中遠海運國際(香港)有限公司

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

Stock Code : 00517

United We Stand Together We Win

ANNUAL REPORT 2017

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.

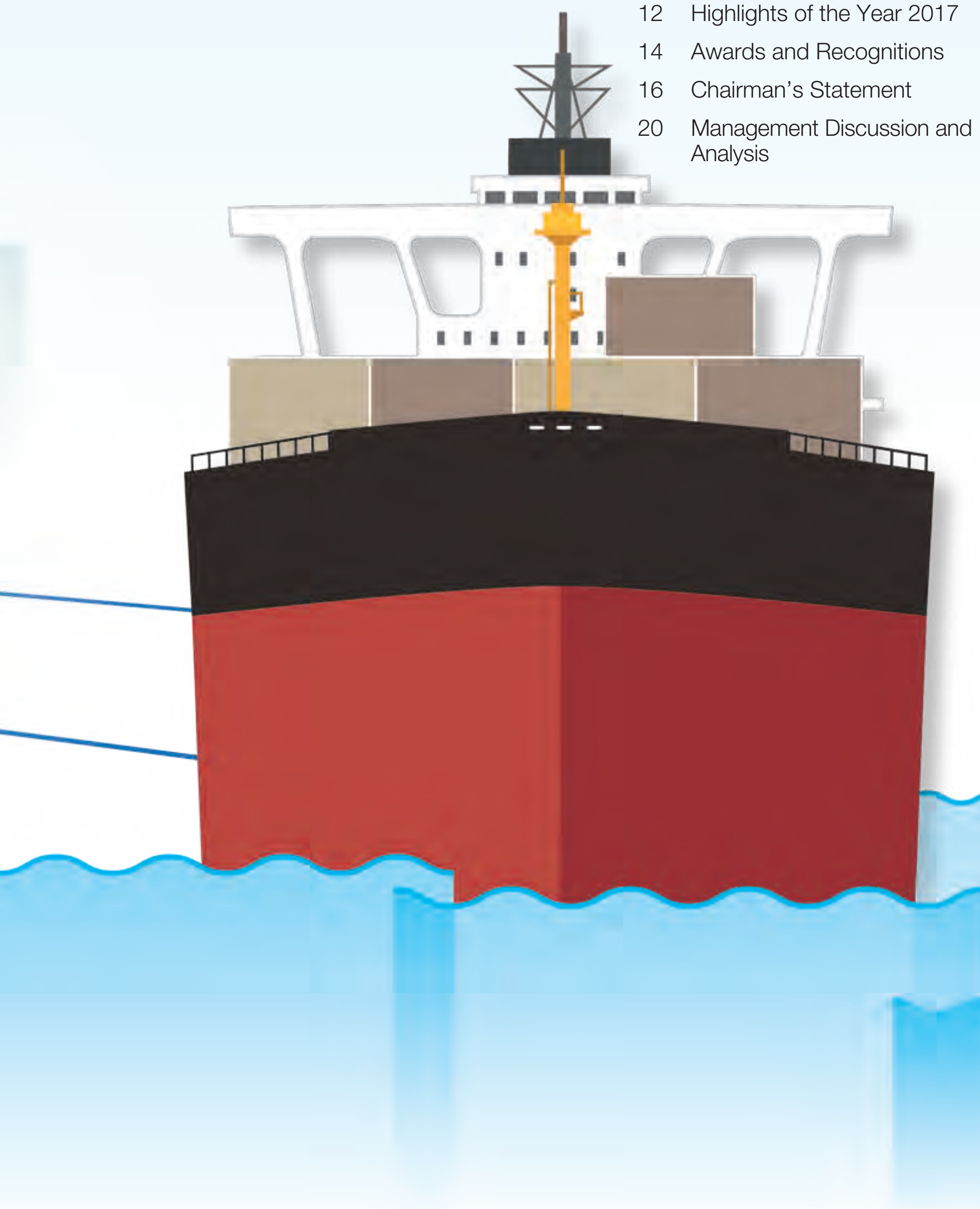
Vision

COSCO SHIPPING International aims to build world-class, the leading shipping services industrial cluster in China and a non-financial business investment platform that meets the investment needs of COSCO SHIPPING Group in strategic and major development areas, with the goal of "larger scale, stronger profitability, superior anti-cyclical capability and globalisation", through well-established businesses in Hong Kong, to set foothold on the Bay Area, and develop globally.

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 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;
"connected person(s)"	the meaning ascribed to it in the Listing Rules;
"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 SHIPPING Insurance Brokers"	HK COSCO SHIPPING 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, 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 International" or "Company"	COSCO SHIPPING International (Hong Kong) Co., Ltd., the shares of which are listed on the Stock Exchange;
"COSCO SHIPPING International Trading"	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*), a wholly-owned subsidiary of the Company;
"COSCO SHIPPING Ship Trading"	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited and 中遠國際船舶貿易(北京)有限公司 (COSCOSHIP Beijing Company Limited*), wholly-owned subsidiaries of the Company;
"COSCO Yuantong Operation Headquarters"	composed of Yuantong and other subsidiaries of the Company (including Shin Chung Lin, Xing Yuan, Hanyuan, Shanghai Yuantong, COSCO (Beijing) Marine Electronic, Yuan Hua and CSHT Marine);
"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 SHIPPING Insurance Brokers"	COSCO SHIPPING (Hong Kong) Insurance Brokers Limited (formerly known as 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. Wang Yuhang *(Chairman)*
Mr. Zhu Jianhui *(Vice Chairman and Managing Director)*
Mr. Liu Gang

Non-executive Directors

Mr. Feng Boming
Mr. Chen Dong
Mr. Ren Yongqiang

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. Zhu Jianhui

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. Zhu Jianhui *(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. Feng Boming

RISK MANAGEMENT COMMITTEE

Mr. Zhu Jianhui *(committee chairman)*
Mr. Liu Gang
Mr. Chen Dong

INDEPENDENT AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

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

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
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

2017 Annual General Meeting	: 29th May 2017
Announcement of 2017 Interim Results	: 28th August 2017
Announcement of 2017 Annual Results	: 23rd March 2018
2018 Annual General Meeting	: 30th May 2018

DIVIDENDS

2017 Interim Dividend	: 6 HK cents per share
Proposed 2017 Final Dividend	: 12 HK cents per share
Dividends for the year 2017	: 18 HK cents per share

Corporate Structure

SHIPPING SERVICES:

Ship Trading Agency Services	COSCO SHIPPING (Hong Kong) Ship Trading Company Limited 100%
Marine Insurance Brokerage Services	COSCO SHIPPING (Hong Kong) Insurance Brokers Limited (formerly known as 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%

GENERAL TRADING:

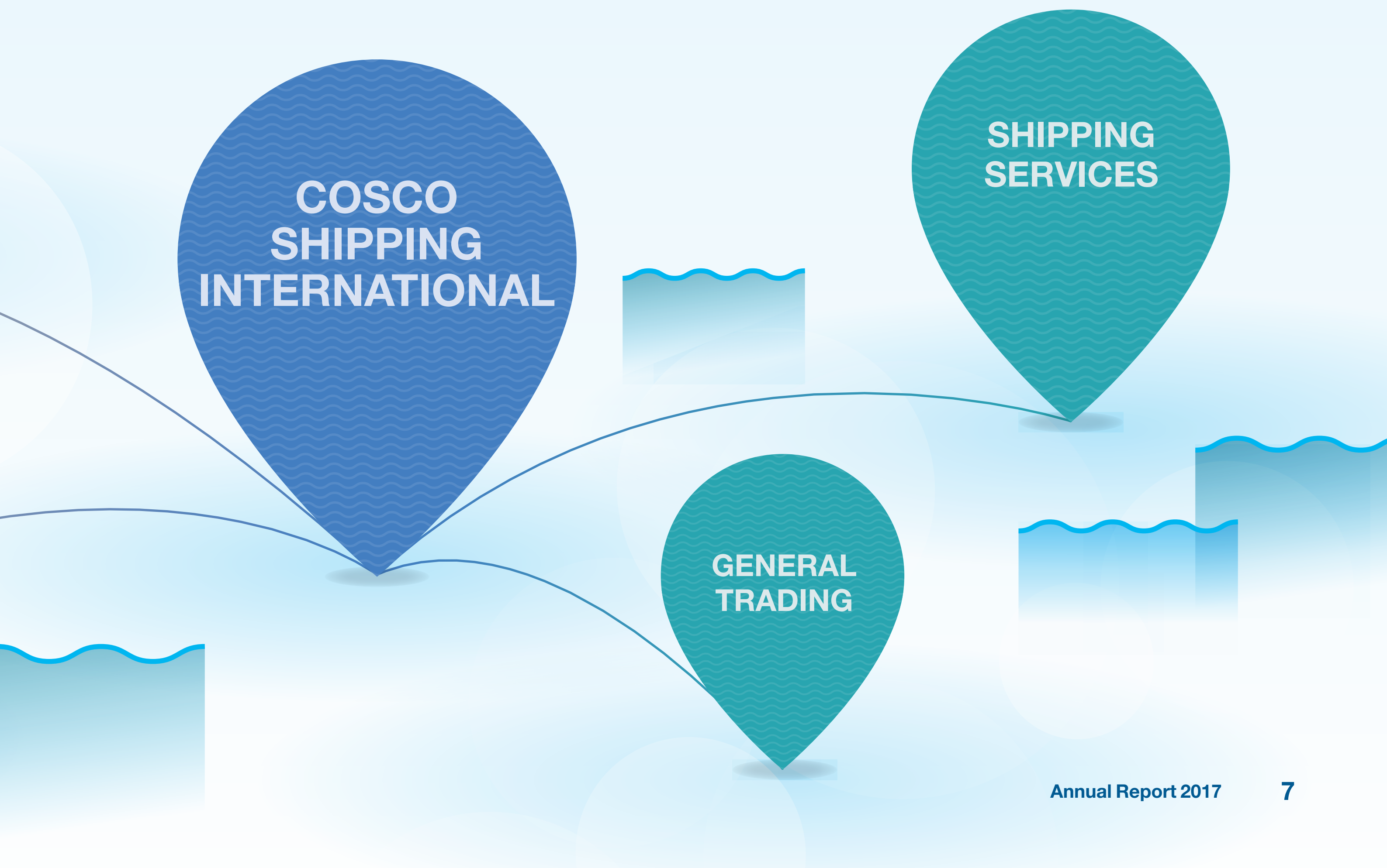
General Trading	中遠海運國際貿易有限公司 (COSCO SHIPPING International Trading Company Limited*) 100%

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

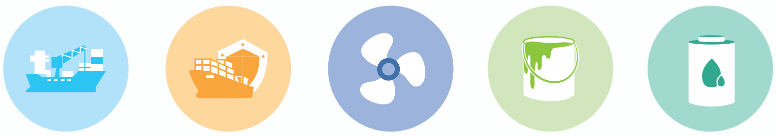
Note 2
COSCO SHIPPING International is a subsidiary of COSCO SHIPPING (Hong Kong).

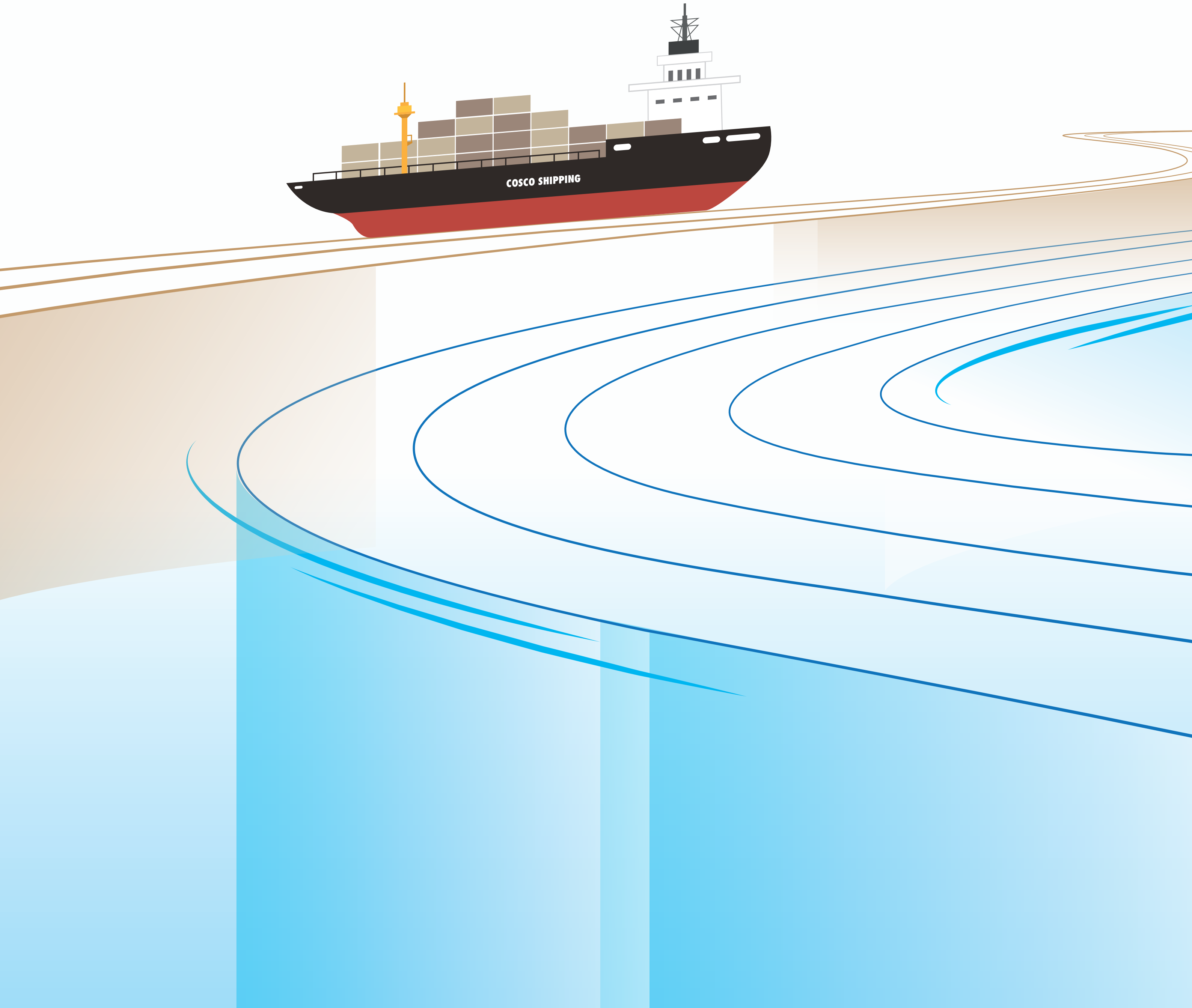
Note 3
To the best of the knowledge and belief of the Directors, COSCO SHIPPING (Hong Kong) held 66.12% issued share capital of the Company as at 31st December 2017.

* *for identification purposes only*



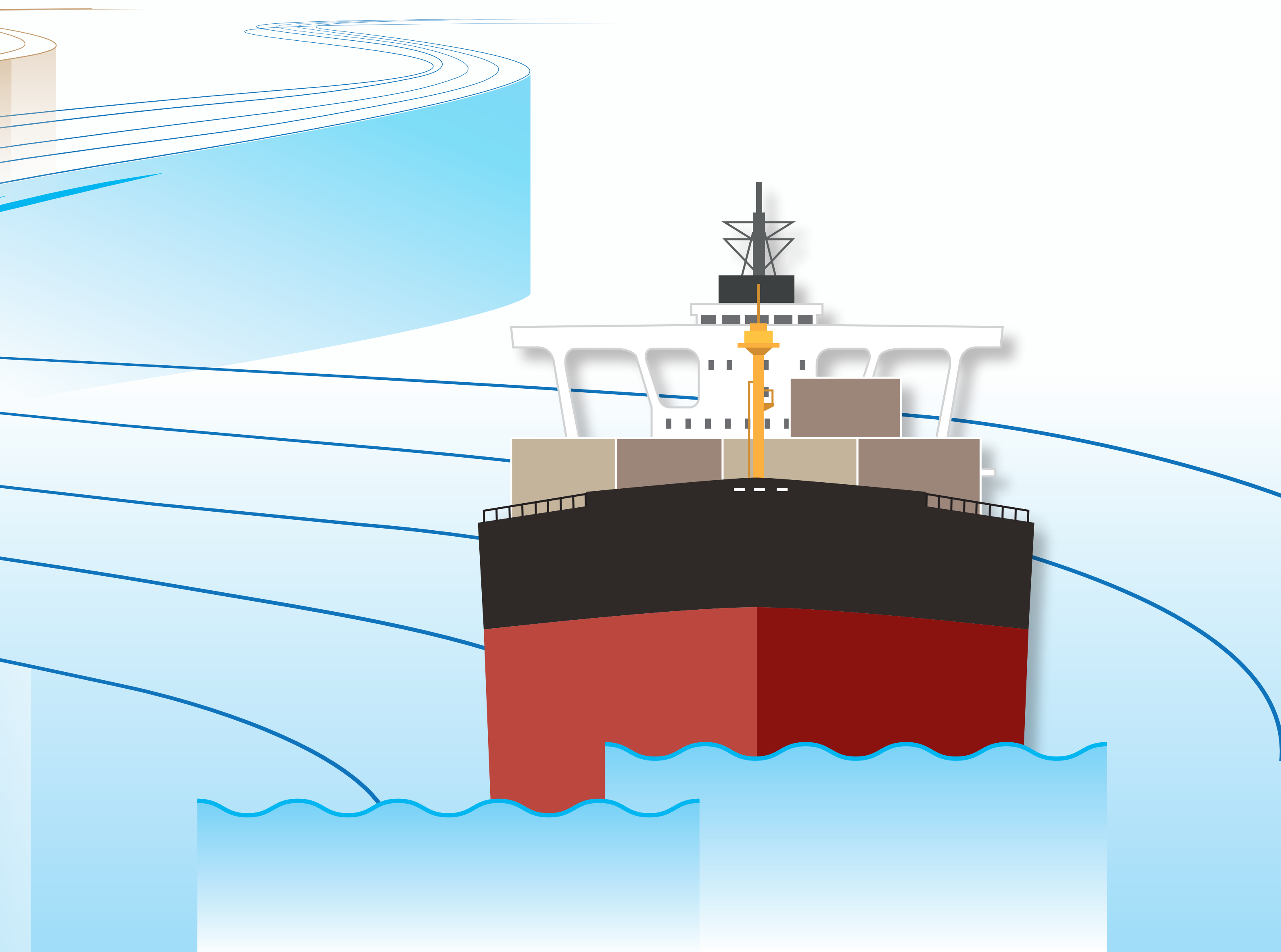
Maximise Our Strength
For Sustainable Development





INHERITANCE AND EXPANSION

Based on existing businesses, we endeavor to highlight the entirety of shipping services industrial cluster, exert the synergistic effect among businesses, and extend the existing industry chain with the comprehensive solutions throughout the process on the basis of the full life-cycle of ships, so as to continuously achieve profit growth of the Group.



Financial Highlights

	2017 HK$'000	2016 HK$'000	Change
ANNUAL RESULTS HIGHLIGHTS			
For the year ended 31st December			
Revenue	**8,786,094**	7,430,297	+18%
Gross profit	**627,083**	544,246	+15%
Operating profit	**218,792**	113,412	+93%
Profit before income tax	**415,562**	300,090	+38%
Profit attributable to equity holders	**356,627**	237,205	+50%
Basic earnings per share (HK cents)	**23.26**	15.47	+50%
Dividends per share (HK cents)	**18.00**	14.50	+24%
Dividend payout ratio* (%)	**77**	61	+16pts

	2017 HK$'000	2016 HK$'000	Change
BALANCE SHEET HIGHLIGHTS			
As at 31st December			
Total assets	**9,610,700**	9,388,144	+2%
Total liabilities	**1,397,100**	1,342,403	+4%
Net assets attributable to shareholders	**7,914,129**	7,702,161	+3%
Net cash	**6,486,970**	6,654,941	–3%
Net assets per share (HK$)	**5.16**	5.02	+3%
Net cash per share (HK$)	**4.23**	4.34	–3%
Return on total assets (%)	**3.75**	2.52	+1.23pts
Return on shareholders' equity (%)	**4.57**	3.07	+1.50pts

	2017	2016
KEY FINANCIAL RATIOS		
For the year ended 31st December		
Gross profit margin	**7.1%**	7.3%
Interest coverage	**85.7 times**	69.9 times
Current ratio	**6.4 times**	6.4 times
Liquidity ratio	**6.0 times**	6.2 times
Total liabilities/total assets	**14.5%**	14.3%
Total borrowings/total assets	**–**	0.7%

* excluding special dividend

	2017 HK$'000	2016 HK$'000	Change
SEGMENT REVENUE*			
For the year ended 31st December			
Shipping Services			
Coatings	888,766	637,033	+40%
Marine equipment and spare parts	1,199,307	1,064,999	+13%
Ship trading agency	136,541	98,921	+38%
Insurance brokerage	95,803	94,411	+1%
Marine fuel and other products	5,815,463	4,766,546	+22%
	8,135,880	6,661,910	+22%
General Trading	650,214	768,387	–15%
Total	8,786,094	7,430,297	+18%

* external customers only

	2017 HK$'000	2016 HK$'000	Change
SEGMENT PROFIT BEFORE INCOME TAX			
For the year ended 31st December			
Shipping Services			
Coatings	74,925	72,635	+3%
Marine equipment and spare parts	56,570	51,808	+9%
Ship trading agency	95,244	69,632	+37%
Insurance brokerage	68,536	69,112	–1%
Marine fuel and other products	15,751	12,048	+31%
	311,026	275,235	+13%
General Trading	3,177	4,530	–30%
Corporate and others	101,359	20,325	+399%
Total	415,562	300,090	+38%

Highlights of the Year 2017

JANUARY

1st

CSHT Marine became a wholly-owned subsidiary of COSCO SHIPPING International.

MARCH

23rd

A press conference and an analyst meeting for 2016 annual results were held in Hong Kong.

MAY

29th

2017 Annual General Meeting of the Company was held in Hong Kong.

AUGUST

28th

A press conference and an analyst meeting for 2017 interim results were held in Hong Kong.

Awards and Recognitions

1

2

4

3

1 The Company's website won Silver Award in the category of "Investor/Shareholder Relations: Asia Pacific" and Bronze Award in the category of "Redesign/Relaunch: Stakeholder Communications" in the 17th International iNOVA Awards Competition.

2 Annual Report 2016 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 2017 Best Annual Reports Awards.

3 COSCO Kansai Companies were awarded the 2016 Anti-Corrosion Coating Brand by HC Coating Network.

4 Annual Report 2016 won Honor Award in the category of "Annual Reports — Print: Shipping Services" of the 28th Annual International Galaxy Awards.

5 Annual Report 2016 won Gold Award in the "Chairman's Letter: Shipping Services", Gold Award in the "Financial Data: Shipping Services", Silver Award in the "Cover Photo/Design: Shipping Services" and Silver Award in the "Interior Design: Shipping Services" in the 31st International ARC Awards Competition.

6 Awarded "10 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 ten consecutive years.

7 Awarded the 8th Hong Kong Outstanding Corporate Citizenship Logos in the "Enterprise Category" and the "Volunteer Category" by Hong Kong Productivity Council.

8 Honored with the "Commendation on Website Corporate Governance Information" in the Best Corporate Governance Awards 2017 by the Hong Kong Institute of Certified Public Accountants.

9 Honored with Gold Award (Corporate Governance, Social Responsibility and Investor Relations) in the Asset Corporate Awards 2017 by the Asset magazine.

Chairman's Statement

In 2017, buoyed by recovery in investment and steady world trade growth, the global economy has turned brightly on a gradual pace. Under this circumstance and the combined effect of cyclical and structural factors, international shipping market has stepped into a rising trend. Benefiting from such positive changes in shipping market, the Group's businesses maintained consistent and steady development.

Mr. Wang Yuhang
Chairman

During the year, the Group's total revenue amounted to HK$8,786,094,000. Profit attributable to equity holders of the Company was HK$356,627,000, representing an increase of 50% as compared to 2016. Basic earnings per share was 23.26 HK cents. In order to give better returns to our shareholders for their support over the past years, the Board has recommended a final dividend of 12 HK cents per share for the year 2017. Together with the interim dividend of 6 HK cents per share, the total dividends per share are 18 HK cents.

CORPORATE OPERATION

In 2017, the Group continued to pursue its strategic development direction of "shipping services industrial cluster and non-financial business investment platform". In terms of developing shipping services industrial cluster, the Company accelerated its pace to integrate various resources externally. At the beginning of January 2017, the acquisition of CSHT Marine was completed which further consolidated the scale of our marine equipment and spare parts supply business, and also enhanced our competitiveness through synergy created by such economies of scale and cost reduction. Internally, we focused on the entirety of shipping services industrial cluster. While promoting core competence and expanding scope of existing businesses, we endeavored to exert the synergistic effect among businesses, and extended the existing industry chain with the comprehensive solutions throughout the process on the basis of the full life-cycle of ships, so as to continuously achieve profit growth of the Group. Objectively speaking, the establishment of shipping services industrial cluster has achieved an initial success. In terms of the non-financial business investment platform, we have been still laying the foundation without direct benefits yet. However, I believe that such comprehensive platform will become another significant profits driver of the Group in the future.

The Company had actively negotiated with banks to strive for a higher deposit interest for the liquid funds on hand. Return rate on cash for the year was 1.9%, representing 20 basis points above 3-month US Dollar London Interbank Offered Rate at the end of 2017. Meanwhile, each of the operating unit strictly controlled its operating costs and reduced controllable expenses, contributing to a limited increase of 12% in the selling, administrative and general expenses in 2017 as compared to 2016, which was 6 percentage points lower than the increase of 18% of total revenue. In respect of receivables collection, the Group reinforced its receivables management with various measures and successfully collected certain overdue receivables. At the end of 2017, the balance of outstanding trade receivables only increased by 3% as compared to that at the end of 2016, which was substantially lower than the 18% increase of total revenue.

SUSTAINABLE DEVELOPMENT

The Group maintained good HSE (employee occupational health, safety and environment) corporate culture and comprehensively regulated the HSE management work of each subsidiary, thus ensuring safe and stable production on the whole and achieving the goal of "zero accident, zero injury and zero pollution".

The Group has committed to pushing forward the green shipping. We actively provided environment-friendly coating products. We supplied water-based container coatings, actively promoted high performance anti-fouling coatings as industrial coatings, proactively promoted the Hull Performance Solutions for marine coatings and successfully conducted testing on high solid epoxy coatings, leading the industry in pursuit of green and environment-friendly development.

The Group proactively fulfilled its obligations as a corporate citizen and showed concern for the well-being of the community where it operates. During the year, the Company appropriated a special fund according to the established charitable donation policy for diversified charitable activities, such as sponsoring and supporting education and environmental conservation projects, and helping the underprivileged groups. In 2017, the Group participated in the community volunteer services in Hong Kong for 388 hours, recording a historical high. COSCO SHIPPING International's charitable activities won recognition among all circles of the society and obtained several awards such as the Corporate Citizenship Logos (one for Enterprise Category and the other for Volunteer Team Category) in the 8th Hong Kong Corporate Citizenship Award Scheme by the Hong Kong Productivity Councils and the "10 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service, commending the Company's contributions and commitment in caring for its employees, the environment and the community.

OUTLOOK AND PROSPECTS

Looking forward to 2018, the global economy and world trade is likely to have stable growth. However, tightened monetary policies of various economic entities, increased expectation in global inflation, geopolitical tensions and intensified trade protectionism will pose uncertainties to the growth of global economy. It is expected that the steady growth in global economy and trade will provide solid support and momentum for demand recovery in shipping market. With the gradually obvious structural industrial integration and accelerated development of rational market competition, it is reasonable to believe that seaborne trade will have healthy development. However, the imbalance of supply and demand in the shipping market will still be the sword of Damocles hanging over the shipping market. The demand for modern ships and professional ship operation will provide new business space for shipping services enterprises, but also constitute a tough and advanced challenge. Generally speaking, the shipping services industry will maintain its unique stability in 2018.

In 2018, COSCO SHIPPING International will accelerate the development of shipping services industrial cluster and non-financial business investment platform. As for the establishment of shipping services industrial cluster, the Company still strives to become a world class and the leading shipping services company in China. The Company will actively adhere to the development strategy of COSCO SHIPPING Group by striving for the consolidation and restructuring of shipping services assets under COSCO SHIPPING Group and seek external acquisition opportunities for shipping services business. Meanwhile, the Company will review its business structure and search for appropriate opportunities for adjustment, in order to strengthen the synergy effect, expand the scope of shipping services business, extend and improve the industrial chain of shipping services and gradually build up the core competitiveness of shipping services industrial cluster. To confront with the contracting traditional business, we will shift our mindsets to integrate new technology into the existing business sector, actively look for and extend to new business areas with high added-value, so as to fully enhance the basis for earnings of each business unit.

For the non-financial business investment platform, the Company will consciously integrate its transformation and upgrading, and structural adjustment into the national strategies of "One Belt and One Road" and "Guangdong-Hong Kong-Macao Bay Area", proactively participate in the investment of COSCO SHIPPING Group's strategic and key development areas, and strive to look for equity investment in strategic emerging industries, with the aim of contributing to strategic development of COSCO SHIPPING Group, bringing actual benefits to the investors as soon as possible so as to achieve the leapfrog development.

In 2018, thanks to the support of all investors, the Company was selected as a constituent of Hang Seng Composite Index Series and Hang Seng Stock Connect Hong Kong Index Series. Taking this as a new starting point, the Company will further establish an efficient and transparent operational system, keep Shareholders fully informed, balance the interests of all investors, enhance communications with investors and actively collect opinions and advices from investors, thereby enabling the corporate value to be reasonably reflected in the capital market, and finally maximising our corporate value and the shareholder's return.

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 development prospects 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.

Wang Yuhang
Chairman

Hong Kong, 23rd March 2018

OVERALL ANALYSIS OF RESULTS

In 2017, the international shipping market rebounded, the Group capitalised its advantages in terms of professionalism and scale and proactively stepped up its marketing effort. In 2017, profit attributable to equity holders of the Company was HK$356,627,000 (2016: HK$237,205,000), representing an increase of 50% as compared to 2016. The basic earnings per share was 23.26 HK cents (2016: 15.47 HK cents), representing an increase of 50% as compared to 2016.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2017 increased by 18% to HK$8,786,094,000 (2016: HK$7,430,297,000) as compared to 2016. Revenue from the core business of shipping services increased by 22% to HK$8,135,880,000 (2016: HK$6,661,910,000) and accounted for 93% (2016: 90%) of the Group's revenue. Segment revenues of coatings, marine equipment and spare parts, ship trading agency and marine fuel and other products increased by 40%, 13%, 38% and 22% respectively as compared to 2016. Revenue from general trading segment decreased by 15% to HK$650,214,000 (2016: HK$768,387,000) and accounted for 7% (2016: 10%) of the Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year increased by 15% to HK$627,083,000 (2016: HK$544,246,000) while overall average gross profit margin dropped to 7.1% (2016: 7.3%). The increase in overall gross profit was mainly attributable to increase in income from ship trading agency, coatings and marine equipment and spare parts businesses.

Other Income and Gains — net

The Group recorded net other income and gains of HK$94,134,000 (2016: HK$16,600,000), which primarily included: (i) net gains on disposal of property, plant and equipment of HK$15,516,000 (2016: HK$178,000); (ii) net exchange gains of HK$56,777,000 (2016: net exchange losses of HK$7,434,000); (iii) fair value gains on investment properties of HK$8,293,000 (2016: HK$7,524,000); and (iv) government subsidy income of HK$11,531,000 (2016: HK$Nil) recognised in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy represented 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 2017, selling, administrative and general expenses increased by 12% to HK$502,425,000 (2016: HK$447,434,000). The increase in selling expenses was mainly attributable to the significant increase in the sales volume of coatings as compared to 2016.

Shipping Services
Industrial Cluster

Ship Trading Agency Services

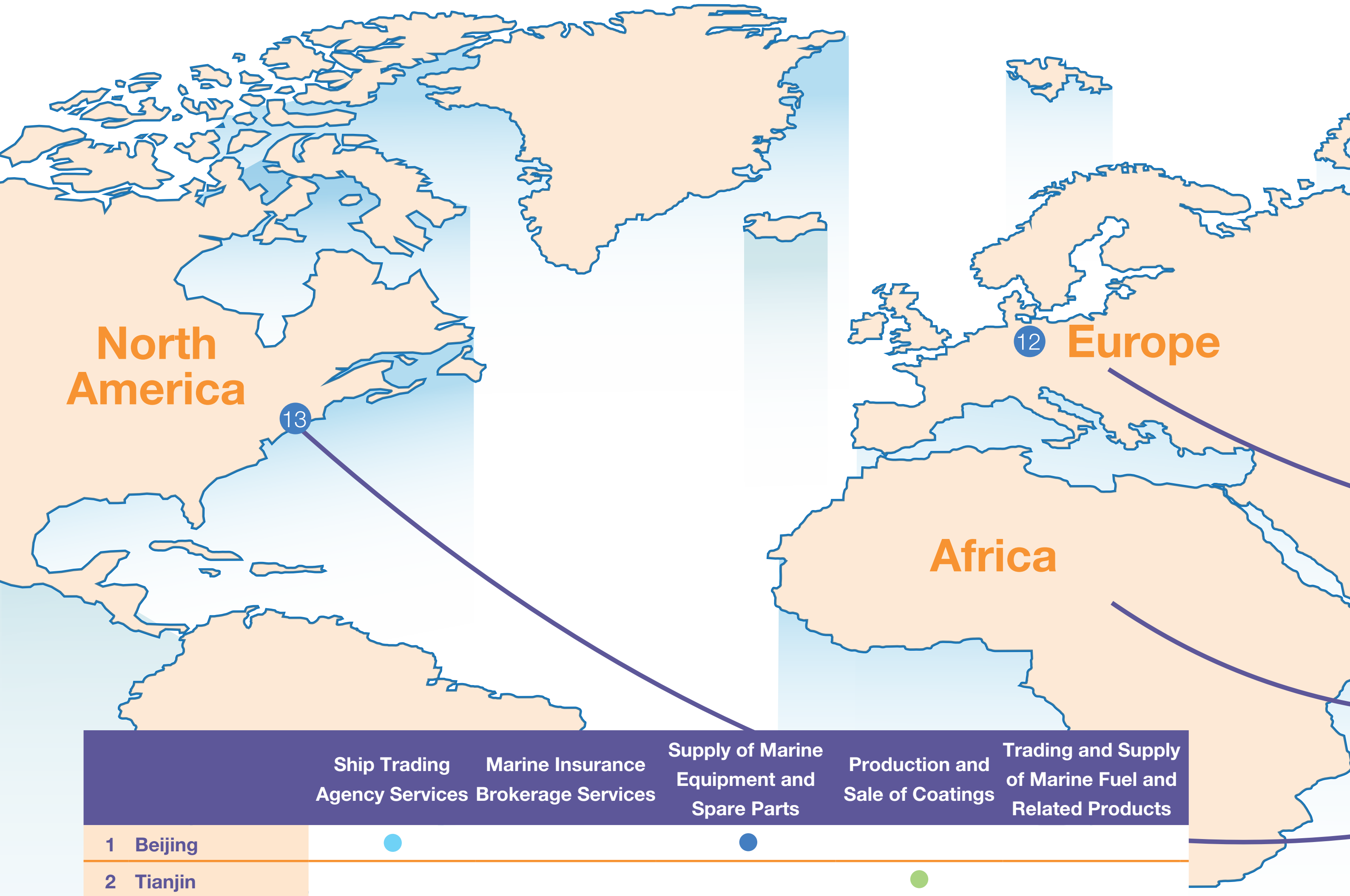
Production And Sale Of Coatings

Marine Insurance Brokerage Services

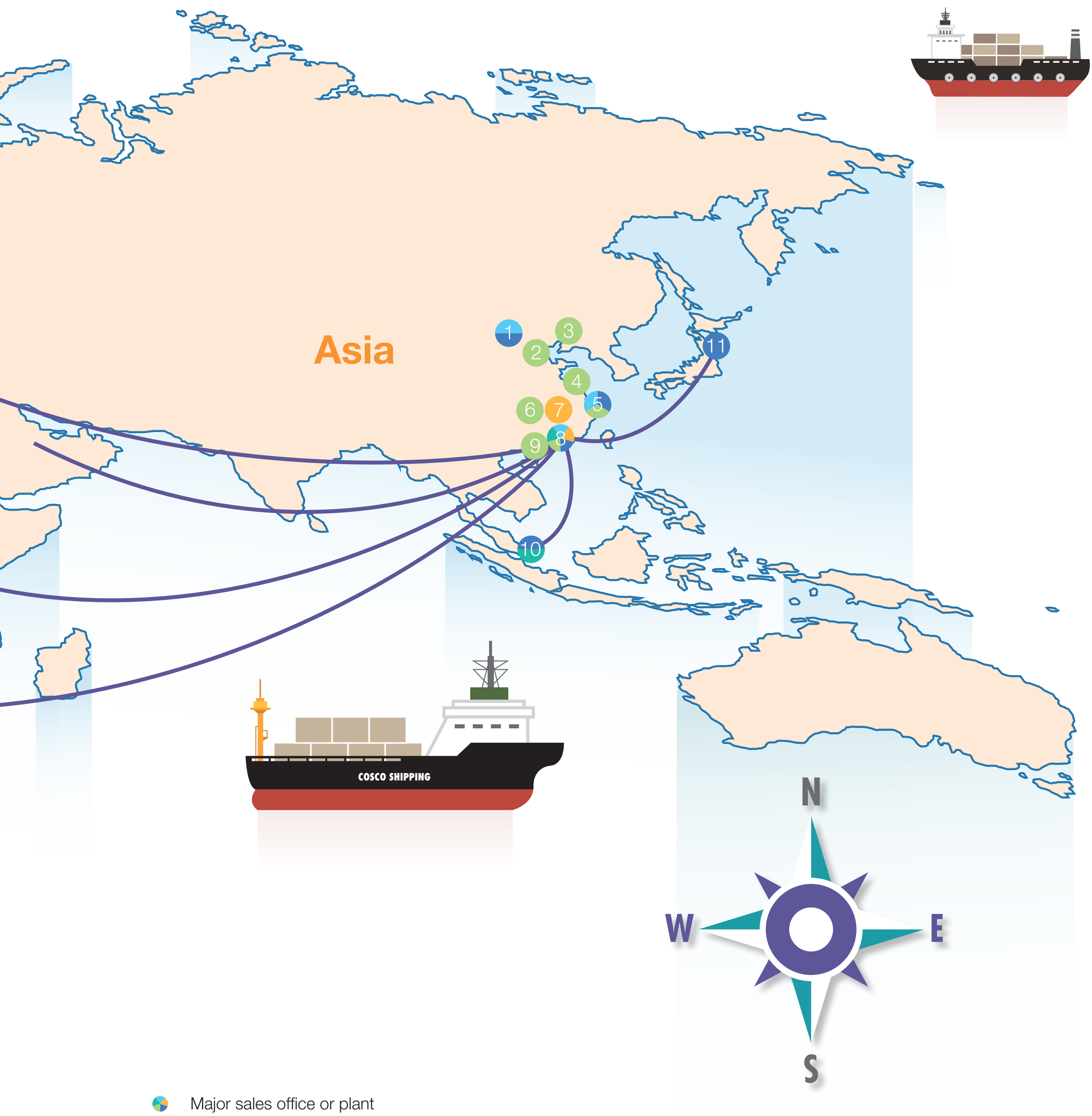
Supply Of Marine Equipment And Spare Parts

Trading And Supply Of Marine Fuel And Related Products

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
1
2
3
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9
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11
COSCO SHIPPING
N
W
E
S
Major sales office or plant

Operating Profit

Due to factors stated above, the Group's operating profit increased by 93% to HK$218,792,000 (2016: HK$113,412,000).

Finance Income

Finance income, which primarily represented interest income on the Group's bank deposits, increased by 37% to HK$124,948,000 (2016: HK$90,960,000) as a result of the increase in interest rate of cash deposit as compared to 2016.

Finance Costs

Finance costs, which mainly represented interest expenses on short-term borrowings and other finance charges, increased by 19% to HK$5,244,000 (2016: HK$4,414,000).

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures decreased by 28% to HK$64,730,000 (2016: HK$89,930,000). This item primarily represented the share of profit of Jotun COSCO of HK$63,864,000 (2016: HK$88,236,000) which was included in the coatings segment.

Share of Profits of Associates

The Group's share of profits of associates increased by 21% to HK$12,336,000 (2016: HK$10,202,000). This item primarily comprised the share of profit of Double Rich of HK$10,457,000 (2016: HK$9,094,000) which was included in the marine fuel and other products segment.

Income Tax Expenses

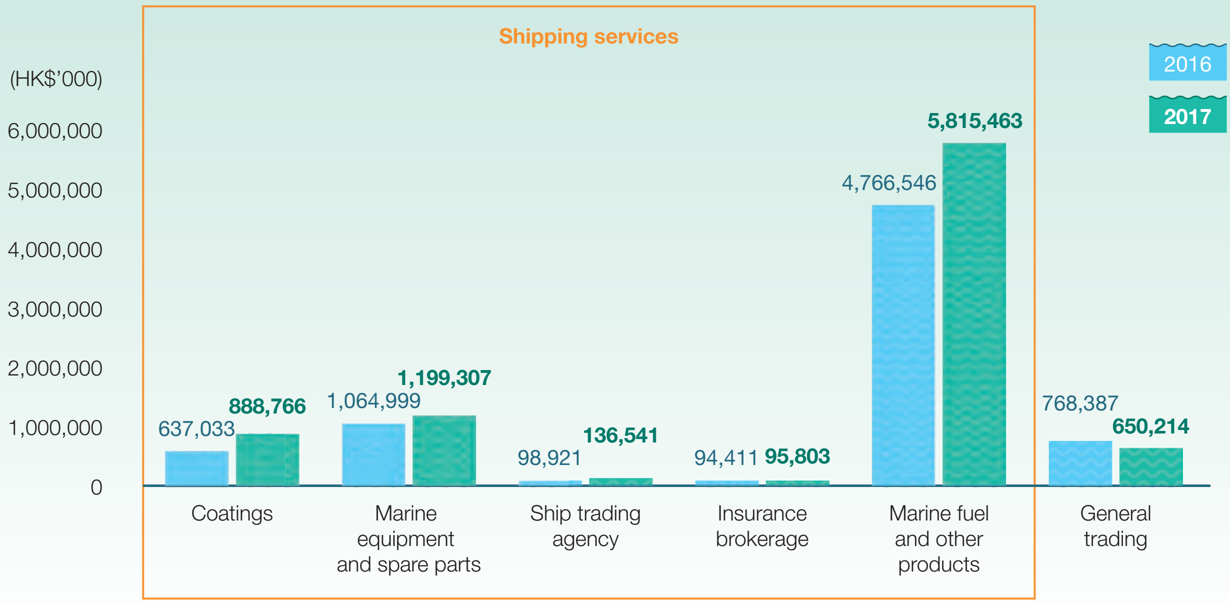
The Group's income tax expenses for the year decreased by 14% to HK$54,948,000 (2016: HK$63,590,000). The ratio of income tax expenses to profit before income tax, excluding the share of profits of joint ventures and associates, decreased from 32% in 2016 to 16% as a result of decrease in withholding tax.

Profit Attributable to Equity Holders

Profit attributable to equity holders of the Company during the year increased by 50% to HK$356,627,000 (2016: HK$237,205,000).

FINANCIAL RESULTS

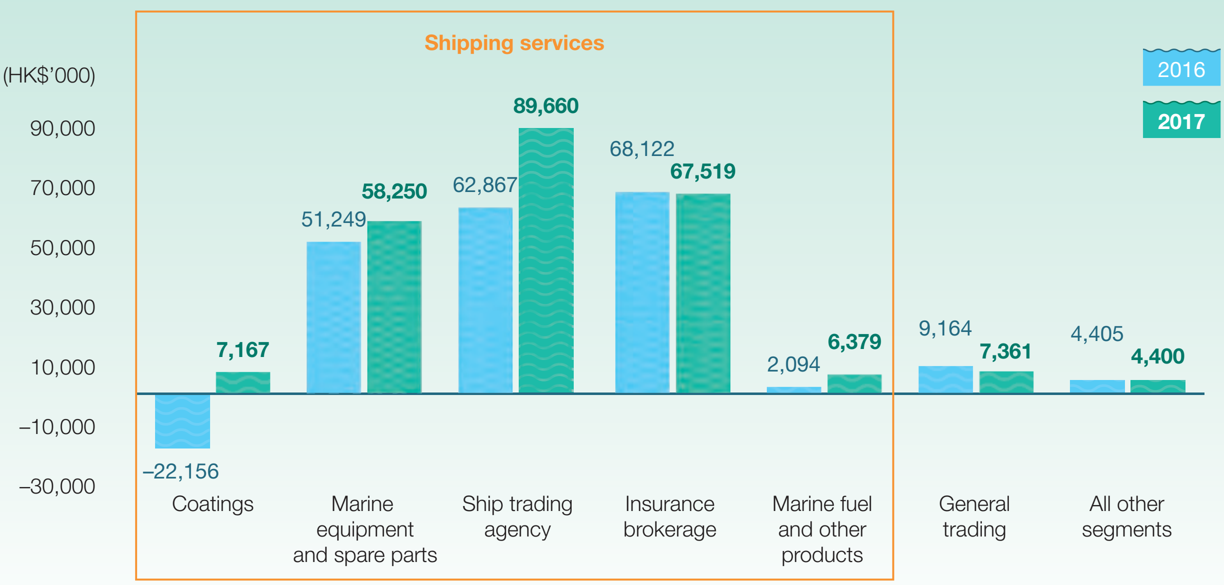
SEGMENT REVENUE*



* external customers only

Revenue from the core shipping services businesses increased by 22% to HK$8,135,880,000 (2016: HK$6,661,910,000) and accounted for 93% (2016: 90%) of the Group's revenue, with the major increases coming from the marine fuel and other products, coatings, marine equipment and spare parts, and ship trading agency segments.

SEGMENT OPERATING PROFIT/LOSS



Segment operating profit from shipping services was HK$228,975,000 (2016: HK$162,176,000), representing an increase of 41% as compared to 2016. It was mainly due to increases in segment profits from ship trading agency, coatings, marine equipment and spare parts and marine fuel and other products as compared to 2016.

FINANCIAL RESULTS (Continued)

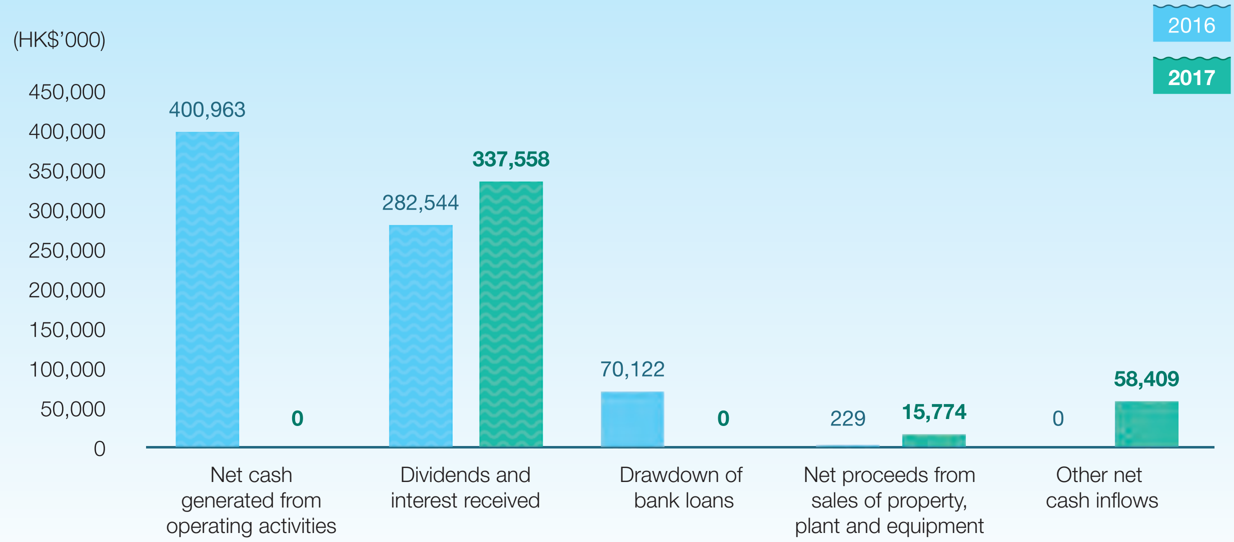
For the year ended 31st December	2017 HK$'000	2016 HK$'000	Change HK$'000	%	Remark
Shipping services	**228,975**	162,176	66,799	41	It was mainly due to increases in profit before income tax from coatings, ship trading agency, marine fuel and other products and marine equipment and spare parts segments as compared to 2016.
General trading	**7,361**	9,164	(1,803)	(20)	It was mainly attributable to the decrease in gross profit of sale of asphalt.
All other segments	**4,400**	4,405	(5)	(0)	
Corporate expenses, net of income	**(21,729)**	(62,195)	40,466	(65)	
Elimination of segment income from corporate headquarters	**(215)**	(138)	(77)	56	
Operating profit	**218,792**	113,412	105,380	93	
Finance income-net	**119,704**	86,546	33,158	38	It was mainly attributable to increase in interest rate of cash deposit as compared to 2016.
Share of profits of joint ventures	**64,730**	89,930	(25,200)	(28)	As a result of decline in sale volume of marine coatings, the profit contribution from Jotun COSCO decreased by 28% when compared to 2016.
Share of profits of associates	**12,336**	10,202	2,134	21	Represented mainly share of profit of Double Rich.
Profit before income tax	**415,562**	300,090	115,472	38	
Income tax expenses	**(54,948)**	(63,590)	8,642	(14)	The ratio of income tax expenses to profit before income tax, excluding the share of profits of joint ventures and associates, decreased from 32% in 2016 to 16% as a result of decrease in withholding tax.
Profit for the year	**360,614**	236,500	124,114	52	

FINANCIAL RESULTS (Continued)

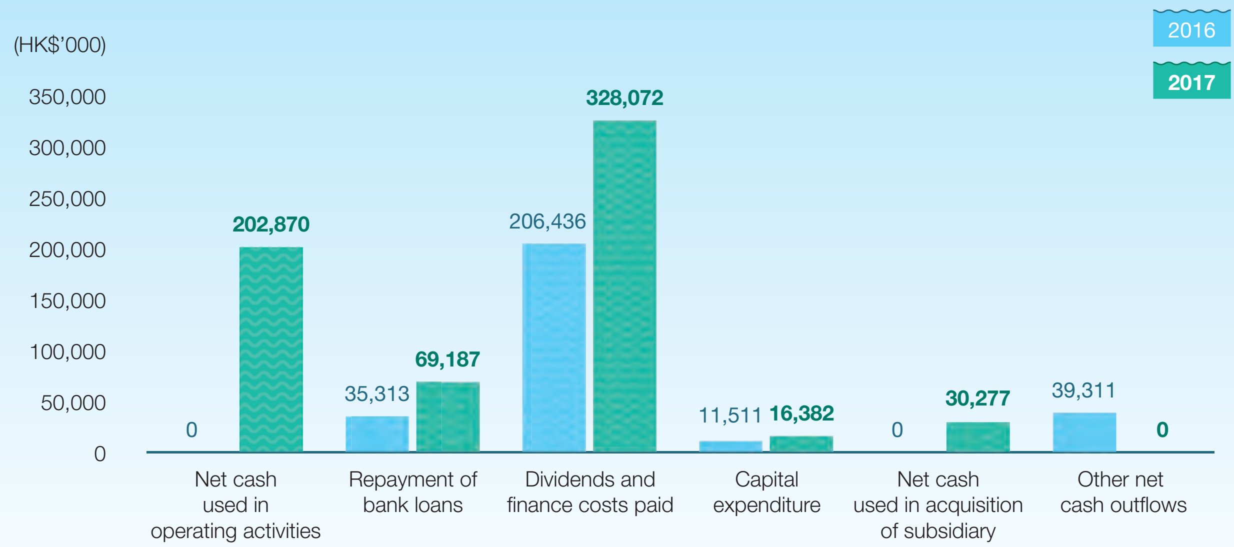
As at 31st December	2017 HK$'000	2016 HK$'000	Change HK$'000	%	Remark
Intangible assets	**104,287**	101,951	2,336	2	
Property, plant and equipment, prepaid premium for land leases and investment properties	**460,055**	431,004	29,051	7	
Investments in joint ventures	**298,190**	417,617	(119,427)	(29)	
Investments in associates	**122,644**	117,564	5,080	4	
Other non-current assets	**114,769**	116,815	(2,046)	(2)	
Inventories	**450,923**	243,360	207,563	85	
Trade receivables — net	**667,031**	646,337	20,694	3	
Other receivables	**861,838**	550,460	311,378	57	
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents)	**6,486,970**	6,722,017	(235,047)	(3)	(a), (b)
Other current assets	**43,993**	41,019	2,974	7	
Total assets	**9,610,700**	9,388,144	222,556	2	
Deferred income tax liabilities	**64,829**	69,349	(4,520)	(7)	
Trade and other payables	**1,311,362**	1,186,822	124,540	10	
Current income tax liabilities	**20,909**	19,156	1,753	9	
Short-term borrowings	**—**	67,076	(67,076)	(100)	
Non-controlling interests	**299,471**	343,580	(44,109)	(13)	
Total liabilities and non-controlling interests	**1,696,571**	1,685,983	10,588	1	
Net assets attributable to equity holders	**7,914,129**	7,702,161	211,968	3	

(a) MAJOR SOURCES AND USE OF CASH

CASH INFLOWS



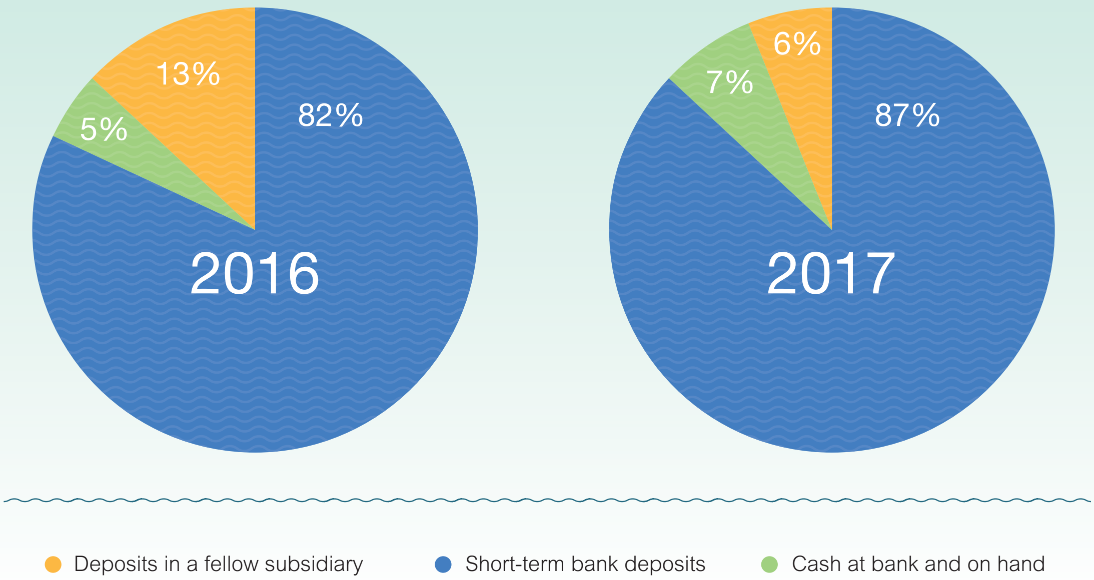
CASH OUTFLOWS



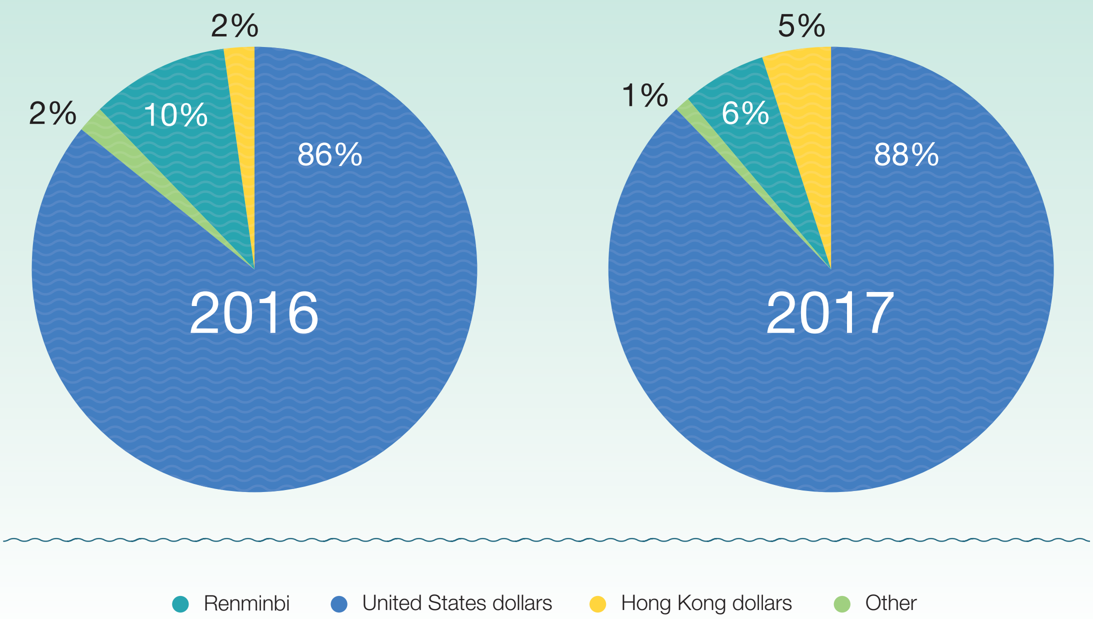
Cash (including non-current deposits, restricted bank deposits and current deposits and cash and cash equivalents) decreased by HK$235,047,000 in aggregate during the year. Sources of cash principally included dividends and interest received of HK$337,558,000, net proceeds from sale of property, plant and equipment of HK$15,774,000 and other net cash inflows of HK$58,409,000. Use of cash principally included net cash used in operating activities of HK$202,870,000, repayment of bank loans of HK$69,187,000, payment of dividends and finance costs totalling HK$328,072,000, capital expenditure of HK$16,382,000 and net cash used in acquisition of subsidiary of HK$30,277,000.

(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 statement of financial position, a relatively low level of borrowings and adequate liquidity. The Board believes this approach ensure 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 2017, deposits and cash and cash equivalents held by the Group accounted for 76% (2016: 82%) of the Group's total current assets.

As at 31st December 2017, the Group's total assets increased by 2% to HK$9,610,700,000 (2016: HK$9,388,144,000). Total liabilities increased by 4% to HK$1,397,100,000 (2016: HK$1,342,403,000). 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.

Net asset value attributable to shareholders was HK$7,914,129,000 (2016: HK$7,702,161,000). Net assets value per share was HK$5.16 (2016: HK$5.02), increased by 3% as compared to the end of 2016.

As at 31st December 2017, the Group had no short-term borrowing (2016: HK$67,076,000). The short-term borrowing in 2016 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 decreased by 3% to HK$6,486,970,000 (2016: HK$6,722,017,000) and decreased by 60% to HK$499,279,000 (2016: HK$1,256,418,000) respectively. The gearing ratio, which represented total borrowings over total assets, was 0% (2016: 0.7%).

Debt Analysis

	31st December 2017		31st December 2016	
	HK$'000	%	HK$'000	%
Classified by maturity: — repayable within one year	–	–	67,076	100
Classified by type of loan: — unsecured	–	–	67,076	100
Classified by currency: — Renminbi	–	–	67,076	100

As a result of the corporate headquarters providing 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$1,794,000 (2016: HK$559,000) 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 liquidity 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 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 2017, the Group had net cash, which represented total cash and deposits net of short-term borrowings, of HK$6,486,970,000 (2016: HK$6,654,941,000). 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 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 1.9% rate of return on the Group's cash for the year, representing 20 basis points above 3-month US Dollar London Interbank Offered Rate as at the end of 2017. The Group had no financial instruments for interest rate hedging purposes.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2017, sales to the largest customer and aggregate sales to the five largest customers accounted for 43% and 67% respectively (2016: 39% and 67% 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 72% respectively (2016: 68% and 74% 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 owning more than 5% of the Company's shares had interests in the five largest customers and suppliers.

EMPLOYEES

As at 31st December 2017, excluding joint ventures and associates, the Group had 846 (2016: 829) employees, of which 110 (2016: 100) were Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, were HK$318,005,000 (2016: HK$292,999,000). 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 2017, the global economic recovery showed good momentum and the PRC's economy maintained a steady growth. Benefited from structural factors such as improvement of the world's energy fundamentals and the speeding-up of global infrastructure construction, and the cyclical increase of demand in seaborne trade and recovery in shipping market, the overall global shipping market was on the rise and the market demand growth accelerated, which improved the oversupply situation and led the shipping market return to the track of recovery, thus benefiting the Group as well.

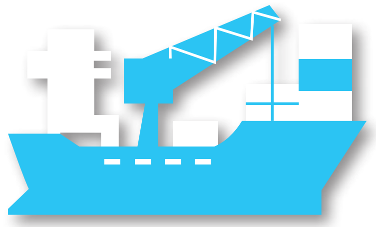
During the year, the Group had adhered to the overall working principle of "taking profitability as the first objective; taking development as the first priority; taking management as the first foundation". It further pushed forward the project development of the Company, expanded the influence of its existing businesses, and speeded up the establishment of "shipping services industrial cluster". In terms of business expansion, with the aim of further integrating 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 on one hand expanded the size of the existing relevant business, and on the other hand facilitated synergy creation through economies of scale and cost reduction. In terms of the existing business, the Group relied on the whole life cycle and took the whole-process integrated solutions as a breakthrough to expand the industry chain of existing business and spared no effort in marketing service and safety management in active response to market changes. The Group expanded its source of income and reduced expenditures, continuously strengthened and optimised the existing business, enhanced the service awareness, highlighted the entirety of shipping services industrial cluster, and strived to generate the synergy effect among businesses, in order to continuously enhance the profitability of 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, revenue from the Group's shipping services was HK$8,135,880,000 (2016: HK$6,661,910,000), representing an increase of 22% as compared to 2016. The increase was mainly due to the increases in different degrees attributed by each segment of shipping services. Profit before income tax from shipping services was HK$311,026,000 (2016: HK$275,235,000), representing an increase of 13% as compared to 2016, mainly attributable to the increase in profit before income tax from ship trading agency, marine equipment and spare parts, coatings and marine fuel and other products segments as compared to 2016.

Ship Trading
Agency Services



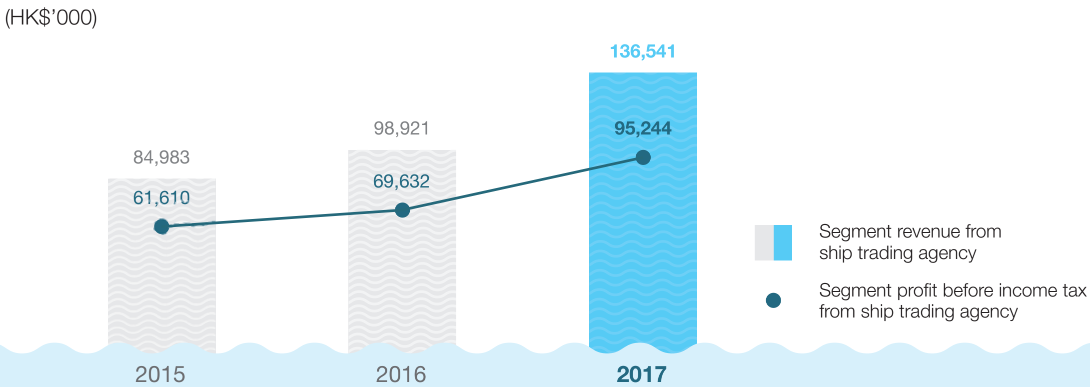
1.1 Ship Trading Agency Services

COSCO SHIPPING Ship Trading are 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 Ship Trading also provides similar services for ship-owners and shipping enterprises outside COSCO SHIPPING Group. COSCO SHIPPING Ship Trading mainly derives its revenue from agency services. For 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 Ship Trading according to the contracts after the vendors have delivered the vessels to the buyers.

During the year, revenue from the ship trading agency segment increased by 38% to HK$136,541,000 (2016: HK$98,921,000) as compared to 2016. Segment profit before income tax was HK$95,244,000 (2016: HK$69,632,000), representing an increase of 37% as compared to 2016. The increase in segment profit before income tax was mainly due to the increase in commission income from trading of new build vessels and second-hand vessels during the year as compared to 2016.

The aggregate number of the delivered new build vessels which had been ordered through COSCO SHIPPING Ship Trading was 38 (2016: 22), totaling 4,010,000 dead weight tonnages (2016: 1,686,000 dead weight tonnages). A total of 18 (2016: 17) new build vessels have been ordered through COSCO SHIPPING Ship Trading during the year, totaling 2,634,000 dead weight tonnages (2016: 4,138,000 dead weight tonnages). For second-hand vessels, the sale and purchase of a total of 95 (2016: 48) second-hand vessels through COSCO SHIPPING Ship Trading were recorded, totaling 5,067,000 dead weight tonnages (2016: 2,822,000 dead weight tonnages).

COSCO SHIPPING Ship Trading seized the favorable opportunities arising from the recovering shipping market and increasing number of delivery of new build vessels and actively launched marketing campaigns and paid visits to major customers such as shipbuilders, ship-owners, companies and leasing companies to strengthen relationship and communication. Such measures achieved positive results. In addition, COSCO SHIPPING Ship Trading paid close attention to business integration opportunity related to COSCO SHIPPING Group and expanded into new business areas. In the shrinking market environment of traditional ship trading agency business, COSCO SHIPPING Ship Trading achieved positive results in exploration of new customers by developing into new business sectors with high barriers for entry and high added-value.


(HK$'000)
84,983
61,610
98,921
69,632
136,541
95,244
2015
2016
2017
Segment revenue from ship trading agency
Segment profit before income tax from ship trading agency


DE SHENG HAI
AN DING HAI


連 囍 湖
LIAN XI HU
COSCO SHIPPING
热 烈 祝 贺
广船国际有限公司为大连中远海运油品运输有限公司建造的
50,000载重吨化学品/成品油轮2#船（船号：14121009）成功命名为
"連囍湖"
2017年5月25日

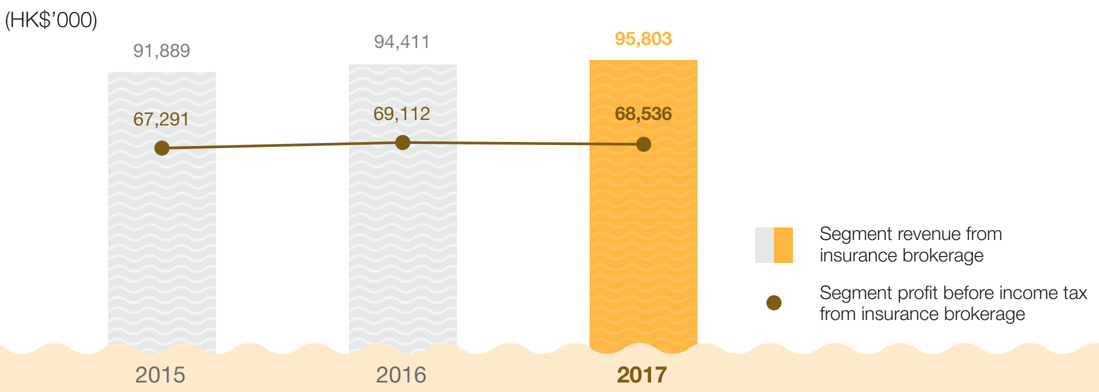
Marine Insurance
Brokerage Services

1.2 Marine Insurance Brokerage Services

COSCO SHIPPING 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, revenue from insurance brokerage segment was HK$95,803,000 (2016: HK$94,411,000), up by 1% as compared to 2016. Segment profit before income tax was HK$68,536,000 (2016: HK$69,112,000), representing a slight decrease of 1% as compared to 2016.

COSCO SHIPPING Insurance Brokers achieved good results in the renewal of hull and machinery insurance, protection and indemnity insurance, ship repair insurance and shipbuilders' risk insurance and in non-marine insurance brokerage business such as comprehensive terminal insurance, comprehensive vehicle insurance as it successfully renewed hull and machinery



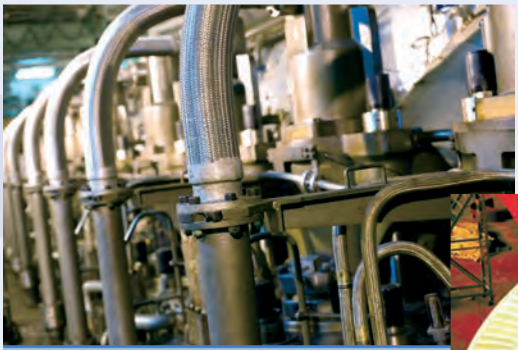
insurance as well as protection and indemnity insurance with a number of enterprises outside COSCO SHIPPING Group. Besides, on the basis of retaining the existing business, it successfully developed a number of domestic and overseas customers for comprehensive terminal insurance and hull and machinery insurance.

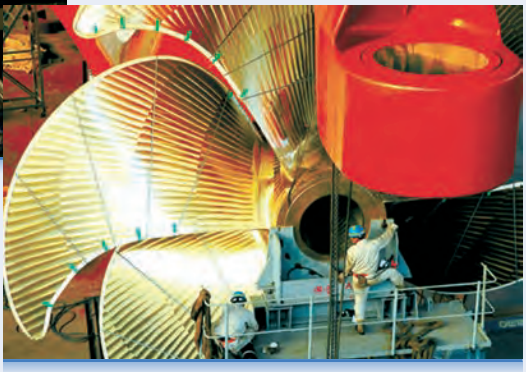
Supply of Marine
Equipment and Spare Parts

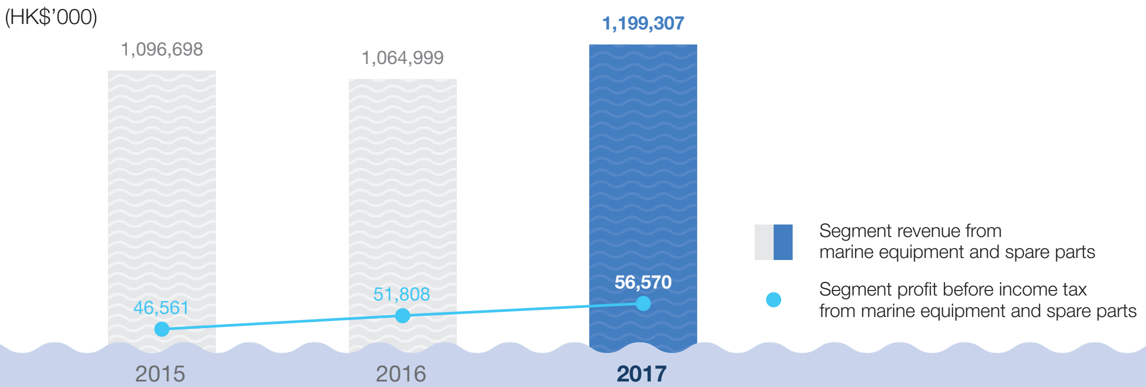
1.3 Supply of Marine Equipment and Spare Parts

COSCO Yuantong Operation Headquarters is principally engaged in the sale and installation of equipment and spare parts for existing and newly 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 repair. Its existing business network covers cities such as Hong Kong, Shanghai and Beijing and countries such as Japan, Singapore, Germany and the United States, etc..

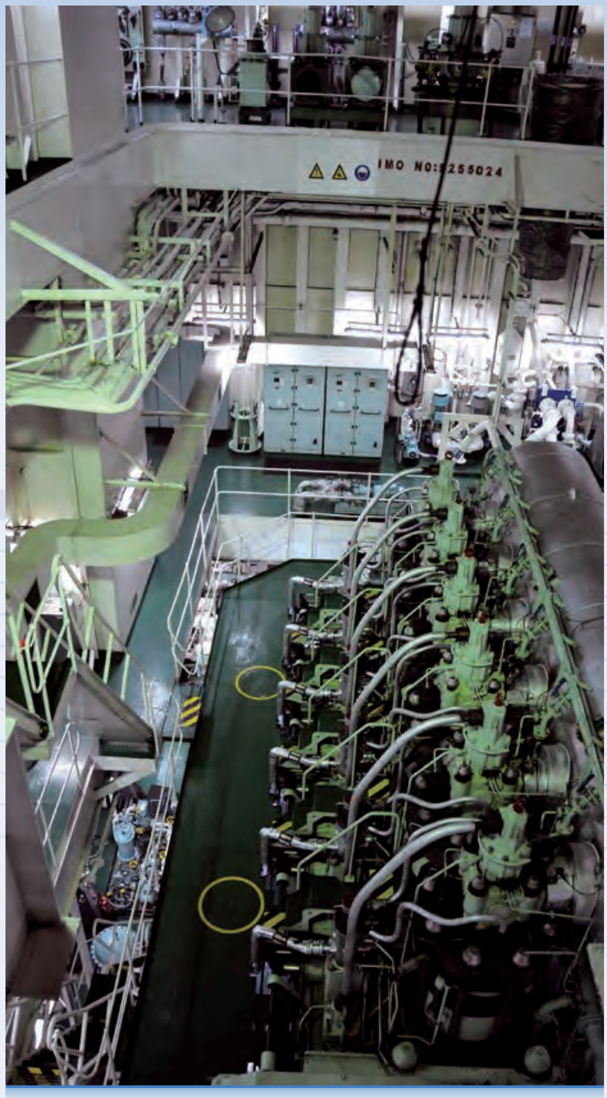
During the year, revenue from marine equipment and spare parts segment was HK$1,199,307,000 (2016: HK$1,064,999,000), representing an increase of 13% as compared to 2016. Segment profit before income tax was HK$56,570,000 (2016: HK$51,808,000), representing an increase of 9% as compared to 2016, which was mainly attributable to the contribution of the results from CSHT Marine, the acquisition of which was completed at the beginning of 2017, and the reversal of provision for impairment of trade receivables of HK$2,967,000 (2016: HK$1,761,000).





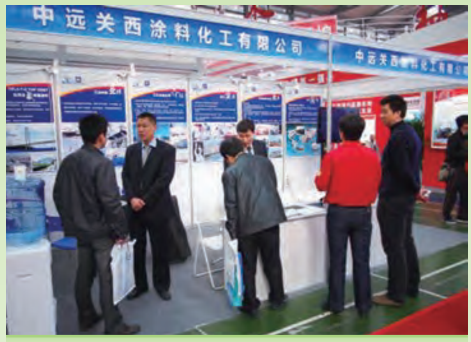


Despite the recovery of the shipping market, the modernised and young vessels with relatively less demand for spare parts had impact on the business of the COSCO Yuantong Operation Headquarters. COSCO Yuantong Operation Headquarters strengthened the development of the technological service capabilities, continuously pushed forward the construction of the material distribution center, steadily adjusted its business models and reduced operating costs; meanwhile, it strived for the most favorable terms from suppliers, and provided one-stop solutions for customers in response to market changes and customers' needs, which improved the customer satisfaction. During the year, COSCO Yuantong Operation Headquarters successfully obtained a number of new customers outside COSCO SHIPPING Group.



Production and
Sale of Coatings

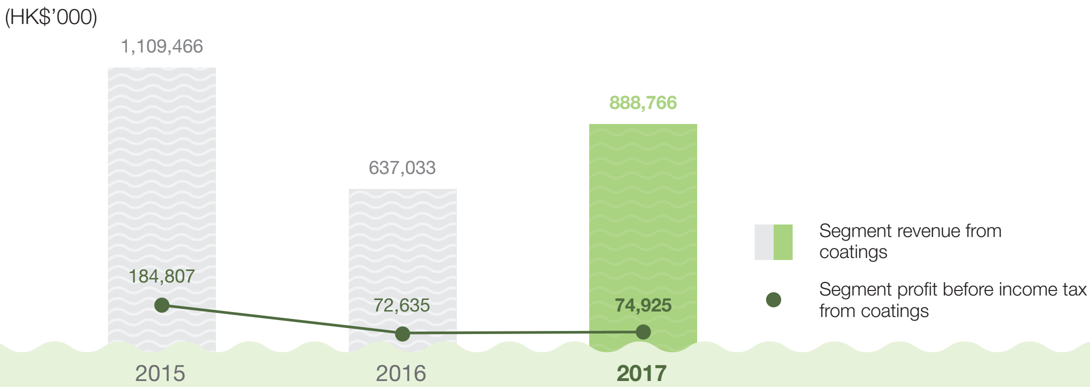
1.4 Production and Sale of Coatings



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), which have their own plants, are principally engaged in the production and sale of coatings, while COSCO Kansai (Shanghai) is primarily engaged in the sale of coatings. Jotun COSCO, a 50/50 joint venture formed by the Company and Jotun A/S, Norway, an international coating supplier, is principally engaged in the production and sale of marine coatings.

During the year, revenue from coatings segment was HK$888,766,000 (2016: HK$637,033,000), representing a significant increase of 40% as compared to 2016. The increase was mainly due to the marked increase in sales of container coatings as compared to 2016. Segment profit before income tax was HK$74,925,000 (2016: HK$72,635,000), representing an increase of 3% as compared to 2016. The rise in profits was lower than the rise in revenue due to the significant increase in the cost of raw materials during the year, which was unable to shift to the selling price of the products, thus reducing the gross profit margin of the coatings business.

In respect of container coatings, the industry faced fierce competition due to the mandatory requirement of using water-based coatings in place of oil-based coatings in container manufacturing industry since April 2017. COSCO Kansai Companies established a task force specialising in solving technological problem of water-based container coatings. It made breakthrough in the research and development and application of water-based container coatings technologies, and also met customers' requirements in terms of coating quality and productivity, thus laying a solid foundation for the future development of container coatings business. In addition, COSCO Kansai Companies actively strived for every order and enhanced the strategic cooperation with container manufacturing enterprises by segmenting target customers, strengthening visits to customers, intensifying business cooperation and enhancing marketing service level. Meanwhile, COSCO Kansai Companies also actively expanded into the special container market and offered quality services to major container manufacturers and container owners, thereby gaining support and trust from key customers. During the year, the sales volume of container coatings was 23,259 tonnes, representing an increase of 43% as compared with 16,237 tonnes in 2016.



In respect of heavy-duty anti-corrosion coatings, COSCO Kansai Companies continued to intensify the business development of industrial heavy-duty anti-corrosion coatings, and identified five major industries comprising offshore engineering, electricity, bridge, petrochemical and infrastructure as the key developing industries. During the year, COSCO Kansai Companies won several tenders of large-scale bridge projects, and entered into the nuclear-grade coatings market and became one of the suppliers of nuclear-grade coatings which broke up the monopoly by foreign manufacturers. The sales volume of industrial heavy-duty anti-corrosion coatings together with workshop primer amounted to 17,939 tonnes (2016: 16,654 tonnes), representing an increase of 8% as compared to 2016.

In respect of marine coatings, sales volume of Jotun COSCO's coatings for new build vessels amounted to 45,483,000 litres during the year, representing a decrease of 13% as compared to 2016. Sales volume of coatings for repair and maintenance was 21,604,000 litres, representing an increase of 30% as compared to 2016. The sales volume of Jotun COSCO's marine coatings amounted to 67,087,000 litres (equivalent to approximately 90,567 tonnes) (2016: 68,753,000 litres (equivalent to approximately 92,814 tonnes)), representing a decrease of 2% as compared to 2016. During the year, the Group's share of profit from Jotun COSCO was HK$63,864,000 (2016: HK$88,236,000), representing a decrease of 28% as compared to 2016.

During the year, despite the severe market conditions, Jotun COSCO proactively maintained and reinforced the customer relations with major domestic shipyards and ship-owners and segmented the market and its target customers in order to establish a service system to improve the differentiation of products and services, and marketing. Meanwhile, Jotun COSCO strived for product enhancement, facilitated energy saving and emission reduction of vessels while continuing to promote the Hull Performance Solution data tracking and analysis service as well as high value-added antifouling coatings. Jotun COSCO also customised solutions to its major customers according to their ship repairing plans so as to maintain its leading position in China's marine coating market.

Trading and Supply
of Marine Fuel and Related Products

1.5 Trading and Supply of Marine Fuel and Related Products

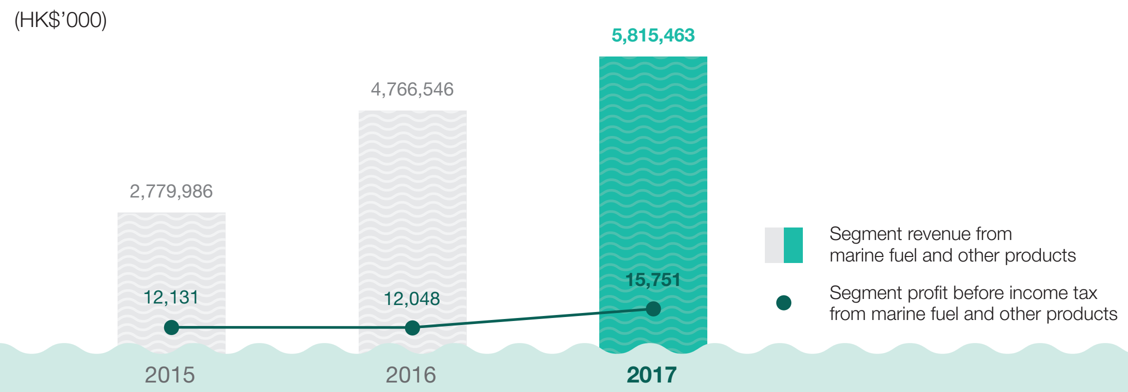
Sinfeng is primarily engaged in the supply, trading and brokerage services of marine fuel and related products with business network covering major oil ports such as Singapore and Malaysia, etc..

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. In addition, Sinfeng actively launched marketing campaigns for major customers, thus effectively maintaining the business volume with key customers. During the year, total sales volume of marine fuel products was 2,315,346 tonnes, representing an increase of 9% as compared with 2,114,548 tonnes in 2016.

Revenue from the marine fuel and other products segment was HK$5,815,463,000, up by 22% as compared with HK$4,766,546,000 in 2016. It was mainly attributable to the increase in sales volume and selling prices of marine fuel during the year as compared to 2016.

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 ship-owners and ship operators. During the year, the Group's share of profit from Double Rich was HK$10,457,000 (2016: HK$9,094,000), up by 15% as compared to 2016, which was mainly due to the increase in business volume of bonded bunker in China as compared to 2016.

Profit before income tax from marine fuel and other products segment was HK$15,751,000 (2016: HK$12,048,000), representing an increase of 31% as compared to 2016.



2. General Trading

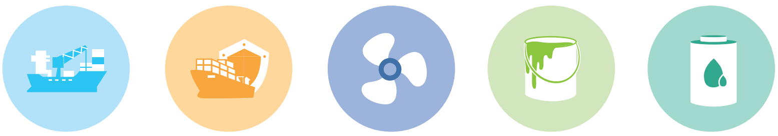
COSCO SHIPPING International Trading is principally engaged in the trading, storage, processing, supply of asphalt and other comprehensive trading.

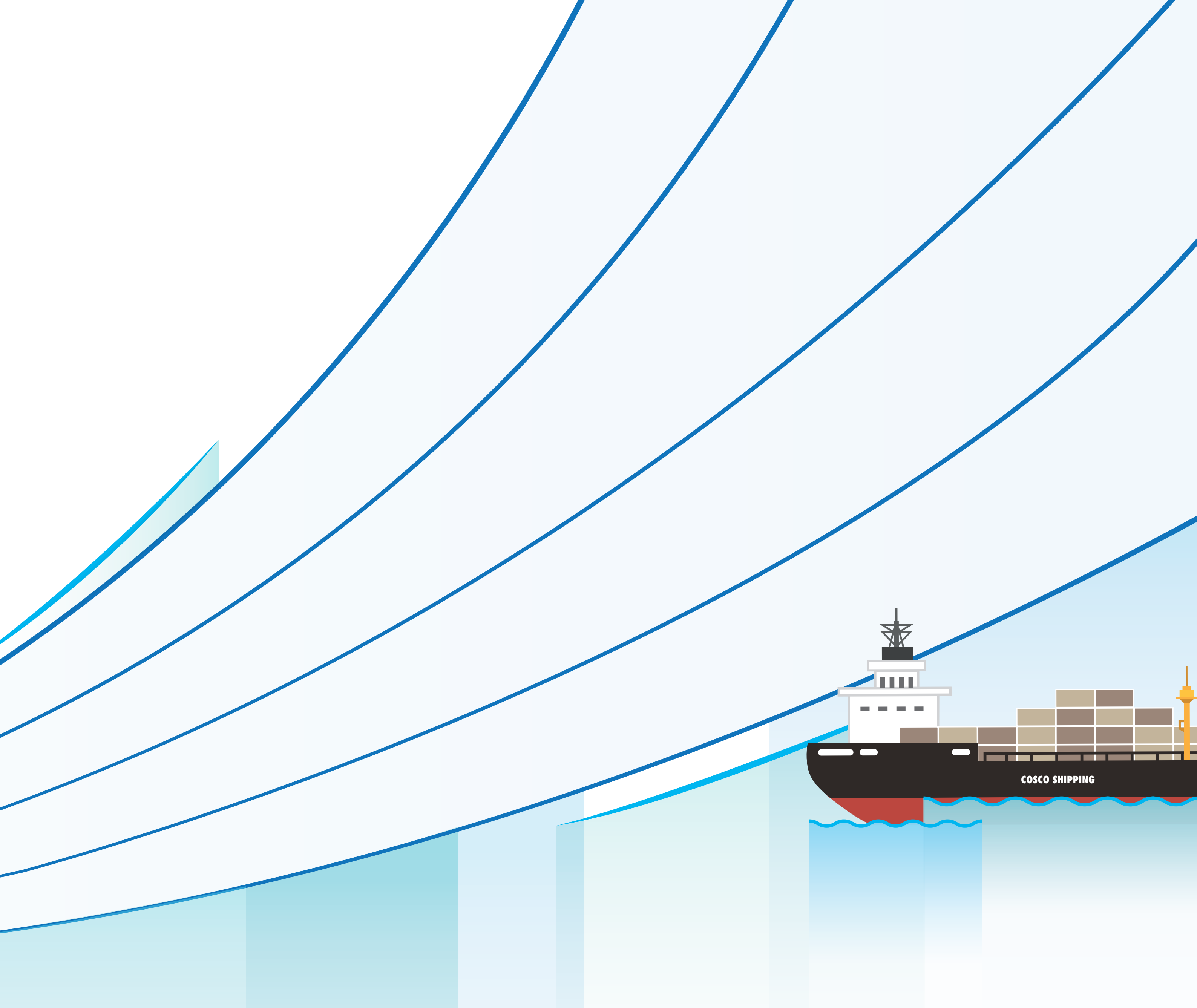
During the year, the sales volume of asphalt of COSCO SHIPPING International Trading was 154,488 tonnes, down by 15% as compared to the 181,177 tonnes in 2016. Revenue from general trading segment was HK$650,214,000 (2016: HK$768,387,000), down by 15% as compared to 2016. Segment profit before income tax was HK$3,177,000 (2016: HK$4,530,000), representing a decrease of 30% as compared to 2016 which was mainly attributable to the decrease in gross profit of asphalt.

POST BALANCE SHEET EVENT

On 7th February 2018, the Company, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING entered into the management services master agreement ("Management Services Master Agreement"), pursuant to which the parties have agreed to set out the terms for future transactions regarding the provision of management services by the Company in relation to the day to day business operation and management of COSCO SHIPPING (Hong Kong) and its subsidiaries and associates (other than those relating to the Group and Piraeus Port Authority S.A.) ("COSCO SHIPPING (Hong Kong) Group") from the date of the Management Services Master Agreement (i.e. 7th February 2018) until 31st December 2019. The proposed annual caps for the management fees payable by members of the COSCO SHIPPING (Hong Kong) Group to the Company contemplated under the Management Services Master Agreement for the years ending 31st December 2018 and 2019 are HK$130,000,000 and HK$130,000,000 respectively. Details of which were disclosed in the announcement of the Company dated 7th February 2018.

Explore New Markets
For More Development Opportunities





INNOVATION AND DEVELOPMENT

The Group will continue to pursue its strategic development direction of "shipping services industrial cluster and non-financial business investment platform". It will embrace the challenges and opportunities brought by modern ships and professional ship operation to accelerate the development of shipping services industrial cluster; seize the opportunities arisen from the national strategies of "One Belt and One Road" and "Guangdong-Hong Kong-Macao Bay Area" to seek opportunities for the development of non-financial business investment platform, thereby creating return for shareholders.

Profile of Directors and Senior Management

DIRECTORS

Mr. Wang Yuhang
(Chairman)

aged 56, had been the Executive Director and Chairman of the Board of the Company since January 2018. He is also executive vice president of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), director and chairman of COSCO SHIPPING (Hong Kong) Co., Limited, non-independent and non-executive director and chairman of COSCO SHIPPING International (Singapore) Co., Ltd. (listed in Singapore), and non-executive director and vice chairman of China International Marine Containers (Group) Co., Ltd. (listed in Hong Kong and the PRC). Mr. Wang was the non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC) until his resignation in December 2016. He was the executive vice president of中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) and deputy director officer of the officer tranche of the Organisation Division, deputy general manager of Development Division, deputy general manager of Human Resources Division, general manager of Supervision Division, deputy secretary of Discipline Inspection Commission, deputy officer of Supervision Office, the chief officer of Legal Center and the general manager of Human Resources Division of 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company), the vice president of COSCO Americas Inc., the deputy general manager and general manager of COSCO Shipbuilding Industry Company and the general manager of COSCO Shipyard Group Co., Ltd. He has over 30 years' experience in shipping industry and has rich experience in human resources and corporate operation management. Mr. Wang graduated from Dalian Maritime College major in marine engineering management and is a senior engineer.

Mr. Zhu Jianhui

(Vice Chairman and Managing Director)

aged 55, has been the Executive Director and Vice Chairman of the Board of the Company since August 2016, and was appointed as Managing Director of the Company in January 2018. He is chairman of Corporate Governance Committee, Strategic Development Committee, Risk Management Committee, member of Remuneration Committee and Nomination Committee of the Company. Mr. Zhu leads overall management and operation, strategic development and human resources management of the Company. He is director of two subsidiaries of the Company. He is also director and president of COSCO SHIPPING (Hong Kong) Co., 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 graduated from Shanghai Maritime College and obtained a Master's degree. He is a senior economist.

Mr. Liu Gang

aged 58, has been the Executive Director of the Company since September 2016 and had been the Managing Director of the Company from September 2016 to January 2018. He is also member of Strategic Development Committee and Risk Management Committee of the Company. He is director of various subsidiaries of the Company and the vice president of COSCO SHIPPING (Hong Kong) Co., 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. Feng Boming

aged 48, has been the Non-executive Director and member of Strategic Development Committee of the Company since January 2018. He is also general manager of the Strategy and Corporate Management Division of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), director of COSCO SHIPPING (Hong Kong) Co., Limited, non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC), COSCO SHIPPING Ports Limited (listed in Hong Kong), COSCO SHIPPING Development Co., Ltd. (listed in Hong Kong and the PRC) and COSCO SHIPPING Energy Transportation Co., Ltd. (listed in Hong Kong and the PRC) and Piraeus Port Authority S.A. (listed on Athens Stock Exchange), and director of COSCO SHIPPING Bulk Co., Ltd. and COSCO SHIPPING Financial Holdings Co., Limited. He was the supervisor of the Strategic Management Implementation Office of 中國遠洋運輸（集團）總公司 (China Ocean Shipping (Group) Company) and COSCO SHIPPING Holdings Co., Ltd., the manager of the Commercial Section of the Trade Protection Division of COSCO SHIPPING Lines Co., Ltd., the general manager of COSCO (Cayman) Mercury Co., Ltd., the general manager of the Management and Administration Department of COSCO Holdings (Hong Kong) Co., Ltd., the general manager of COSCO International Freight (Wuhan) Co., Ltd.. Mr. Feng has over 20 years of work experience in the shipping industry and has extensive experience in corporate strategy management, business management and container shipping management. He graduated from Wuhan Institute of Water Transportation Engineering, major in Transportation Administrative Engineering and from The University of Hong Kong with a master's degree in Business Administration, and is an economist.

Mr. Chen Dong

aged 43, has been the Non-executive Director and member of Risk Management Committee of the Company since January 2018. He is also general manager of Finance and Accounting Division of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), director of COSCO SHIPPING (Hong Kong) Co., Limited, non-executive director of COSCO SHIPPING Holdings Co., Ltd. (listed in Hong Kong and the PRC), COSCO SHIPPING Ports Limited (listed in Hong Kong), and director of COSCO SHIPPING Specialized Carriers Co., Ltd. (listed in the PRC), COSCO SHIPPING Bulk Co., Ltd. and COSCO SHIPPING Financial Holdings Co., Limited. Mr. Chen was the deputy head of Risk Control Section under the Planning and Finance Department, the deputy head of the Finance Section under Planning and Finance Department and senior manager of the Finance and Taxation Management Office, the assistant to the general manager of the Finance Department and the deputy general manager of the Finance Department of 中國海運（集團）總公司 (China Shipping (Group) Company). He had been the non-executive director of COSCO SHIPPING Development Co., Ltd. (listed in Hong Kong and the PRC) until March 2018. Mr. Chen has over 20 years of working experience in shipping enterprises and has extensive experience in risks control, taxation management and finance. Mr. Chen obtained a Master's degree in Economics from Shanghai University of Finance and Economics and is a senior accountant.

Mr. Ren Yongqiang

aged 44, has been the Non-executive Director of the Company since January 2018. He is also general manager of Human Resources Division and head of Organisation Division of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited), director of COSCO SHIPPING (Hong Kong) Co., Limited, COSCO SHIPPING Bulk Co., Ltd. and COSCO SHIPPING Financial Holdings Co., Limited. He was the general manager of Human Resources Division/head of Organisation Department of 中國海運(集團)總公司(China Shipping (Group) Company). Mr. Ren has extensive experience in human resources management. He graduated from Business School of Beijing Technology & Business University and obtained Master's degree in Business and Administration.

Mr. Tsui Yiu Wa, Alec

aged 68, 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 Resorts & Entertainment Limited (listed on NASDAQ) and Melco Resorts and Entertainment (Philippines) 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.

Mr. Jiang, Simon X.

aged 64, 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 76, 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.

The Directors' interests in shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 31st December 2017 which were required to be notified the Company and the Stock Exchange, are disclosed in the section headed "Directors' Interests in Securities" of the Directors' Report.

Mr. Wang Yuhang is executive vice president of 中國遠洋海運集團有限公司 (China COSCO SHIPPING Corporation Limited) ("COSCO SHIPPING"), director and chairman of COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)"). Mr. Zhu Jianhui is director and president of COSCO SHIPPING (Hong Kong). Mr. Feng Boming is general manager of the Strategy and Corporate Management Division of COSCO SHIPPING and director of COSCO SHIPPING (Hong Kong). Mr. Chen Dong is general manager of Finance and Accounting Division of COSCO SHIPPING and director of COSCO SHIPPING (Hong Kong). Mr. Ren Yongqiang is general manager of Human Resources Division and head of Organisation Division of COSCO SHIPPING and director of COSCO SHIPPING (Hong Kong). Mr. Liu Gang is vice president of COSCO SHIPPING (Hong Kong). COSCO SHIPPING (Hong Kong) is the substantial shareholder of the Company and the wholly-owned subsidiary of COSCO SHIPPING. As such, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING is deemed to have, an interest in the shares of the Company which would fall to be discussed 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 31st March 2018.

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 Directors and (ii) Chairman of the Board) received the Directors' emoluments for the year 2017 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 2017 on a named basis are disclosed in note 27 to the financial statements.

SENIOR MANAGEMENT

Mr. Lin Wenjin

aged 58, 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

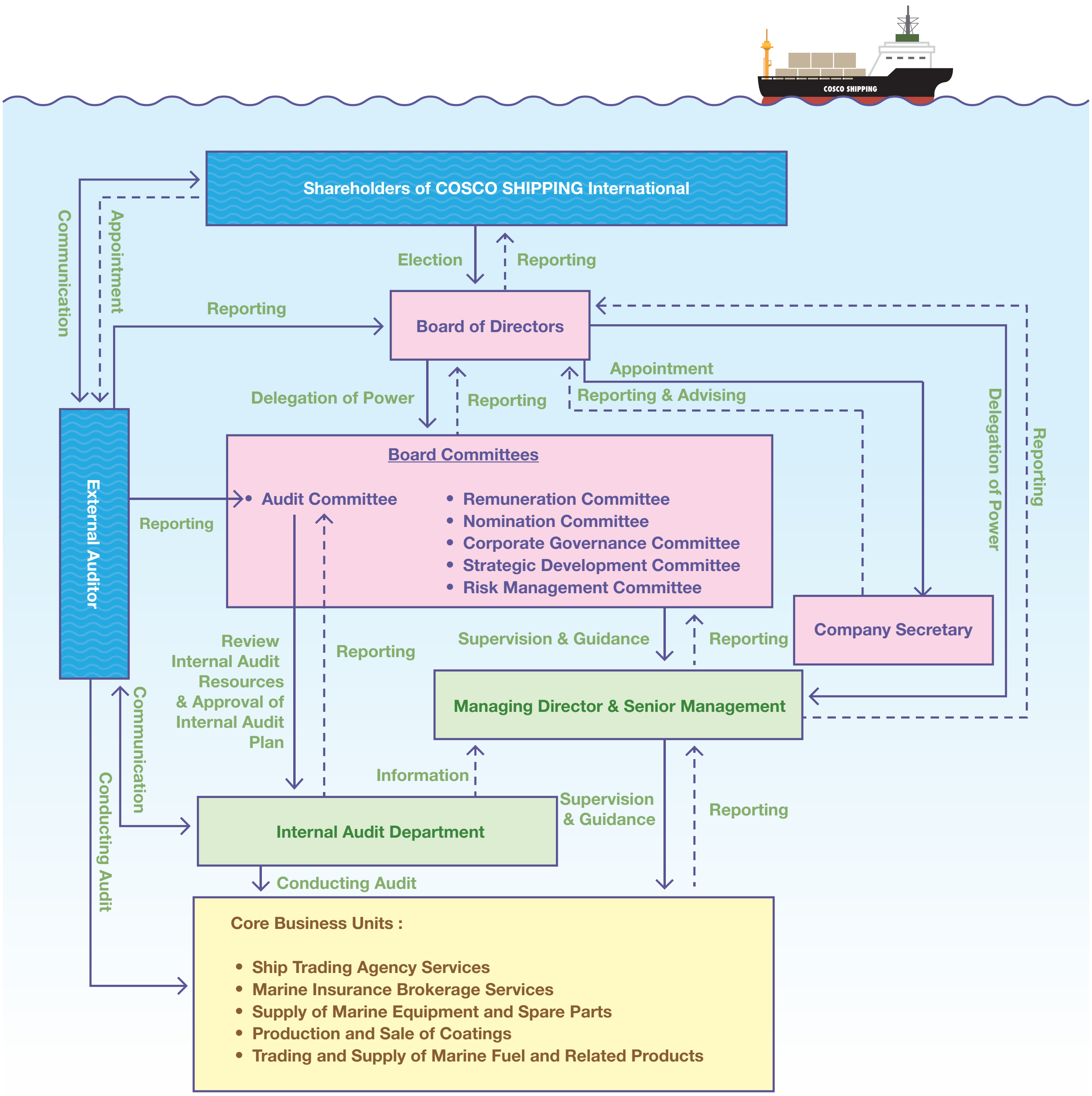
aged 48, has been the Chief Financial Officer of the Company since March 2016. He is the supervisor of various subsidiaries of the Company. Mr. Chan graduated from The City University of Hong Kong in 1993 and was awarded a Bachelor's honour degree in Accountancy. He obtained a Master's degree in Corporate 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 16 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 51, 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.

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.



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 2017.

THE BOARD

The Board currently comprises nine Directors, namely, Mr. Wang Yuhang (Chairman), Mr. Zhu Jianhui (Vice Chairman and Managing Director) and Mr. Liu Gang as Executive Directors; Mr. Feng Boming, Mr. Chen Dong and Mr. Ren Yongqiang as Non-executive Directors; 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 position of the Chairman is held by Mr. Wang Yuhang and the positions of the Vice Chairman and the Managing Director are held by Mr. Zhu Jianhui. In order to reinforce their respective independence, accountability and responsibility, the roles of the Chairman are definitely separated from that of the Vice Chairman and the Managing Director. The Chairman is responsible for formulating the overall strategies and policies of the Company while the Vice Chairman and the Managing Director are 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 ex-Chairman, Mr. Ye Weilong and the then Non-executive Directors (including Independent Non-executive Directors) without presence of the Executive Directors was held in March 2017. 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.

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 Directors 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 2018 annual general meeting of the Company. Each of Mr. Feng Boming, Mr. Chen Dong and Mr. Ren Yongqiang, being the Non-executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 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 Directors, 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.

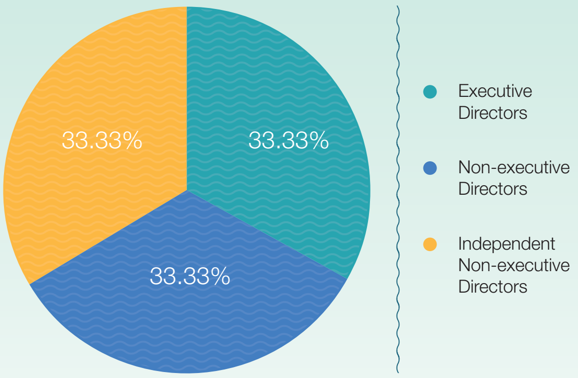
Save as disclosed above, the Board had all the times during the year met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Board Diversity

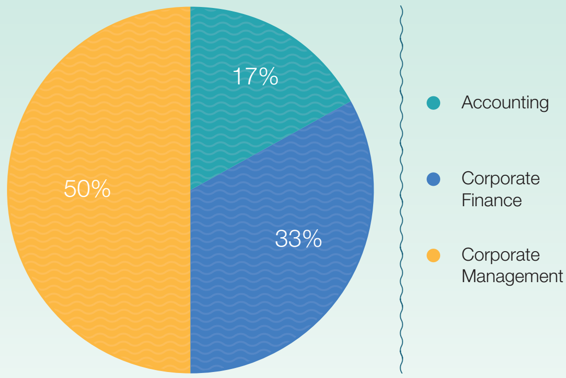
The Company adopted the Board Diversity Policy in August 2013 setting out the approach to achieve diversity on the Board. The Company believes that a diversity of perspectives can be achieved through consideration of a number of aspects, including but not limited to skills, regional and industry experience, 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

Board Composition



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, Liu Xianghao and Wang Wei, being the ex-Directors and Messrs. Wang Yuhang, Zhu Jianhui, Liu Gang, Feng Boming, Chen Dong, Ren Yongqiang, 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 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 2017, 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.

Board Meetings

The Board met regularly and held four regular meetings in 2017. 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 Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Strategic Development Committee Meeting	Risk Management Committee Meeting
Executive Directors								
Mr. Wang Yuhang(1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Zhu Jianhui(2)	1/1	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Liu Gang(3)	1/1	4/4	N/A	2/2	1/1	2/2	1/1	1/1
Non-executive Directors								
Mr. Feng Boming(4)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chen Dong(5)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Ren Yongqiang(6)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors								
Mr. Tsui Yiu Wa, Alec	1/1	4/4	3/3	2/2	1/1	2/2	N/A	N/A
Mr. Jiang, Simon X.	1/1	4/4	3/3	2/2	1/1	2/2	N/A	N/A
Mr. Alexander Reid Hamilton	1/1	4/4	3/3	2/2	1/1	2/2	N/A	N/A
Ex-Directors								
Mr. Ye Weilong(7)	1/1	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Liu Xianghao(8)	1/1	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Wang Wei(9)	1/1	4/4	N/A	N/A	N/A	N/A	1/1	1/1

Notes:

(1) Mr. Wang Yuhang was appointed as Executive Director and Chairman on 15th January 2018.

(2) Mr. Zhu Jianhui, the Executive Director and Vice Chairman, was appointed as Managing Director on 15th January 2018. On the same day, he was appointed as committee chairman of Corporate Governance Committee and committee member of each of Remuneration Committee and Nomination Committee.

(3) On 15th January 2018, Mr. Liu Gang resigned as Managing Director but remained to act as Executive Director. On the same day, he resigned as committee chairman of Corporate Governance Committee and committee member of each of Remuneration Committee and Nomination Committee.

(4) Mr. Feng Boming was appointed as Non-executive Director on 15th January 2018. On the same day, he was appointed as committee member of Strategic Development Committee.

(5) Mr. Chen Dong was appointed as Non-executive Director on 15th January 2018. On the same day, he was appointed as committee member of Risk Management Committee.

(6) Mr. Ren Yongqiang was appointed as Non-executive Director on 15th January 2018.

(7) Mr. Ye Weilong resigned as Executive Director and Chairman on 15th January 2018.

(8) Mr. Liu Xianghao resigned as Executive Director on 15th January 2018 and accordingly ceased to be the committee member of each of Strategic Development Committee and Risk Management Committee.

(9) Mr. Wang Wei resigned as Non-executive Director on 15th January 2018 and accordingly ceased to be the committee member of each of 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 2017	— reviewing and making recommendations for the Board's approval on 2016 annual results announcement, the audited consolidated financial statements for the year ended 31st December 2016, 2017 interim results announcement, interim report 2017 and the unaudited condensed consolidated financial information for the six months ended 30th June 2017; — 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 2016 and for the period ended 30th June 2017 respectively; — making recommendations to the Board, subject to the Shareholders' approval at the 2017 annual general meeting, the re-appointment of PricewaterhouseCoopers as the external auditor of the Company; — reviewing the internal audit planning for the year 2018 and external audit planning for the year ending 31st December 2017; 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.

During the year, the Audit Committee met three times with major work performed mentioned above. Attendance of the committee member is set out the section headed "Board Meetings" of this report.

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. Zhu Jianhui.
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 2017	— reviewing and making recommendations to the Board on the Directors' fees of Independent Non-executive Directors for the year 2017; and — reviewing the remuneration report of the Group including determining the salary package for senior management of the Company.

During the year, the Remuneration Committee met twice with major work performed mentioned above. Attendance of the committee members is set out the section headed "Board Meetings" of this report.

(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. Zhu Jianhui.
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 2017	— 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 2018.

During the year, the Nomination Committee met once with major work performed mentioned above. Attendance of the committee member is set out the section headed "Board Meetings" of this report.

(d) Corporate Governance Committee

Members	Current members: An Executive Director, namely, Mr. Zhu Jianhui (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 2017	— reviewing the continuous professional development of Directors, the Company's compliance status of the CG Code for the year ended 31st December 2016 and the disclosure of the corporate governance report in the annual report of 2016; and — reviewing the Company's compliance status of the CG Code for the six months ended 30th June 2017.

During the year, the Corporate Governance Committee met twice with major work performed mentioned above. Attendance of the committee member is set out the section headed "Board Meetings" of this report.

(e) Strategic Development Committee

Members	Current members: Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Liu Gang; and a Non-executive Director, namely Mr. Feng Boming.
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 2017	— reviewing and discussing the report on the implementation of strategic development plan for the year 2016 and the strategic development plan for 2017.

During the year, the Strategic Development Committee met once with major work performed mentioned above. Attendance of the committee member is set out the section headed "Board Meetings" of this report.

(f) Risk Management Committee

Members	Current members: Two Executive Directors, namely, Mr. Zhu Jianhui (committee chairman) and Mr. Liu Gang; and a Non-executive Director, namely, Mr. Chen Dong.
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 2017	— reviewing and discussing the risk management report for 2017 in relation to the analysis on investment and strategic development risk, procurement risk, production safety risk, foreign exchange risk and trade receivables risk, and the work plan for risk management in 2018.

During the year, the Risk Management Committee met once with major work performed mentioned above. Attendance of the committee members is set out the section headed "Board Meetings" of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

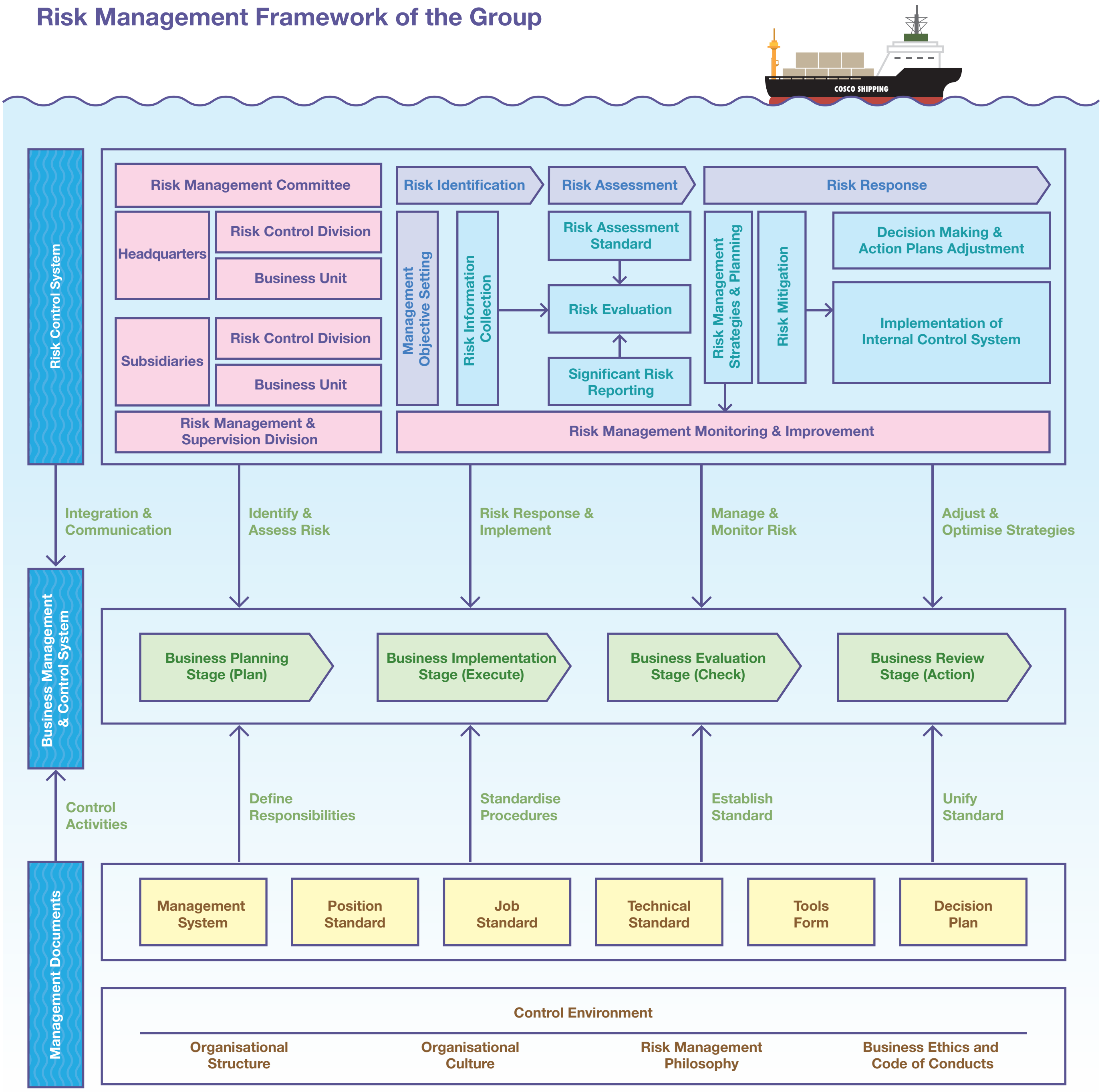
Responsibility

The Board has overall responsibility for ensuring an effective system of risk management and internal control is 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 Organizations 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.

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

In order to tackle with investment risk, the Company has taken into account the following: (1) whether an investment meets the Group's overall strategic development need, (2) whether an investment project can align the Group's capital operation and business operation, (3) whether the Group can avoid investment mistakes through its internal departmental functions and certain procedures, and (4) whether the Group can discover investment opportunity and evaluate investment result.

By considering existing investment projects, the strategic management risk should be focused on how shipping service business could be further developed consistently to achieve the Company's vision of becoming a global leading integrated shipping services provider. As the shipping industry could be easily affected by economic fluctuation, the Group should keep a close eye on the investment in other complementary segments so as to minimise the risk of depending on a single business or excessive concentration of customers during the development of shipping services business.

In 2017, the Group steadily implemented the approved investment projects in strict compliance with the approval procedures under the provision of overseas investment management by COSCO SHIPPING and guidelines for investment project management by COSCO SHIPPING (Hong Kong), in accordance with its established strategic development plan. No violations of investment occurred during the year.

According to the guidance of COSCO SHIPPING (Hong Kong), the Group continued to strengthen and expand its existing capital investment projects. On the other hand, the Group ensured the capability of sustainable development by exploration of new investment project, committed to the corporate strategic plan of transformation and upgrade, implementation of industrial complementary projects and developed other potential profitable segments of shipping services.

Procurement risk is mainly reflected in the purchase operations of COSCO Kansai Companies, COSCO SHIPPING International Trading and COSCO Yuantong Operation Headquarters, especially in COSCO Kansai Companies where various types of raw materials are involved with significant amount. Affected by uncontrollable internal and external environmental factors, procurement risk is involved in purchasing process. 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 continues to increase the variety of raw materials purchased online through electronic procurement platform. As of December 2017, annual bidding purchasing has been applied to zinc powder and online bidding purchasing also has been applied to epoxy resin. Meanwhile, COSCO Kansai Companies optimised price quotation system and SAP interface function. Online price quotation has been applied to 36 types of raw materials including zinc oxide, special epoxy resin and hardener. In 2017, COSCO Kansai Companies focused on business process and identified different risks in company operation procedure including procurement process. By analysing procurement cycle, the company regulated the purchase cycle, formulated different kinds of forms and template and carried out risk and internal control evaluation. It can 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 is a key area required the attention of the Group.

On the basis of continuous improvement in safety management, each subsidiary of the Group reduced safety risk by the following ways: (i) implementing two management systems including safety self-evaluation system and safety training system so as to enhance safety training; (ii) strengthening safety responsibility system to perform inspection and monitoring; (iii) implementing new technology for safety work and inspection; (iv) deepening inspection especially on hidden safety issues; (v) strengthening "HSE risk analysis rolling mechanism" to analyse safety risk areas periodically; (vi) strengthening seasonal and holiday safety work; (vii) strengthening inspection to increase the number of field inspection and follow up the safety issues discovered in prior inspection.

Credit risk on accounts receivable refers to the risk that customer fails to make payments according to the sales contracts and invoices. It is primarily reflected in subsidiaries involving credit sales, particularly in COSCO Kansai Companies, COSCO SHIPPING International Trading 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 monitor the long-term overdue customers continuously. The key measures to minimise and control the risk of trade receivable include: (i) establishing the trade receivable management team, strengthening the implementation of collection responsibility of each department and specific personnel and monitoring the trade receivable activities continuously (ii) holding regular trade receivable conferences with the relevant parties on regular basis to communicate the specific situation and follow up procedures (iii) setting up visit plan in person with customers to understand their payment arrangements and plans, 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 recovery 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$3,710,000 and HK$1,007,000 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 29th May 2017 (the "2017 AGM"). Shareholders were given at least 20 clear business days' notice of the 2017 AGM. The Chairman of the Board and the chairmen of relevant committees attended the 2017 AGM. The representative from PricewaterhouseCoopers, the external auditor of the Company attended the 2017 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 2017 AGM. The chairman of the 2017 AGM explained the detailed procedures for conducting a poll at such meetings. At the 2017 AGM, separate resolution for each substantially separate issue was proposed in order to avoid bundling resolutions. The poll voting results of the 2017 AGM was published on the websites of the Stock Exchange and the Company on the same day after the meeting.

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 2017.

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 2018

Looking forward to 2018, the global economy and world trade is likely to experience a new cycle of recovery and growth, and will maintain a relatively high growth rate. The International Monetary Fund and the World Bank both raised their estimates on global economic growth in the latest reports of world economic outlook. It is expected that the steady growth in global economy and trade will provide solid support and impetus for demand recovery in shipping market. With the gradually obvious structural industrial integration and accelerated development of rational market competition, it is reasonable to believe that seaborne trade will have healthy development. It is expected that global seaborne volume will maintain at a moderate growth rate of 3.6% in 2018. However, tightened monetary policies of various economic entities, increased expectation in global inflation, geopolitical tensions, intensified trade protectionism and other factors will pose uncertainties to the growth of global economy. The imbalance of supply and demand in the shipping market will still be the sword of Damocles hanging over the shipping market. The demand for modern ships and professional ship operation will provide new business space for shipping service enterprises, but will constitute a tough and advanced challenge. Overall, the shipping services industry will maintain its unique stability in 2018.

In 2018, COSCO SHIPPING International will accelerate the development of shipping services industrial cluster and non-financial business investment platform with the support of COSCO SHIPPING Group. In relation to the establishment of shipping services industrial cluster, the Company still strives to become a world class and the leading shipping services company in China. The Company will actively adhere to the development strategy of COSCO SHIPPING Group by striving for the consolidation and restructuring of shipping service assets under COSCO SHIPPING Group and seek external acquisition opportunities for shipping services business. Meanwhile, the Company will review its business structure and search for appropriate opportunities for adjustment, in order to strengthen the synergy effect, expand the scope of shipping service business, extend and improve the industrial chain of shipping services, and gradually build up the core competitiveness of shipping services industrial cluster. To confront with the contracting traditional business, we will shift our mindsets to integrate new technology into the existing business sector, actively look for and extend to new business areas with high added-values, so as to fully enhance the basis for earnings of each business unit.

For the ship trading agency services, COSCO SHIPPING Ship Trading will seize the opportunity, co-ordinate the relationship between the shipyards and ship-owners and keep improving its services to ensure smooth delivery of new build vessels. In addition, it will actively explore business outside COSCO SHIPPING Group and reinforce visiting the potential customers to further diversify its businesses. As of 31st December 2017, the amount of new build vessels ordered through COSCO SHIPPING Ship Trading and pending delivery reached 10,980,000 dead weight tonnages, which were scheduled for delivery in the coming two to three years.

In terms of marine insurance brokerage services, COSCO SHIPPING Insurance Brokers will further expand its business channels and scope, and actively expand to more insurance products within COSCO SHIPPING Group with marine insurance as its focus. At the same time, it will continue to expand third party businesses.

For the supply of marine equipment and spare parts, in response to the continuing cost control by shipping enterprises and young vessel age in general, COSCO Yuantong Operation Headquarters will continue to enhance the centralised procurement capacity of spare parts, marketing service and service quality. Also, it will strengthen network construction and data analysis, implement common spare parts pre-purchase scheme, set up common spare parts warehouse, and provide one-stop logistics service according to customers' needs. Meanwhile, it will further consummate the management of suppliers, expand its business development outside COSCO SHIPPING Group and domestic spare parts business, optimise the operation process, reduce overall procurement costs and boost the profitability as a whole.

For container coatings, COSCO Kansai Companies will continue to strengthen research and development of water-based coatings, push forward the market promotion and services of the water-based coatings products and consolidate the marketing effort on container manufacturing enterprises and container owners to improve market share, and they will develop the special container business and tap into the its market potential. For industrial heavy-duty anti-corrosion coatings, they will focus on strengthening the development and technical support of nuclear and wind power while maintaining their advantages on bridge products. They will energetically develop the market of industrial water-based coatings and actively promote the application of trailers, power transformers and light steel structure. 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, faced with depressing market condition of less demand for new build marine coatings in China, Jotun COSCO will continue to adopt the Hull Performance Solution promotion strategy to attract and retain customers and fully utilise the product advantage. Whilst maintaining market share and stable profit, it will expand markets orderly and selectively to keep business running smoothly. In view of the data analysis and Fleet Lifecycle (ship lifetime value), it will improve service capability and quality, as well as fortify its competitive advantages to achieve sustainable development. As at 31st December 2017, Jotun COSCO had coating contracts on hand for new build vessels amounting to 26,000,000 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.

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 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, COSCO SHIPPING International Trading will keep track on the successfully tendered projects to ensure the project execution and achieve expected revenue. It will continue to strengthen the establishment of the marketing network and the relationship management with customers, and actively participate in project bidding in order to secure project orders.

All the business units of COSCO SHIPPING International will proactively respond to market changes, while being committed to expanding business chains and intensifying the synergy according to their own circumstances, so as to improve the profitability of each segment.

As for the non-financial business investment platform, the Company will participate in the investment of COSCO SHIPPING Group in strategic and key development areas and strive to look for new business area. The Company will also pay attention to the investment opportunities arisen from new economy and new industries so as to bring actual benefits to the stakeholders as soon as possible and achieve the leapfrog development.

In 2018, thanks to the support of all investors, the Company was selected as a constituent of Hang Seng Composite Index Series and Hang Seng Stock Connect Hong Kong Index Series. Taking this as a new starting point, the Company will further establish an efficient and transparent operational system, keep the shareholders fully informed, balance the interests of all stakeholders, enhance communications with investors and actively collect opinions and advices from investors, thereby enabling the corporate value to be reasonably reflected in the capital market, and finally maximising our corporate value and the shareholder's return.

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.

CONTINUING MAINTAINING GOOD INVESTOR COMMUNICATIONS

In 2017, the global economy and the shipping market had both recovered with solid support of the macro economy. Baltic Dry Index reached its four-year peak. Global investment environment improved significantly, but the investors' attention was mainly focused on the Hang Seng Index constituent stocks and large market capitalisation stocks. Investors paid less attention to COSCO SHIPPING International as compared to the previous year. Nevertheless, the Company remained being active to promote to investors the Company's highlights and investment value, including the driving factors of existing business profitability, its dividend policy and high level of cash on hand, and to emphasis to investors the good fundamentals and strong defensiveness of COSCO SHIPPING International, as well as its cash on hand providing strong support for potential acquisition and non-financial businesses investment in the future, whereby so as to enable potential investors to have an in-depth understanding of the Company and to attract new institutional investors.

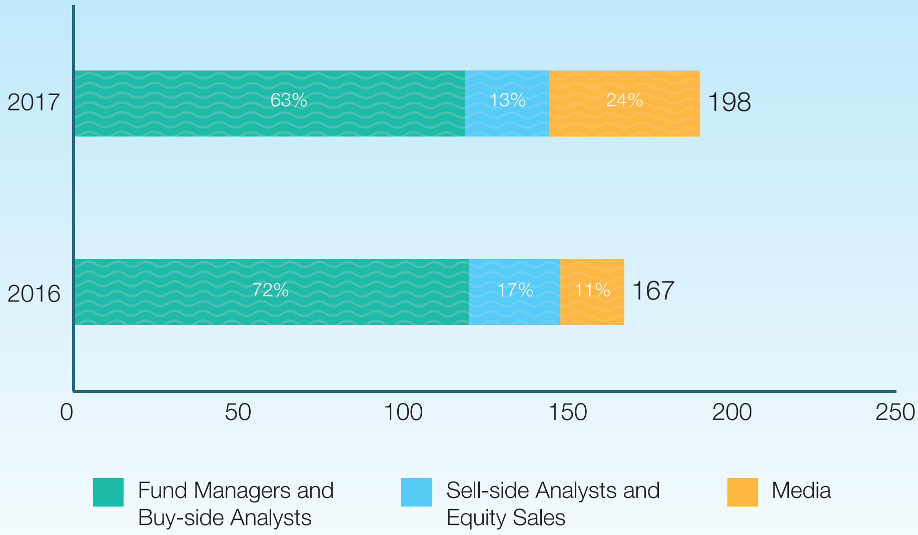
According to the Bloomberg Terminal, as at the end of 2017, the top 10 institutional shareholders' shareholding in COSCO SHIPPING International accounted for 6.55% of the total issued share capital of the Company. These institutional shareholders are based in Hong Kong, the United States, Norway and Luxembourg. Most of them focus on long-term value investing and are among the world's largest investment institutions with high reputation in the industry.

DIVERSIFIED COMMUNICATION CHANNELS OF INVESTOR RELATIONS

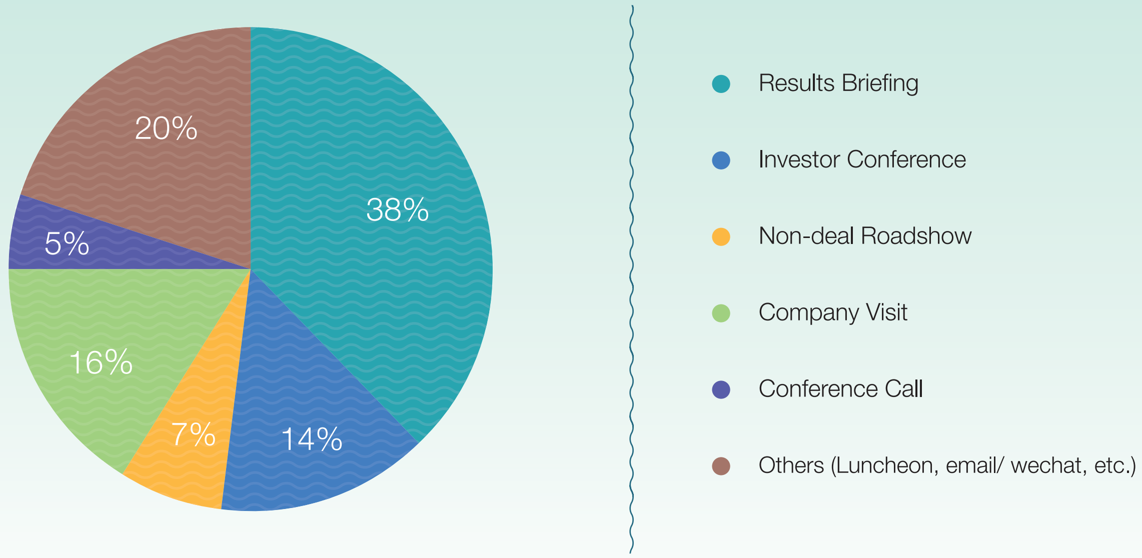
Company website (www.coscointl.com) The Company's website has an Investor Relations section, which provides: ● Announcements and Circulars ● Financial Reports ● Presentations ● Investor Calendar ● FAQ ● Historical Financial Data ● Stock Quote ● Dividends History	**Press conferences and analysts meetings 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 2017, the Company communicated timely, widely and thoroughly with institutional investors, sell-side analysts and the media for 124 attendances, 27 attendances and 47 attendances, respectively, amounting to a total of 198 attendances (2016: 167 attendances) through diversified communication channels and methods.

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 2017



A Glance at Investor Relations Activities Attended and Held by COSCO SHIPPING International In 2017

Date	Organiser	Activity	Location
January	Deutsche Bank	2017 China Conference	Beijing
March	COSCO SHIPPING International	Analyst Meeting for 2016 Annual Results	Hong Kong
	DBS Vickers	Non-deal Roadshow for 2016 Annual Results	Hong Kong
April	Macquarie	Great China Conference	Hong Kong
May	HSBC	2017 China Conference	Shenzhen
June	JP Morgan	Global China Summit 2017	Beijing
	HSBC	The 11th Annual Shipping & Aviation Conference	Hong Kong
August	COSCO SHIPPING International	Analyst Meeting for 2017 Interim Results	Hong Kong
	DBS Vickers	Non-deal Roadshow for 2017 Interim Results	Hong Kong
September	Haitong International	Non-deal Roadshow for 2017 Interim Results	Hong Kong
	Goldman Sachs	2017 China Conference	Shenzhen

KEY CONCERNS BY SHAREHOLDERS AND INVESTORS IN 2017

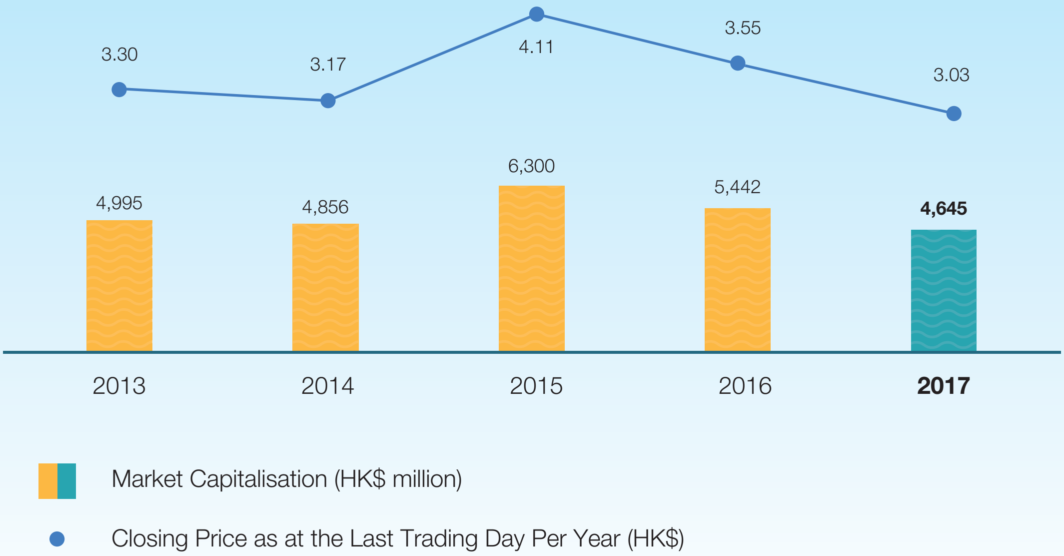
- Potential acquisition opportunities and its time schedule in the future
- Plans on the use of cash
- The operation conditions of existing businesses
- Future dividend distribution plan
- The timeline for the launch of share incentive scheme

SHARE PRICE PERFORMANCE

On the last trading day of 2017, the closing share price of COSCO SHIPPING International was HK$3.03 (2016: HK$3.55) per share, which represented a decrease of 14.6% year-on-year. The number of shares in issue of COSCO SHIPPING International was 1,532,955,429 shares (2016: 1,532,955,429 shares). The market capitalisation of the Company was HK$4,644,855,000 (2016: HK$5,441,992,000). During the year, the highest share price was HK$3.69 and the lowest share price was HK$2.90. The average share price was HK$3.29 (2016: HK$3.68). The daily average trading volume and daily average trading turnover were 1,240,703 shares (2016: 463,651 shares) and HK$4,086,265 (2016: HK$1,760,117) respectively.

COSCO SHIPPING INTERNATIONAL'S SHARE PRICE PERFORMANCE VS. HANG SENG INDEX IN 2017

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 2017 was 23.26 HK cents (2016: 15.47 HK cents). The Board proposed the 2017 final dividend of 12.0 HK cents (2016: 5.5 HK cents) per share, together with the interim dividend of 6.0 HK cents (2016: 4.0 HK cents) per share paid, annual dividends per share for 2017 were 18.0 HK cents (2016: 14.5 HK cents, including a special dividend of 5.0 HK cents per share).

The dividend payout ratio of 2017 was 77% (2016: 61%, excluding special dividend).

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

	2013	2014	2015	2016	**2017**
Basic earnings per share (HK cents)	15.96	23.70	21.91	15.47	**23.26**
Total annual dividends per share (HK cents)	5.5	13.0	16.0	14.5[Note 3]	**18.0**
Dividend payout ratio[Note 2] (%)	34	55	73	61	**77**

A GLANCE AT FIVE-YEAR FINANCIAL STATISTICS

For the year ended and as at 31st December	2013	2014	2015	2016	**2017**
Total number of shares issued (million)	1,514	1,532	1,533	1,533	**1,533**
Closing price[Note 1] (HK$)	3.30	3.17	4.11	3.55	**3.03**
Market capitalisation[Note 1] (HK$ million)	4,995	4,856	6,300	5,442	**4,645**
Basic earnings per share (HK cents)	15.96	23.70	21.91	15.47	**23.26**
Price/earnings ratio[Note 1] (times)	20.68	13.38	18.76	22.95	**13.03**
Dividends per share (HK cents)	5.5	13.0	16.0	14.5[Note 3]	**18.0**
Dividend payout ratio[Note 2] (%)	34%	55%	73%	61%	**77%**
Net assets value per share (HK$)	4.94	5.05	5.04	5.02	**5.16**
Return on total assets (%)	2.5%	3.8%	3.5%	2.5%	**3.8%**
Return on shareholders' equity (%)	3.3%	4.7%	4.3%	3.1%	**4.6%**
Net cash-to-shareholders' equity ratio (%)	84%	79%	80%	86%	**82%**
Current ratio (times)	5.19	5.58	6.13	6.43	**6.39**
Liquidity ratio (times)	4.91	5.34	5.87	6.24	**6.05**
Interest coverage (times)	83.0	161.6	115.3	69.9	**85.7**

Notes: 1. As at the last trading day per year
2. Excluding special dividend
3. In 2016, the Company paid a special dividend of 5 HK cents per share to celebrate the 20th anniversary of the Company's being a listed subsidiary of COSCO SHIPPING (Hong Kong).

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, pursues for comprehensive and coordinative sustainable development. COSCO SHIPPING International takes its responsibilities with respect to workplace quality, environmental protection, operating practices and community involvement treating 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

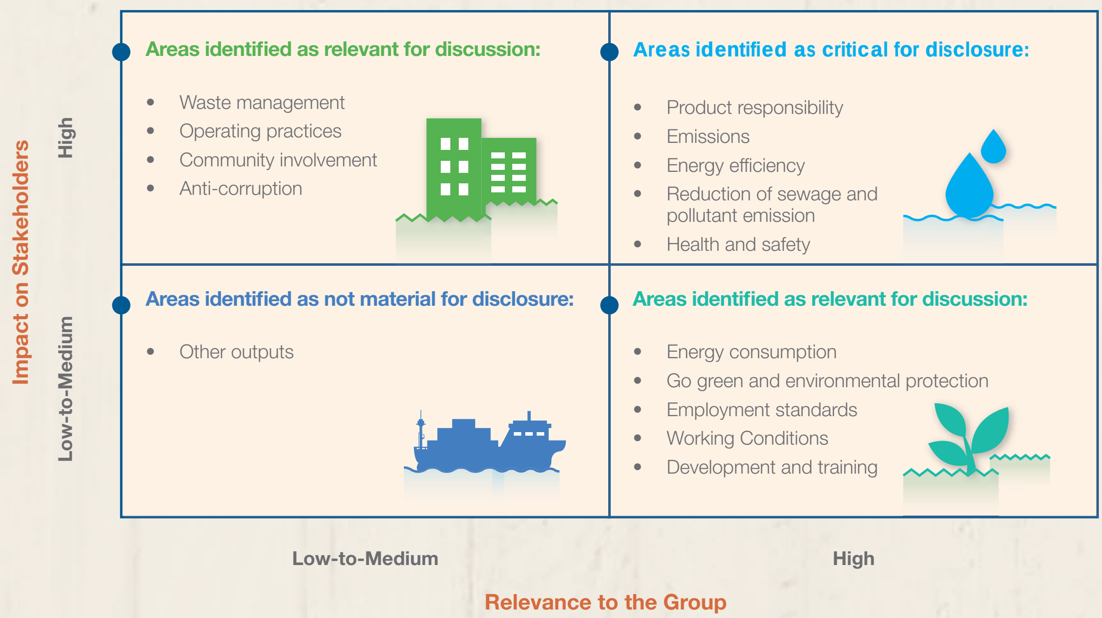
This report aims to review the performance and achievements of COSCO SHIPPING International's implementation of social responsibility strategies in 2017 and is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules (the "Guide"). This report has complied with the "comply or explain" provisions and reported based on all recommended disclosures of the Guide.

The scope of this report covers areas of workplace quality, environmental protection, operating practices and community involvement that enhance our utilization efficiency of resources, reduce our emissions and environmental impact, reinforce our class-leading safety culture and employee's safety and environmental risks awareness and promote our engagement in fulfilling our responsibility as a corporate social citizen, with an aim to create a solid foundation to bring return to Shareholders and the communities 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.

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 2017 annual general meeting of the Company. Besides, the Company maintained two-way communication with Shareholders, potential investors, sell-side analysts and buy-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.

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", the "Disability Discrimination Ordinance" and the "Family Status Discrimination Ordinance" etc.. In the PRC, we complied with 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 2017, the Group had a total of 846 (2016: 829) employees, all of them are permanent full-time employees.

Details of workforce of the Group are as follows:

	As at 31st December 2017	2016
TOTAL NUMBER OF EMPLOYEES	**846**	829
By gender		
Male	**662**	646
Female	**184**	183
By region		
Hong Kong	**110**	100
The PRC	**701**	692
Outside Hong Kong and the PRC(Note)	**35**	37
By age group		
Below 30	**174**	175
30 to 50	**594**	579
Over 50	**78**	75
EMPLOYEE TURNOVER RATE (%)	**5%**	17%
By gender		
Male	**4%**	17%
Female	**7%**	15%
By region		
Hong Kong	**19%**	7%
The PRC	**2%**	18%
Outside Hong Kong and the PRC(Note)	**9%**	19%
By age group		
Below 30	**3%**	6%
30 to 50	**4%**	22%
Over 50	**10%**	7%

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. New employees must participate in fire drills, recognize the use and storage of fire-fighting tools, and familiarize themselves with escape routes. 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 safe 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”.

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, being forbidden of smoking in offices and plants 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 report on accident, injury and pollution be ensured. The coating manufacturing subsidiaries of COSCO SHIPPING International pay great attention to safety measures for plants and warehouses. They abide by PRC and local regulation and requirement on hazardous chemical, and strictly implement the registration management regulations on dangerous chemicals, the general principles for the storage of dangerous chemicals, rule of packing mark for hazardous goods and the regulations on safety supervision of special equipment. Such subsidiaries 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 Organization 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 2017, there were no work-related fatalities (2016: nil) nor work injury cases (2016: 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 2017, the Group adopted various safety and health measures as follows:

	Safety measures adopted	Work implemented and monitored in 2017
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 pushed ahead the development of enterprise safety culture as planned. It continued to carry out self-inspection activity, namely "Safety Self-assessment System Inspection Standard (Coating Companies), and continued to implement other activities within the company, including the Kiken Yochi Training ("KYT"), Total Productive Maintenance ("TPM") and the Supply Manufacturing Shipment Speed Makemoney Slim Human ("SMASH") activity. In 2017, COSCO Kansai Companies implemented safety checks for 280 times (2016: 72 times), and found 1,076 (2016: 528) hidden hazards, all of which have been rectified.
2	Continued implementing unannounced emergency drills and examination and renewal of the contingency equipment	• Safety Committee conducted a total of 21 (2016: 37) on-site safety inspections on COSCO Kansai Companies. • COSCO Kansai Companies held a total of 17 (2016: 32) large-scale comprehensive and special emergency drills with 568 attendances (2016: 1,617 attendances) in 2017.
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 6 (2016: 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., and organized occupational health training, safety management training and special operation training for its employees. Meanwhile, the Group innovatively combines practices into induction trainings and arranges new employees to be guided by designated person of relevant department, which effectively enables the new employees to quickly acquire the skills needed for their jobs. Furthermore, 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 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 discussions and talks, thereby achieving a better result for interactions 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 could also enhance their skills through sales technique training. Personnel from the Technology Center had from time to time participated technology exchange activities of its parent company to advance its technology level, and the members from the safety committee of factories also had attended the safety practice seminar organized by COSCO SHIPPING Group to share the experience and technology on safety management. 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	
	2017	2016
TOTAL NO. OF TRAINING HOURS RECEIVED	**15,599 hours**	15,648 hours
Average no. of training hours per employee/rate of employees trained by employee category		
Senior	**31 hours/80%**	26 hours/84%
Middle-level	**19 hours/41%**	28 hours/84%
General	**14 hours/70%**	15 hours/79%
Average no. of training hours per employee/rate of employees trained by gender category		
Male	**11 hours/65%**	13 hours/80%
Female	**33 hours/75%**	33 hours/80%

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 administrative measures and other regulations on entry administrative management, recruitment and employment. 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, including Administrative Measures on Recruitment and Employment, Administrative Measures on Performance and Administrative Measures on labor contract, 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 operation 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 creating green offices and has actively implemented 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 International Organization for Standardization ("ISO"), actively developed new technologies and skills for the promotion of energy saving and emission reduction and explored environment-friendly products with fostering multiple series of water-based container coating products by achieving breakthrough in the R&D of water-based container coatings and water-based anti-corrosion coatings during the year, 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 and improve the resource utilization efficiency.

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 "Law of the People's Republic of China on Promotion of Cleaner Production", the "Environmental Protection Law of the People's Republic of China", the "Law of the People's Republic of China on Environmental Impact Assessment", the "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste" and the "Law of the People's Republic of China on Prevention and Control of Pollution by Environmental Noise", 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 inputs in the operation and production of coatings, the outputs that have an impact on the environment are listed below:

Inputs	Outputs	
• Electricity • Water • Production equipment • Chemical raw materials (Powder, organic solvents, resins and pigments, etc.)	• Atmospheric emissions • Wastewater discharge • Others emissions	• Waste gas including: volatile organic compounds, toluene volatiles, xylene volatiles, particulate matter; • Sewage • Solid waste (Non-hazardous): recyclable plastics product packaging, scrap iron, etc; • Solid waste (hazardous): hazardous waste generated by coating production (such as waste solvent buckets, rags, etc.) • Other: Noise (generated by equipment operation), odor

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

	Unit	2017	2016
Sewage	metric tons	**21,013**	17,611
Waste gas:	metric tons	**29.09**	17.71
Volatile Organic Compounds ("VOCs") and Benzene	metric tons	**4.73**	11.55
Toluene	metric tons	**0.12**	3.17
Xylene	metric tons	**1.70**	1.63
Particulate matter	metric tons	**20.14** note	1.36
Other exhaust gas emission	metric tons	**2.4** note	0
Solid waste (Hazardous)	metric tons	**1,420**	1,026
Solid waste (Non-hazardous)	metric tons	**363.2**	134.3

Note: During the year 2017, the coating plant in Jinshan, Shanghai has adopted emission target promoted by the nations and regions that has higher requirements for its statistic data, thus the actual detection value in 2017 is higher than that in 2016.

Greenhouse gas ("GHG") emissions data of the Group

	2017	2016
Total GHG emissions (Scope 1 and 2) (metric tons)	**4,170**	4,349
Total GHG emissions (Scope 1 and 2) per floor area (metric tons/m^2)	**0.14**	0.15
Total GHG emissions (Scope 1 and 2) per employee (metric tons/employee)	**4.93**	5.25
Total GHG emissions (Scope 1, 2 and 3) (metric tons)	**4,589**	4,719
Total GHG emissions (Scope 1, 2 and 3) per floor area (metric tons/m^2)	**0.15**	0.16
Total GHG emissions (Scope 1, 2 and 3) per employee (metric tons/employee)	**5.42**	5.69
Direct emissions (Scope 1) (metric tons)		
Petrol note 2	**103.65**	384.17
Diesel note 2	**207.98**	206.70
Indirect emissions (Scope 2) (metric tons)		
Electricity note 3	**3,858**	3,758
Indirect emissions (Scope 3) (metric tons)		
Business travel note 4	**251.85**	205.09
Paper consumption	**167.46**	165.11

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, emissions data relating to electricity excludes COSCOSHIP Beijing Company Limited.
4. Business travel refers to business travel by air. Emissions data relating to air travel was largely based on the International Civil Aviation Organisation Carbon Emissions Calculator. Such emissions data relating to business travel excludes the business travel of management nominated by Japanese shareholder of COSCO Kansai Companies. For those location that could not be identified, the calculation were made with estimated trip distance and relevant emission factors.
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 5,036 tonnes (2016: approximately 3,905 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.
- Proactively promoted 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.
- Reduced the waste generation through waste separation management and recycled use of the wooden pallets.
- Regulated the temperature of air-conditions to be at 28°C in summer and at 22°C in winter to reduce gas emission and electricity consumption, thus minimizing carbon emission indirectly.
- Reduced the number of using vehicles through the program of company vehicles use, and encouraged more use of public transport to reduce emissions from vehicles.
- Optimised and improved technology to reduce waste generation and energy consumption and improve energy efficiency.

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.

In additional, Jotun COSCO reused reusable waste water by purifying and separating waste water, thereby reducing clear water consumption and waste water emission; it also picked non-contaminated drums out of hazardous wastes to reduce 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" , through which it encouraged staff to reduce office consumables, control printing papers consumption or use two-sided printing. Through this campaign, it also promoted energy savings behaviors such as turning off the computers or electrical appliances and equipment when not in use, using energy-saving bulbs with high energy efficiency or light-emitting diode (LED) and adjusting the air conditioning temperature to average 25°C in office. Besides, it repeatedly emphasized the importance of environmental protection and energy saving through posters, slogans and other methods, with a view to enhance the energy saving awareness of all employees.

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 their awareness on regulated operation of equipment so as to reduce equipment failure and impairment, improve operation efficiency and ensure the safe operation of equipment.
- 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, including 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 28°C in summer and not higher than 22°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.
- Develop annual electricity plan to monitor the implementation. Encourage more use of public transport to reduce the number of using vehicles. Record oil consumption and travel mileage of company vehicles, and conduct maintenance inspection for company vehicles regularly to ensure that the exhaust gas content of company vehicles is in line with relevant laws and regulations on emission standards. Participate national or local energy-saving and environmental protection activities to promote environmental protection or energy-saving measures to our employees, actively improve relevant technologies, and encourage our employees take the initiative to engage in environmental protection.

Energy Consumption

The following is energy consumption of the Group by type:

	2017	2016
Total water consumption (metric tons) note 1	43,303	78,375
Total water consumption per floor area (metric tons/m²) note 1	1.82	3.29
Total electricity consumption (kilowatt hour) note 2	4,620,545	4,337,874
Total electricity consumption per floor area (kilowatt hour/m²) note 2	154.74	148.38
Total electricity consumption per employee (kilowatt hour/employee) note 2	5,676.35	5,355.40

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 2017, 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. Subsequent to such introduction and during the year, COSCO Kansai Companies actively participated in the formulation of such standards to push forward the advancement and development of the industry and actively promoted 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, and with such efforts it has successfully obtained 3 patent rights. COSCO Kansai Companies also actively developed water-based eco-friendly coatings that applicable to different fields. In 2017, it designed and completed the development of a series of water-based coatings, including water-based workshop primer, water-based alkyd coatings that possess light corrosion nature for household application purpose and water-based coatings for trailers. In terms of heavy-duty anti-corrosion coatings, COSCO Kansai Companies achieved breakthroughs in research and development. It has completed the development of CAP series coatings applying to the third generation of nuclear power plants, 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 and realized its onboard application, which break the monopoly of foreign manufacturer on such product. In 2018, in a spirit to better fulfill its corporate social responsibility, the COSCO Kansai Technology Center will uphold water-based coatings products as the focus of research and development project, and in parallel advance the research and development of solvent-less coatings and high solids coatings.

In 2017, Jotun COSCO continued to enhance the promotion of Hull Performance Solution and the high performance antifouling coating, Sea Quantum X200. As the product used raw materials without solvents but with low volatile organic compounds, it can lessen the roughness of the vessel body and accelerate the speed of marine. Theoretically, it can save up to 13.2% fuel consumption, as compared with market average level, which greatly reduces the fuel cost of ship-owners, reduces emission of greenhouse gases and reduces marine pollution. 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. COSCO Kansai will continue to develop water-based container coatings, heavy-duty anti-corrosion coatings and other environment-friendly products, so as to achieve its commitment of transforming anti-corrosive container coatings into environmentally friendly products. With its professional experiences and techniques in developing and using green coatings over the years, Jotun COSCO led the promulgation of new international standard, namely "ISO 19030: Measurement of changes in hull and propeller performance" which allows both purchasers and sellers to clearly understand the fuel-saving techniques and solutions. Under the new standard, the operating efficiency and environmental effectiveness within the overall industry will be enhanced which expected to save fuel cost for the shipping industry. Jotun COSCO has actively developed products with high solid content and low VOCs in order to reduce VOCs emissions. Such efforts of Jotun COSCO will 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. Staffs 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

Supplier management measures govern the engagement of suppliers. The Group implements supplier management in accordance with internal guidance. The Group will, on the basis of current market environment as well as national and local regulatory requirements on production, warehousing and transportation of relevant raw materials, identify the factors related to environment and social risk for the full coming year, and choose suppliers by considering quality and price and conducting screening and evaluation procedure. In addition, to ensure supplier capability in quality assurance, safety and other aspects of environmental management, the Group notifies its suppliers such environment, safety and occupational health requirements, and conducts field investigation on their production capacity, technology level, quality assurance capabilities, supply capacity, safety and environment management qualifications. 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.

The Group continues to develop local suppliers with the principle of keeping same terms and conditions, applies technological logistics management technology to shorten material delivery time , control warehouse inventory and transporting pressures arising from delivery and reduce emissions from transportation facility. Number of suppliers of the Group by geographical region is as follows:

Year	China Mainland	Hong Kong	Other Countries
2017	**813**	**118**	**733**
2016	826	118	726

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, the "Product Quality Law of the People's Republic of China", "Regulations of the People's Republic of China on Administration of Chemicals subjected to Supervision and Control", "Regulations of the People's Republic of China on Administration of Precursor Chemicals" and the "Provision on the Environmental Administration of New Chemical Substances 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 and pays high attention 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 11 (2016: 10) products and services related complaints and the companies concerned have made adjustment to 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 (2016: 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 2017 (2016: 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) and designed posters, slogan and animations, 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

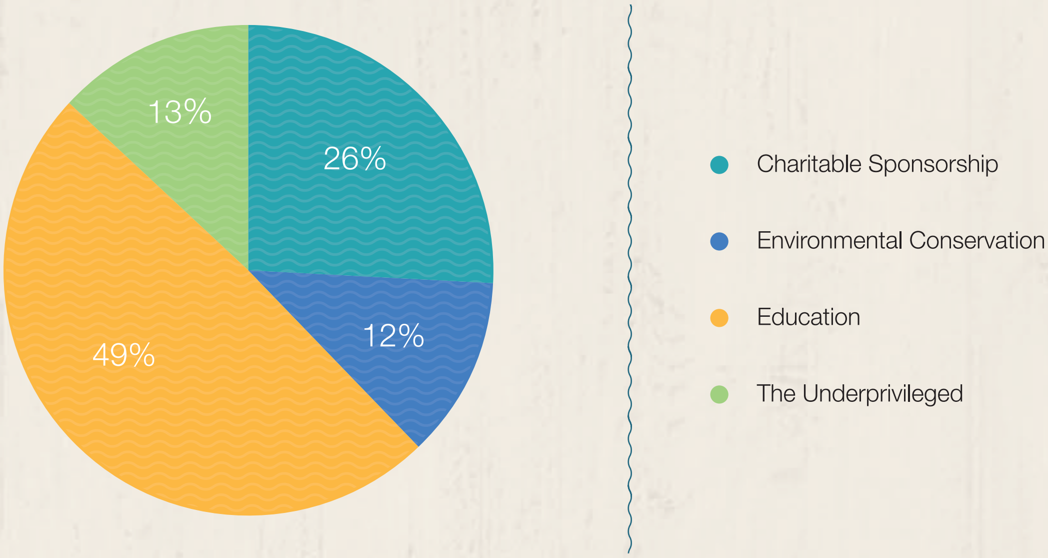
In 2014, COSCO SHIPPING International has formulated a Charitable Donation Policy. The donation policy is intended to provide a guideline for the Group in allocating the fund to the non-governmental organisations and other charitable bodies. It formalises the manner in which its philanthropic efforts 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 2017, the charitable donation and related expenses of COSCO SHIPPING International amounted to HK$285,000. (2016: HK$272,000).

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 2017, the Group’s involvement in the community continued focusing on the areas of education, environmental conservation and volunteer services for the underprivileged.

BREAKDOWN OF ALLOCATION OF CHARITABLE DONATIONS IN 2017



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 2017, COSCO SHIPPING International sent 55 employees and their family members, totaling 16 teams, to participate in the fund raising activity of “Sowers Action Challenging 12 Hours Charity Marathon 2017”. This was the 10th 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 2nd and the 6th place respectively.

Environmental Conservation

Supporting Marine Conservation

As a corporate member of WWF-Hong Kong, COSCO SHIPPING International has always been supporting the organisation's environmental conservation work. In 2017, in supporting the WWF-Hong Kong's annual eco-event, "Earth Hour", COSCO SHIPPING International, headquartered in Hong Kong turned off all unnecessary lights to reduce carbon emission as part of the actions we have taken to fulfill our responsibility of protecting the planet.

Besides COSCO SHIPPING's commitment on marine conservation of banning the transport of shark fins by its vessels, the Company has showed support for WWF-Hong Kong's initiative 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 in its practice.

The Company supported green printing. During the year, the Company adopted printing paper accredited by a non-profit green body namely Forest Stewardship Council (FSC) in the bulk printing of the Company's annual reports and other marketing collaterals. This helped reduce the damage to the nature caused by serious deforestation, showcasing Company's sustainable operation philosophy of undertaking environmental responsibility and bringing benefits to the society.

In addition, the Company would arrange opportunities for employees to participate in environmental conservation activities organised by WWF-Hong Kong from time to time, with an aim to improve our employees' awareness of the importance of marine conservation.

Promoting Recycling

Every year, the Company would collaborate with Christian Action to organise "Green Collection Day" programme, which aims to encourage the employees to reduce waste by donating recycled items to the people in need. In 2017, a total of 280 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 for the Elderly Living Alone

COSCO SHIPPING International's volunteer team mainly serves the underprivileged including the elderly living alone or in poverty, and the low-income families. Every year, the Company would cooperate with a non-profit organisation, Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council by sending its volunteer team during the winter days and festivals such as Dragon Boat Festival and Mid-Autumn Festival to visit the elderly living alone, and provide sponsorship with the gifts delivering its caring for them. In 2017, we have visited a total of 64 elderly persons who lived alone or in household. 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.

Furthermore, during the year, for the first time, COSCO SHIPPING International and Sham Shui Po District Elderly Community Centre of Neighbourhood Advice-Action Council jointly organised a "Day Tour to Coastal Defense Museum". COSCO SHIPPING International sponsored the activity and sent its volunteer team to accompany a group of 44 elderly people to visit the Hong Kong Museum of Coastal Defense, to learn about the defense history of Hong Kong over the past 600 years and had pleasant lunch together, delivering COSCO SHIPPING International's caring spirit towards the elderly living in the community. COSCO SHIPPING International was awarded with a certificate of recognition by Neighbourhood Advice-Action Council in recognition of its active participation in volunteer services.

Giving Assistance to Low-income Families

To provide more opportunities for the underprivileged including the new arrivals and low-income families to adapt to the society, COSCO SHIPPING International would organise activities, such as outdoors visits or farm workshop from time to time, accompanied by the Company's volunteers. In 2017, COSCO SHIPPING International cooperated with Christian Action to organise the "A Discovery Tour into Mai Po and Nam Sang Wai Wetland". The Company sponsored the activity and sent a volunteer team to accompany a group of 24 children to visit Mai Po Inner Deep Bay Ramsar Site and Nam Sang Wai Wetland under the leadership of tutors from WWF — Hong Kong, to search for the trace of migrant birds, compare the differences between wetlands with and without management and make paper using reeds, in which process these children could have a better understanding of the importance of protecting valuable natural resources and improve their awareness of environmental conservation and sustainable lifestyle.

In 2017, within the Company, 93 volunteers has participated in volunteering activities, with the total service hours reaching 388 hours. An aggregate of 132 persons have benefited from the above activities, reflecting COSCO SHIPPING International's corporate social responsibility in its community investment and caring for the underprivileged. COSCO SHIPPING International was awarded two Corporate Citizenship Logos in the "Enterprise Category" and "Volunteer Category" by The 8th Hong Kong Outstanding Corporate Citizenship Award organised by Hong Kong Productivity Council. The Company also received "10 Year Plus Company Logo" from The Hong Kong Council of Social Service, in recognition of the Company's unremitting efforts in caring for the employees and contributing to the environment and the community for consecutive ten years.

	Year ended 31st December	
	2017	2016
Community Investment		
Corporate charitable donations & sponsorships (HK$)	**285,000**	272,000
Volunteer Participation		
Participants	**93**	76
Service hours	**388**	376
Beneficiaries		
Number of beneficiaries	**132**	97

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 2017.

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 39 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 2017 are set out in the consolidated income statement on page 118 of this annual report. The Board has recommended the payment of a final dividend of 12 HK cents (2016: 5.5 HK cents) per share for the year ended 31st December 2017. Subject to the approval of the shareholders of the Company (the "Shareholders") in the annual general meeting to be held on 30th May 2018 (the "2018 AGM"), approximately HK$183,955,000 will be payable on 28th June 2018 to the Shareholders whose names appear on the register of members of the Company on 8th June 2018. The proposed final dividend together with the interim dividend of 6 HK cents per share, total dividends per share for the year 2017 are 18 HK cents (2016: 14.5 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 Companies Ordinance of Hong Kong (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 2017, 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 2017 calculated under Companies Act of Bermuda amounted to HK$7,462,500,000 (2016: HK$7,001,899,000).

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.

DONATIONS

Donations made by the Group during the year amounted to approximately HK$285,000 (2016: HK$272,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on pages 199 to 200.

DIRECTORS

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

Executive Directors

Mr. Wang Yuhang *(Chairman)*
(appointed on 15th January 2018)
Mr. Zhu Jianhui (Vice Chairman and Managing Director)
(appointed as Managing Director on 15th January 2018)
Mr. Liu Gang
(resigned as Managing Director on 15th January 2018)
Mr. Ye Weilong
(resigned on 15th January 2018)
Mr. Liu Xianghao
(resigned on 15th January 2018)

Non-executive Directors

Mr. Feng Boming
(appointed on 15th January 2018)
Mr. Chen Dong
(appointed on 15th January 2018)
Mr. Ren Yongqiang
(appointed on 15th January 2018)
Mr. Wang Wei
(resigned on 15th January 2018)

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. In accordance with bye-law 102(B) of the Company's bye-laws, any Director appointed to fill a casual vacancy shall hold office only until the next following general meeting or annual general meeting of the Company and shall then be eligible for re-election at that meeting. Pursuant to bye-laws 99 and 102(B) of the Company's bye-laws, Mr. Wang Yuhang, Mr. Feng Boming, Mr. Chen Dong, Mr. Ren Yongqiang and Mr. Jiang, Simon X. shall retire from office at the forthcoming annual general meeting of the Company and be eligible for re-election.

Mr. Ye Weilong resigned as Executive Director and Chairman on 15th January 2018 due to change of work designation. Mr. Liu Xianghao and Mr. Wang Wei resigned as Executive Director and Non-Executive Director respectively on 15th January 2018 due to change of work designation. Mr. Liu Gang resigned as Managing Director but remains as Executive Director on 15th January 2018 due to change of work designation. Each of Mr. Ye Weilong, Mr. Liu Xianghao, Mr. Wang Wei and Mr. Liu Gang confirmed that there was no disagreement with the Board needed to be brought to the attention of the Shareholders.

DIRECTORS' SERVICE CONTRACTS

Mr. Wang Yuhang, being the Executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 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. Each of Mr. Feng Boming, Mr. Chen Dong and Mr. Ren Yongqiang, being the Non-executive Director, has entered into a letter of appointment with the Company on 15th January 2018 for a term commencing from 15th January 2018 to the conclusion of the 2020 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' 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. Wang Yuhang	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. Feng Boming	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Chen Dong	Companies controlled by COSCO SHIPPING	Shipping services	director
Mr. Ren Yongqiang	Companies controlled by COSCO SHIPPING	Shipping services	director
Ex-Directors			
Mr. Ye Weilong#	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

Mr. Ye Weilong resigned as Executive Director and Chairman on 15th January 2018.

@ Mr. Liu Xianghao resigned as Executive Director on 15th January 2018.

^ Mr. Wang Wei resigned as Non-executive Director on 15th January 2018.

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:

Continuing Connected Transactions

1. (a) A master supply agreement was entered into between the Company and COSCO SHIPPING (Hong Kong) Co., Limited, a holding company of the Company ("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 (collectively "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, 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 2019 (the "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 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 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 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 "Caps with COSCO SHIPPING Group" (the "Supply Caps").

* *for identification purposes only*

(b) A 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 "Purchase Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "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 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 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 "Caps with COSCO SHIPPING Group" (the "Purchase Caps").

(c) A 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 "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 "Fuel Oil Financial Services") (collectively the "Fuel Oil Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "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 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 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 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 "Caps with COSCO SHIPPING Group" (the "Fuel Oil Caps").

(d) A 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 "Financial Services Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "Financial Services Master Agreement"). The transactions contemplated under the 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 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 "Caps with COSCO SHIPPING Group" (the "Financial Services Caps").

(e) A 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 "Management Services Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "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 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 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 "Caps with COSCO SHIPPING Group" (the "Management Services Caps").

(f) A 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 "Tenancy Continuing Connected Transactions") for the three financial years ending 31st December 2019 (the "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 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 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 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 "Caps with COSCO SHIPPING Group" (the "Tenancy Caps").

The Management Services Master Agreement, the Master Tenancy Agreement, the Management Services Caps and the 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 Master Supply Agreement, the Master Purchase Agreement, the Fuel Oil Master Agreement, the Financial Services Master Agreement, the Supply Caps, the Purchase Caps, the Fuel Oil Caps and the 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.

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 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 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 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 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 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 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 Master Tenancy Agreement	**HK$34,000,000**	HK$35,000,000	HK$36,000,000

* As the loan transactions under the 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 Financial Services Master Agreement are exempt from shareholders' approval and annual review requirements.

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 "Group's Continuing Connected Transactions") for the financial year ended 31st December 2017 were as follows:

Aggregate amount receivable by the Group for transactions contemplated under the Master Supply Agreement	HK$1,239,337,189
Aggregate amount payable by the Group for transactions contemplated under the Master Purchase Agreement	HK$120,534,256
Aggregate amount payable and receivable by the Group for transactions contemplated under the Fuel Oil Master Agreement	US$45,409,908
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 Financial Services Master Agreement	Not exceeded 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 Financial Services Master Agreement*	Not exceeded RMB400,000,000
Aggregate amount payable by the Group to COSCO SHIPPING Group for transactions contemplated under the Management Services Master Agreement	HK$8,201,566
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 Master Tenancy Agreement	HK$28,852,574

* As the loan transactions under the 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 Financial Services Master Agreement are exempt from shareholders' approval and annual review requirements.

The price and the terms of the Group's Continuing Connected Transactions have been determined in accordance with the pricing policies disclosed in the announcement of the Company dated 15th November 2016 and the circular of the Company dated 6th December 2016. As set out in notes 36(a)(i), 36(a)(ii), 36(a)(iii), 36(a)(iv), 36(a)(v), 36(a)(vi), 36(a)(vii), 36(b)(i), 36(b)(ii), 36(b)(iii), 36(b)(iv), 36(b)(vi), 36(b)(vii), 36(b)(ix), and 36(b)(x) 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; and (6) the Tenancy 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 2017 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 2017 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 2017 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.

2. On 7 February 2018, the Company, COSCO SHIPPING (Hong Kong), a direct controlling shareholder of the Company and COSCO SHIPPING, the ultimate controlling shareholder of the Company entered into the management services master agreement (the "COSCO SHIPPING HK Management Services Master Agreement") in relation to the provision of management services by the Company in relation to the day to day business operations and management of COSCO SHIPPING (Hong Kong) Group (other than those relating to the Group and Piraeus Port Authority S.A.) (collectively the "COSCO SHIPPING HK Management Services Continuing Connected Transactions") for the two financial years ending 31st December 2019. It is contemplated that individual agreements will be entered into between the Company and relevant members of COSCO SHIPPING (Hong Kong) Group in respect of the transaction(s) within the scope of the COSCO SHIPPING HK Management Services Master Agreement. The management fee to be received by the Company shall be negotiated at arm's length by the Company and the relevant member of COSCO SHIPPING (Hong Kong) Group and at a price determined upon the basis of the principle of "cost-plus" which is based on the cost arising from the provision of management services to COSCO SHIPPING (Hong Kong) Group by the Company plus a margin as agreed after arm's length negotiations between the Company and the relevant members of COSCO SHIPPING (Hong Kong) Group. In determining the costs, the Company will take into account the actual costs incurred (including, among others, the cost of human resources, professional knowledge and other resources). In determining the margin, the Company will take into account the scope and type of the services to be provided by the Company and rates that are generally accepted by the market and/or the general tax authorities. The Company will refer to, among other things, the terms in relation to the provision of services of similar nature in the market by independent third parties and compare them with the terms for the provision of services by the Company to ensure that the fees payable by the relevant members of COSCO SHIPPING (Hong Kong) Group to the Company will not be less favorable than the fees payable to an independent third party for the provision of services of similar nature. The aggregate amount of COSCO SHIPPING HK Management Services Continuing Connected Transactions for each of the financial years ending 31st December 2018 and 2019 would not exceed HK$130,000,000 and HK$130,000,000 respectively (the "COSCO SHIPPING HK Management Services Caps"). The COSCO SHIPPING HK Management Services Master Agreement and the COSCO SHIPPING HK Management Services 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 7th February 2018.

RELATED PARTY TRANSACTIONS

Material related party transactions of the Group are set out in note 36 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' INTERESTS IN SECURITIES

As at 31st December 2017, 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 2017	Units granted during the year	Units exercised during the year	Units lapsed during the year	Outstanding as at 31st December 2017	Approximate percentage of total number of issued H shares of associated corporation	Notes
Ex-Directors									
Mr. Ye Weilong@	China COSCO*	9.54	480,000	–	–	(480,000)	–	N/A	(1), (2)
Mr. Wang Wei^	China COSCO*	9.54	60,000	–	–	(60,000)	–	N/A	(1), (2)

@ Mr. Ye Weilong resigned as Executive Director and Chairman on 15th January 2018.

^ Mr. Wang Wei resigned as Non-executive Director on 15th January 2018.

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

Notes:

(1) These share appreciation rights ("Share Appreciation Rights") were granted by China COSCO (now known as COSCO SHIPPING Holdings Co., Ltd.") ("COSCO SHIPPING Holdings") in units with each unit representing one H share of COSCO SHIPPING Holdings on 4th June 2007 pursuant to the share appreciation rights plan adopted by COSCO SHIPPING Holdings (the "Plan"). Under the Plan, no share will be issued. These Share Appreciation Rights can be exercised at HK$9.54 per unit according to its terms between 4th June 2009 and 3rd June 2017.

(2) 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 COSCO SHIPPING Holdings 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 2017.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2017, 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 number of the Company
COSCO SHIPPING	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company*)# ("COSCO")	Interest of controlled corporation	Corporate interest	1,013,641,486	66.12%
COSCO SHIPPING (Hong Kong)	Beneficial owner	Beneficial interest	1,013,641,486	66.12%

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

Now known as 中國遠洋運輸有限公司(China Ocean Shipping Company Limited*)

* for identification purposes only

Save as disclosed above, as at 31st December 2017, 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 2018 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 2017.

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 2017.

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 the 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 2017.

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 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 2017, 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

Zhu Jianhui
Vice Chairman and Managing Director

Hong Kong, 23rd March 2018

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.
(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") and its subsidiaries (the "Group") set out on pages 117 to 197, which comprise:

- the consolidated statement of financial position as at 31st December 2017;
- 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 2017, 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 period. 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$667,031,000 after providing for impairment of HK$26,913,000 as at 31st December 2017. 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 continuing challenges over the economy and operating environment in the shipping industry during the year has 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 makes 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. • 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.

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 2018

Consolidated Statement of Financial Position

As at 31st December 2017

	Note	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Intangible assets	6	104,287	101,951
Property, plant and equipment	7	331,038	343,912
Prepaid premium for land leases	8	31,549	30,138
Investment properties	9	97,468	56,954
Investments in joint ventures	10	298,190	417,617
Investments in associates	11	122,644	117,564
Available-for-sale financial assets	13	60,613	63,091
Deferred income tax assets	15(a)	54,156	53,724
Non-current deposits	19	1,563	11,179
		1,101,508	1,196,130
Current assets			
Inventories	16	450,923	243,360
Trade and other receivables	17	1,528,869	1,196,797
Available-for-sale financial assets	13	38,848	33,386
Derivative financial instruments	14	—	1,645
Financial assets at fair value through profit or loss	18	862	886
Current income tax recoverable		4,283	5,102
Restricted bank deposits	19	1,794	559
Current deposits and cash and cash equivalents	19	6,483,613	6,710,279
		8,509,192	8,192,014
Total assets		9,610,700	9,388,144
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	153,296	153,296
Reserves	21	7,760,833	7,548,865
		7,914,129	7,702,161
Non-controlling interests		299,471	343,580
Total equity		8,213,600	8,045,741
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	15(b)	64,829	69,349
Current liabilities			
Trade and other payables	22	1,311,362	1,186,822
Current income tax liabilities		20,909	19,156
Short-term borrowings	23	—	67,076
		1,332,271	1,273,054
Total liabilities		1,397,100	1,342,403
Total equity and liabilities		9,610,700	9,388,144

Zhu Jianhui
Director

Liu Gang
Director

The notes on pages 123 to 197 form an integral part of these audited consolidated financial statements.

Consolidated Income Statement

For the year ended 31st December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	5	8,786,094	7,430,297
Cost of sales	25	(8,159,011)	(6,886,051)
Gross profit		627,083	544,246
Other income and gains — net	24	94,134	16,600
Selling, administrative and general expenses	25	(502,425)	(447,434)
Operating profit		218,792	113,412
Finance income	28	124,948	90,960
Finance costs	28	(5,244)	(4,414)
Finance income — net	28	119,704	86,546
Share of profits of joint ventures	10	64,730	89,930
Share of profits of associates	11	12,336	10,202
Profit before income tax		415,562	300,090
Income tax expenses	29	(54,948)	(63,590)
Profit for the year		360,614	236,500
Profit/(loss) attributable to:			
Equity holders of the Company		356,627	237,205
Non-controlling interests		3,987	(705)
		360,614	236,500
Earnings per share attributable to equity holders of the Company during the year			
— basic, HK cents	30	23.26	15.47

The notes on pages 123 to 197 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	360,614	236,500
Other comprehensive income/(losses)		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	106,901	(93,630)
Share of currency translation differences of:		
— a joint venture	18,438	(16,128)
— an associate	(194)	(200)
Share of cash flow hedges of an associate, net of tax	(749)	9,329
Reserves realised in consolidated income statement upon disposal of an associate	(48)	—
Fair value gains on available-for-sale financial assets, net	2,984	12,268
Items that will not be reclassified to profit or loss:		
Gain on revaluation upon reclassification of property, plant and equipment to investment properties	3,302	—
Deferred tax relating to the gain on revaluation upon reclassification of property, plant and equipment to investment properties	(561)	—
Other comprehensive income/(losses) for the year	130,073	(88,361)
Total comprehensive income for the year	490,687	148,139
Total comprehensive income/(losses) attributable to:		
Equity holders of the Company	464,906	172,290
Non-controlling interests	25,781	(24,151)
	490,687	148,139

The notes on pages 123 to 197 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2017

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits	Total		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2017		153,296	1,015,675	6,533,190	7,702,161	343,580	8,045,741
Profit for the year		—	—	356,627	356,627	3,987	360,614
Other comprehensive income/ (losses)							
Currency differences on translation of:							
— subsidiaries	21	—	82,679	—	82,679	—	82,679
— joint ventures	21	—	1,061	—	1,061	—	1,061
— associates	21	—	1,367	—	1,367	—	1,367
— non-controlling interests		—	—	—	—	21,794	21,794
Share of currency translation differences of:							
— a joint venture	21	—	18,438	—	18,438	—	18,438
— an associate	21	—	(194)	—	(194)	—	(194)
Share of cash flow hedges of an associate, net of tax	21	—	(749)	—	(749)	—	(749)
Reserves realised in consolidated income statement upon disposal of an associate	21	—	(48)	—	(48)	—	(48)
Fair value gains on available-for-sale financial assets, net	21	—	2,984	—	2,984	—	2,984
Gain on revaluation upon reclassification of property, plant and equipment to investment properties	21	—	3,302	—	3,302	—	3,302
Deferred tax relating to the gain on revaluation upon reclassification of property, plant and equipment to investment properties	21	—	(561)	—	(561)	—	(561)
Total comprehensive income for the year ended 31st December 2017		—	108,279	356,627	464,906	25,781	490,687
Transactions with owners							
Transfer between reserves	21	—	29,933	(29,933)	—	—	—
Dividends paid	21	—	—	(252,938)	(252,938)	(69,890)	(322,828)
Total transactions with owners		—	29,933	(282,871)	(252,938)	(69,890)	(322,828)
Balance at 31st December 2017		153,296	1,153,887	6,606,946	7,914,129	299,471	8,213,600

The notes on pages 123 to 197 form an integral part of these audited consolidated financial statements.

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits	Total		
		HK$'000	HK$'000	HK$'000	HK$'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 123 to 197 form an integral part of these audited consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December 2017

	Note	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	32(a)	(143,850)	434,241
Income tax paid		(59,020)	(33,278)
Net cash (used in)/from operating activities		(202,870)	400,963
Cash flows from investing activities			
Increase in cash deposits with maturity over three months		(10,627)	(310,499)
Increase in restricted bank deposits		(1,153)	—
Advance of loan to a joint venture		(23,433)	—
Interest received		121,179	90,827
Dividends received from investments		5,470	2,420
Dividends received from joint ventures		203,656	180,440
Dividends received from associates		7,253	8,857
Net proceeds from sale of property, plant and equipment		15,774	229
Purchases of intangible assets		(293)	(1,285)
Purchases of property, plant and equipment		(16,089)	(10,226)
Net proceeds from disposal of an associate		427	—
Net cash used in acquisition of a subsidiary	35	(30,277)	—
Net cash from/(used in) investing activities		271,887	(39,237)
Cash flows from financing activities			
Drawdown of bank loans		—	70,122
Repayment of bank loans		(69,187)	(35,313)
Finance costs paid		(5,244)	(4,414)
Dividends paid to the Company's equity holders		(252,938)	(199,284)
Dividends paid to non-controlling interests		(69,890)	(2,738)
Net cash used in financing activities		(397,259)	(171,627)
Net (decrease)/increase in cash and cash equivalents		(328,242)	190,099
Cash and cash equivalents at the beginning of the year		1,281,883	1,115,152
Exchange gains/(losses) on cash and cash equivalents		30,008	(23,368)
Cash and cash equivalents at the end of the year	19(g)	983,649	1,281,883

The notes on pages 123 to 197 form an integral part of these audited consolidated financial statements.

1 GENERAL INFORMATION

COSCO SHIPPING International (Hong Kong) Co., Ltd. (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 is China COSCO Shipping Corporation Limited ("COSCO SHIPPING"), a state-owned enterprise in the People's Republic of China (the "PRC").

The acquisition of CSHT Marine Machinery Suppliers Limited ("CSHT Marine") by the Company was completed on 1st January 2017 and CSHT Marine became a direct wholly-owned subsidiary of the Company.

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 2018.

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 2017, 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
Amendments to HKAS 7	Statement of cash flows	1st January 2017
Amendments to HKAS 12	Income taxes	1st January 2017
Amendments to HKFRS 12	Disclosure of interest in other entities	1st January 2017

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 2017 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
Amendments to HKAS 28	Investments in associates and joint ventures	1st January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1st January 2018
HKFRS 16	Leases	1st January 2019
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's assessment of the impact of these new standards and interpretations is set out below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

HKFRS 9 Financial instruments (effective on 1st January 2018)

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group is reviewing the impact of the new standard on its financial assets. Based on preliminary assessment undertaken to date, the Group does not expect the new guidance to have a significant impact on the classification and measurement of the financial assets from the adoption of the new standard on 1st January 2018, for the following reasons:

- For equity instruments currently classified as available-for-sale, fair value through other comprehensive income ("FVOCI") election is available, and

- Equity investments currently measured at fair value through profit or loss ("FVPL") will likely continue to be measured on the same basis under HKFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39, which applies to the Group's trade receivables. Based on the assessments undertaken to date, the Group expects there will not be any material effect on the results and financial positions.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 Revenue from contracts with customers (effective on 1st January 2018)

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

HKFRS 15 Revenue from contracts with customers (effective on 1st January 2018) (Continued)

Impact

Management is assessing the effects of applying the new standard on the Group's financial statements and has identified the following revenue stream relating to provision of services that may be affected:

- Commission income from ship trading agency
- Commission income from insurance brokerage

With regards to the above revenue streams, HKFRS 15 requires revenue to be recognised over time if customers receive and consume the benefits provided by the entity's performance as the entity performs. Such recognition should be on a basis that faithfully depicts the entity's performance in transferring the promised services to the customer and assessed based on the progress towards complete satisfaction of the revenue contract.

Based on the assessments undertaken to date, the Group expects there will not be any material impact on the Group's current revenue recognition policy and its results and financial positions.

For the remaining standards, the Group has already commenced an assessment of the related impact of adoption, 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(i) *Subsidiaries (Continued)*

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (Continued)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Properties (Continued)

(i) Investment properties (Continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(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 — net" 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Derivative financial instruments and hedging activities (Continued)

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 — net". The fair values of the derivative instruments held for trading are disclosed in note 14.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(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 — net".

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) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 2017, 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$44,201,000 (2016: HK$45,187,000) 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 2017, 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$4,129,000 (2016: HK$2,000,000) 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"). 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$31,705,000 (2016: HK$32,033,000).

(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 2017 and 2016, there were no outstanding derivative financial instruments entered into by the Group.

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(3) Price risk (Continued)

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	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
5% increase/decrease in market price	**43**	44	**4,885**	4,736

(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 93% of the Group's bank balances as at 31st December 2017 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.

(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.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

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 2017	
Trade and other payables	**1,311,362**
At 31st December 2016	
Trade and other payables	1,186,822
Short-term borrowings	68,371

(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.

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 2016, is to maintain a low gearing ratio. The gearing ratios at 31st December 2017 and 2016 were as follows:

	2017 **HK$'000**	2016 HK$'000
Total borrowings	**–**	67,076
Total assets	**9,610,700**	9,388,144
Gearing ratio	**–**	0.7%

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation

The table below analyses financial instruments and investment properties that are 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 and investment properties that are measured at fair value at 31st December 2017.

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
— equity securities	**97,702**	**—**	**1,759**	**99,461**
Financial assets at fair value through profit or loss				
— trading securities	**862**	**—**	**—**	**862**
Investment properties				
— commercial — Hong Kong	**—**	**—**	**27,500**	**27,500**
— commercial — Overseas	**—**	**—**	**29,749**	**29,749**
— residential — PRC	**—**	**—**	**40,219**	**40,219**
Total assets	**98,564**	**—**	**99,227**	**197,791**

The following table presents the Group's financial assets and investment properties 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
Investment properties				
— commercial — Hong Kong	—	—	24,500	24,500
— residential — PRC	—	—	32,454	32,454
Total assets	95,604	1,645	58,713	155,962

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

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 2017.

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

At the end of each reporting period, the management update their assessment of the fair value of each property, taking into account the most recent independent valuations. Valuation techniques adopted is the direct comparison approach and the unobservable inputs being the price per gross floor area. The range of unobservable input at 31st December 2017 was from HK$3,276 to HK$9,560 per square feet (2016: from HK$4,192 to HK$8,264 per square feet). There is a positive correlation between the fair value price per square feet and the fair value of the investment properties.

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.

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 makes 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.

(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:

	2017 HK$'000	2016 HK$'000
Sale of coatings	**888,766**	637,033
Sale of marine equipment and spare parts	**1,199,307**	1,064,999
Commission income from ship trading agency	**136,541**	98,921
Commission income from insurance brokerage	**95,803**	94,411
Sale of marine fuel and other products	**5,815,463**	4,766,546
Sale of asphalt and other products	**650,214**	768,387
	8,786,094	7,430,297

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 2017									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings	Marine equipment and spare parts	Ship trading agency	Insurance brokerage	Marine fuel and other products	Total				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit and loss items:										
Segment revenue	888,766	1,208,430	136,827	96,112	5,890,936	8,221,071	660,076	–	(95,053)	8,786,094
Inter-segment revenue	–	(9,123)	(286)	(309)	(75,473)	(85,191)	(9,862)	–	95,053	–
Revenue from external customers	888,766	1,199,307	136,541	95,803	5,815,463	8,135,880	650,214	–	–	8,786,094
Segment operating profit	7,167	58,250	89,660	67,519	6,379	228,975	7,361	4,400	–	240,736
Finance income	3,955	715	5,155	1,198	738	11,761	1,887	–	(3,536)	10,112
Finance costs	(61)	(2,826)	(84)	(181)	(1,823)	(4,975)	(7,872)	–	3,536	(9,311)
Share of profits of joint ventures	63,864	431	435	–	–	64,730	–	–	–	64,730
Share of profits of associates	–	–	78	–	10,457	10,535	1,801	–	–	12,336
Segment profit before income tax	74,925	56,570	95,244	68,536	15,751	311,026	3,177	4,400	–	318,603
Income tax expenses	(14,948)	(8,713)	(17,078)	(12,284)	(698)	(53,721)	(489)	–	–	(54,210)
Segment profit after income tax	59,977	47,857	78,166	56,252	15,053	257,305	2,688	4,400	–	264,393
Balance sheet items:										
Total segment assets	1,488,249	1,016,624	374,499	202,392	302,707	3,384,471	735,554	98,563	(197,506)	4,021,082
Total segment assets include:										
— Joint ventures	283,298	12,174	2,718	–	–	298,190	–	–	–	298,190
— Associates	–	–	2,193	–	113,274	115,467	7,177	–	–	122,644
Total segment liabilities	438,630	436,421	86,772	84,102	130,104	1,176,029	501,189	–	(197,506)	1,479,712
Other items:										
Depreciation and amortisation, net of amount capitalised	18,113	3,435	272	328	–	22,148	2,102	–	–	24,250
Net provision for impairment of inventories	6,618	–	–	–	–	6,618	–	–	–	6,618
Net provision/(reversal of provision) for impairment of trade receivables	3,562	(2,967)	–	–	–	595	–	–	–	595
Government subsidy income	(11,531)	–	–	–	–	(11,531)	–	–	–	(11,531)
Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets)	4,785	223	311	355	–	5,674	10,332	–	–	16,006

5 REVENUE AND SEGMENT INFORMATION (Continued)

	Year ended and as at 31st December 2016									
	Shipping services						General trading	Others	Inter-segment elimination	Total
	Coatings	Marine equipment and spare parts	Ship trading agency	Insurance brokerage	Marine fuel and other products	Total				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'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)

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

	2017 HK$'000	2016 HK$'000
Profit before income tax for reportable segments	314,203	279,765
Profit before income tax for all other segments	4,400	4,405
Profit before income tax for all segments	318,603	284,170
Elimination of segment income from corporate headquarters	(215)	(138)
Elimination of segment finance costs to corporate headquarters	4,087	408
Corporate finance income	114,836	77,868
Corporate finance costs	(20)	(23)
Corporate expenses, net of income	(21,729)	(62,195)
Profit before income tax for the Group	415,562	300,090
Income tax expenses for all segments	(54,210)	(39,102)
Corporate income tax expenses	(738)	(24,488)
Profit after income tax for the Group	360,614	236,500

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

	2017 HK$'000	2016 HK$'000
Total assets for reportable segments	4,120,025	4,243,801
Total assets for all other segments	98,563	97,249
Elimination of inter-segment receivables	(197,506)	(235,396)
	4,021,082	4,105,654
Corporate assets (mainly deposits and cash and cash equivalents)	5,745,085	5,379,848
Elimination of corporate headquarters' receivables from segments	(155,467)	(97,358)
Total assets for the Group	9,610,700	9,388,144

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:

	2017 HK$'000	2016 HK$'000
Total liabilities for reportable segments	1,677,218	1,602,829
Elimination of inter-segment payables	(197,506)	(235,396)
	1,479,712	1,367,433
Corporate liabilities	72,855	72,328
Elimination of segment payables to corporate headquarters	(155,467)	(97,358)
Total liabilities for the Group	1,397,100	1,342,403

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$1,086,530,000 (2016: HK$862,957,000) and HK$7,699,564,000 (2016: HK$6,567,340,000) 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$562,771,000 (2016: HK$677,131,000) and HK$423,968,000 (2016: HK$402,184,000) respectively.

Revenues of HK$3,790,689,000 (2016: HK$2,881,954,000) and HK$1,757,941,000 (2016: HK$1,769,172,000) are derived from two external customers of the marine fuel and other products segment respectively.

6 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Cost:			
At 1st January 2017	**104,331**	**12,633**	**116,964**
Additions	**—**	**293**	**293**
Acquisition of a subsidiary (note 35)	**1,437**	**16**	**1,453**
Currency translation differences	**1,555**	**476**	**2,031**
At 31st December 2017	**107,323**	**13,418**	**120,741**
Accumulated amortisation and impairment:			
At 1st January 2017	**5,984**	**9,029**	**15,013**
Currency translation differences	**—**	**366**	**366**
Amortisation (note 25)	**—**	**1,075**	**1,075**
At 31st December 2017	**5,984**	**10,470**	**16,454**
Net book amount	**101,339**	**2,948**	**104,287**

	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

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:

	2017 HK$'000	2016 HK$'000
Agency service in respect of shipbuilding, ship trading and bareboat charter business	47,941	47,132
Provision of insurance brokerage services	35,046	35,046
Trading of marine equipment and spare parts	18,352	16,169
	101,339	98,347

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 and thereafter with estimated compound annual growth rate of 3% (2016: 3%). Management determined forecast profitability based on past performance and its expectation for market development. Future cash flows are discounted at 10% (2016: 9%) per annum. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. 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.

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 2016						
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
Year ended 31st December 2017						
Opening net book amount	**270,177**	**63,203**	**2,770**	**6,452**	**1,310**	**343,912**
Additions	**72**	**12,161**	**—**	**667**	**3,189**	**16,089**
Acquisition of a subsidiary (note 35)	**—**	**226**	**—**	**68**	**—**	**294**
Transfer between categories	**1,627**	**1,687**	**—**	**—**	**(3,314)**	**—**
Currency translation differences	**18,250**	**4,365**	**124**	**289**	**87**	**23,115**
Depreciation (note 25(a))	**(9,820)**	**(12,392)**	**(818)**	**(3,626)**	**—**	**(26,656)**
Disposals	**—**	**(258)**	**—**	**—**	**—**	**(258)**
Transfer to investment properties (note 9)	**(25,458)**	**—**	**—**	**—**	**—**	**(25,458)**
Closing net book amount	**254,848**	**68,992**	**2,076**	**3,850**	**1,272**	**331,038**
At 31st December 2017						
Cost	**309,964**	**137,204**	**17,807**	**38,994**	**1,272**	**505,241**
Accumulated depreciation	**(55,116)**	**(68,212)**	**(15,731)**	**(35,144)**	**—**	**(174,203)**
Net book amount	**254,848**	**68,992**	**2,076**	**3,850**	**1,272**	**331,038**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2017 HK$'000	2016 HK$'000
Freehold properties held outside Hong Kong	—	24,211
Leasehold properties held in Hong Kong		
— on leases of over 50 years	3,546	3,581
— on leases of between 10 and 50 years	1,116	1,253
Leasehold properties held outside Hong Kong		
— on leases of between 10 and 50 years	243,483	234,338
— on leases of less than 10 years	6,703	6,794
	254,848	270,177

8 PREPAID PREMIUM FOR LAND LEASES

	2017 HK$'000	2016 HK$'000
At 1st January	30,138	32,876
Currency translation differences	2,088	(2,052)
Amortisation (note 25)	(677)	(686)
At 31st December	31,549	30,138

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

	2017 HK$'000	2016 HK$'000
Held outside Hong Kong		
— on leases of between 10 and 50 years	31,549	30,138

9 INVESTMENT PROPERTIES

	Completed commercial properties Hong Kong HK$'000	Completed commercial properties Overseas HK$'000	Completed residential properties PRC HK$'000	Total HK$'000
Opening balance as at 1st January 2017	**24,500**	**—**	**32,454**	**56,954**
Transfer from property, plant and equipment (note 7)	**—**	**25,458**	**—**	**25,458**
Currency translation differences	**—**	**989**	**2,472**	**3,461**
Gain on revaluation upon reclassification of property, plant and equipment to investment properties (note 21)	**—**	**3,302**	**—**	**3,302**
Fair value gains (note 24)	**3,000**	**—**	**5,293**	**8,293**
Closing balance as at 31st December 2017	**27,500**	**29,749**	**40,219**	**97,468**
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

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

	2017 HK$'000	2016 HK$'000
Held in Hong Kong		
— on leases of over 50 years	**27,500**	24,500
Held outside Hong Kong		
— on leases of between 10 and 50 years	**40,219**	32,454
— on freehold land	**29,749**	—
	97,468	56,954

Valuation processes of the Group

The Group measures its investment properties at fair value. The investment properties in Hong Kong and the PRC were revalued by 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 2017 and 2016. The overseas investment property was revalued at 31st December 2017 on the basis of their open market value by the management. 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

	2017 **HK$'000**	2016 HK$'000
At 1st January	**417,617**	525,343
Currency translation differences (note 21)	**1,061**	(1,088)
Share of profits	**64,730**	89,930
Share of other comprehensive income/(losses) (note 21)	**18,438**	(16,128)
Dividends received	**(203,656)**	(180,440)
At 31st December	**298,190**	417,617

Particulars of the joint ventures of the Group as at 31st December 2017 are set out in note 40 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

	2017 HK$'000	2016 HK$'000
Non-current assets	435,784	422,683
Current assets		
Cash and cash equivalents	163,760	196,167
Other current assets	1,107,354	989,051
Total current assets	1,271,114	1,185,218
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	474,287	224,234
Other current liabilities	671,549	587,497
Total current liabilities	1,145,836	811,731
Non-current liability		
Deferred income tax liabilities	8,659	8,372
Net assets	552,403	787,798

Summarised statement of comprehensive income

	2017 HK$'000	2016 HK$'000
Revenue	2,070,590	2,091,376
Depreciation and amortisation	34,987	35,010
Interest income	641	1,611
Interest expense	12,363	10,920
Profit before income tax	140,744	213,525
Income tax charge	(13,015)	(37,053)
Profit for the year	127,729	176,472
Other comprehensive income/(losses)	36,876	(32,256)
Total comprehensive income	164,605	144,216

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.

	2017 HK$'000	2016 HK$'000
Opening net assets at 1st January	787,798	1,001,182
Profit for the year	127,729	176,472
Dividends	(400,000)	(357,600)
Other comprehensive income/(losses)		
Currency translation differences	36,876	(32,256)
Closing net assets at 31st December	552,403	787,798
Interest in joint venture (50%)	276,201	393,899
Goodwill	7,097	7,097
Carrying amount	283,298	400,996

The aggregate carrying amount of individually immaterial joint ventures is HK$14,892,000 (2016: HK$16,621,000). The aggregate amounts of the Group's share of its joint ventures' profit for the year and total comprehensive income are HK$866,000 (2016: HK$1,694,000) and HK$866,000 (2016: HK$1,694,000) respectively.

11 INVESTMENTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
At 1st January	117,564	107,615
Currency translation differences (note 21)	1,367	(525)
Share of profits	12,336	10,202
Share of other comprehensive (losses)/income (note 21)	(943)	9,129
Dividends received	(7,253)	(8,857)
Disposal	(427)	—
At 31st December	122,644	117,564

No summarised financial information for associates has been set out, as there were no individually material associates in 2017 and 2016.

Particulars of the associates of the Group as at 31st December 2017 are set out in note 40 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	Assets at fair value through profit or loss	Available-for-sale	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets as per consolidated statement of financial position				
At 31st December 2017				
Available-for-sale financial assets (note 13)	**—**	**—**	**99,461**	**99,461**
Trade and other receivables excluding prepayments (note 17)	**1,522,925**	**—**	**—**	**1,522,925**
Financial assets at fair value through profit or loss (note 18)	**—**	**862**	**—**	**862**
Restricted bank deposits, deposits and cash and cash equivalents (note 19)	**6,486,970**	**—**	**—**	**6,486,970**
Total	**8,009,895**	**862**	**99,461**	**8,110,218**
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

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 2017	
Trade and other payables excluding non-financial liabilities (note 22)	**1,311,362**
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

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **HK$'000**	2016 HK$'000
At 1st January	**96,477**	84,209
Fair value gains recognised in other comprehensive income, net (note 21)	**2,984**	12,268
At 31st December	**99,461**	96,477
Less: current portion	**38,848**	33,386
Non-current portion	**60,613**	63,091

There were no impairment provisions on available-for-sale financial assets as at 31st December 2017 and 2016.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

	2017 HK$'000	2016 HK$'000
Unlisted securities	1,759	1,759
Listed equity securities in Hong Kong	97,702	94,718
	99,461	96,477

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

	2017 HK$'000	2016 HK$'000
Renminbi	1,759	1,759
Hong Kong dollars	97,702	94,718
	99,461	96,477

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK$'000	2016 HK$'000
Current assets		
Forward foreign exchange contracts	–	1,645

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 — net" 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:

	2017 HK$'000	2016 HK$'000
At 1st January	**(15,625)**	4,590
Currency translation differences	**(1,077)**	475
Acquisition of a subsidiary (note 35)	**475**	—
Transferred to current income tax liabilities	**13,817**	2,168
Charged to the consolidated income statement, net (note 29)	**(7,702)**	(22,858)
Charged to the property revaluation reserve (note 21)	**(561)**	—
At 31st December	**(10,673)**	(15,625)

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 2017, the Group has unrecognised tax losses of HK$116,727,000 (2016: HK$62,056,000) to carry forward against future taxable income, of which HK$48,585,000 can be carried forward indefinitely. The remaining tax losses have an expiry date of up to 5 years.

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:

	2017 HK$'000	2016 HK$'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**35,742**	41,869
— to be recovered within 12 months	**18,414**	11,855
	54,156	53,724
Deferred income tax liabilities:		
— to be settled after more than 12 months	**(39,537)**	(45,713)
— to be settled within 12 months	**(25,292)**	(23,636)
	(64,829)	(69,349)
	(10,673)	(15,625)

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	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January 2016	28,639	16,058	4,384	164	49,245
Currency translation differences	(1,504)	(1,013)	(793)	(146)	(3,456)
(Charged)/credited to the consolidated income statement	(7,109)	(65)	11,854	3,255	7,935
At 31st December 2016	20,026	14,980	15,445	3,273	53,724
At 1st January 2017	**20,026**	**14,980**	**15,445**	**3,273**	**53,724**
Currency translation differences	**1,567**	**1,069**	**882**	**105**	**3,623**
Acquisition of a subsidiary	**—**	**174**	**—**	**301**	**475**
Credited/(charged) to the consolidated income statement	**4,347**	**504**	**(5,347)**	**(3,170)**	**(3,666)**
At 31st December 2017	**25,940**	**16,727**	**10,980**	**509**	**54,156**

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 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)
At 1st January 2017	**(1,397)**	**(15,297)**	**(52,655)**	**(69,349)**
Currency translation differences	**(25)**	**(1,209)**	**(3,466)**	**(4,700)**
Transfer to current income tax liabilities	**—**	**—**	**13,817**	**13,817**
Credited/(charged) to the consolidated income statement	**168**	**(3,127)**	**(1,077)**	**(4,036)**
Charged to the property revaluation reserve	**—**	**(561)**	**—**	**(561)**
At 31st December 2017	**(1,254)**	**(20,194)**	**(43,381)**	**(64,829)**

16 INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**78,213**	36,344
Work in progress	**4,014**	3,417
Finished goods	**368,696**	203,599
	450,923	243,360

The cost of inventories recognised as expense and included in cost of sales amounted to HK$8,159,011,000 (2016: HK$6,886,051,000) (note 25).

As at 31st December 2017, inventories of HK$52,686,000 (2016: HK$41,597,000) were carried at net realisable value.

17 TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables		
— third parties	386,267	483,963
— fellow subsidiaries (note (g))	237,752	139,426
— related companies (note (g))	68,830	36,980
— joint ventures (note (g))	207	14,521
— non-controlling interests (note (g))	888	317
	693,944	675,207
Less: provision for impairment (note (c))	26,913	28,870
Trade receivables — net	667,031	646,337
Bills receivable		
— third parties	143,875	83,878
— fellow subsidiaries (note (g))	—	447
— related companies (note (g))	87,754	20,212
Prepayments	5,944	7,724
Deposits and other receivables		
— third parties (note (d))	585,674	422,904
— fellow subsidiaries (note (g))	14,337	14,512
— related companies (note (g))	355	560
— joint ventures (note (g))	302	61
Amounts due from fellow subsidiaries (note (g))	146	139
Amounts due from related companies (note (g))	—	23
Loan to a joint venture (note (f))	23,451	—
	1,528,869	1,196,797

Notes:

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

	2017 HK$'000	2016 HK$'000
Current–90 days	506,386	392,298
91–180 days	100,338	128,109
Over 180 days	60,307	125,930
	667,031	646,337

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 2017, trade receivables of HK$91,401,000 (2016: HK$142,240,000) 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:

	2017 HK$'000	2016 HK$'000
Up to 90 days	60,395	58,404
91–180 days	13,931	26,231
Over 180 days	17,075	57,605
	91,401	142,240

(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$26,913,000 of the receivable balance was impaired as at 31st December 2017 (2016: HK$28,870,000).

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

	2017 HK$'000	2016 HK$'000
At 1st January	28,870	43,847
Currency translation differences	1,582	(1,824)
Provision/(reversal of provision) for impairment, net	595	(6,702)
Amount written off	(4,134)	(6,451)
At 31st December	26,913	28,870

(d) As at 31st December 2017, other receivables of HK$17,428,000 (2016: HK$16,286,000) were impaired and fully provided for impairment.

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:

	2017 HK$'000	2016 HK$'000
Renminbi	957,517	725,399
Hong Kong dollars	171,814	23,656
United States dollars	207,242	251,304
Others	192,296	196,438
	1,528,869	1,196,797

(f) Loan to a joint venture as at 31st December 2017 was unsecured, interest bearing at 1.4% above London Interbank Offer Rate ("LIBOR") and with repayment term of 12 months.

(g) 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 receivable, which are repayable according to the respective credit terms.

(h) 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 2017 and 2016, the Group does not hold any collateral as security.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed equity securities in Hong Kong	862	886

19 RESTRICTED BANK DEPOSITS, DEPOSITS AND CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Non-current deposits (note (a))	**1,563**	11,179
Restricted bank deposits (note (b))	**1,794**	559
Current deposits with a fellow subsidiary (note (c))	**410,175**	837,369
Short-term bank deposits	**5,628,456**	5,538,522
Cash at bank and on hand	**444,982**	334,388
Current deposits and cash and cash equivalents	**6,483,613**	6,710,279
Total deposits and cash and cash equivalents	**6,486,970**	6,722,017

Notes:

(a) Deposit of HK$1,563,000 was placed with a financial institution in Japan and was interest-bearing at prevailing market rates. In 2016, deposits of HK$11,179,000 were placed with a fellow subsidiary, which is a financial institution in the PRC, and were interest-bearing at prevailing market rates.

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

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

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

	2017 HK$'000	2016 HK$'000
Renminbi	**357,311**	674,750
Hong Kong dollars	**313,744**	142,895
United States dollars	**5,728,773**	5,804,991
Others	**87,142**	99,381
	6,486,970	6,722,017

(e) 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.

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

Notes: (Continued)

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

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

	2017 HK$'000	2016 HK$'000
Total deposits and cash and cash equivalents	6,486,970	6,722,017
Less: restricted bank deposits	(1,794)	(559)
cash deposits with maturity more than three months from date of placement	(5,501,527)	(5,439,575)
Cash and cash equivalents	983,649	1,281,883

20 SHARE CAPITAL

	2017 Number of shares	2017 HK$'000	2016 Number of shares	2016 HK$'000
Issued and fully paid:				
At 1st January and 31st December	1,532,955,429	153,296	1,532,955,429	153,296

21 RESERVES

	Share premium 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 2017	167,023	103,832	676,218	(11,251)	7,799	71,305	749	6,533,190	7,548,865
Transfer to statutory reserves (note (b))	–	29,933	–	–	–	–	–	(29,933)	–
Currency differences on translation of:									
— subsidiaries	–	–	–	82,585	94	–	–	–	82,679
— joint ventures (note 10)	–	–	–	1,061	–	–	–	–	1,061
— associates (note 11)	–	–	–	1,367	–	–	–	–	1,367
Share of currency translation differences of a joint venture (note 10)	–	–	–	18,438	–	–	–	–	18,438
Share of currency translation differences of an associate (note 11)	–	–	–	(194)	–	–	–	–	(194)
Share of cash flow hedges of an associate, net of tax (note 11)	–	–	–	–	–	–	(749)	–	(749)
Reserves realised in consolidated income statement upon disposal of an associate	–	(1)	–	(47)	–	–	–	–	(48)
Fair value gains on available-for-sale financial assets, net (note 13)	–	–	–	–	–	2,984	–	–	2,984
Gain on revaluation upon reclassification of property, plant and equipment to investment properties (note 9)	–	–	–	–	3,302	–	–	–	3,302
Deferred tax relating to the gain on revaluation upon reclassification of property, plant and equipment to investment properties (note 15)	–	–	–	–	(561)	–	–	–	(561)
Profit for the year (note (a))	–	–	–	–	–	–	–	356,627	356,627
Dividends paid	–	–	–	–	–	–	–	(252,938)	(252,938)
Balance at 31st December 2017	167,023	133,764	676,218	91,959	10,634	74,289	–	6,606,946	7,760,833
Representing:									
Reserves	167,023	133,764	676,218	91,959	10,634	74,289	–	6,422,991	7,576,878
2017 proposed final dividend	–	–	–	–	–	–	–	183,955	183,955
	167,023	133,764	676,218	91,959	10,634	74,289	–	6,606,946	7,760,833

21 RESERVES (Continued)

	Share premium 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

Notes:

(a) Profit for the year of HK$356,627,000 (2016: HK$237,205,000) includes net profits of HK$64,730,000 (2016: HK$89,930,000) attributable to joint ventures and HK$12,336,000 (2016: HK$10,202,000) 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

	2017 HK$'000	2016 HK$'000
Trade payables		
— third parties	**362,109**	225,248
— fellow subsidiaries (note (b))	**43,075**	11,694
— joint ventures (note (b))	**1,757**	725
— associates (note (b))	**—**	9,635
	406,941	247,302
Bills payable		
— third parties	**84,527**	46,180
Advances from customers and other payables		
— third parties	**699,105**	688,218
— fellow subsidiaries (note (b))	**48,715**	123,005
— related companies (note (b))	**21,575**	5,083
— joint ventures (note (b))	**72**	72
— a holding company (note (b))	**145**	145
— non-controlling interests (note (b))	**873**	987
Accrued liabilities	**36,972**	35,194
Amounts due to fellow subsidiaries (note (b))	**7,607**	10,075
Dividend payable to non-controlling interests	**4,830**	30,561
	1,311,362	1,186,822

Notes:

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

	2017 HK$'000	2016 HK$'000
Current–90 days	**345,913**	198,968
91–180 days	**46,161**	28,894
Over 180 days	**14,867**	19,440
	406,941	247,302

(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 payable, which are repayable according to the respective credit terms.

22 TRADE AND OTHER PAYABLES (Continued)

Notes: (Continued)

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

	2017 HK$'000	2016 HK$'000
Renminbi	568,691	515,266
Hong Kong dollars	167,172	183,034
United States dollars	487,162	389,579
Others	88,337	98,943
	1,311,362	1,186,822

23 SHORT-TERM BORROWINGS

	2017 HK$'000	2016 HK$'000
Unsecured loan from a fellow subsidiary (note (a))	–	67,076

Notes:

(a) Unsecured loan from a fellow subsidiary, which is a financial institution in the PRC, was interest-bearing at 3.26% per annum and was repaid on 2nd August 2017.

(b) The carrying amounts of short-term borrowings in 2016 approximated their fair values and were denominated in Renminbi.

(c) The effective interest rates of short-term borrowings during the year ended 31st December 2017 and 2016 are as follows:

	2017	2016
Renminbi	3.26%	3.17%

(d) Short-term borrowings are subject to the exposure of interest rate changes at contractual repricing dates.

24 OTHER INCOME AND GAINS — NET

	2017 HK$'000	2016 HK$'000
Rental income	2,272	1,311
Direct operating expenses for generating rental income	(96)	(143)
Dividend income from listed and unlisted investments	5,470	2,420
Net gains on disposal of property, plant and equipment*	15,516	178
Net gains on disposal of an associate	48	—
Fair value gains on investment properties (note 9)	8,293	7,524
Fair value (losses)/gains on derivative financial instruments	(1,046)	1,720
Fair value losses on financial assets at fair value through profit or loss	(23)	(23)
Provision for impairment of inventories, net of reversal	(6,618)	(10,312)
(Provision)/reversal of provision for impairment of trade receivables, net of reversal/(provision)	(595)	6,702
Provision for impairment of other receivables	—	(91)
Write-off of inventories	—	(14)
Write-off of bad debts	—	(29)
Net exchange gains/(losses)	56,777	(7,434)
Government subsidy income#	11,531	—
Others	2,605	14,791
	94,134	16,600

* During the year ended 31st December 2017, COSCO Kansai Paint & Chemicals (Shanghai) Co., Ltd. ("COSCO Kansai (Shanghai)") disposed its old plant at a consideration of HK$15,247,000. The amount was fully recognised as gain on disposal of property, plant and equipment.

Government subsidy income of HK$11,531,000 (2016: HK$Nil) was recognised during the year in respect of a special subsidy granted by the Shanghai Baoshan District Government. Such subsidy was to compensate for the relevant costs and expenses incurred by COSCO Kansai (Shanghai) in relocating the production plant and settling the impacted staff.

25 EXPENSES BY NATURE

	2017 HK$'000	2016 HK$'000
Cost of sales		
Cost of inventories sold (note 16)	**8,159,011**	6,886,051
Selling, administrative and general expenses		
Selling expenses	**167,852**	121,870
Depreciation of property, plant and equipment (note 25(a))	**2,138**	1,759
Amortisation of intangible assets (note 6)	**1,075**	1,482
Amortisation of prepaid premium for land leases (note 8)	**677**	686
Operating lease rental expenses (note 25(b))	**34,943**	32,451
Administrative staff costs	**202,885**	175,828
Auditors' remuneration	**6,151**	5,919
Others	**86,704**	107,439
	502,425	447,434

(a) Depreciation of property, plant and equipment

	2017 HK$'000	2016 HK$'000
Charge for the year (note 7)	**26,656**	26,638
Charged to cost of sales	**(20,691)**	(20,224)
Charged to selling expenses	**(390)**	(519)
Capitalised in inventories	**(3,437)**	(4,136)
	2,138	1,759

25 EXPENSES BY NATURE (Continued)

(b) Operating lease rental expenses

	2017 HK$'000	2016 HK$'000
Land and buildings	34,943	32,451

26 EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses, which were included in cost of sales, selling, administrative and general expenses, are as follows:

	2017 HK$'000	2016 HK$'000
Wages, salaries and other short-term benefits, including directors' emoluments (note 27(a))	292,166	267,954
Retirement benefits costs — defined contribution scheme (note)	24,315	24,303
Termination benefits	1,524	742
	318,005	292,999
Included in:		
Cost of sales	36,211	30,679
Selling, administrative and general expenses	281,794	262,320
	318,005	292,999

Note:

There were no forfeited contributions (2016: Nil) utilised during the year and no forfeited contributions were available at the year-end to reduce future contributions (2016: Nil). There were no contributions (2016: 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 two (2016: three) directors whose emoluments are reflected in the note 27(a). The emoluments of the remaining three (2016: two) individuals during the year are as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries, allowances and benefits-in-kind	4,933	2,344
Discretionary bonuses	420	674
Retirement benefits costs — defined contribution scheme	36	36
	5,389	3,054

The emoluments of the individuals fell within the following bands:

	Number of individuals	
Emolument band	2017	2016
HK$1,000,001 — HK$1,500,000	1	—
HK$1,500,001 — HK$2,000,000	2	2

(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	2017	2016
Below HK$1,000,000	2	2
HK$1,000,001 — HK$1,500,000	1	2
HK$1,500,001 — HK$2,000,000	2	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 2017 are as follows:

Name of directors	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Total HK$'000
Mr. Zhu Jianhui	—	6,200	6,200
Mr. Liu Gang	—	3,835	3,835
Mr. Tsui Yiu Wa, Alec	290	—	290
Mr. Jiang, Simon X.	290	—	290
Mr. Alexander Reid Hamilton	290	—	290
	870	10,035	10,905

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	—	2,325	2,325
Mr. Liu Gang	—	992	992
Mr. Liu Xianghao	—	2,015	2,015
Mr. Tsui Yiu Wa, Alec	280	—	280
Mr. Jiang, Simon X.	280	—	280
Mr. Alexander Reid Hamilton	280	—	280
Mr. Zhang Liang (resigned on 16th August 2016)	—	3,875	3,875
Mr. Xu Zhengjun (resigned on 18th March 2016)	—	821	821
	840	10,028	10,868

(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

	2017 HK$'000	2016 HK$'000
Interest income from:		
— a fellow subsidiary	**8,235**	11,083
— a jointly controlled entity	**342**	—
— bank deposits	**116,371**	79,877
Total finance income	**124,948**	90,960
Interest expenses on:		
— a loan from a fellow subsidiary	**(1,404)**	(875)
— bank loans	**—**	(733)
Other finance charges	**(3,840)**	(2,806)
Total finance costs	**(5,244)**	(4,414)
Finance income — net	**119,704**	86,546

29 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 25%) except for a subsidiary, which was taxed at a reduced rate of 15% (2016: 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% (2016: 17% to 43%) during the year.

	2017 HK$'000	2016 HK$'000
Current income tax		
— Hong Kong profits tax	**28,096**	21,689
— the PRC enterprise income tax	**17,964**	13,702
— other overseas taxation	**1,940**	1,309
— over-provision for Hong Kong profits tax in prior years	**(995)**	(722)
— under-provision for the PRC taxation in prior years	**272**	4,808
— over-provision for other overseas taxation in prior years	**(31)**	(54)
Deferred income tax charge — net (note 15)	**7,702**	22,858
Income tax expenses	**54,948**	63,590

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:

	2017 HK$'000	2016 HK$'000
Profit before income tax (excluding share of profits of joint ventures and associates)	**338,496**	199,958
Calculated at a tax rate of 16.5% (2016: 16.5%)	**55,852**	32,993
Effect of different tax rates in the PRC and other overseas countries	**5,055**	3,403
Income not subject to income tax	**(30,896)**	(13,985)
Expenses not deductible for tax purposes	**12,754**	10,754
Tax losses not recognised	**3,267**	—
Utilisation of previously unrecognised tax losses	**(50)**	(14)
(Over)/under-provision in prior years, net	**(754)**	4,032
Reversal of prior year tax loss recognised	**5,771**	688
Other temporary differences	**—**	(3,627)
Withholding tax		
— interest income	**406**	—
— dividend income	**24**	19
— others	**1,076**	25,879
Land appreciation tax on PRC investment properties	**2,595**	3,726
Special tax credit	**(152)**	(278)
Income tax expenses	**54,948**	63,590

The Group's share of taxation of joint ventures and associates for the year ended 31st December 2017 of HK$6,729,000 (2016: HK$18,901,000) and HK$1,184,000 (2016: HK$1,007,000) respectively, is included in the consolidated income statement as share of profits of joint ventures and share of profits of associates respectively.

30 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$356,627,000 (2016: 237,205,000) and the number of shares in issue during the year of 1,532,955,429 shares (2016: 1,532,955,429 shares).

No diluted earnings per share is presented as there were no potential ordinary shares in existence during both years.

31 DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim dividend paid of HK$0.06 (2016: HK$0.04) per ordinary share	91,977	61,318
Final dividend proposed of HK$0.12 (2016: HK$0.055) per ordinary share	183,955	84,313
Special dividend proposed of HK$Nil (2016: HK$0.05) per ordinary share	—	76,648
	275,932	222,279

At the board meeting held on 23rd March 2018, the directors of the Company proposed a final dividend of HK$0.12 per ordinary share for the year ended 31st December 2017. These proposed dividends have not been recognised as a liability in the financial statements for the year ended 31st December 2017, but will be recognised in shareholders' equity in the year ending 31st December 2018.

32 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash (used in)/generated from operations

	2017 HK$'000	2016 HK$'000
Operating profit	218,792	113,412
Amortisation of intangible assets	1,075	1,482
Depreciation of property, plant and equipment, net of amount capitalised	23,219	22,502
Net gains on disposal of property, plant and equipment	(15,516)	(178)
Net gains on disposal of an associate	(48)	—
Amortisation of prepaid premium for land leases	677	686
Fair value gains on investment properties	(8,293)	(7,524)
Fair value losses on financial assets at fair value through profit or loss	23	23
Fair value losses/(gains) on derivative financial instruments	1,697	(1,720)
Provision for impairment of inventories, net	6,618	10,312
Write-off of inventories	—	14
Provision/(reversal of provision) for impairment of trade receivables, net	595	(6,702)
Write-off of bad debts	—	29
Provision for impairment of other receivables, net	—	91
Dividend income	(5,470)	(2,420)
Operating profit before working capital changes	223,369	130,007
(Increase)/decrease in inventories	(186,823)	79,889
(Increase)/decrease in trade receivables and other receivables	(148,195)	270,093
Decrease in amounts due from fellow subsidiaries	15	14
Decrease in trade payables and other payables	(29,748)	(48,028)
(Decrease)/increase in amounts due to fellow subsidiaries	(2,468)	2,266
Cash (used in)/generated from operations	(143,850)	434,241

32 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) The reconciliation of liabilities arising from financing activities is as follows:

	Short-term borrowings HK$'000
As of 31st December 2016	67,076
Foreign exchange adjustments	2,111
Cash outflows	(69,187)
As of 31st December 2017	—

33 FINANCIAL GUARANTEE CONTRACTS

As at 31st December 2017, the Group had financial guarantees issued in favour of a bank as security for general banking facilities granted to an associate.

Terms and face values of the liabilities guaranteed were as follows:

	Year of maturity	2017 HK$'000	2016 HK$'000
General banking facilities of an associate	2018	**168,063**	205,510
Counter guarantee		**—**	22,490
		168,063	228,000

As at 31st December 2017, the credit risk and liquidity risk exposure relating to the above financial guarantee contract are considered as low.

The fair value of the guarantee contract 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:

	2017 HK$'000	2016 HK$'000
Contracted but not provided	12,886	1,139

(b) The Group's share of capital commitments of a joint venture in respect of fixed assets investment is as follows:

	2017 HK$'000	2016 HK$'000
Contracted but not provided	601	361

(c) The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2017 HK$'000	2016 HK$'000
Within one year	32,109	30,913
In the second to fifth years inclusive	28,434	42,816
Over five years	6,153	5,738
	66,696	79,467

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:

	2017 HK$'000	2016 HK$'000
Within one year	2,410	445
In the second to fifth years inclusive	2,494	320
	4,904	765

The Group's operating leases were for terms ranging from one to three years.

35 BUSINESS COMBINATION

On 28th November 2016, the Company entered into a share purchase agreement with COSCO SHIPPING Financial Holdings Co., Limited, a related company of the Group and China Merchants Hoi Tung Trading Company Limited, in relation to the acquisition of the entire issued share capital of CSHT Marine for a cash consideration of HK$119,581,000. CSHT Marine is a company incorporated in Hong Kong and is principally engaged in trading of marine equipment, spare parts, ship supply and general merchandise. The acquisition was completed on 1st January 2017 and CSHT Marine became a direct wholly-owned subsidiary of the Company. Goodwill is attributable to the expected future profitability and synergy of the acquired business. None of the goodwill recognised is expected to be deductible for tax purposes.

Consideration paid for, and goodwill arising from, the acquisition are as follows:

	HK$'000
Purchase consideration paid in cash	119,581
Fair values of identifiable net assets acquired — shown as below	(118,144)
Goodwill (note 6)	1,437

Recognised amounts of identifiable assets acquired and liabilities assumed are as follows:

	Fair values HK$'000
Intangible assets (note 6)	16
Plant and equipment (note 7)	294
Deferred income tax assets (note 15)	475
Inventories	42
Trade receivables	52,191
Deposits, prepayments and other receivables	43,585
Cash and cash equivalents	89,304
Trade and other payables	(8,736)
Receipt in advances from customers	(58,923)
Current income tax liabilities	(104)
Total identifiable net assets	118,144

35 BUSINESS COMBINATION (Continued)

	HK$'000
Net outflow of cash and cash equivalents on acquisition:	
Purchase consideration in cash	119,581
Cash and cash equivalents acquired	(89,304)
Net cash used in acquisition of a subsidiary	30,277

Notes:

(i) The revenue and profit contributed to the Group by CSHT Marine since the date of acquisition and up to 31st December 2017 were HK$248,484,000 and HK$15,968,000.

(ii) Acquisition-related costs were not material and had been expensed.

(iii) For the purpose of related party transactions disclosure, total consideration paid to COSCO Shipping Financial Holdings Co., Limited was HK$59,790,500.

(iv) The gross contractual amount for trade receivables due was HK$55,363,000.

36 MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)"), a company incorporated in Hong Kong, which owns 66.12% of the Company's shares as at 31st December 2017. The remaining 33.88% of the Company's shares is widely held. The ultimate holding company of COSCO SHIPPING (Hong Kong) is COSCO SHIPPING.

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 2017 and 2016, 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.

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:

36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to fellow subsidiaries, related companies and other related parties

	Note	2017 HK$'000	2016 HK$'000
Sale of coatings to:	(i)		
— fellow subsidiaries		151,177	70,312
— related companies		256,445	105,618
— non-controlling interests		2,136	1,316
Sale of marine equipment and spare parts to:	(ii)		
— fellow subsidiaries		869,525	765,204
— related companies		7,522	2,451
— holding companies		—	882
— joint ventures		2,986	7,538
Commission income in relation to the provision of ship trading agency services to:	(iii)		
— fellow subsidiaries		127,492	82,002
— related companies		3,150	—
— a joint venture		3,957	17,105
Commission income in relation to the provision of insurance brokerage services to:	(iv)		
— fellow subsidiaries		55,713	59,037
— related companies		2,755	1,609
— holding companies		3,061	2,353
— a joint venture		3	32
— an associate		33	—
Sale of marine fuel to:	(v)		
— fellow subsidiaries		163,961	13,869
Sale of ship supplies and other products to:	(vi)		
— fellow subsidiaries		11,724	333
— related companies		208	—
Interest income from a fellow subsidiary (note 28)	(vii)	8,235	11,083
Interest income from a joint venture (note 28)	(viii)	342	—

36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Sale of goods and provision of services to fellow subsidiaries, related companies and other related parties (Continued)

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.

(iv) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, related companies, holding companies, a joint venture and an associate 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.

(viii) Interest income was received from a loan to a joint venture, which was unsecured, interest bearing at 1.4% above LIBOR and with repayment term of 12 months.

36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties

	Note	2017 HK$'000	2016 HK$'000
Rental expenses paid to fellow subsidiaries	(i)	**28,910**	25,853
Commission expenses in relation to the sale of coatings paid to:	(ii)		
— fellow subsidiaries		**2,541**	1,286
— related companies		**430**	2,278
— non-controlling interests		**—**	316
Commission expenses in relation to the provision of ship trading agency services paid to:	(iii)		
— fellow subsidiaries		**21**	—
— a joint venture		**2,748**	2,277
— an associate		**86**	518
Commission expenses in relation to the sale of marine equipment paid to a related company	(iv)	**3,409**	3,431
Purchase of marine equipment from a related company	(iv)	**71,479**	57,191
Purchase of raw materials from non-controlling interests	(v)	**3,974**	1,112
Transportation costs paid to fellow subsidiaries	(vi)	**40,272**	46,993
Purchase of marine fuel from:	(vii)		
— fellow subsidiaries		**152,624**	17,777
— related companies		**523**	—
— an associate		**36,719**	9,808
Technology usage fee paid to non-controlling interests	(viii)	**2,210**	2,189
Management service fees paid to a holding company and fellow subsidiaries	(ix)	**8,228**	10,063
Interest expenses to a fellow subsidiary (note 28)	(x)	**1,404**	875

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$1,642,000 (2016: HK$1,554,000). 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.

36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of goods and services from fellow subsidiaries, related companies and other related parties (Continued)

Notes: (Continued)

(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 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 30th April 2012, the Group executed corporate guarantee of US$21,500,000 (equivalent to approximately HK$168,063,000) in favour of a bank as security for general banking facilities of US$108,000,000 (equivalent to approximately HK$844,222,000) granted by the bank to Double Rich. The guarantee remains effective as at 31st December 2017.

37 EVENT AFTER THE BALANCE SHEET DATE

On 7th February 2018, the Company, COSCO SHIPPING (Hong Kong) and COSCO SHIPPING entered into an agreement on provision of management services by the Company in relation to the day to day business operations and management of COSCO SHIPPING (Hong Kong), its subsidiaries and its associates from the date of the agreement until 31st December 2019.

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Intangible assets		**276**	420
Property, plant and equipment		**1,790**	2,174
Investments in subsidiaries		**1,325,741**	1,206,151
Investment in a joint venture		**143,688**	143,688
		1,471,495	1,352,433
Current assets			
Amounts due from subsidiaries		**927,795**	871,625
Other receivables		**53,426**	19,283
Current deposits and cash and cash equivalents		**5,534,385**	5,260,548
		6,515,606	6,151,456
Total assets		**7,987,101**	7,503,889
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)	**6,786,282**	6,325,681
Total equity		**7,782,819**	7,322,218
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**171,346**	151,905
Other payables		**32,791**	29,766
Current income tax liabilities		**145**	—
Total liabilities		**204,282**	181,671
Total equity and liabilities		**7,987,101**	7,503,889

The statement of financial position of the Company was approved by the Board of Directors on 23rd March 2018 and was signed on its behalf.

Zhu Jianhui *Director*	**Liu Gang** *Director*

38 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 1st January 2016	843,241	4,696,104
Profit for the year	—	1,828,861
Dividends paid	—	(199,284)
At 31st December 2016	843,241	6,325,681
At 1st January 2017	**843,241**	**6,325,681**
Profit for the year	**—**	**713,539**
Dividends paid	**—**	**(252,938)**
At 31st December 2017	**843,241**	**6,786,282**

39 PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group as at 31st December 2017 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2017	2016
Capital Properties Limited#	Hong Kong, limited liability company	HK$2 ordinary share capital	Provision of nominee services	100%	100%
COSCO SHIPPING (Hong Kong) Insurance Brokers Limited# (formerly known as 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# (dissolved on 12th May 2017)	Hong Kong, limited liability company	HK$2 ordinary share capital	Investment holding	–	100%
COSCO SHIPPING (Hong Kong) 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%
CSHT Marine Machinery Suppliers Limited#	Hong Kong, limited liability company	HK$10,000,000 ordinary share capital	Trading of marine equipment and spare parts	100%	–
COSCO International Land (B.V.I.) Limited# (dissolved on 3rd April 2017)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	–	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%
New Renown Limited#	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
Raycle Match Development Ltd. #	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	100%	100%
Winner Pacific Investment Ltd.# (dissolved on 3rd April 2017)	British Virgin Islands, limited liability company	1 ordinary share of US$1	Investment holding	–	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	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%
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, foreign equity joint venture enterprise	US$10,000,000	Production and sale of coatings	64.71%	64.71%
COSCO Kansai Paint (Shanghai) Co., Ltd.#	PRC, foreign equity joint venture 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

40 JOINT VENTURES AND ASSOCIATES

Particulars of joint ventures and associates of the Group as at 31st December 2017 are as follows:

Name	Place of incorporation/ operation and type of legal entity	Issued share capital/ registered capital	Principal activities	Attributable equity interest held 2017	2016
(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 SHIPPING Tanker (Dalian) Electronic Co., Ltd. (formerly known as COSCO Dalian Ocean Electronic Co., Ltd.)	PRC, Sino-foreign equity joint venture enterprise	RMB1,000,000	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 SHIPPING SUPPLY (GUANGZHOU) CO., LTD. (formerly known as 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%
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 2017

	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 7th 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)	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
(5)	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
(2)	207 Henderson Road, #01-03/#03-03 Henderson Industrial Park, Singapore 159550	Commercial	Saleable area 782 sq.m.	Freehold	100

Five-Year Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31st December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**8,786,094**	7,430,297	5,999,646	7,588,213	9,308,434
Operating profit	**218,792**	113,412	194,708	245,846	219,069
Finance income — net	**119,704**	86,546	111,368	140,013	89,999
Share of profits of joint ventures	**64,730**	89,930	110,171	65,218	9,549
Share of profits of associates	**12,336**	10,202	11,577	17,016	13,028
Profit before income tax	**415,562**	300,090	427,824	468,093	331,645
Income tax expenses	**(54,948)**	(63,590)	(65,760)	(73,331)	(58,547)
Profit for the year	**360,614**	236,500	362,064	394,762	273,098
Profit/(loss) attributable to:					
Equity holders of the Company	**356,627**	237,205	335,763	358,970	241,610
Non-controlling interests	**3,987**	(705)	26,301	35,792	31,488
	360,614	236,500	362,064	394,762	273,098

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets					
Intangible assets	**104,287**	101,951	103,185	105,478	103,127
Property, plant and equipment	**331,038**	343,912	392,516	262,181	145,892
Prepaid premium for land leases	**31,549**	30,138	32,876	35,100	36,315
Investment properties	**97,468**	56,954	49,416	44,847	41,924
Investments in joint ventures	**298,190**	417,617	525,343	493,107	432,465
Investments in associates	**122,644**	117,564	107,615	82,520	91,969
Available-for-sale financial assets	**60,613**	63,091	58,754	70,524	49,048
Deferred income tax assets	**54,156**	53,724	49,245	69,445	65,520
Non-current deposits	**1,563**	11,179	35,805	25,348	38,153
	1,101,508	1,196,130	1,354,755	1,188,550	1,004,413
Current assets	**8,509,192**	8,192,014	8,112,560	8,476,784	8,445,550
Total assets	**9,610,700**	9,388,144	9,467,315	9,665,334	9,449,963
CAPITAL AND RESERVES					
Share capital	**153,296**	153,296	153,296	153,181	151,378
Reserves	**7,760,833**	7,548,865	7,575,859	7,585,856	7,323,790
Total shareholders' equity	**7,914,129**	7,702,161	7,729,155	7,739,037	7,475,168
Non-controlling interests	**299,471**	343,580	370,469	369,451	313,925
Total equity	**8,213,600**	8,045,741	8,099,624	8,108,488	7,789,093
LIABILITIES					
Non-current liability					
Deferred income tax liabilities	**64,829**	69,349	44,655	39,027	32,497
Current liabilities					
Short-term borrowings	**–**	67,076	36,062	26,061	59,786
Other current liabilities	**1,332,271**	1,205,978	1,286,974	1,491,758	1,568,587
	1,332,271	1,273,054	1,323,036	1,517,819	1,628,373
Total liabilities	**1,397,100**	1,342,403	1,367,691	1,556,846	1,660,870
Total equity and liabilities	**9,610,700**	9,388,144	9,467,315	9,665,334	9,449,963

中遠海運國際(香港)有限公司
COSCO SHIPPING INTERNATIONAL (HONG KONG) CO., LTD.