)	1,367,433
Other items:										
Depreciation and amortisation, net of amount capitalised	18,989	3,429	245	249	–	22,912	1,205	–	–	24,117
Net provision for impairment of inventories	10,312	–	–	–	–	10,312	–	–	–	10,312
Net reversal of provision for impairment of trade receivables	(2,072)	(1,761)	–	–	–	(3,833)	(2,869)	–	–	(6,702)
Provision for impairment of other receivables	–	91	–	–	–	91	–	–	–	91
Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets)	6,283	2,467	1,044	211	–	10,005	296	–	–	10,301

5 REVENUE AND SEGMENT INFORMATION (Continued)

Year ended and as at 31st December 2015

	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings HK$'000	Marine equipment and spare parts HK$'000	Ship trading agency HK$'000	Insurance brokerage HK$'000	Marine fuel and other products HK$'000	Total HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit and loss items:										
Segment revenue	1,109,466	1,096,705	84,983	92,295	2,857,408	5,240,857	850,449	–	(91,660)	5,999,646
Inter-segment revenue	–	(7)	–	(406)	(77,422)	(77,835)	(13,825)	–	91,660	–
Revenue from external customers	1,109,466	1,096,698	84,983	91,889	2,779,986	5,163,022	836,624	–	–	5,999,646
Segment operating profit	70,341	47,470	52,397	66,146	4,408	240,762	26,326	2,427	–	269,515
Finance income	7,331	687	6,735	1,323	214	16,290	1,595	–	(792)	17,093
Finance costs	(198)	(2,009)	(14)	(178)	(2,728)	(5,127)	(6,051)	–	792	(10,386)
Share of profits of joint ventures	107,333	413	2,425	–	–	110,171	–	–	–	110,171
Share of profits of associates	–	–	67	–	10,237	10,304	1,273	–	–	11,577
Segment profit before income tax	184,807	46,561	61,610	67,291	12,131	372,400	23,143	2,427	–	397,970
Income tax expenses	(18,392)	(9,439)	(16,839)	(11,820)	(109)	(56,599)	(6,364)	–	–	(62,963)
Segment profit after income tax	166,415	37,122	44,771	55,471	12,022	315,801	16,779	2,427	–	335,007
Balance sheet items:										
Total segment assets	1,954,085	1,041,329	339,761	174,873	511,991	4,022,039	790,319	83,358	(349,875)	4,545,841
Total segment assets include:										
– Joint ventures	507,688	12,281	5,374	–	–	525,343	–	–	–	525,343
– Associates	–	–	2,034	–	98,315	100,349	7,266	–	–	107,615
Total segment liabilities	478,102	476,912	95,151	62,750	296,631	1,409,546	562,786	–	(349,875)	1,622,457
Other items:										
Depreciation and amortisation, net of amount capitalised	14,281	2,769	270	211	–	17,531	1,224	–	–	18,755
Net reversal of provision for impairment of inventories	(1,013)	–	–	–	–	(1,013)	–	–	–	(1,013)
Net (reversal of provision)/ provision for impairment of trade receivables	(1,870)	4,059	–	–	–	2,189	–	–	–	2,189
Net provision/(reversal of provision) for impairment of other receivables	–	88	–	–	–	88	(18,662)	–	–	(18,574)
Government subsidy income	(50,471)	–	–	–	–	(50,471)	–	–	–	(50,471)
Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets)	148,688	24,802	54	620	–	174,164	138	–	–	174,302

5 REVENUE AND SEGMENT INFORMATION (Continued)

A reconciliation of the total of the reportable segments' profit before income tax to the Group's profit after income tax is as follows:

	2016 HK$'000	2015 HK$'000
Profit before income tax for reportable segments	**279,765**	395,543
Profit before income tax for all other segments	**4,405**	2,427
Profit before income tax for all segments	**284,170**	397,970
Elimination of segment income from corporate headquarters	**(138)**	(111)
Elimination of segment finance costs to corporate headquarters	**408**	6,608
Corporate finance income	**77,868**	98,070
Corporate finance costs	**(23)**	(17)
Corporate expenses, net of income	**(62,195)**	(74,696)
Profit before income tax for the Group	**300,090**	427,824
Income tax expenses for all segments	**(39,102)**	(62,963)
Corporate income tax expenses	**(24,488)**	(2,797)
Profit after income tax for the Group	**236,500**	362,064

A reconciliation of the total of the reportable segments' assets to the Group's total assets is as follows:

	2016 HK$'000	2015 HK$'000
Total assets for reportable segments	**4,243,801**	4,812,358
Total assets for all other segments	**97,249**	83,358
Elimination of inter-segment receivables	**(235,396)**	(349,875)
	4,105,654	4,545,841
Corporate assets (mainly deposits and cash and cash equivalents)	**5,379,848**	5,223,410
Elimination of corporate headquarters' receivables from segments	**(97,358)**	(301,936)
Total assets for the Group	**9,388,144**	9,467,315

5 REVENUE AND SEGMENT INFORMATION (Continued)

A reconciliation of the total of the reportable segments' liabilities to the Group's total liabilities is as follows:

	2016 HK$'000	2015 HK$'000
Total liabilities for reportable segments	**1,602,829**	1,972,332
Elimination of inter-segment payables	**(235,396)**	(349,875)
	1,367,433	1,622,457
Corporate liabilities	**72,328**	47,170
Elimination of segment payables to corporate headquarters	**(97,358)**	(301,936)
Total liabilities for the Group	**1,342,403**	1,367,691

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong are HK$862,957,000 (2015: HK$815,756,000) and HK$6,567,340,000 (2015: HK$5,183,890,000) respectively.

The total of non-current assets, other than available-for-sale financial assets and deferred income tax assets, located in Hong Kong and places other than Hong Kong are HK$677,131,000 (2015: HK$752,162,000) and HK$402,184,000 (2015: HK$494,594,000) respectively.

In 2016, revenues of HK$2,881,954,000 and HK$1,769,172,000 are derived from two external customers of the marine fuel and other products segment respectively. In 2015, revenue of HK$2,333,298,000 is derived from a single external customer of the marine fuel and other products segment.

6 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Cost:			
At 1st January 2016	**105,269**	**11,763**	**117,032**
Additions	**—**	**1,285**	**1,285**
Currency translation differences	**(938)**	**(415)**	**(1,353)**
At 31st December 2016	**104,331**	**12,633**	**116,964**
Accumulated amortisation and impairment:			
At 1st January 2016	**5,984**	**7,863**	**13,847**
Currency translation differences	**—**	**(316)**	**(316)**
Amortisation (note 25)	**—**	**1,482**	**1,482**
At 31st December 2016	**5,984**	**9,029**	**15,013**
Net book amount	**98,347**	**3,604**	**101,951**

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Cost:			
At 1st January 2015	106,633	11,025	117,658
Additions	—	1,092	1,092
Currency translation differences	(1,364)	(354)	(1,718)
At 31st December 2015	105,269	11,763	117,032
Accumulated amortisation and impairment:			
At 1st January 2015	5,984	6,196	12,180
Currency translation differences	—	(263)	(263)
Amortisation (note 25)	—	1,930	1,930
At 31st December 2015	5,984	7,863	13,847
Net book amount	99,285	3,900	103,185

6 INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units under shipping services business segment as follows:

	2016 HK$'000	2015 HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business ("Ship trade business")	**47,132**	47,912
Provision of insurance brokerage services ("Insurance business")	**35,046**	35,046
Trading of marine equipment and spare parts ("Supply business")	**16,169**	16,327
	98,347	99,285

The recoverable amounts of the above business units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations in 2016 are as follows:

	Ship trade business	Insurance business	Supply business
Annual growth rate	**3%**	**3%**	**3%**
Discount rate	**9%**	**9%**	**9%**

The key assumptions used for value-in-use calculations in 2015 are as follows:

	Ship trade business	Insurance business	Supply business
Annual growth rate	3%	3%	3%
Discount rate	10%	10%	10%

These assumptions have been used for the analysis of each cash generating unit within the operating segment.

Management determined the annual growth rate and discount rate for each business unit covering over the five-year forecast period to be key assumptions. The annual growth rate is based on past performance and management's expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

7 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Machinery, equipment and motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
At 1st January 2015						
Cost	168,946	91,710	18,760	38,117	134,302	451,835
Accumulated depreciation	(76,625)	(65,019)	(16,526)	(31,484)	—	(189,654)
Net book amount	92,321	26,691	2,234	6,633	134,302	262,181
Year ended 31st December 2015						
Opening net book amount	92,321	26,691	2,234	6,633	134,302	262,181
Additions	22,694	5,041	1,268	2,564	141,765	173,332
Transfer between categories	212,027	56,487	—	5,092	(273,606)	—
Currency translation differences	(14,411)	(3,510)	(48)	(482)	(2,461)	(20,912)
Depreciation (note 25(a))	(6,092)	(7,935)	(461)	(4,057)	—	(18,545)
Disposals	(37)	(3,390)	—	(113)	—	(3,540)
Closing net book amount	306,502	73,384	2,993	9,637	—	392,516
At 31st December 2015						
Cost	341,779	123,416	18,317	39,675	—	523,187
Accumulated depreciation	(35,277)	(50,032)	(15,324)	(30,038)	—	(130,671)
Net book amount	306,502	73,384	2,993	9,637	—	392,516
Year ended 31st December 2016						
Opening net book amount	**306,502**	**73,384**	**2,993**	**9,637**	**—**	**392,516**
Additions	**672**	**5,594**	**658**	**1,933**	**1,369**	**10,226**
Currency translation differences	**(16,147)**	**(4,186)**	**(36)**	**(438)**	**(59)**	**(20,866)**
Depreciation (note 25(a))	**(9,999)**	**(11,283)**	**(845)**	**(4,511)**	**—**	**(26,638)**
Disposals	**—**	**(51)**	**—**	**—**	**—**	**(51)**
Cost adjustment upon construction completion	**(10,851)**	**(255)**	**—**	**(169)**	**—**	**(11,275)**
Closing net book amount	**270,177**	**63,203**	**2,770**	**6,452**	**1,310**	**343,912**
At 31st December 2016						
Cost	**312,944**	**119,682**	**18,728**	**38,052**	**1,310**	**490,716**
Accumulated depreciation	**(42,767)**	**(56,479)**	**(15,958)**	**(31,600)**	**—**	**(146,804)**
Net book amount	**270,177**	**63,203**	**2,770**	**6,452**	**1,310**	**343,912**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's interests in properties at their net book value are analysed as follows:

	2016 HK$'000	2015 HK$'000
Freehold properties held outside Hong Kong	**24,211**	24,751
Leasehold properties held in Hong Kong		
— on leases of over 50 years	**3,581**	3,616
— on leases of between 10 and 50 years	**1,253**	1,390
Leasehold properties held outside Hong Kong		
— on leases of between 10 and 50 years	**234,338**	269,554
— on leases of less than 10 years	**6,794**	7,191
	270,177	306,502

8 PREPAID PREMIUM FOR LAND LEASES

	2016 HK$'000	2015 HK$'000
At 1st January	**32,876**	35,100
Addition	**—**	899
Currency translation differences	**(2,052)**	(2,038)
Amortisation (note 25)	**(686)**	(1,085)
At 31st December	**30,138**	32,876

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

	2016 HK$'000	2015 HK$'000
Held outside Hong Kong		
— on leases of between 10 and 50 years	**30,138**	32,876

9 INVESTMENT PROPERTIES

	Completed commercial properties Hong Kong HK$'000	Completed residential properties PRC HK$'000	Total HK$'000
Opening balance as at 1st January 2016	**22,300**	**27,116**	**49,416**
Currency translation differences	**—**	**14**	**14**
Fair value gains (note 24)	**2,200**	**5,324**	**7,524**
Closing balance as at 31st December 2016	**24,500**	**32,454**	**56,954**
Opening balance as at 1st January 2015	22,300	22,547	44,847
Currency translation differences	—	(16)	(16)
Fair value gains (note 24)	—	4,585	4,585
Closing balance as at 31st December 2015	22,300	27,116	49,416

The Group's interests in investment properties are analysed as follows:

	2016 HK$'000	2015 HK$'000
Held in Hong Kong		
— on leases of over 50 years	**24,500**	22,300
Held outside Hong Kong		
— on leases of between 10 and 50 years	**32,454**	27,116
	56,954	49,416

Valuation processes of the Group

The Group measures its investment properties at fair value. The investment properties were revalued by DTZ Cushman & Wakefield Limited, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31st December 2016 and 2015. For all investment properties, their current use equates to the highest and best use.

9 INVESTMENT PROPERTIES (Continued)

Valuation processes of the Group (Continued)

The Group's finance department includes a team that reviews the valuations performed annually by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and independent valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end, the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuer.

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

Fair values of completed commercial and residential properties are generally derived using the direct comparison method. This valuation method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

10 INVESTMENTS IN JOINT VENTURES

	2016 **HK$'000**	2015 HK$'000
At 1st January	**525,343**	493,107
Currency translation differences (note 21)	**(1,088)**	(1,047)
Share of profits	**89,930**	110,171
Share of other comprehensive losses (note 21)	**(16,128)**	(14,878)
Dividends received	**(180,440)**	(62,010)
At 31st December	**417,617**	525,343

Particulars of the joint ventures of the Group as at 31st December 2016 are set out in note 39 to the financial statements.

10 INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information for a material joint venture of the Group

Set out below are the summarised financial information for Jotun COSCO, a material joint venture.

Summarised statement of financial position

	2016 HK$'000	2015 HK$'000
Non-current assets	**422,683**	512,407
Current assets		
Cash and cash equivalents	**196,167**	238,373
Other current assets	**989,051**	1,546,291
Total current assets	**1,185,218**	1,784,664
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	**224,234**	221,677
Other current liabilities	**587,497**	1,069,221
Total current liabilities	**811,731**	1,290,898
Non-current liability		
Deferred income tax liabilities	**8,372**	4,991
Net assets	**787,798**	1,001,182

Summarised statement of comprehensive income

	2016 HK$'000	2015 HK$'000
Revenue	**2,091,376**	2,798,565
Depreciation and amortisation	**35,010**	34,899
Interest income	**1,611**	2,055
Interest expense	**10,920**	13,062
Profit before income tax	**213,525**	258,003
Income tax charge	**(37,053)**	(43,337)
Profit for the year	**176,472**	214,666
Other comprehensive losses	**(32,256)**	(29,758)
Total comprehensive income	**144,216**	184,908

The information disclosed above reflects the amounts presented in the financial statements of the joint venture prepared under HKFRSs.

10 INVESTMENTS IN JOINT VENTURES (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in Jotun COSCO.

	2016 HK$'000	2015 HK$'000
Opening net assets at 1st January	**1,001,182**	940,294
Profit for the year	**176,472**	214,666
Dividends received	**(357,600)**	(124,020)
Other comprehensive losses		
Currency translation differences	**(32,256)**	(29,758)
Closing net assets at 31st December	**787,798**	1,001,182
Interest in joint venture (50%)	**393,899**	500,591
Goodwill	**7,097**	7,097
Carrying amount	**400,996**	507,688

The aggregate carrying amount of individually immaterial joint ventures is HK$16,621,000 (2015: HK$17,655,000). The aggregate amounts of the Group's share of its joint ventures' profit for the year and total comprehensive income are HK$1,694,000 (2015: HK$2,838,000) and HK$1,694,000 (2015: HK$2,838,000) respectively.

11 INVESTMENTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
At 1st January	**107,615**	82,520
Currency translation differences (note 21)	**(525)**	(605)
Share of profits	**10,202**	11,577
Share of other comprehensive income (note 21)	**9,129**	14,734
Dividends received	**(8,857)**	(611)
At 31st December	**117,564**	107,615

No summarised financial information for associates has been set out, as there were no individually material associates in 2016 and 2015.

Particulars of the associates of the Group as at 31st December 2016 are set out in note 39 to the financial statements.

12 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies applied to financial instruments are shown below by line item:

	Loans and receivables HK$'000	Assets at fair value through profit or loss HK$'000	Available-for-sale HK$'000	Total HK$'000
Assets as per consolidated statement of financial position				
At 31st December 2016				
Available-for-sale financial assets (note 13)	**—**	**—**	**96,477**	**96,477**
Derivative financial instruments (note 14)	**—**	**1,645**	**—**	**1,645**
Trade and other receivables excluding prepayments (note 17)	**1,189,073**	**—**	**—**	**1,189,073**
Financial assets at fair value through profit or loss (note 18)	**—**	**886**	**—**	**886**
Restricted bank deposits, deposits and cash and cash equivalents (note 19)	**6,722,017**	**—**	**—**	**6,722,017**
Total	**7,911,090**	**2,531**	**96,477**	**8,010,098**
At 31st December 2015				
Available-for-sale financial assets (note 13)	—	—	84,209	84,209
Trade and other receivables excluding prepayments (note 17)	1,500,333	—	—	1,500,333
Financial assets at fair value through profit or loss (note 18)	—	909	—	909
Restricted bank deposits, deposits and cash and cash equivalents (note 19)	6,260,730	—	—	6,260,730
Total	7,761,063	909	84,209	7,846,181

12 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The accounting policies applied to financial instruments are shown below by line item (Continued):

	Financial liabilities at amortised cost HK$'000
Liabilities as per consolidated statement of financial position	
At 31st December 2016	
Trade and other payables excluding non-financial liabilities (note 22)	**1,186,822**
Short-term borrowings (note 23)	**67,076**
Total	**1,253,898**
At 31st December 2015	
Trade and other payables excluding non-financial liabilities (note 22)	1,278,279
Short-term borrowings (note 23)	36,062
Total	1,314,341

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 **HK$'000**	2015 HK$'000
At 1st January	**84,209**	99,494
Fair value gains/(losses) recognised in other comprehensive income, net (note 21)	**12,268**	(15,285)
At 31st December	**96,477**	84,209
Less: current portion	**33,386**	25,455
Non-current portion	**63,091**	58,754

There were no impairment provisions on available-for-sale financial assets as at 31st December 2016 and 2015.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

	2016 HK$'000	2015 HK$'000
Unlisted securities	**1,759**	1,759
Listed equity securities in Hong Kong	**94,718**	82,450
	96,477	84,209

Available-for-sale financial assets are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Renminbi	**1,759**	1,759
Hong Kong dollars	**94,718**	82,450
	96,477	84,209

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Assets HK$'000
At 31st December 2016	
Forward foreign exchange contracts	1,645

Derivatives are classified as a current asset. The notional principal amounts of the outstanding forward foreign exchange contracts at 31st December 2016 were US$5,460,000.

Changes in fair values of derivative financial instruments have been included in "other income and gains" in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial instruments in the consolidated statement of financial position.

15 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the reporting date.

The movement on the net deferred income tax (liabilities)/assets during the year is as follows:

	2016 HK$'000	2015 HK$'000
At 1st January	**4,590**	30,418
Currency translation differences	**475**	(755)
Transferred to current income tax liabilities	**2,168**	141
Charged to the consolidated income statement, net (note 29)	**(22,858)**	(25,214)
At 31st December	**(15,625)**	4,590

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31st December 2016, the Group has unrecognised tax losses of HK$62,056,000 (2015: HK$61,291,000) to carry forward against future taxable income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances after offsetting where appropriate are as follows:

	2016 HK$'000	2015 HK$'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**41,869**	39,934
— to be recovered within 12 months	**11,855**	9,311
	53,724	49,245
Deferred income tax liabilities:		
— to be settled after more than 12 months	**(45,713)**	(44,655)
— to be settled within 12 months	**(23,636)**	—
	(69,349)	(44,655)
	(15,625)	4,590

15 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Accrued liabilities HK$'000	Impairment losses HK$'000	Others HK$'000	Total HK$'000
At 1st January 2015	42,738	21,923	4,784	69,445
Currency translation differences	(1,999)	(1,084)	(278)	(3,361)
(Charged)/credited to the consolidated income statement	(12,100)	(4,781)	42	(16,839)
At 31st December 2015	28,639	16,058	4,548	49,245
At 1st January 2016	**28,639**	**16,058**	**4,548**	**49,245**
Currency translation differences	**(1,504)**	**(1,013)**	**(939)**	**(3,456)**
(Charged)/credited to the consolidated income statement	**(7,109)**	**(65)**	**15,109**	**7,935**
At 31st December 2016	**20,026**	**14,980**	**18,718**	**53,724**

15 DEFERRED INCOME TAX (Continued)

(b) Deferred income tax liabilities

	Accelerated tax depreciation HK$'000	Fair value gains HK$'000	Withholding tax HK$'000	Total HK$'000
At 1st January 2015	(969)	(8,764)	(29,294)	(39,027)
Currency translation differences	2	661	1,943	2,606
Transfer to current income tax liabilities	—	—	141	141
Charged to the consolidated income statement	—	(3,668)	(4,707)	(8,375)
At 31st December 2015	(967)	(11,771)	(31,917)	(44,655)
At 1st January 2016	**(967)**	**(11,771)**	**(31,917)**	**(44,655)**
Currency translation differences	**19**	**939**	**2,973**	**3,931**
Transfer to current income tax liabilities	**—**	**—**	**2,168**	**2,168**
Charged to the consolidated income statement	**(449)**	**(4,465)**	**(25,879)**	**(30,793)**
At 31st December 2016	**(1,397)**	**(15,297)**	**(52,655)**	**(69,349)**

16 INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**36,344**	41,257
Work in progress	**3,417**	2,978
Finished goods	**203,599**	303,006
	243,360	347,241

The cost of inventories recognised as expense and included in cost of sales amounted to HK$6,886,051,000 (2015: HK$5,308,924,000) (note 25).

As at 31st December 2016, inventories of HK$41,597,000 (2015: HK$53,497,000) were carried at net realisable value.

17 TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables		
— third parties	**483,963**	659,259
— fellow subsidiaries (note (f))	**139,426**	104,853
— related companies (note (f))	**36,980**	41,496
— joint ventures (note (f))	**14,521**	7,002
— non-controlling interests (note (f))	**317**	603
	675,207	813,213
Less: provision for impairment (note (c))	**28,870**	43,847
Trade receivables — net	**646,337**	769,366
Bills receivable		
— third parties	**83,878**	115,196
— fellow subsidiaries (note (f))	**447**	—
— related companies (note (f))	**20,212**	66,023
Prepayments	**7,724**	9,662
Deposits and other receivables		
— third parties (note (d))	**422,904**	526,354
— fellow subsidiaries (note (f))	**14,512**	22,250
— related companies (note (f))	**560**	967
— joint ventures (note (f))	**61**	2
Amounts due from fellow subsidiaries (note (f))	**139**	175
Amounts due from related companies (note (f))	**23**	—
	1,196,797	1,509,995

Notes:

(a) As at 31st December, the ageing analysis of trade receivables based on invoice date and after provision is as follows:

	2016 HK$'000	2015 HK$'000
Current–90 days	**392,298**	483,415
91–180 days	**128,109**	161,643
Over 180 days	**125,930**	124,308
	646,337	769,366

For sale of coatings, marine equipment and spare parts, marine fuel, asphalt and other products, the majority of sales are on credit terms from 30 days to 90 days. Other than those with credit terms, all invoices are payable upon presentation.

17 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) As at 31st December 2016, trade receivables of HK$142,240,000 (2015: HK$159,020,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis on past due days of these receivables is as follows:

	2016 HK$'000	2015 HK$'000
Up to 90 days	**58,404**	76,833
91–180 days	**26,231**	50,612
Over 180 days	**57,605**	31,575
	142,240	159,020

(c) Taking into account the financial difficulties of the debtors, default and delinquency in payments, business relationship and transaction volumes with the debtors, it was assessed an amount of HK$28,870,000 of the receivable balance was impaired as at 31st December 2016 (2015: HK$43,847,000).

Movements on the provision for impairment of trade receivables are as follows:

	2016 HK$'000	2015 HK$'000
At 1st January	**43,847**	44,279
Currency translation differences	**(1,824)**	(2,387)
(Reversal of provision)/provision for impairment, net	**(6,702)**	2,189
Amount written off	**(6,451)**	(234)
At 31st December	**28,870**	43,847

(d) As at 31st December 2016, other receivables of HK$16,286,000 (2015: HK$17,387,000) were impaired and the amount of impairment provision for these receivables was HK$16,286,000 (2015: HK$17,387,000). Except for these receivables and trade receivables mentioned above, the other classes within trade and other receivables do not contain impaired assets.

17 TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(e) The carrying amounts of trade and other receivables approximate their fair values and are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Renminbi	**725,399**	935,055
Hong Kong dollars	**23,656**	54,834
United States dollars	**251,304**	332,757
Others	**196,438**	187,349
	1,196,797	1,509,995

(f) Balances with fellow subsidiaries, related companies, joint ventures and non-controlling interests are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills receivables, which are repayable according to the respective credit terms.

(g) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. As at 31st December 2016 and 2015, the Group does not hold any collateral as security.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$'000	2015 HK$'000
Listed equity securities in Hong Kong	**886**	909

19 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Non-current deposits with a fellow subsidiary (note (a))	**11,179**	35,805
Restricted bank deposits (note (b))	**559**	597
Current deposits with a fellow subsidiary (note (a))	**837,369**	679,777
Short-term bank deposits	**5,538,522**	5,176,850
Cash at bank and on hand	**334,388**	367,701
Current deposits and cash and cash equivalents	**6,710,279**	6,224,328
Total deposits and cash and cash equivalents	**6,722,017**	6,260,730

Notes:

(a) Deposits with a fellow subsidiary, which is a financial institution in the PRC, bear interest at prevailing market rates.

(b) Restricted bank deposits represent deposits pledged for banking facilities and other purposes.

(c) The carrying amounts of total deposits and cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Renminbi	**674,750**	661,343
Hong Kong dollars	**142,895**	158,626
United States dollars	**5,804,991**	5,365,982
Others	**99,381**	74,779
	6,722,017	6,260,730

(d) The Group's cash and cash equivalents denominated in Renminbi are mainly deposited with banks and a fellow subsidiary in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(e) The maximum exposure to credit risk at the reporting date is the carrying amount of the balances mentioned above.

19 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

Notes: (Continued)

(f) The Group's cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2016 **HK$'000**	2015 HK$'000
Total deposits and cash and cash equivalents	**6,722,017**	6,260,730
Less: restricted bank deposits	**(559)**	(597)
cash deposits with maturity more than three months from date of placement	**(5,439,575)**	(5,144,981)
Cash and cash equivalents	**1,281,883**	1,115,152

20 SHARE CAPITAL

	2016		2015	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Issued and fully paid:				
At 1st January	**1,532,955,429**	**153,296**	1,531,805,429	153,181
Shares issued upon exercise of share options (note (a))	**—**	**—**	1,150,000	115
At 31st December	**1,532,955,429**	**153,296**	1,532,955,429	153,296

Share options

On 17th May 2002, a share option scheme was approved at the annual general meeting of the Company under which the directors of the Company may, at their discretion, invite, but not limited to, the directors and employees of the Group, and employees of COSCO, its subsidiaries and associates (other than the Group) (collectively "COSCO Group") to subscribe for shares of the Company.

20 SHARE CAPITAL (Continued)

Share options (Continued)

(a) On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK$1.21 per share. These share options were all vested upon the date of grant and are exercisable at any time from 6th June 2005 to 5th June 2015. 1,150,000 share options were exercised in 2015 and a summary of share options exercised analysed by exercise month, is set out below:

	Number of share options exercised	
	2016	2015
Exercise month		
May	–	950,000
June	–	200,000
	–	1,150,000

Exercise of share options yielded proceeds as follows:

	2016	2015
	HK$'000	HK$'000
Ordinary share capital — at par	–	115
Share premium	–	1,276
Proceeds	–	1,391

The weighted average closing price of the Company's shares on the dates when the share options were exercised during 2015 was HK$5.54.

(b) On 9th March 2007, the Company granted share options to subscribe for 43,850,000 shares of the Company at an exercise price of HK$3.666 per share. These share options are exercisable at any time from 9th March 2009 to 8th March 2015 in the stipulated proportion namely: (i) no share options shall be exercisable within the first two years from 9th March 2007; (ii) up to a maximum of 30% of the share options can be exercised from 9th March 2009 onwards; (iii) up to a maximum of 70% of the share options can be exercised from 9th March 2010 onwards and (iv) all share options can be exercised from 9th March 2011 onwards. No share options were exercised in 2015 and all remaining share options were cancelled or lapsed in 2015.

(c) At 31st December 2016 and 2015, no share options of the Company were outstanding.

21 RESERVES

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Statutory reserves (note (b)) HK$'000	Contributed surplus (note (c)) HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2016	167,023	–	98,244	676,218	75,261	7,799	59,037	(8,580)	6,500,857	7,575,859
Transfer to statutory reserves (note (b))	–	–	5,588	–	–	–	–	–	(5,588)	–
Currency differences on translation of:										
— subsidiaries	–	–	–	–	(68,571)	–	–	–	–	(68,571)
— joint ventures (note 10)	–	–	–	–	(1,088)	–	–	–	–	(1,088)
— associates (note 11)	–	–	–	–	(525)	–	–	–	–	(525)
Share of currency translation differences of a joint venture (note 10)	–	–	–	–	(16,128)	–	–	–	–	(16,128)
Share of currency translation differences of an associate (note 11)	–	–	–	–	(200)	–	–	–	–	(200)
Share of cash flow hedges of an associate, net of tax (note 11)	–	–	–	–	–	–	–	9,329	–	9,329
Fair value gains on available-for-sale financial assets, net (note 13)	–	–	–	–	–	–	12,268	–	–	12,268
Profit for the year (note (a))	–	–	–	–	–	–	–	–	237,205	237,205
Dividends paid	–	–	–	–	–	–	–	–	(199,284)	(199,284)
Balance at 31st December 2016	167,023	–	103,832	676,218	(11,251)	7,799	71,305	749	6,533,190	7,548,865
Representing:										
Reserves	167,023	–	103,832	676,218	(11,251)	7,799	71,305	749	6,372,229	7,387,904
2016 proposed final dividend	–	–	–	–	–	–	–	–	160,961	160,961
	167,023	–	103,832	676,218	(11,251)	7,799	71,305	749	6,533,190	7,548,865

21 RESERVES (Continued)

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Statutory reserves (note (b)) HK$'000	Contributed surplus (note (c)) HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2015	165,072	45,748	91,934	676,218	162,497	7,799	74,322	(24,667)	6,386,933	7,585,856
Transfer to statutory reserves (note (b))	—	—	6,310	—	—	—	—	—	(6,310)	—
Transfer to retained profits upon the lapse and cancellation of share options	—	(45,073)	—	—	—	—	—	—	45,073	—
Currency differences on translation of:										
— subsidiaries	—	—	—	—	(69,353)	—	—	—	—	(69,353)
— joint ventures (note 10)	—	—	—	—	(1,047)	—	—	—	—	(1,047)
— associates (note 11)	—	—	—	—	(605)	—	—	—	—	(605)
Share of currency translation differences of a joint venture (note 10)	—	—	—	—	(14,878)	—	—	—	—	(14,878)
Share of currency translation differences of an associate (note 11)	—	—	—	—	(1,353)	—	—	—	—	(1,353)
Share of cash flow hedges of an associate, net of tax (note 11)	—	—	—	—	—	—	—	16,087	—	16,087
Issue of shares upon exercise of share options	1,951	(675)	—	—	—	—	—	—	—	1,276
Fair value losses on available-for-sale financial assets, net (note 13)	—	—	—	—	—	—	(15,285)	—	—	(15,285)
Profit for the year (note (a))	—	—	—	—	—	—	—	—	335,763	335,763
Dividends paid	—	—	—	—	—	—	—	—	(260,602)	(260,602)
Balance at 31st December 2015	167,023	—	98,244	676,218	75,261	7,799	59,037	(8,580)	6,500,857	7,575,859
Representing:										
Reserves	167,023	—	98,244	676,218	75,261	7,799	59,037	(8,580)	6,362,891	7,437,893
2015 proposed final dividend	—	—	—	—	—	—	—	—	137,966	137,966
	167,023	—	98,244	676,218	75,261	7,799	59,037	(8,580)	6,500,857	7,575,859

21 RESERVES (Continued)

Notes:

(a) Profit for the year of HK$237,205,000 (2015: HK$335,763,000) includes net profits of HK$89,930,000 (2015: HK$110,171,000) attributable to joint ventures and HK$10,202,000 (2015: HK$11,577,000) attributable to associates.

(b) Statutory reserves represent the PRC statutory reserves of certain subsidiaries, joint ventures and associates.

(c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against the entire accumulated losses as at 31st December 2003 of HK$1,680,335,000 and the remaining credit of the share premium account of HK$676,218,000 was transferred to contributed surplus.

22 TRADE AND OTHER PAYABLES

	2016 **HK$'000**	2015 HK$'000
Trade payables		
— third parties	**225,248**	277,160
— fellow subsidiaries (note (b))	**11,694**	11,455
— related companies (note (b))	**—**	55
— joint ventures (note (b))	**725**	1,975
— associates (note (b))	**9,635**	—
— non-controlling interests (note (b))	**—**	1,099
	247,302	291,744
Bills payable		
— third parties	**46,180**	38,296
Advances from customers and other payables		
— third parties	**688,218**	642,123
— fellow subsidiaries (note (b))	**123,005**	195,300
— related companies (note (b))	**5,083**	35,219
— joint ventures (note (b))	**72**	72
— a holding company (note (b))	**145**	813
— non-controlling interests (note (b))	**987**	1,625
Accrued liabilities	**35,194**	32,979
Amounts due to fellow subsidiaries (note (b))	**10,075**	7,808
Dividend payable to non-controlling interests	**30,561**	32,300
	1,186,822	1,278,279

22 TRADE AND OTHER PAYABLES (Continued)

Notes:

(a) As at 31st December, the ageing analysis of trade payables based on invoice date is as follows:

	2016 HK$'000	2015 HK$'000
Current–90 days	**198,968**	253,298
91–180 days	**28,894**	32,842
Over 180 days	**19,440**	5,604
	247,302	291,744

(b) Balances with fellow subsidiaries, related companies, joint ventures, associates, a holding company and non-controlling interests are unsecured, interest-free and have no fixed terms of repayment except for the trade related balances and bills payables, which are repayable accordingly to the respective credit terms.

(c) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Renminbi	**515,266**	551,146
Hong Kong dollars	**183,034**	303,002
United States dollars	**389,579**	293,073
Others	**98,943**	131,058
	1,186,822	1,278,279

23 SHORT-TERM BORROWINGS

	2016 HK$'000	2015 HK$'000
Unsecured loan from a fellow subsidiary (note (a))	**67,076**	—
Unsecured bank loans, repayable within one year	**—**	36,062
	67,076	36,062

23 SHORT-TERM BORROWINGS (Continued)

Notes:

(a) Unsecured loan from a fellow subsidiary, which is a financial institution in the PRC, bears interest at 3.26% per annum and is repayable on 2nd August 2017.

(b) The carrying amounts of short-term borrowings approximate their fair values and are denominated in Renminbi.

(c) The effective interest rates of short-term borrowings during the year ended 31st December 2016 and 2015 are as follows:

	2016	2015
Renminbi	**3.17%**	3.94%
United States dollars	**—**	3.11%

(d) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

24 OTHER INCOME AND GAINS

	2016 HK$'000	2015 HK$'000
Rental income	**1,311**	1,790
Dividend income from listed and unlisted investments	**2,420**	2,604
Gains on disposal of property, plant and equipment	**178**	—
Fair value gains on investment properties (note 9)	**7,524**	4,585
Fair value gains on derivative financial instruments	**1,720**	—
Reversal of provision for impairment of inventories, net of provision	**—**	1,013
Reversal of provision for impairment of trade receivables, net of provision	**6,702**	—
Reversal of provision for impairment of other receivables, net of provision	**—**	18,574
Government subsidy income#	**—**	50,471
Others	**14,791**	6,896
	34,646	85,933

Government subsidy income of HK$50,471,000 was recognized in 2015 in respect of a special subsidy granted by the Shanghai Municipal Government and the Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. in relocating the existing production plant and settling the impacted staff.

25 EXPENSES BY NATURE

	2016 HK$'000	2015 HK$'000
Cost of sales		
Cost of inventories sold (note 16)	**6,886,051**	5,308,924
Selling, administrative and general expenses		
Selling expenses	**121,870**	189,650
Depreciation of property, plant and equipment (note 25(a))	**1,759**	2,797
Amortisation of intangible assets (note 6)	**1,482**	1,930
Amortisation of prepaid premium for land leases (note 8)	**686**	1,085
Operating lease rental expenses (note 25(b))	**32,451**	28,729
Administrative staff costs	**175,828**	181,949
Auditors' remuneration	**5,919**	5,752
Others	**107,439**	125,597
	447,434	537,489
Other expenses and losses		
Net losses on disposal of property, plant and equipment	**—**	129
Direct operating expenses for generating rental income	**143**	145
Provision for impairment of inventories, net of reversal	**10,312**	—
Write-off of inventories	**14**	—
Provision for impairment of trade receivables, net of reversal	**—**	2,189
Write-off of bad debts	**29**	—
Provision for impairment of other receivables	**91**	—
Fair value losses on financial assets at fair value through profit or loss	**23**	177
Net exchange losses	**7,434**	41,818
	18,046	44,458

(a) Depreciation of property, plant and equipment

	2016 HK$'000	2015 HK$'000
Charge for the year (note 7)	**26,638**	18,545
Charged to cost of sales	**(20,224)**	(11,938)
Charged to selling expenses	**(519)**	(1,441)
Capitalised in inventories	**(4,136)**	(2,369)
	1,759	2,797

25 EXPENSES BY NATURE (Continued)

(b) Operating lease rental expenses

	2016 HK$'000	2015 HK$'000
Land and buildings	**32,451**	28,729

26 EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses, which were included in cost of sales, selling, administrative and general expenses, are as follows:

	2016 HK$'000	2015 HK$'000
Wages, salaries and other short-term benefits, including directors' emoluments (note 27(a))	**267,954**	280,951
Retirement benefits costs — defined contribution scheme (note)	**24,303**	22,446
Termination benefits	**742**	685
	292,999	304,082
Included in:		
Cost of sales	**30,679**	34,185
Selling, administrative and general expenses	**262,320**	269,897
	292,999	304,082

Note:

There were no forfeited contributions (2015: Nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions (2015: Nil). There were no contributions (2015: Nil) payable to the fund at the year-end.

26 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2015: two) directors whose emoluments are reflected in the note 27(a). The emoluments of the remaining two (2015: three) individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries, allowances and benefits-in-kind	**2,344**	3,971
Discretionary bonuses	**674**	754
Retirement benefits costs — defined contribution scheme	**36**	54
	3,054	4,779

The emoluments of the individuals fell within the following bands:

	Number of individuals	
Emolument band	**2016**	2015
HK$1,000,001 — HK$1,500,000	**—**	2
HK$1,500,001 — HK$2,000,000	**2**	1

(b) Emoluments of senior management

Other than the emoluments of directors disclosed in note 27(a), the emoluments of senior management fell within the following bands:

	Number of individuals	
Emolument band	**2016**	2015
Below HK$1,000,000	**2**	2
HK$1,000,001 — HK$1,500,000	**2**	3
HK$1,500,001 — HK$2,000,000	**1**	—

27 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Details of the emoluments of directors who were also the key management personnel of the Company for the year ended 31st December 2016 are as follows:

Name of directors	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Total HK$'000
Mr. Zhu Jianhui (appointed on 16th August 2016)	–	2,325	2,325
Mr. Zhang Liang (resigned on 16th August 2016)	–	3,875	3,875
Mr. Liu Gang (appointed on 27th September 2016)	–	992	992
Mr. Liu Xianghao (appointed on 18th March 2016)	–	2,015	2,015
Mr. Xu Zhengjun (resigned on 18th March 2016)	–	821	821
Mr. Tsui Yiu Wa, Alec	280	–	280
Mr. Jiang, Simon X.	280	–	280
Mr. Alexander Reid Hamilton	280	–	280
	840	10,028	10,868

Details of the emoluments of directors who were also the key management personnel of the Company for the year ended 31st December 2015 are as follows:

Name of directors	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Total HK$'000
Mr. Zhang Liang	–	5,900	5,900
Mr. Xu Zhengjun	–	3,468	3,468
Mr. Tsui Yiu Wa, Alec	270	–	270
Mr. Jiang, Simon X.	270	–	270
Mr. Alexander Reid Hamilton	270	–	270
	810	9,368	10,178

As at 31st December 2016, directors of the Company had no outstanding share options (2015: Nil) to subscribe for shares of the Company (refer to note 20 for details).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

28 FINANCE INCOME — NET

	2016 HK$'000	2015 HK$'000
Interest income from:		
— a fellow subsidiary	**11,083**	15,274
— bank deposits	**79,877**	99,889
Total finance income	**90,960**	115,163
Interest expenses on:		
— a loan from a fellow subsidiary	**(875)**	—
— bank loans	**(733)**	(1,500)
Other finance charges	**(2,806)**	(2,295)
Total finance costs	**(4,414)**	(3,795)
Finance income — net	**86,546**	111,368

29 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

The PRC income tax has been calculated on the estimated assessable profit derived from the Group's operations in the PRC for the year at 25% (2015: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2015: 15%) based on different local preferential policies on income tax and approval by relevant tax authorities.

Other overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. These rates range from 17% to 43% (2015:17% to 43%) during the year.

	2016 HK$'000	2015 HK$'000
Current income tax		
— Hong Kong profits tax	**21,689**	15,282
— the PRC enterprise income tax	**13,702**	19,966
— other overseas taxation	**1,309**	4,120
— over-provision for Hong Kong profits tax in prior years	**(722)**	(21)
— under-provision for the PRC taxation in prior years	**4,808**	1,070
– (over)/under-provision for other overseas taxation in prior years	**(54)**	129
Deferred income tax charge — net (note 15)	**22,858**	25,214
Income tax expenses	**63,590**	65,760

29 INCOME TAX EXPENSES (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

	2016 HK$'000	2015 HK$'000
Profit before income tax (excluding share of profits of joint ventures and associates)	**199,958**	306,076
Calculated at a tax rate of 16.5% (2015: 16.5%)	**32,993**	50,503
Effect of different tax rates in the PRC and other overseas countries	**3,403**	13,990
Income not subject to income tax	**(13,985)**	(22,001)
Expenses not deductible for tax purposes	**10,754**	15,269
Utilisation of previously unrecognised tax losses	**(14)**	(765)
Under-provision in prior years	**4,032**	1,178
Derecognition of prior year tax loss	**688**	—
Withholding tax	**25,879**	4,707
Other temporary differences	**(3,627)**	715
Withholding tax on interest income	**—**	798
Withholding tax on dividend income	**19**	—
Land appreciation tax on PRC investment properties	**3,726**	3,055
Special tax credit	**(278)**	(1,689)
Income tax expenses	**63,590**	65,760

The Group's share of taxation of joint ventures and associates for the year ended 31 December 2016 of HK$18,901,000 (2015: HK$22,519,000) and HK$1,007,000 (2015: HK$1,908,000) respectively, is included in the consolidated income statement as share of profits of joint ventures and share of profits of associates.

30 EARNINGS PER SHARE

(a) Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Profit attributable to equity holders of the Company	**HK$237,205,000**	HK$335,763,000
Weighted average number of ordinary shares in issue	**1,532,955,429**	1,532,495,292
Basic earnings per share	**15.47 HK cents**	21.91 HK cents

(b) Diluted earnings per share is calculated based on the weighted average number of ordinary shares in issue after adjusting for the potential dilutive effect of outstanding share options.

	2016	2015
Profit attributable to equity holders of the Company	**HK$237,205,000**	HK$335,763,000
Weighted average number of ordinary shares in issue	**1,532,955,429**	1,532,495,292
Adjustment for assumed issuance of shares on exercise of share options	**—**	7,090,877
Weighted average number of ordinary shares for diluted earnings per share	**1,532,955,429**	1,539,586,169
Diluted earnings per share	**15.47 HK cents**	21.81 HK cents

31 DIVIDENDS

	2016 HK$'000	2015 HK$'000
Interim dividend paid of HK$0.04 (2015: HK$0.07) per ordinary share	**61,318**	107,307
Final dividend proposed of HK$0.055 (2015: HK$0.09) per ordinary share	**84,313**	137,966
Special dividend proposed of HK$0.05 (2015: nil) per ordinary share	**76,648**	—
	222,279	245,273

At the board meeting held on 23rd March 2017, the directors of the Company proposed a final dividend of HK$0.055 and a special dividend of HK$0.05 per ordinary share for the year ended 31st December 2016. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31st December 2016, but will be recognised in shareholders' equity in the year ending 31st December 2017.

32 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to cash generated from operations

	2016 HK$'000	2015 HK$'000
Operating profit	**113,412**	194,708
Amortisation of intangible assets	**1,482**	1,930
Depreciation of property, plant and equipment, net of amount capitalised	**22,502**	16,176
Net (gains)/losses on disposal of property, plant and equipment	**(178)**	129
Amortisation of prepaid premium for land leases	**686**	1,085
Fair value gains on investment properties	**(7,524)**	(4,585)
Fair value losses on financial assets at fair value through profit or loss	**23**	177
Fair value gains on derivative financial instruments	**(1,720)**	—
Provision/(reversal of provision) for impairment of inventories, net	**10,312**	(1,013)
Write-off of inventories	**14**	—
(Reversal of provision)/provision for impairment of trade receivables, net	**(6,702)**	2,189
Write-off of bad debts	**29**	—
Provision/(reversal of provision) for impairment of other receivables, net	**91**	(18,574)
Dividend income	**(2,420)**	(2,604)
Operating profit before working capital changes	**130,007**	189,618
Decrease in inventories	**79,889**	3,994
Decrease in completed properties held for sale	**—**	187
Decrease in trade receivables and other receivables	**270,093**	402,151
Decrease in amounts due from fellow subsidiaries	**14**	3
Decrease in trade payables and other payables	**(48,028)**	(126,739)
Increase in amounts due to fellow subsidiaries	**2,266**	1,909
Decrease in dividend payable to non-controlling interests	**—**	(1,707)
Cash generated from operations	**434,241**	469,416

33 FINANCIAL GUARANTEE CONTRACTS

As at 31st December 2016, the Group had financial guarantees issued in favour of banks as security for general banking facilities granted to an associate and financial guarantee issued in favour of the shareholder of a joint venture as counter guarantee in relation to general banking facilities granted to the joint venture.

Terms and face values of the liabilities guaranteed were as follows:

	Year of maturity	2016 HK$'000	2015 HK$'000
General banking facilities of:			
— a joint venture	2017	–	38,750
— an associate	2017	**205,510**	205,377
Counter guarantee	2017	**22,490**	22,475
		228,000	266,602

As at 31st December 2016, the credit risk and liquidity risk exposure relating to the above financial guarantee contracts are considered as low.

The fair value of these guarantee contracts is not material and has not been recognised in the financial statements.

34 COMMITMENTS

(a) The Group had capital commitments for capital expenditure as follows:

	2016 HK$'000	2015 HK$'000
Contracted but not provided	**1,139**	3,312

(b) The Group's share of capital commitments of a joint venture in respect of fixed assets investment is as follows:

	2016 HK$'000	2015 HK$'000
Contracted but not provided	**361**	11,132

34 COMMITMENTS (Continued)

(c) The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**30,913**	29,845
In the second to fifth years inclusive	**42,816**	18,892
Over five years	**5,738**	1,093
	79,467	49,830

The Group's operating leases were for terms ranging from one to five years.

(d) The aggregate future minimum rental receivables under non-cancellable operating leases are as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**445**	524
In the second to fifth years inclusive	**320**	—
	765	524

The Group's operating leases were for terms ranging from one to two years.

(e) On 28th November 2016, the Company entered into a share purchase agreement with COSCO SHIPPING Financial Holdings Co., Limited and China Merchants Hoi Tung Trading Company Limited in relation to the acquisition of 100% equity interest of CSHT Marine Machinery Suppliers Limited ("CSHT Marine") at a cash consideration of HK$118,400,000. CSHT Marine is principally engaged in trading of marine equipment, spare parts, ship supply and general merchandise. The acquisition was completed and CSHT Marine became a direct wholly-owned subsidiary of the Company on 1st January 2017.

35 MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO SHIPPING (Hong Kong) Co., Limited (formerly known as COSCO (Hong Kong) Group Limited) ("COSCO SHIPPING Hong Kong"), a company incorporated in Hong Kong, which owns 66.12% of the Company's shares as at 31st December 2016. The remaining 33.88% of the Company's shares is widely held. The ultimate holding company of COSCO SHIPPING Hong Kong is COSCO SHIPPING (note 1).

COSCO SHIPPING itself is a state-owned enterprise established and controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24 (Revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include COSCO SHIPPING, its subsidiaries (other than the Group) and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and COSCO SHIPPING as well as their close family members.

For the years 2016 and 2015, the Group's significant transactions with entities that are controlled, jointly controlled or significantly influenced by the PRC government mainly include most of its bank deposits and the corresponding interest income and part of sales and purchases of goods and services. The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed.

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Apart from the above-mentioned transactions with the government-related entities and the related party information shown elsewhere in the financial statements, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year:

(a) Sale of goods and provision of services to fellow subsidiaries, related companies and other related parties

	Note	2016 HK$'000	2015 HK$'000
Sale of coatings to:	(i)		
— fellow subsidiaries		**70,312**	18,451
— related companies		**105,618**	372,143
— non-controlling interests		**1,316**	3,335
Sale of marine equipment and spare parts to:	(ii)		
— fellow subsidiaries		**765,204**	848,128
— related companies		**2,451**	3,713
— holding companies		**882**	—
— joint ventures		**7,538**	3,783
Commission income in relation to the provision of ship trading agency services to:	(iii)		
— fellow subsidiaries		**82,002**	68,992
— a joint venture		**17,105**	17,743
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
— fellow subsidiaries		**59,037**	50,374
— related companies		**1,609**	1,419
— holding companies		**2,353**	164
— a joint venture		**32**	45
Sale of marine fuel to:	(v)		
— fellow subsidiaries		**13,869**	65,108
Sale of ship supplies and other products to:	(vi)		
— fellow subsidiaries		**333**	3,310
— related companies		**—**	144
Interest income from a fellow subsidiary (note 28)	(vii)	**11,083**	15,274

Notes:

(i) Sale of coatings to fellow subsidiaries, related companies and non-controlling interests was conducted on terms as set out in the agreements governing these transactions.

(ii) Sale of marine equipment and spare parts to fellow subsidiaries, related companies, holding companies and joint ventures was conducted on terms as set out in the agreements governing these transactions.

(iii) Certain subsidiaries of the Company acted as agent of the ultimate holding company and its subsidiaries relating to (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new shipbuilding projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above. The commissions were charged based on terms as set out in the agreements governing these transactions.

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to fellow subsidiaries, related companies and other related parties (Continued)

Notes: (Continued)

(iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, related companies, holding companies and a joint venture was calculated on terms as set out in the agreements governing these transactions.

(v) Sale of marine fuel to fellow subsidiaries was conducted on terms as set out in the agreements governing these transactions.

(vi) Sale of ship supplies and other products to fellow subsidiaries and related companies was conducted on terms as set out in the agreements governing these transactions.

(vii) Interest income was received from cash deposits placed with a fellow subsidiary and was calculated at prevailing market rates.

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties

	Note	**2016 HK$'000**	2015 HK$'000
Rental expenses paid to fellow subsidiaries	(i)	**25,853**	25,134
Commission expenses in relation to the sale of coatings paid to:	(ii)		
— fellow subsidiaries		**1,286**	1,318
— related companies		**2,278**	1,012
— non-controlling interests		**316**	8
Commission expenses in relation to the provision of ship trading agency services paid to:	(iii)		
— a joint venture		**2,277**	1,533
— an associate		**518**	85
Commission expenses in relation to the sale of marine equipment paid to a related company	(iv)	**3,431**	2,269
Purchase of marine equipment from a related company	(iv)	**57,191**	35,578
Purchase of raw materials from non-controlling interests	(v)	**1,112**	3,418
Transportation costs paid to fellow subsidiaries	(vi)	**46,993**	51,194
Purchase of marine fuel from:	(vii)		
— fellow subsidiaries		**17,777**	58,692
— an associate		**9,808**	35,072
Technology usage fee paid to non-controlling interests	(viii)	**2,189**	4,052
Management service fees paid to a holding company and fellow subsidiaries	(ix)	**10,063**	15,295
Interest expenses to a fellow subsidiary (note 28)	(x)	**875**	—

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties (Continued)

Notes:

(i) During the year, the Group leased certain office premises in Hong Kong from the wholly-owned subsidiaries of COSCO SHIPPING Hong Kong at an average monthly rent of HK$1,554,000 (2015: HK$1,553,000). The Group also leased other properties in the PRC and other overseas countries from fellow subsidiaries on terms as set out in the agreements governing these transactions.

(ii) Commission paid was based on a certain percentage of sales amounts in accordance with terms as set out in the agreements governing these transactions.

(iii) Commission expenses paid to fellow subsidiaries, a joint venture and an associate were based on terms as set out in the agreements governing these transactions.

(iv) A related company was appointed as agent to provide agency services in relation to the sale of marine equipment in the PRC and to purchase marine equipment from suppliers. Commission paid was based on a certain percentage of sales procured by the related company.

(v) Purchase of raw materials from non-controlling interests was conducted on terms as set out in the agreements governing these transactions.

(vi) Transportation costs paid to fellow subsidiaries was based on terms as set out in the agreements governing these transactions.

(vii) Purchase of marine fuel from fellow subsidiaries, related companies and an associate was conducted on terms as set out in the agreements governing these transactions.

(viii) Technology usage fee paid to non-controlling interests was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(ix) Management service fees were paid to COSCO SHIPPING Hong Kong and fellow subsidiaries in relation to their provision of administrative services, manpower resources, technical support and other ancillary support to the Group and sharing of office premises by the Group and were conducted on terms as set out in the agreements governing these transactions.

(x) Interest expenses were paid to a fellow subsidiary at a fixed interest rate of 3.26% per annum.

(c) On 20th October 2011, the Group executed corporate guarantee of US$2,900,000 (equivalent to approximately HK$22,490,000) in favour of Jotun A/S, the shareholder of Jotun COSCO, as counter guarantee in relation to general banking facilities granted to Jotun COSCO. This guarantee remains effective as at 31st December 2016.

(d) On 30th April 2012, the Group executed corporate guarantees of US$21,500,000 (equivalent to approximately HK$166,734,000) and US$5,000,000 (equivalent to approximately HK$38,776,000) respectively in favour of two banks as security for general banking facilities of US$108,000,000 (equivalent to approximately HK$837,549,000) and US$41,000,000 (equivalent to approximately HK$317,958,000) respectively granted by the banks to Double Rich. These guarantees remain effective as at 31st December 2016.

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Intangible assets		**420**	564
Property, plant and equipment		**2,174**	1,382
Investments in subsidiaries		**1,206,151**	289,618
Investment in a joint venture		**143,688**	143,688
		1,352,433	435,252
Current assets			
Amounts due from subsidiaries		**871,625**	1,041,057
Other receivables		**19,283**	22,590
Current deposits and cash and cash equivalents		**5,260,548**	4,896,873
		6,151,456	5,960,520
Total assets		**7,503,889**	6,395,772
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**153,296**	153,296
Other reserves	Note (a)	**843,241**	843,241
Retained earnings	Note (a)	**6,325,681**	4,696,104
Total equity		**7,322,218**	5,692,641
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**151,905**	676,327
Other payables		**29,766**	26,804
Total liabilities		**181,671**	703,131
Total equity and liabilities		**7,503,889**	6,395,772

The statement of financial position of the Company was approved by the Borad of Directors on 23rd March 2017 and was signed on its behalf.

Liu Gang
Director

Liu Xianghao
Director

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note (a): Reserve movement of the Company

	Other reserves HK$'000	Retained earnings HK$'000
At 1 January 2015	887,038	4,809,114
Issue of shares upon exercise of share options	1,276	—
Profit for the year	—	102,519
Dividends paid	—	(260,602)
Transfer from employee share-based compensation reserve to retained profits upon the lapse and cancellation of share options	(45,073)	45,073
At 31 December 2015	843,241	4,696,104
At 1 January 2016	**843,241**	**4,696,104**
Profit for the year	**—**	**1,828,861**
Dividends paid	**—**	**(199,284)**
At 31 December 2016	**843,241**	**6,325,681**

37 EVENT AFTER THE BALANCE SHEET DATE

As disclosed in Note 34(e), the Company entered into a share purchase agreement to acquire the entire issued share capital of CSHT Marine. CSHT Marine is principally engaged in trading of marine equipment, spare parts, ship supply and general merchandise.

Upon completion of all condition precedents set out in the share purchase agreement, the acquisition was completed on 1st January 2017 and CSHT Marine has then become a wholly-owned subsidiary of the Company. A cash consideration of HK$118,400,000 was fully paid for in January 2017. Up to the date of this report, the Company is still in the process of finalising the valuation of the assets acquired and liabilities assumed as well as the completion account as at the acquisition date, and has not concluded on the financial impact of this business combination.

38 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2016 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2016	2015
Capital Properties Limited#	Hong Kong, limited liability company	HK$2 ordinary share capital	Provision of nominee services	**100%**	100%
COSCO (Hong Kong) Insurance Brokers Limited#	Hong Kong, limited liability company	HK$5,000,000 ordinary share capital	Provision of insurance brokerages and related services	**100%**	100%
COSCO International Ship Trading and Supplying Services Limited#	Hong Kong, limited liability company	HK$2 ordinary share capital	Investment holding	**100%**	100%
COSCO SHIPPING (Hong Kong) Ship Trading Company Limited# (formerly known as COSCO International Ship Trading Company Limited)	Hong Kong, limited liability company	HK$500,000 ordinary share capital	Provision of agency services in ship trading business	**100%**	100%
New Legend Holdings Limited#	Hong Kong, limited liability company	HK$1 ordinary share capital	Investment holding	**100%**	100%
Yuantong Marine Service Co. Limited#	Hong Kong, limited liability company	HK$208,352,000 ordinary share capital	Trading of marine equipment and spare parts	**100%**	100%
COSCO (B.V.I.) Holdings Limited# (dissolved on 31st October 2016)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**–**	100%
COSCO International Land (B.V.I.) Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
Fragrant Sea Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
Graceful Nice Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
Hugo Marine Limited# (dissolved on 9th December 2016)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**–**	100%
Leadfull Investments Limited# (dissolved on 28th September 2016)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**–**	100%
New Renown Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
Promise Keep Limited# (dissolved on 26th September 2016)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**–**	100%
Raycle Match Development Ltd.#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
Uppermost Corporation# (dissolved on 31st October 2016)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**–**	100%
Winner Pacific Investment Ltd.#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	**100%**	100%
COSCO (Beijing) Marine Electronic Equipment Limited	PRC, wholly foreign-owned enterprise	RMB680,000	Trading of marine equipment and spare parts	**100%**	100%
COSCO SHIPPING International Trading Company Limited (formerly known as COSCO International Trading Company Limited)	PRC, wholly foreign-owned enterprise	RMB130,633,044	Trading of asphalt, ship equipment and accessories	**100%**	100%
COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$7,000,000	Production and sale of coatings	**63.07%**	63.07%

NOTES TO THE FINANCIAL STATEMENTS

38 PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2016	2015
COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd.#	PRC, Sino-foreign equity joint venture enterprise	US$5,000,000	Production and sale of coatings	**63.07%**	63.07%
COSCO Kansai Paint & Chemicals (Zhuhai) Co., Ltd.#	PRC, wholly foreign-owned enterprise	US$10,000,000	Production and sale of coatings	**64.71%**	64.71%
COSCO Kansai Paint (Shanghai) Co., Ltd.#	PRC, wholly foreign-owned enterprise	US$25,600,000	Production and sale of coatings	**63.07%**	63.07%
COSCOSHIP Beijing Company Limited	PRC, wholly foreign-owned enterprise	US$1,300,000	Provision of agency services in ship trading business	**100%**	100%
Shenzhen COSCO Insurance Brokers Limited	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	Provision of professional services of insurance brokerages	**55%**	55%
Yuantong Marine Trade (Shanghai) Co., Ltd.	PRC, wholly foreign-owned enterprise	US$500,000	Trading of marine equipment and spare parts	**100%**	100%
Sinfeng Marine Services Pte. Ltd.	Singapore, limited liability company	7,000,000 ordinary shares of US$1 each	Trading of marine fuel and other related products	**100%**	100%
Xing Yuan (Singapore) Pte. Ltd.	Singapore, limited liability company	100,000 ordinary shares of S$1 each	Trading of marine equipment and spare parts	**100%**	100%
Shin Chung Lin Corporation	Japan, limited liability company	600 ordinary shares of JPY50,000 each	Trading of marine equipment and spare parts	**100%**	100%
Hanyuan Technical Service Center GmbH	Germany, limited liability company	EUR102,259	Trading of marine equipment and spare parts	**100%**	100%
Yuan Hua Technical & Supply Corporation	United States of America, limited liability company	US$400,000	Material and spare parts supply and service support for vessels	**51%**	51%

shares held directly by the Company

39 JOINT VENTURES AND ASSOCIATES

Particulars of joint ventures and associates of the Group as at 31st December 2016 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2016	2015
(a) Joint ventures					
Jotun COSCO Marine Coatings (HK) Limited	Hong Kong/PRC, limited liability company	HK$2,400 ordinary share capital	Investment holding and sale of coatings	**50%**	50%
Cosbulk International Trading Co. Ltd. (Tianjin)	PRC, Sino-foreign equity joint venture enterprise	RMB1,500,000	Vessel and equipment trade consultant	**49%**	49%
COSCO Dalian Ocean Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB600,000	Provision of marine electronic engineering services	**40%**	40%
Shanghai Ocean Radio Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$250,000	Trading of marine equipment and provision of repair and maintenance	**25%**	25%
Tianjin Marine Electronic Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$200,000	Provision of marine electronic engineering services	**25%**	25%
(b) Associates					
COSCO Guangzhou Shipstores Supply Co., Ltd.	PRC, limited liability company	RMB30,442,100	Supply and storage of related materials of cargo transportation	**20%**	20%
Coscoship (Qingdao) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	RMB3,000,000	Vessel engineering and technical support	**20%**	20%
German Lashing (Nanjing) Co., Ltd.	PRC, Sino-foreign equity joint venture enterprise	US$663,000	Manufacture, sale and provision of after-sale service of container software and related products	**20%**	20%
Shanghai Ocean Diamond Co. Ltd.	PRC, limited liability company	RMB1,000,000	International and domestic trade	**50%**	50%
Double Rich Limited	Hong Kong, limited liability company	HK$88,000,000 ordinary share capital	Trading of oil products and investment holding	**18%**	18%

LIST OF MAJOR PROPERTIES

As at 31st December 2016

	Description	Existing use	Approximate area	Lease term	% of interest attributable to the Group
Properties held for own use					
(1)	No. 42, Diwu Main Street, Economic Technology Development Zone, Tianjin, the PRC	Industrial	Site area 28,572.32 sq.m.	From 1st January 2012 to 31st December 2017	63.07
(2)	Economic Zone, Gaolan Port, Zhuhai, the PRC	Industrial	Site area 67,881.68 sq.m.	From 18th April 2006 to 17th April 2056	64.71
(3)	No. 2, Industry Park, Jinshan District, Shanghai, the PRC	Industrial	Site area 61,097.30 sq.m.	From 5th July 2013 to 4th July 2063	63.07
(4)	207 Henderson Road, #01–03/#03-03 Henderson Industrial Park, Singapore 159550	Commercial	Saleable area 782 sq.m.	Freehold	100
(5)	No. 9 Basement 1, No. 188 Tongzhou Road, Shanghai, the PRC	Carparking	1 car parking space	From 28th June 1998 to 27th June 2068	100
(6)	Room 201, No. 8 Building, No. 188 Tongzhou Road, Shanghai, the PRC	Residential	Gross floor area 228.29 sq.m.	From 28th June 1998 to 27th June 2068	100
Property held for investment					
(1)	19th Floor, Nan Dao Commercial Building, 359–361 Queen's Road Central, Hong Kong	Commercial	Gross floor area 320.51 sq.m.	999 years from 7th February 1852	100

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**7,430,297**	5,999,646	7,588,213	9,308,434	10,005,705
Operating profit	**113,412**	194,708	245,846	219,069	298,763
Finance income — net	**86,546**	111,368	140,013	89,999	123,948
Share of profits of joint ventures	**89,930**	110,171	65,218	9,549	37,996
Share of profits of associates	**10,202**	11,577	17,016	13,028	13,126
Profit before income tax	**300,090**	427,824	468,093	331,645	473,833
Income tax expenses	**(63,590)**	(65,760)	(73,331)	(58,547)	(70,926)
Profit for the year	**236,500**	362,064	394,762	273,098	402,907
Profit/(loss) attributable to:					
Equity holders of the Company	**237,205**	335,763	358,970	241,610	363,006
Non-controlling interests	**(705)**	26,301	35,792	31,488	39,901
	236,500	362,064	394,762	273,098	402,907

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets					
Intangible assets	**101,951**	103,185	105,478	103,127	97,071
Property, plant and equipment	**343,912**	392,516	262,181	145,892	156,718
Prepaid premium for land leases	**30,138**	32,876	35,100	36,315	7,064
Investment properties	**56,954**	49,416	44,847	41,924	38,447
Investments in joint ventures	**417,617**	525,343	493,107	432,465	416,886
Investments in associates	**117,564**	107,615	82,520	91,969	79,015
Available-for-sale financial assets	**63,091**	58,754	70,524	49,048	59,373
Deferred income tax assets	**53,724**	49,245	69,445	65,520	62,044
Non-current deposits	**11,179**	35,805	25,348	38,153	61,654
	1,196,130	1,354,755	1,188,550	1,004,413	978,272
Current assets	**8,192,014**	8,112,560	8,476,784	8,445,550	8,639,116
Total assets	**9,388,144**	9,467,315	9,665,334	9,449,963	9,617,388
CAPITAL AND RESERVES					
Share capital	**153,296**	153,296	153,181	151,378	151,363
Reserves	**7,548,865**	7,575,859	7,585,856	7,323,790	7,182,758
Total shareholders' equity	**7,702,161**	7,729,155	7,739,037	7,475,168	7,334,121
Non-controlling interests	**343,580**	370,469	369,451	313,925	246,023
Total equity	**8,045,741**	8,099,624	8,108,488	7,789,093	7,580,144
LIABILITIES					
Non-current liability					
Deferred income tax liabilities	**69,349**	44,655	39,027	32,497	26,689
Current liabilities					
Short-term borrowings	**67,076**	36,062	26,061	59,786	46,205
Other current liabilities	**1,205,978**	1,286,974	1,491,758	1,568,587	1,964,350
	1,273,054	1,323,036	1,517,819	1,628,373	2,010,555
Total liabilities	**1,342,403**	1,367,691	1,556,846	1,660,870	2,037,244
Total equity and liabilities	**9,388,144**	9,467,315	9,665,334	9,449,963	9,617,388

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